



Hexaware Technologies Limited

Q1 2010 Results
Earnings Conference Call

April 29, 2010

Mumbai



COMPANY REPRESENTATIVES:

MR. ATUL NISHAR

MR. P R CHANDRASEKAR

MR. PRATEEK AGGARWAL

MR. R.V. RAMANAN

MR. DEEPENDRA CHUMBLE

Farah: Ladies and gentlemen good evening and welcome to the Hexaware Technologies Limited earnings conference call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you need any assistance during this conference please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Latika Gidwani from Hexaware Technologies Limited. Thank you and over to you, Ms. Gidwani.

Latika Gidwani: Thanks Farah. Good evening, welcome to the Hexaware Technologies Q1 2010 conference call. From Hexaware, we have with us Mr. Atul Nishar, Chairman, Mr. P.R. Chandrasekar, Vice-Chairman and CEO, Mr. Prateek Agarwal, CFO, Mr. R. V. Ramanan, President & Head - Global Delivery, Mr. Deependra Chumble, CPO. I am beginning with the Safe Harbour Statement: Certain statements on this conference call concerning our 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. Risks and uncertainties relating to these statements will include but are not limited to risk and uncertainties regarding fluctuations in earning, our ability to manage growth, intense competition in IT services including those factors, which may affect our cost advantages, wage increases, our ability to attract and retain highly skilled professionals, time and cost management on fixed price fixed timeframe contracts, client concentration, restrictions on immigration, our ability to manage our international operations, reduced demand for technology in our key focus areas, disruption in telecommunication network, our ability to successfully complete and integrate potential acquisitions, liability for damages on our service contracts, the success of the companies in which Hexaware has made strategic investments, withdrawal of governmental fiscal incentives, political stability, legal restrictions on raising capital or acquiring companies outside India, and unauthorized use of our intellectual property and global economic conditions affecting our industry. I now hand over to Mr. Nishar.

Atul Nishar: Good evening, ladies and gentlemen, I know today has been a hectic earnings day, so we particularly appreciate the time you have taken out to attend our conference call this evening and that too in such large numbers. Coming to our results, we have met our revenue guidance for Q1 2010. But for the cross currency movement, we would have met the revenue guidance at the higher end of 48 million and 50 million that we had guided at the beginning of the quarter. On a more positive note, our revenue guidance for Q2 2010 is USD 52 million to USD 53 million, which equates to a healthy 7% to 9% quarter-on-quarter growth. In addition, we believe we will recruit 1,000 people that imply net addition I am talking about during the calendar year 2010, which is also the same as our accounting year. In geographies like America and in verticals like Banking, Financial Services as well as in Travel and Transportation we are seeing some signs of improvement. We are recruiting based on the revenue growth that seems visible to us now. I shall now hand over to our CEO and Vice-Chairman, Sekar, to walk you through the key highlights of the Q1 2010. Over to you, Sekar.

P R Chandrasekar: Thank you Atul. Welcome, ladies and gentlemen to our conference call detailing our Q1 numbers. Once again, thank you for joining us despite the busy schedule and a day full of earning releases today. I suspect that the press release that we issued regarding our numbers did prompt you to join us and we hope to elaborate and give you confidence about how things seem to be in quarter two and beyond. As Atul had mentioned, if I look at the quarter gone by it has been somewhat challenging from a revenue standpoint. Having said that, while there was a decline in revenues we were in line with our revenue guidance of USD 48m – USD 50m. Further on a constant currency basis, the revenues were up at 49.6 million USD, closer to the top-end of the guidance. Furthermore, during the quarter we continued to add some clients to our portfolio, nine specifically, and the good news about that is that all of these nine clients belong to our key focus areas, specifically capital markets, travel and transportation, ERP PeopleSoft area, several in the testing or as we now call it QATS that is Quality Assurance and Testing Services as well as business intelligence; the practice that has been continuing to grow and strengthen over the last several quarters.

Looking forward into quarter two, our confirmed business that we have and most notably from our existing customers as well as the deal pipeline, again a lot of this from existing customers gives us a very high degree of comfort in the guidance that we have provided, which is in the range of 7% to 9%, specifically \$52 million to \$53 million given that this is already the 29th of April and the clarity that we have in terms of client budget we do feel a greater level of confidence about Q2 and also going forward. Continuing on the business front; the economic outlook continues to hold some promise especially in North America though Europe is somewhat sluggish but North America for us has definitely seen an increase in both the level of activity as well as the number of opportunity that we are encountering today.

There are broadly two big positives compared to the last 12 to 18 months there are more number of deals in the market place and two, the decision making process also seems to have improved in the last two months. While the budgets have been broadly finalized, customers are in a better position to take some decisions rather than stall compared to what it was even a few quarters ago. In addition, like any others in this industry, there are a number of opportunities that we have been pursuing, some obviously small and some deals of a larger size and some in the areas like PeopleSoft and QATS and across a broad gamut of services and verticals that we offer. Like we spoke about the nine new clients addition this quarter we will talk about any of these deals as and when appropriate when they are closed and we are in a position to announce.

On the executions front, we have continued with our recruitment plans and as you can see we have added 167 net people in quarter one. As on date, based on the visibility in the deal pipeline that we have, we plan to continue our hiring during the course of the year adding about 1,000 net in the year 2010. Of this, the plan is to add at least 500 campus recruits during the course of this year. They will be spread out evenly

across the quarters and lateral hiring will be in line with the revenue growth anticipated over the next few quarters.

In addition to the impact on the revenue fall in Q1 2010, there were a couple of other parameters that resulted in the decline in margins in quarter one. Unlike in the past say during in the second half of 2008 and to some extent in 2009 where we managed our cost specifically across a number of parameters, we have not done the same now; driven primarily by the healthy outlook for the revenues we have for quarter two and we believe going forward. We are continuing to build our execution capability based on the future growth as the meltdown seems to have subsided and in addition to that we have also restored the compensation during quarter one. Prateek will now walk you through the specifics of our results for Q1.

For Q2, we have planned on for an average compensation increase for offshore employees of 15% effective April 2009, which has already been implemented based on the appraisal cycle, which was held very rigorously during the first quarter of the year. The number of 15% average increase for employees in India specifically will vary depending on the grade and the levels of experience with the junior level employees having been given a higher percentage. Our plan is to implement the salary hikes for on-site and overseas employees effective July 2010 as per the regular cycle, which we have had over the past few years now. I will now hand over to our CFO, Prateek Aggarwal to walk you through the variances and specific financial highlights, Prateek.

Prateek Aggarwal: Hi friends, while you have heard the headline numbers, I shall now provide the specifics from both the revenue performance as well as operating margin perspectives.

Starting with the revenue variance while the overall drop was to the tune of \$5.4 million the impact of the cross currency movement, which is Euro and GBP and Dollar was \$1 million, so the net drop was really \$4.4 million. This was driven obviously by the 7% depreciation in Euro versus the Dollar. The rest of the \$4.4 million revenue fall was primarily on account of drop in business volumes, which was driven by the time gap between completion of some major projects and the delays in kick off of some of the new projects as explained already. In some ways, the revenue guidance for Q2 reflects the kick off of the projects, which were originally delayed from Q1.

Going on to the operating margin variances there are a few parameters, which I will elaborate; starting with the currency movement itself the total impact of currency was about 130 basis points, which was split roughly half and half between the impact of the Rupee appreciation versus the Dollar and the cross currency impact of Euro and GBP depreciating versus Dollar. Additionally, we rolled back the compensation action effective January 1st, which we have talked about in several of the calls earlier and as a result our margins got impacted by about 250 basis points. So between these two factors, 380 basis points is explained.

The balance 6% or 600 basis points is really on account of drop in business volumes. Based on the revenue guidance for Q2, we hope to recover some of the drop in business volumes in the next quarter. While revenues came down we also continued with our hiring plans to meet the future demands based on the revenue guidance that we have for the next quarter and therefore as a result the costs have not come down materially over the last quarter.

Coming to the key metrics, I need to talk about one change that we have made this quarter and on a going forward basis; being the first quarter of our financial year we decided to integrate reporting of the FocusFrame entity that we had taken over three years back. As you know, we had integrated the entities in legal entity terms last year and by now the operational integration is complete. So at some point in time, we had to start including this and we chose to do that at the beginning of the new financial year. In the next few minutes, I will give you the comparable metrics on as is basis as we did in the last quarter so that you can have a comparative.

So, starting with the bill rates, the bill rates without FocusFrame part of the business are USD 68.65 per hour on-site and offshore is actually the same as what we have published including FocusFrame, it is 22.41. As a result of the consolidation, the bill rates for on-site locations have gone up as the testing and consulting business is predominantly on-site. Overall the rates both on-site and offshore got impacted by nearly 2% on account of cross currency movement basically driven by the Euro and GBP after depreciating against the Dollar.

The other metric, which obviously got impacted, was utilization, which dropped from 75% odd to about 69% now. It is down sequentially basically because on account of drop in the business volumes and induction of fresh campus recruits into the billable pool.

On revenue concentration, again, we have now based the computation on total global revenues, earlier it excluded revenue from the consulting stream, which is FocusFrame and from the BPO stream, Caliber Point to enable comparisons in the immediately previous quarter the numbers for this quarter if measured as per the earlier calculation would have been top client giving 8.7%, top five 33.9%, and top 10, which is 49.3%. So, if you look at the top 10 clients, the revenue concentration has by and large remained steady compared to the previous few quarters.

Over to the financial metrics, DSO has gone up a little bit this quarter but I would not really read anything significant there because a couple of large payments slipped into early April instead of March so that is to my mind a metric, which should hopefully come back. Coming to the cash balances, the net cash position has further improved. We now have 423 Crores, which is equivalent to \$94.3 million, which is an increase of 13.5 Crores over the last quarter in net cash terms. You might have noticed that the borrowings have increased a little bit this quarter versus the last quarter. We had specific requirement for which we took a short-term loan but our net cash position remains healthy and improving every quarter, so I again would not read too much into it. Finally, on the

foreign exchange front, we stick to the layered hedging for a period of total of three years and we have 50 million of the old hedges, which are hedged at roughly 40.60, which get over in the next two quarters and beyond that starting October 2010 and going right up to December 2012, we have a total hedge book in Dollar terms 65 million, which goes over the next nine quarters, which is at a rate 47.40 and we have Euro-Rupee hedges of worth €17 million, which again go over the same nine quarters, which are at a rate of 70.75. Mark-to-market liability in the balance sheet is now a very low figure compared to last quarter, which has gone from 40 Crores to now only about 3 Crores negative and this is as per the end of the quarter picture. As you are aware, the Dollar has slipped a little bit more during the month of April, so by now we are positive.

With that I hand over back to Sekar for closing comments.

P R Chandrasekar: Thanks Prateek. Thanks for your patience. I just wanted to make sure that there is clear understanding in terms of what Prateek mentioned about the revenues and the guidance for quarter two. We do expect, as per our guidance, we will be back in revenue terms to the \$52 million to \$53 million range that we have guided for. However, given the salary increases that we are implementing effective April 1 for all offshore India based employees, our margins in quarter two are likely to remain somewhat depressed.

With that I would like to hand it to the moderator to coordinate the next phase of this conference call. Thank you.

Farah: Thank you, sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question comes from the line of Srivatsan Ramachandran from Spark Capital. Please go ahead.

Srivatsan R: Regarding the guidance for the quarter two between 7% to 9%. If I have to just look on a QoQ basis this is pretty aggressive. What is the confidence level at this point in time for achieving this kind of revenue growth, are the bookings done or are you hoping to convert some deals to achieve this kind of revenue guidance?

P R Chandrasekar: With regards to the quarter two guidance of 7% to 9%, this has really been based on a confirmed book of business that we already have. This is based on orders that are confirmed for execution from existing customers. In many of these instances, the people are executing these projects and are currently billable, both on-site and offshore. Therefore, the level of confidence we have in terms of our ability to deliver on this guidance is high.

Srivatsan R: Okay. Just to take that a bit forward, you are also talking about a net addition of close to 1000 people during the calendar year 10. That is, about 870 or 880 approximately the remaining three quarters, it is a pretty significant growth from head count point of view, close to 17% to 18% from a head count base. Is there enough demand visibility that we see to go out and recruit this kind of number?

Atul Nishar: See, as mentioned 500 out of these will be campus recruits and at this stage there is no problem hiring engineers from campuses, the availability is very much there. For the lateral hires, certainly there is a good demand at the moment because most of the companies maintained very low bench last year. With the demand having gone up, companies are hiring laterally. So, it is likely that scenario will continue for some time but not for too long. The campus recruits hired by companies once they get trained; start getting experienced I think the situation will ease, this is how I see that, so availability for what we are aiming for should not be a problem.

Srivatsan R: I was asking more from the revenue point of view and not from people supply point of view?

P R Chandrasekar: Sri, the hiring recruitment plan that we have implemented, which includes as Atul mentioned 500 freshers is based on a fairly high degree of comfort in terms of opportunities going forward as well as the recruitment or the resource recruitment system that we have implemented based on the visibility that our sales teams see in the field both for confirmed as well as a high visibility business where there is a reasonable degree of confidence in securing that business. So it is clearly based on that as well as the request we have got for various resources required for both some confirmed business as well as respective opportunities that we are bidding on. Having said that I do not want you to come to the conclusion that the straight maths of 3,000 versus X, Y, Z is necessarily the indication that we are giving for the growth from a year-on-year standpoint.

Atul Nishar: More so because campus recruitment perspective; we have planned is evenly distributed over the next three quarters and out of 500, 125 we already hired in Q1 so if we distribute evenly and the first three months is the training period for campus hires and it on an average takes another three months to get them on billing so part of this would mean hiring for 2011 requirement also. While generally the lateral hires are taken for more or less immediate requirements but campus recruits are for plan going forward as well so you cannot take all of them as billing in the current year.

Srivatsan R: Sure. What kind of an impact do you see for the 15% wage hike because if 15% wage hike is effective from 1st of April we would be continuing next quarter also in single digits EBITDA margins is that the kind of impact that you are looking at?

Prateek Aggarwal: It should be an impact of about 250-300 basis points.

Srivatsan R: Only the offshore wage hike?

Prateek Aggarwal: That is right.

Srivatsan R: On the on-site you have not yet decided the percentage of hikes that is going to be given from 1st July?

Prateek Aggarwal: Our cycle for on-site is effective July so we will be deciding that subsequently.

Srivatsan R: Forex loss for this quarter is about seven point odd Crores, which is much lesser than what we have been getting historically; over \$25 million of hedges would expire at 40.6, rough math puts it at about 14-15 Crores, I am a bit surprised to see only 7 Crores of loss?

Prateek Aggarwal: First of all if you remember the number I gave last quarter was about 70.5, so the maturity during this quarter was 20.5 compared to the 50 that we have leftover so it is an increasing kind of graph like I mentioned before, so it was not the same amount of hedges maturing is the first reason and of course the sharp appreciation of the rupee accounts for the balance really because in Q4 there was not such a significant drop in the Dollar versus rupee.

Srivatsan R: Okay sure. Thank you.

Farah: Thank you. The next question comes from the line of Kunal Sangoi from Edelweiss. Please go ahead.

Kunal Sangoi: My question is with regards to some of the large clients even after looking at the new percentages or the revised percentages that you have given 8.7% for the top client 33.9% for the top 5. It seems that, large client continues to be under pressure. What are the current trends within the top five clients itself, what kind of visibility do you have for the next few quarters?

Atul Nishar: First we let me clarify these percentages this is not reduction as we have seen. There is a different way the data has been presented. From 1st January, we have fully integrated FocusFrame business into the company and therefore all the numbers of FocusFrame have got integrated in the numbers, so we have added that revenue as well for the purpose of calculating the client concentration as well as the utilization, so this is just a realignment in the way we are presenting the data and for client concentration earlier we were not taking caliber point numbers also, which have been taken, so this is just to give a full company picture alignment, otherwise there is no specific pressure in terms of large client business.

P R Chandrasekar: This is Sekar here, in Q2 we expect the top five clients of Hexaware to grow. I do not want you to read that there is a decline in our top five clients as a result of what it is in Q1. The overall business did drop as you have seen by 10% but our top five clients will grow Q2 and probably beyond.

Kunal Sangoi: Sekar, my next question is with regards to the nine client's wins that you have had. Could you talk about some of the size of the wins there and in terms of the further quarter as well? What is the incremental new order booking? If you can give some quantitative color that would be better?

P R Chandrasekar: I do not want to give a quantitative color simply because frankly this is the first quarter of the relationship and clearly the type of wins that we

have had does vary in terms of as we have mentioned in our press release across verticals as well as the technologies in which we specialize. There is one or two where these are for example PeopleSoft implementation or PeopleSoft upgrade where the volume of initial business may not be very high or there is BI implementation or a project where the volume of the initial project may not be very high. Having said that, at least three of these clients are very good names to have on our client roster. The start is good and we are hoping that they will result in material business going forward but at this point it is going to be to some extent a little speculative in terms of where this will go say the end of 2010 or further.

Kunal Sangoi: Prateek you did mention that 600 basis points decline because of business volume on EBITDA margins and in the next quarter once the volumes are up you should be able to recover and the negative factor would be the salary impact 250-300 business points. So do we look at increase in margins by almost 300 business points in the coming quarter?

Prateek Aggarwal: Kunal like Sekar said earlier we continue to see margins under pressure for Q2 so we are not giving a specific guidance but we will wait for quarter to ...

Kunal Sangoi: But if you can tell me what the other negative factors are that would impact margins year on?

Prateek Aggarwal: The Forex factor is already a factor as you know the Rupee is already 44.50 versus the last quarter of 45.72 to be precise.

P R Chandrasekar: Kunal, we will be implementing the salary increase as of April 1 and in addition to that we are also continuing to ramp up our team both in terms of not only the fresher but also some lateral hires. There is also a plan to frankly strengthen both our sales organization as well as some of our practices because we believe that some of these areas of strength that we have will give us good leverage going forward now that the market place is also showing some promise. We are actively in the process of adding to our sales organization both in North America as well as in Europe as well as frankly in select markets in Asia Pacific we have gone through a fairly detailed strategic planning exercise over the last month-and-a-half with participation from a number of people from our leadership team and the result of which is a fairly ambitious plan going forward but I do not want to kind of get in to that right now but as a result of that we will be implementing certain strategies, which will require us to make some investments both in the field as well as strengthening these specific practices.

Kunal Sangoi: Okay, thank you and all the best.

Farah: Thank you. The next question comes from the line of Sunil Tirumalai from Credit Suisse. Please go ahead.

Sunil Tirumalai: I have a couple of questions; the guidance is fairly good for the next quarter but going beyond I just wanted to get a color, is the growth rate

sustainable given the pipeline, given the orders and the visibility that you have or do you think that could get tampered down?

P R Chandrasekar: Sunil, we really do not give guidance that way forward but I think it is a fair question to ask given that we have specifically given you a good guidance for Q2 and in view of our performance in Q1. All I would like to say is that based on the visibility of both the confirmed business and some of the pipeline that we have I do not want to say far into the future but let us say Q3 we think we will continue to grow.

Sunil Tirumalai: Okay that was useful and I think in your remarks you mentioned about some large deals that you are vying for. Just wanted to get an understanding of how and what is the size of these deals both in terms of the transaction deal amount as well as the duration and which areas, which segments these are particularly in?

P R Chandrasekar: Sunil, I at this time do not really want to comment on any specific deal and as soon as we have something to report we will definitely do that.

Sunil Tirumalai: Sure. Prateek there is a question on the tax rate how should we look at it for the year and if possible for the next year as well?

Prateek Aggarwal: Sunil, the tax rate for this year is expected to be in the region of 10-12 percent.

Sunil Tirumalai: Any indication for the next year?

Prateek Aggarwal: Next year is a bit speculative right now Sunil given the uncertainties that we have from the finance ministry. He has to first of all tell us what is going to be the DTC tax rate and what happens to the SEZ benefit, so there are too many uncertainties and we are not giving you number for next year right now.

Sunil Tirumalai: Okay, that is fine. Thank you very much.

Farah: Thank you. The next question comes from the line of Vishal Desai from Centrum Broking. Please go ahead.

Vishal Desai: Your emerging segment accounts were close to around 39%. Could you elaborate us to what it encompasses?

P R Chandrasekar: Vishal, this is Sekar again. If you look at it there are two target segments that are specifically mentioned and that we are focused on, banking and financial services and insurance piece, the other is the travel and transportation in which airlines are a big component. The emerging segment is frankly a combination of a series of clients in the healthcare areas, set of clients in the manufacturing area, and then we do a good volume of business with a set of customers of systems integrators and then there is an assortment of clients in campus/ education, telecom, retail and assortment, so if you were to pick in terms of which would be the three that would represent a somewhat higher chunk of that business it would really be healthcare, manufacturing, and the systems integration business. Going forward

since having given the opportunity to answer that question I also want to add that from a verticalization and go to market standpoint as part of the planning process we have also made a slight realignment, which is again based on the question asked previously regarding the investments to which I also respond in terms of trying to add some sales people, etc. We are specifically saying that we would want to focus much more concentrated energy and investments and resources in the two verticals that I had already mentioned as well as towards the horizontal technologies for example PeopleSoft and Oracle as well as QATS. In order to use this to open a whole bunch of doors in key select markets in North America and Europe, which we hope, will give us opportunities to go further. I think this is the right time to do this simply because we think that we do offer material differentiation over even the larger players and also take advantage of specific opportunities that are emanating for example in the PeopleSoft area the 9.1 upgrade, which has already been launched in the PeopleSoft and given our strength we believe that this will allow us the opportunity to go and win some new customers, which we can then hope and go through better mining and cross sales.

Vishal Desai: The growth rate that we are seeing is obviously because of a lower base but what growth rate are you expecting from this segment going forward, something quantitative, is it a double digit or single digit figure?

P R Chandrasekar: You mean from the emerging segment?

Vishal Desai: Right.

P R Chandrasekar: Let me add one more important thing that we are not a fully verticalized organization, we follow the approach of being a focused company and a mix of verticals and horizontals, so when we follow a technology approach the client is won through a particular horizontal, i.e., technology, could belong to whatever vertical but the client is won because of the technology strength. If they belong to BFSI they will be housed there, if they belong to transport section they will be housed there, but the rest of the clients will be housed under this segment so that will continue that has always been the case at Hexaware because of the technology excellence that this company has pursued for a long time and that will continue, so this segment will continue and the growth will depend on also the growth through horizontal that we achieve.

Vishal Desai: Secondly, in terms of your service offering especially if you look at ADM and probably enterprise application services, what sort of deals are you seeing considering it is almost 49 and 23% and almost 80% of the revenue is coming in from that, so what sort of deal flow or client interaction, how is it shaping up, what is your sense on it?

P R Chandrasekar: Did not get your question, can you just explain again?

Vishal Desai: In the service offerings that you offer ADM and EAS what is the kind of interaction that you are getting in terms of clients, how is the environment shaping up on the client front in those services?

- R.V. Ramanan:** Overall the enterprise services market we are seeing it picking up especially in areas of strength around PeopleSoft and Oracle we are seeing quite a bit of traction, PeopleSoft 9.1 has been the version, which just got released, a number of upgrade opportunities are significantly available and we are able to win quite a few of them. The ADM space belongs to primarily across all sectors, across all technology, we do see quite a bit of focus on few new development projects primarily in Java and .NET Microsoft areas, we are seeing quite a bit of opportunities there as well as on the legacy platform the maintenance work continues to commence across the area, those are the things in the ADM space. We are also seeing new technologies like Cloud Computing showing up but still not in significant amount to see any growth in revenue, but that seems to be the trend for the future.
- Vishal Desai:** Thanks gentlemen that will be it.
- Farah:** Thank you Mr. Desai. The next question comes from the line of Sandeep Shah from ICICI Securities. Please go ahead.
- Sandeep Shah:** In terms of margins last time I remember Sekar you said that even the investment in the new deal ramp up could also be a margin head win for the Q2 CY2010 so do you believe this will continue to be a head win in the coming quarter?
- P R Chandrasekar:** Sandeep because of the salary increase as well as the investments our margins will remain somewhat depressed in Q2. I do not want to specifically mention about any deal because that is something that we will really know only when we have greater clarity and finalization as well as whenever the deal actually comes through.
- Sandeep Shah:** What I am trying to say is that Q2 may involve transition related cost also where the revenue ramp up may be beyond Q2?
- P R Chandrasekar:** Sandeep as you are aware that regardless of the size or whatever of the deal whenever there is a project or on occasion certain projects where we are trying to get into especially if there is a new customer there are transition costs involved and those transition costs on occasion do require an investment on the part of the company including ourselves but that does happen once in a while. At this point I am not referring to any specific such event in quarter two. If there is a large deal win or if there is a subsequent win that will then require us to make that investment, we will.
- Sandeep Shah:** In terms of constant currency, how are the billing rates excluding the FocusFrame if we look at the earlier MIS, on that basis how are the billing rates moved?
- Prateek Aggarwal:** Sandeep, as far as on-site is concerned if you take out the impact of the currency fluctuation it is by and large the same. In the case of offshore there is a drop of about 5%, which is explained about 2% by currency fluctuation and the balance 3% is business mix.
- Sandeep Shah:** Okay. How are you foreseeing the billing rates going forward?

P R Chandrasekar: Sandeep, we have managed to keep our billing rates within a fairly narrow band, both the on-site as well as the offshore. Having said that, it is quite a fact that there is certainly a little more optimism in the market place and the deal flow seems to have firmed up somewhat. We continue to face pricing pressure in the market place especially when the size of the opportunity tends to become a little larger, so my comment on that would be that pricing will remain under pressure at least going into the next few quarters.

Sandeep Shah: When we say depressed margin in terms of definition of that depression, are we saying that the single digit margin is a depressed margin or are we saying that even the Q2 margin would be lower than the Q1 margin?

P R Chandrasekar: Nice try Sandeep, but I am not falling for it, hopefully none of us will need Prozac.

Sandeep Shah: Okay, and last thing, the new management strategy was to get deeper in to the clients through actually specialized horizontal services, which Atul has mentioned about, so what I want to understand is that within our top five clients do you believe this strategy has played in terms of what service offerings the top five client is behind and now we can believe that yes, our stickiness with the top five has further increased?

Atul Nishar: Before Sekar replies I do want to make one point clear to all of you there is no new management at Hexaware, most of the people in the senior management have been there long enough in the company for years. There is a CEO who joined one-and-a-half year's back who cannot be called new anymore, but other than that I do not think it will be appropriate to give the term new management here that is not fair to a large number of senior people who put in 10 plus years at Hexaware building this business.

P R Chandrasekar: I feel that I have been here all my life and I have enjoyed every minute of it, but the answer to your question is that clearly the renewed focus if I were to say in terms of further emphasizing our strengths in these horizontal areas specifically PeopleSoft where clearly there is a strong history legacy, capability, and our ability to showcase things that we have done as well as in QATS, which got further strengthened due to the acquisition of FocusFrame, which is now completely integrated in to Hexaware including a lot of the innovation, which we now do globally not just in the US or San Jose or Mexico, but Chennai and Mumbai is the reason why frankly we think we can add some customers and we are finding our sales source specifically in this area, both in Europe and North America and the good news I want to tell you is that in the quarter one itself we have won some multiple engagements in PeopleSoft, we have won an engagement in QATS and BI continues to be an area where we win and open new account that is in the new area, clearly it is a major area we have with which we are penetrating into our major top clients itself so if I look at those top ten clients baring one or two cases where lot of that business tends to be more vertical and domain specific frankly we have been quite successful in cross selling enterprise

solutions or testing or BI in probably 80% to 90% of our top ten customers.

R.V. Ramanan: Top five customers we are servicing every single work composition that we have, it has kind of penetrated. I would say that we have serviced all our horizontals, the top 5 clients.

Sandeep Shah: Any acceleration in terms of acquisition strategy with the cash lying on the balance sheet?

P R Chandrasekar: I do not want to use the word acceleration but I think both the intent of making an acquisition to strengthen key areas of our business has certainly been shall I say further strengthened and the activity level in terms of, you know, trying to identify opportunities has increased and probably will intensity even more over the next few quarters.

Sandeep Shah: Okay. Congrats and all the best.

Farah: Thank you Mr. Shah. The next question comes from the line of Madhu Babu from Systematix Shares & Stocks. Please go ahead.

Madhu Babu: Regarding the travel vertical there has not been much growth over the last three quarters whereas some of the midcap IT companies have been doing well there, what is the outlook for us?

P R Chandrasekar: Well, you all know the travel industry has gone through a tough time, the airlines industry in every slowdown gets hit negatively and the recent event of ash problem also we have not yet heard from our clients the impact it will have on them but clearly a negative impact, so while we were looking at things, looking up in this vertical suddenly this ash problem has come, so at this stage it is difficult to really clarify. If you had asked these three months back we would have given you a very positive reply but I would say we would wait and watch for a few more months.

Madhu Babu: What is the scope of scalability in testing; the nature of service has it become more like a commoditized offering?

R.V. Ramanan: See, testing is one of the fastest growing services today in the IT Services market. The overall market spends for testing is pretty large and even in larger companies this is still the fastest growing service. In terms of commodity, yes there are portions of testing, which have become commodity, primarily the manual testing, but with our acquisition of FocusFrame and our ability to get into certain high-end testing with our accelerated services we play both in the commodity sector as well as in the high-end specialized sector, so we have a complete spectrum of testing and this is one of our fastest growing horizontal.

Madhu Babu: Have we lost out any projects because we could not have enough manpower to pick them?

P R Chandrasekar: The answer is broadly no, at the end of quarter four if you recall our numbers we had reached a fairly high level of utilization, which was about 75% plus on a blended basis for a company's average so if you kind of do the mapping it will show you that there are pockets, which would be at almost 90%, there could be pockets, which are at 60% and in one or two of our strength areas for example in PeopleSoft where we do see a sudden spurt in demand and the utilization levels are kept to a high level because of the measures that we have taken during 2009 due to the fact that there was a certain level of uncertainty as to when things would bound back we have encountered delays in our ability to actually fulfill billable position, something which we have actively worked out to try and correct. We have substantially increased the size of our recruitment team at multiple locations and also realigned it so that there was the ability to hire both, shall I say, standard skills like Java etc., but also more specialized skills like PeopleSoft, so the answer to your question is it is not material but have we been pushed through the wall on a number of occasions the answer frankly is yes.

Madhu Babu: Okay sir, thanks.

Farah: Thank you. The next question comes from the line of Ankur Arora from ING Investment Management. Please go ahead.

Ankur Arora: What was the volume degrowth in Q1?

Prateek Aggarwal: It was about 6%.

Ankur Arora: Just a quick question on your salary structure. What proportion of your revenue goes to on-site salary and what proportion goes offshore?

Prateek Aggarwal: Revenue mix is about 60-40 so the cost would be kind of similar.

Ankur Arora: Okay, thank you very much.

Farah: Thank you. The next question comes from the line of Pratish Krishnan from Bank of America. Please go ahead.

Pratish Krishnan: I just want to understand what is the sense that you are getting from the top 10 clients in terms of their IT budget or their plans to increase offering with you?

P R Chandrasekar: Pratish, in terms of the top 10 clients on an overall basis the prognosis is good, there is certainly a better outlook particularly in certain several key clients there is a lot more activity, and there are several projects that we are bidding on. There are in that top 10 a couple of clients where the demand environment remains I would say stable, I do not want to paint that in those couple of clients it is very gray but overall on a top 10 basis the outlook is positive.

Pratish Krishnan: Which vertical would this be... verticals or practices?

P R Chandrasekar: Our top 10 clients do span all verticals so I would not be able to say and sometimes you cannot reach a conclusion there either because it could

be more clients specific in terms of the growth opportunity as well as the stableness.

Pratish Krishnan: I am just trying to understand in terms of visibility like two quarters, three quarters down the line has that improved significantly may be a quarter back?

P R Chandrasekar: In this business I do not want to talk about visibility going into 2011 or even in quarter four as I had mentioned earlier in the call sitting where we are today our visibility in quarter three versus say two quarters if you were to ask me this question a year ago is certainly a little better.

Pratish Krishnan: Okay. Secondly, in terms of manpower recruitment given that you are guiding at 1000 net additions, what is the kind of utilization numbers you are aiming at?

R.V. Ramanan: See, our current utilization number is close to 69% and we will continue to maintain the utilization between 70% to 73% is what we are looking at, we will not be able to reach high levels, which were doing last year due to the growing demand; however, we will maintain a healthy rate.

P R Chandrasekar: This is what we are aiming at but while we are growing and visibility of projects is there we keep hiring so it is difficult to say it will be so in the short run, but that is the aim.

Pratish Krishnan: Lateral recruitment, would this be like back-ended or front-ended, which quarter would this happen?

R.V. Ramanan: It will be evened out; it will be across all the quarters.

Pratish Krishnan: Even for the laterals?

R.V. Ramanan: Yes.

P R Chandrasekar: Not necessarily equal but it will be spread out over three quarters.

Pratish Krishnan: Okay fine. Thanks a lot.

Farah: Thank you Mr. Krishnan. The next question comes from the line of Yogesh Agrawal from HSBC. Please go ahead.

Yogesh Agrawal: Coming back on the margins I am not going to ask anything about what will happen in the next quarter but even if it is at the same level or even if it is better at 8% EBITDA margin for offshore services player is a little disappointing, so I am just trying to understand in the longer-term, may be next four quarters, next eight quarters in FY'11 do you think the margins will come back to a little respectable levels and what are the levels you think will help you out to do that?

P R Chandrasekar: Yogesh, clearly that is the direction in which we are working. What do you call respectable levels Yogesh?

Yogesh Agrawal: You guys are a better judge or what are the industry standards in terms of....

P R Chandrasekar: Obviously we all want it to happen, we are heading in that direction but I do not do unduly raised expectation, it would take some time.

Yogesh Agrawal: Okay but will it primarily be led by growth or there are some structural levers as well to improve...

P R Chandrasekar: No, it will be growth.

Yogesh Agrawal: Perfect, thanks a lot.

Farah: Thank you Mr. Agrawal. The last question comes from the line of Hitesh Shah from IDFC Securities. Please go ahead.

Hitesh Shah: In the opening remark Prateek you mentioned that 600 basis point decline in operating margins was due to lower volume. With the guidance of kind of 9% growth at a higher end, we are looking at volume returning. Is it fair to assume that next quarter we will have a tail wind of about 500 to 600 basis point due to volume, of course there will be head win, but volume return should give us a tail wind of about 500 basis point, is that fair?

Prateek Aggarwal: No Hitesh that would not be the right way to look at it because there would be cost that comes with it and like Sekar also said earlier we are investing in more sales people, more practitioners, more domain people.

Hitesh Shah: Maybe not all 600 basis points but maybe 300-400 basis points because of return on volume.

P R Chandrasekar: No, we would not be able to talk specific numbers at this point in time but I would just say that margins would be under pressure.

Atul Nishar: I do want to add since this quarter some of the investors have felt there was a negative surprise on the margins, I do not want that to be repeated, so I want to clarify that do not expect any material improvement in margins suddenly based on what we see today, if there is any major change then I do not know, but I do not think you should expect significant change in the margins because we do not want this negative surprise to be repeated.

Hitesh Shah: All right. Is it fair to expect a margin level of about 10% to 12% for rest of calendar 2010, for the remaining three quarters about 200 to 400 basis points higher?

P R Chandrasekar: Hitesh, I think you are pushing this one because Atul was I think as expressive as he could be in terms of mentioning that please do not expect any major upside in quarter two, we will remain depressed and bounce back in terms of margins even to what the earlier caller called respectable levels whatever that is, it will be a slow and gradual process driven by the growth we do see coming in the next few quarters.

Hitesh Shah: Sure, I appreciate that. Secondly on the hiring guidance front the 1000 employees is a gross hiring or net hiring?

P R Chandrasekar: Net adding.

Hitesh Shah: Okay, all right. Thanks. All the best.

Atul Nishar: Thanks to all of you for joining the call as I said on a hectic day, thanks a lot, we appreciate your support to Hexaware and if any of you still had any query feel free to contact Sreeni or contact Prateek, feel free to contact us. Thank you.

Farah: Thank you very much. On behalf of Hexaware Technologies Limited that concludes this conference call. Thank you all for joining us and you may now disconnect your lines.