Moderator: Ladies and gentlemen Good afternoon and welcome to the Earnings Conference Call of Hexaware Technologies Limited. 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 should need any assistance during this conference call please signal an operator by pressing “*” then “0” on your touchtone telephone. 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 and welcome to the Hexaware conference call. From Hexaware we have with us Mr. Atul Nishar, Chairman, Mr. P.R. Chandrasekar, Vice-Chairman and CEO, Mr. R. V. Ramanan, Executive Director & Head - Global Delivery, Mr. Prateek Agarwal, CFO, and Mr. Deependra Chumble, CPO. The safe harbour is available on the Hexaware website in the Investor section, so I am taking it as read. I will now hand over to Mr. Nishar.

Atul Nishar: Good afternoon to all of you and I know you all have been having very hectic schedule over the last couple of days with all the results announcement and really appreciate your taking time out to join us for this call and your interest in Hexaware. You would have by now gone through the press release and would have noticed the key points of this quarter. Of course it has been an all round good quarter. The facts speak for themselves. I hardly need to use any adjective. The two key points I want to make are, one that the revenue outlook continues to be positive, based on the business that we have on hand and the visibility that we have, the pipeline that we have and the guidance that we have from our clients, we are confident of higher revenue than what we had indicated a quarter back and therefore we upgraded the annual guidance to 27.5% or more as compared to last year. This is in dollar terms.

Secondly, we also remained confident of sustaining or improving upon the operating margins over the next three quarters that is the current calendar year. Now why do I have the confidence that we should be able to maintain or better the margins? I would just like to make four or five points here. Some of these have also been responsible for improvement in margin in Q1. One and the biggest reason is that the volume growth is sustained, and that will be an important driver of improvement in the margins.

Second we have continued to hire more and more fresh engineers from campuses and gradually our pyramid has been improving, and because of the gradually changing bulge mix in favor of more and more freshers we are able to control the per employee cost better and therefore that should be a lever for improving the margins.
Third you all know about the large deal that we have signed $110 million deal. We had substantial cost last year on account of knowledge transfer as well as ramp up phase. That part of the deal phase is now over. This deal would be in stable state from Q2 and we should see margin improvement in Q2 as well as Q3 in this deal, and since it is large enough it will have impact on the overall margin as well.

The fourth point you saw in this quarter the offshore percentage improved by 120-basis points, we are making efforts to prove that but I am giving no assurance that it will improve every quarter, because when the business momentum is good when a new order comes initially opened the onsite component is also high, but our trend will remain towards improving the offshore as a percentage though not necessarily every quarter.

As the revenue grows we do not anticipate our sales and general administration expenses in absolute term to increase. So since the absolute term will remain more or less similar as a percentage SG&A will keep coming down gradually as a percentage of total revenue, and this clearly will be a lever to improve the operating margins.

So these are the various reasons that give me confidence and that gives our team the confidence to believe that our substantial improved margin over the last quarter is a sustainable phenomenon. So these were the key points, I thought I will just bring to your attention I got calls since these two points have been made in my quote, I thought I will just elaborate the basis on which I have the confidence and now Sekar our Vice Chairman and CEO will take over from me.

**P. R. Chandrasekar:** Thank you Atul. Clearly, given the momentum in revenues we have had over the last three quarters, it is satisfying that we have continued that momentum and met our guidance ending at $70.4 million for the quarter. The good news is that while meeting that guidance and registering about a 6% growth the piece that I think worth mentioning and our particular satisfaction to us as a team is that 1) that a lot of that growth has come from volume. Volume growth represents 5% of our increase. There has been a small contribution from forex. Pricing has improved and therefore gave us the contribution, but volumes’ was the key reason for our growth.

The second piece that is also satisfying is as some of you are aware we had made some changes in our Europe organization about three quarters ago. The team is in good shape. The client base is growing well. The momentum that has built into that market is now beginning to deliver us strong results and after a lag of about three to four quarters where Europe was relatively flat we are now seeing good growth in Europe. Specifically we have got four new customers in Europe in Q4. We have added four new customers in Q1 and we are
hoping that both with the energy and motivation as well as reality on the ground Europe will continue to give us growth going forward.

This is particularly healthy given that in the past few quarters Americas has been our major avenue of growth. We remain extremely confident that America will continue to grow. During the current quarter while as a percentage Europe kind of overshadowed United States in particular in absolute terms the US remained strong. Our customer base remained strong most importantly the pipeline continues to remain very healthy and we believe that going forward Americas will also come into growth stream and combine with Europe as well as contributions from APAC is one of the reasons why we remain very optimistic both about Q2 as well as the quarters going ahead and one of the reasons we are confident enough to upgrade our guidance to $295 million. We have added 10 clients in this quarter. As I had mentioned four in Europe, we have also added both in the North America geography as well as in APAC and in addition to that we also have a deal pipeline both with existing customers as well as few large customers which is probably healthier at this stage than even in the last few quarters that we have had and that is one aspect.

Second aspect is the focused approach we had implemented three quarter ago in terms of focusing on the financial services vertical, travel and transportation vertical and more importantly sharpening our ability to go to market where our enterprise solutions business and our QATS and BI business all of it is beginning to actually deliver good results on the ground, but if you look at our QATS which is our testing business that is doing well. Our enterprise solutions business has grown sequentially quarter-on-quarter. We have a number of new customer wins in that area as well as BI which has been a surprise weapon for us is literally now 10% or close to 10% of our revenues and both of these are high value added services, enhances our reputation with the customer, it gives us access to business and we hope it will allow us to grow many of our existing customers.

The second element or the other element, which we liked about the growth this quarter and also going forward, was the fact that the number one customer grew well. The next eight to ten customers remain fairly strong and stable. The balance 10 to 20 have also started giving us some decent growth accounting for the fact that now our business growth is coming from fairly broad-based set of customers and our client metrics also beginning to reflect that in terms of 20 million plus customers that we started reporting.

In terms of the verticals, I wanted to mention was in the BFSI space while we have not really reported a dramatic change in terms of the percentage of that business, it remains robust, particularly in the capital market space. The foray that we have made a few quarters ago into the enterprise data management areas has begun to bear a lot of fruit. We have a lot of deals in the pipeline and I am reasonably
confident that going forward we will be back to an area where BFSI will drive much more growth in our business.

To cater to this growth we have continued to add people in our system. The good news is as Atul very rightly mentioned we have changed the mix of the people we have been hiring. For example, in Q2 of the 153 people that we have added the net addition has been 125 of those who have been freshers. This is in addition to the 1000 freshers or so that we have added over the few quarters as well. Changing fundamentally the mix of our fulfillment of new business from literally 0% of freshers in 2008-09 to close to 50% at this stage and once we continue this, this in turn will have implications on our average cost, our pyramid as well as our ability to be more competitive going forward, and not also forgetting to mention the fact changing the profile, the energy levels and the motivation and all other cultural factors in our organization.

We will continue to add more freshers and as we have indicated last quarter we will add more in Q2 and going forward continuing this trend of adding freshers per quarter and we believe that by the end of the year the number of 1500 is a reasonable number even at this stage. Finally on the margin front while Atul explained in fair detail the reason for our confidence. We do believe that we have several of these levers still at play including our average wage as well as our people pyramid including the fact that there are probable improvements in pricing that is still possible in this market as well as the scale benefits that we can continue to achieve using our facilities in Chennai and Mumbai.

As a result of this both on the revenue front and on the margin front we think that we have a good 2011 ahead of us and we feel that the wage hikes which will be given out in Q2, we will be able to absorb these wage hikes both in the April to June quarter as well as in the July to September quarter when the onsite wage hikes kick in. A lot of it will be because of volume growth but in addition to that many of the serious costs containment kind of measures that we have adopted which has now been institutionalized will also come into play, hence resulting in our ability to sustain our margins or even improve all those. Thank you for your interest in Hexaware and with this I will hand it over to Prateek.

Prateek Aggarwal: Thank you Sekar. Good evening everybody. I will start with the revenue walk quarter-on-quarter and then cover the EBIT margin walk as well before going on to just some of the other financial metrics. Our revenue grew by factor of 5.8%. A large part of that was explained by the volume growth. Volume growth was 4.9%. The second impact was from the bill rates, we would have seen that the bill rates have gone up by a factor of 1.1% onsite and 1.5% offshore giving a weighted average of about 1.2% to 1.25%. Out of that about 0.6% is explained by gross currency impact and the balance 0.65% is explained by
realization improvement. The fourth factor, business location mix, is a switch from or an increase in the offshore percentage mix of business, which actually gives the slight negative of the revenue side, but it, is positive on the EBIT margin front. So that was minus 0.4%.

Going on to the margin walk, gross margins and EBITDA picked up by 280-basis points. That is explained by four main factors. First of all the technical utilization has gone up by a factor of 3.3% points from 69.4% to 72.7% now. So that gave us 100-basis points in EBIT margins gross margins as well. The second factor was the billing realization which I talked about which have given again 100-basis points to the gross margin and EBITDA. The third factor is the offshore mix, which albeit give a slight negative factor on the revenue side has given positive movement to the EBIT line coupled with productivity benefits that has given another 40-basis points. The fourth factor is the forex movement both in the cross currency as well as the rupee slight depreciation during the quarter on an average has given another 40-basis points. So that totals up the 280-basis points at the gross margin level. Leverage benefits of depreciation have given an additional 30-basis points making the EBIT go up by 310-basis points on a quarter-on-quarter movement.

Moving on to the balance sheet, couple of important points to be taken away from the balance sheet. You would have noticed for the first time the networth has crossed 1000 Crores as well as cash remains above the $100 million mark, $101.4 million to be precise, Rs.452.3 crores in rupee terms and you will appreciate that this is after the special interim dividend that was paid out last quarter. We spent about 17.5 Crores in CapEx during the quarter and special interim dividend was almost 17 Crores.

Going on to the forex we have got a gain of about 10 Crores this quarter. We continue to have a healthy hedge book of $133 million at a healthy rate of 48.25 as well as €13 million at an excellent rate of 72.29, which translates to a healthy mark-to-market in the balance sheet, and we do believe that at least next quarter we should be able to sustain that 10 Crores of forex gains in Q2 2011.

As you are all aware the STPI benefits go out starting this month and hence our expected tax rate would go up to about 20% starting next quarter. So that is all I had to discuss to start with. Atul over to you.

Atul Nishar: Just wanted to add one point that the board members decided to consider a declaration of interim dividend and so the board will be meeting again on May 6 for declaration of interim dividend and will also discuss dividend policies. So now over to all of you for any questions that you have.

Moderator: Thank you very much Sir. The first question comes from the line of Srivatsan Ramachandran from Spark Capital. Please go ahead.
Srivatsan R: Congrats on a good set of numbers. Just wanted to get in terms of the business long-term you are seeing especially in enterprise application business, is it still predominantly PeopleSoft led or you are looking at slightly more broader market enterprise application growth?

P R Chandrasekar: Broadly it is an enterprise application and as you know us quite well PeopleSoft is the very large component of our enterprise application business, but in the last couple of quarters we have been investing and realizing areas of opportunity both in Oracle, particularly Oracle and we have also had one or two wins in the SAP areas. So while PeopleSoft is the predominant platform on which we have been able to differentiate ourselves. The Oracle benefits are also beginning to come in. As you are aware we gained a lot more experience in the Oracle platform with the large deal that we did we are leveraging that. We have got several wins in the Asia-PAC market as well. So I think our enterprise solutions competence is getting beyond PeopleSoft into other areas. I hope that this will continue particularly in Oracle and SAP as well.

Srivatsan R: My next question is on the margins front. You said the wage hike would be near term cost pressure. I just wanted to know what will be the extent and what is the schedule for the wage hikes?

P R Chandrasekar: Obviously the schedule for offshore wage hikes is effective April. We have completed the appraisal process. We are in the process of actually analyzing the letters and the announcements and the various employees offshore, so clearly the implication of that will be starting April 1. For onsite employees it will be obviously in Q3. So that is the schedule. In terms of the exact percentage given the fact that the letters are literally in the point of being handed to employees, I hope you will understand if I am a little reluctant to give you an exact percentage because whatever the number I give you can be interpreted in any number of ways and I would rather not ask that given the immanence of these letters to employees, but what I can say is that we would be in the industry range that you have been following for the last two to three quarters with some of our competitors.

Srivatsan R: On both onsite and offshore will be similar?

P R Chandrasekar: Onsite and offshore will be different.

Srivatsan R: It will be similar to the industry?

P R Chandrasekar: Yes, but they will both be in the similar to the industry lines.

Srivatsan R: My next question is just wanted to get an update in terms of the large deals that we won that is ramping up. Just wanted to know when do we expect it to hit a steady state kind of and what kind of benefit would that steady state flow through especially when it comes to margins?
R.V. Ramanan: The large deals which we announced last year which is $110 million deal are in progress and it has to take steady state. Q2 onwards it will be completely in steady state. That is what we have already mentioned and the transition work regarding the last deal is nearly complete. The operations in terms of steady state have begun and the margin impact due to the offshoring of the deal is already seen in this quarter and they will be seen in the subsequent quarters.

Srivatsan R: Just want to know what kind of yields at this point of time are you getting on the excess cash you are sitting on?

Prateek Aggarwal: We are getting excellent yields Srivatsan. We are getting almost on a weighted average basis before that we are getting 9%.

Moderator: Thank you. Our next question comes from the line of Shikha Jalan from Smith Securities. Please go ahead.

Shikha Jalan: Good evening Sir. Can you please specify the revenue growth levers we will have in FY’11 company is given good guidance of 25% upside from here?

P R Chandrasekar: The revenue levers have been in play. Frankly it is not something that has emerged during this particular quarter. As you are aware we have been growing on the revenue front for the last few quarters and this is the fourth quarter where we have had a good revenue growth. This is on the back of resurgence in demand with some of our top customers. That is number one. Number two, the balance, the next set of customers are also beginning to give us growth. That is from a customer profile standpoint. So frankly speaking the base of business that is beginning to give us growth in small numbers come in more substantial numbers is increasing. Number two from a geography standpoint, the last few quarters North America has been the primary driver for growth. We have good reason to believe that going into the rest of the year, North America while was steady in this particular quarter and will come back doing well next quarter. In addition to that as I mentioned Europe should give us some good business and A-PAC remains steady. I know that the percentage is small so I do not want to take too much of it, but again Europe has also shown some growth this quarter and we believe that it will continue to give some growths from geographies. We think starting Q2 all of those geographies will grow. Finally in terms of new business we have been adding ten customers a quarter now for the last two to three quarters. If you look at the percentage of our business in this quarter, new business represent 7% of our business as opposed to 4% to 5% business which we have done last few quarters. We think that this trend will continue. So therefore new business also is beginning to give us some decent contribution. Finally, from a pricing standpoint, as I mentioned while clearly it will depend on the nature and the kind of deals that we get we are seeing steadiness there. We have been pursuing price increases to a lot of new customers. We have been successful in
getting them from a few. We will continue with that effort. So therefore some levers will come from that. Last but not least we have in our pipeline about four to six decent sized deals; by decent size deals I would like to mention that these are opportunities of in excess of $25 million in terms of TCV, one or two being larger. Couple of them is in reasonably advanced state of discussion. I am hoping that in the next quarter or two we would be hopeful of trying to get wins in one or two of these, which again will contribute to revenue as we continue to grow. So these are the various levers that give us confidence about revenues.

Shikha Jalan: All the big companies big MNCs in US they are renegotiating the contracts right now in outsourcing is in the pipeline coming two years, so do we see any opportunity from there or are the current players better at grabbing of the opportunities rather than us?

P R Chandrasekar: You make a very excellent point. I think there are opportunities emerging from this, but I also want to be open about the fact that many of these opportunities tend to favor incumbents, meaning if there are four vendors supplying services to a customer they tend to have advantages somewhat harder for a completely new vendor to enter that bargain, but having said that I agree that with some of our existing customers we are hoping that this will give us the opportunity to increase our share or at least increase our kind of services that we provide to the customers and there are some of these that we are actively pursuing as we speak.

Shikha Jalan: Sir, because primarily Europe is more like run a business and US will be more like change the business model. So if you are harping more on Europe do we see margins not growing as better as if you would have been focus on more in US?

P R Chandrasekar: I do not think there is much of a correlation on that front, because Europe today represents about 28% of our business. Which is a big chunk particular for a company of our size but we also have some fairly good existing customers, but the new business momentum in Europe is also growing, so in that sense and our pricing in Europe frankly is not necessarily very different in some cases actually it is better.

Shikha Jalan: Sir anything on the Cloud Computing side, are we planning anything there?

P R Chandrasekar: We do but just to mention we have built a private Cloud on our own. Regards to customers and other interesting developments, I will let Ramanan talk about it.

R.V. Ramanan: We are actively pursuing opportunities for the Cloud both on the infrastructure space as well as in the software and the Cloud space as well as the platform as a service area. We are working with multiple
Cloud services providers including providers like salesforce.com and others, SAGE, and other tools, which are available on Cloud. We are also helping some of our customers build up their Cloud platform as well as migrate their applications into the public Cloud infrastructure. We are also working in some of the product companies, which are available on the platform, like Cloud business. In one of the leading products we are an authorized person to make the software available on the Cloud to our vendor. We are also building our own platform on Cloud, so there are multiple activities happening on the Cloud area and we are seeing traction in the initial area where we are currently seeing traction in the consulting, but effective use of services will see it down the line.

Shikha Jalan: Sir, one question on the tax rate we will face from next quarter 20%. Do we have any plans to counter these like SEZ, investment or something like that or are we countering tax rate hikes there?

Prateek Aggarwal: Yes, we do have. Almost 60% of our India business comes from Siruseri, which is our SEZ campus. We have as of March about 2100 people there. So about 60% is already in SEZ. Most of the growth will continue to go into SEZ, so that helps us reduce the tax rate impact.

Shikha Jalan: One last question on the discretionary spends, what is your take on it for this year?

P. R. Chandrasekar: We still have the momentum in our business particularly in the enterprise application space, which tends to be somewhat more discretionary in nature. The pipeline in that area is good. Similarly with some of the more customer analytics, business analytics area is again tends to be more discretionary. When I look at my pipeline, both in Americas as well as in Europe I am inclined to believe that the demand environment remains fairly robust on both of these fronts and given that in Q1 the budget finalization of many of our customers has taken place and at least as you can see from our top few customers both last quarter and this quarter we are seeing gains there. I remain very optimistic that demand flow will be good and discretionary spend will continue both in Americas as well as Europe.

Shikha Jalan: Thanks a lot sir for answering my questions and all the best for the future.

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

Kunal Sangoi: Thanks and congratulations on a good quarter. My question is over the last four quarters we have seen some solid revenue traction and that is essentially driven by top clients and in particular top five clients. Now my question is, what is the strategy that we are following or may be in terms of we had a focus on the top 25 accounts. How do you see
the growth panning out for the clients who were beyond your top clients?

P. R. Chandrasekar: Good question. The truth is that the top clients are giving us healthy growth and in absolute terms when they grow, their impact on the overall tends to be higher and it is not true just for us, but for everyone else and therefore I do believe that the top ten clients for us will represent a major source of growth. Having said that we as you know also put in place a fairly active and strong account management practice in place in the top 25 customers both in Americas as well as in Europe. Some started in the early stage of last year, some have gotten into it in the last year, but there is now fairly robust account management review, cross-selling kind of a practice in place in all of our geographies including senior client attention, it has gone beyond say the top 10 clients into the next 20 clients. We have got key account managers in place. We have got dedicated delivery leadership teams in place, both in Chennai and in Mumbai to cater to these customers and actually in this particular quarter a lot of that growth came actually beyond our top ten customers, outside of our top ten. I do not want you to ask me the question does that mean your top ten is slowing down? Definitely not, but what I am trying to say is the next ten have given us a good growth. We believe that will continue to happen and we are finding increasing success in being able to cross-sell a few of our accounts and we made a press announcement recently with regards to one of our large clients where starting in a small base we now felt that infrastructure services to the customer, something that we have never sold to them before, in addition, to some fairly highly domain specialized areas and BI so we have been able to now sell literally the entire set of services. I think originally it was primarily enterprise applications, we now have BI there, we now have infrastructure there, we have now assets management capabilities there, and frankly we are even looking at servicing them from multiple locations. So some of these things are beginning to come into play, in fact one of the reasons we found a little more optimistic is that the growth is somewhat broad-base and the new wins also is coming into play. Peoplesoft 9.1 has been successful, they are beginning to gain traction in Oracle R12, BI is proving to be a surprisingly effective door opening tool that we have, some of the analytic packages that we have developed are working, so I think our dependence on say the top five customers will obviously remain because of the sheer size that they represent but we must go beyond that now.

Kunal Sangoi: Historically if we look at the offshore onsite mix for Hexaware it has been at about 40% and highest has been kind of 43%, so do you think that incremental, the services or the projects that are flowing are more from infrastructure management or analytics which are more offshoreable and hence do you see that offshore proportion going up?
P. R. Chandrasekar: Directionally you are correct, in addition to that our sales incentive and other programs clearly promote a higher level of offshoring, so we are also, the account managers we have in place shall I say incentive tools and mechanisms to try and drive better margins, it is obviously easier when you push revenues offshore but at the same time I must mention that for example in the enterprise application or even in BI in some areas or if we get a larger deal, there is a tendency to have a higher onsite percentage initially, so while clearly all the tools are in place to drive data offshore how that will move to some extent will also depend on the kind of wins we get, so I think it will kind of one will moderate the other.

Kunal Sangoi: The other question is with regard to North America, certainly this quarter has been flat, but do you see signs of picking up in April and you may want to say that this is a quarterly aberration?

P. R. Chandrasekar: I clearly think so and as I indicated the deal pipeline from both existing customer as well as in new customer remains strong enough in North America for us to believe that the growth which this particular quarter and frankly it can be explained because of a couple of customers, a couple of large projects came to an end, odd case of budgeting delays, but growth will be back in Q2 in North America.

Kunal Sangoi: You earlier mentioned that with regards to salary hikes for offshore employees next quarter the operating margin would still remain, the growth would take care of any dent in operating margin, so operating margin would continue to remain flattish next quarter as well.

P. R. Chandrasekar: We continue to maintain that despite the salary wage hike will be along industry lines, so we are not trying to be clever in managing our salary hikes, but we believe that the levers we have in terms of the volume growth as well as the scale benefits are likely to give, in fact I have asked my own CFO to run the numbers several times and we are reasonably confident that we will be able to sustain the kind of margins we have in Q1 going in to Q2, I am not saying we will grow or dramatically improve our margins but we will be in a position to sustain our margins.

Moderator: The next question is from the line of Sandip Shah from RBS; please go ahead.

Sandip Shah: Congrats on another good quarter, just if you look ,Hexaware niche service offerings whenever the macro scenarios have improved, Hexaware has been able to perform well, but historically the project based business has hampered us whenever the macro scenario goes down, so in this transition you believe that we have significantly even transitioned from a project base to a predictable business, what I mean to say is of the business portfolio you believe that most of our revenue is now predictable where the tenure is not a short term but it
has been long term with more than two to three years of deals which are coming?

**Atul Nishar:** One point to be clarified, while you are absolutely right that when the general economic scenario is good we have grown better absolutely no doubt as was reflected between 2002 and 2007 in five years we grew five times but that had nothing to do with project based revenue growth. ERP which you see has been a large contributor in our growth even during that phase once again with this economic growth cycle having begun since April we have been growing, major part of our ERP business comes from support and maintenance which is recurring year after year after year. the implementation and upgrade is a smaller part of our revenue so it is not a project based revenue, the very large part of Hexaware revenue comes from support and maintenance not just in ERP but even in other technologies, so we have a high component of annuity business and a sustainable business, if at all even as a corporate strategy Hexaware does not go after a project, if we know that this project will end, we even avoid going after that client because as a practice we invest lot of management time in building relationship and growing the account not just in one service offering that we may have won but also offering various other offerings, also if you see the type of clients we have got, 50 plus Fortune 500 clients which has been going on for years now, is again a long-term and sustaining relationship, which is apart from 110 million deal that we had announced another 60 million deal was just renewal of the existing business on a three-year basis, so I think the most important sector for us is to have clients which continue over a very long period of time and also have revenue which is in the nature of annuity.

**Sandip Shah:** If we look on YOY basis our ADM business has been down as a percentage to revenue by almost like 10% points but at the same time the enterprise solution business has gone up by almost like 8 to 9% points, so do you believe that once the penetration in Peoplesoft 9.1 gets over and in that scenario there is a possibility that we can have a slowdown in terms of our growth rates, just want to understand how we are looking at such situation not in a quarter-on-quarter but maybe over two to three years in terms of Hexaware?

**Atul Nishar:** One the ERP, the major portion as I mentioned is ADM, not development part but maintenance part, so ADM when you say includes development which is not necessarily annuity business but the maintenance part, the support part is the annuity business so in ERP also there is a large portion of annuity business which will sustain. so the key point is why do we grow when the economy is good, the reason is that the company’s strategy of being a multi niche service provider is working well and most of the years detailed are healthy economy globally, so when you have two bad years, the whole industry gets impacted, maybe it may vary from company to company in terms of percentage impact and sometimes due to certain specific clients
that one maybe impacted more in a downturn, but when the economy has been good Hexaware has been doing well, because of the success of its strategies and we have maintained the strategies of focussing on few strength areas, not being a generalist and that has been working very well. We also improved the execution, whenever we have seen weakness as Sekar mentioned in Europe where we saw some weakness is where we are not growing for a long time we faced the issue and the execution now is far superior, so we have seen growth there as well.

Sandip Shah: I think we are all cognizant that the execution and the performances are really good, I am just looking at over two to three years, just a relative question to that, is it fair to now say that most of the larger deals which are coming to Hexaware are multiservice deals where we are getting in to involved in more than one service which makes us more and more diversified?

P. R. Chandrasekar: I think that would be a very fair statement to make, you do make an important point which is that at this current time given the fact that Peoplesoft 9.1 which you mentioned is in the state of being embraced by the customers clearly we have because of our skill sets opportunity to penetrate new customers, so we are implementing steps, for example put specifically trained and dedicated people with the objective of going and winning the customer but probably we have also taken a fair amount of effort to create a key account management organization, cross selling metrics and our ability to once having penetrated the account to try and grow that business has also materially changed in the last 12 to 18 months again showing some delay which is why frankly our next set of customers are beginning to grow and lastly as you mentioned the two verticals that we are talking about, financial services and the travel and transportation areas we have again reenergized those, we have brought in new leadership in those areas and the intent there is on the one hand we want to use the technology to open new accounts, create new account management skills, grow that and mind that business but these two verticals where we can position ourselves particularly in asset management as well as in airlines has genuine partners and broad-based capabilities to those vendors and again it is beginning to bear fruit as evidenced with growth. we have with say one large airline for example and one very large asset management company, so all in all I think both from account penetration and account mining as well as in two specific verticals where we can actually differentiate ourselves this strategy will help us continue to grow even in to the near term, not necessarily only today.

Sandip Shah: You believe most of the accounts within the top 10 we are already with the multiservice offerings.

Atul Nishar: All of them we would have multi service.
Moderator: The next question is from the line of Pratish Krishnan from Bank of America Merrill Lynch; please go ahead.

Pratish Krishnan: Thanks, Sekar you mentioned about the pricing as the lever for margins; just wanted to clarify whether have you got any pricing increases and are there any deals under discussion today?

P. R. Chandrasekar: We have got price increases from specific set of customers which has clearly helped us and some of the newer wins that we have got which is particularly in areas like Peoplesoft and business intelligence clearly has come better than average range so to some extent it is a combination of both.

Pratish Krishnan: Probably is this the key reason why you think margins surely will sustain in Q2 despite the salary hike?

P. R. Chandrasekar: Not necessarily on pricing alone, we do believe volume will help us offset the salary hikes to some extent, we also believe that some of the SG&A scale benefits will help us and I think between the two of them it really will explain a large portion of the salary wage cost that we are going to incur and the pyramid again, we need to help us actually we have been tracking our average employee cost and it is not a trivial drop, so even though there is an increase relatively speaking is better.

Pratish Krishnan: In terms of the large deals that you mentioned, the three or four large deals, can you just throw some light in terms of which verticals will these be?

P. R. Chandrasekar: I do not want to get in to which verticals they are, I would like to mention that it does go across a couple of verticals and including beyond that vertical and it is in both North America as well as in Europe and also I do want to say that it is not all new customers, it includes couple of existing customers and a couple of new customers.

Pratish Krishnan: And the over $100 million deal that you mentioned that is a fresh deal for you?

P. R. Chandrasekar: It is a fresh deal in the sense that it is a new large opportunity we are chasing, but particularly large one we are looking at is with an existing customer.

Pratish Krishnan: Prateek just one question in terms of the forex gains, did you mention that the forex gain for the next quarter would also be 10 Crores?

Prateek Agarwal: Yes, that is right.

Pratish Krishnan: I just want to understand, your marked-to-market gains in the balance sheet is around 14 Crores and I believe this year your hedge is for
roughly eight quarters, so why is that we would have a 10 Crores next quarter also?

Prateek Agarwal: Pratish, first of all it is not that roughly about $151 million that we have over eight quarters, it is not exactly flat, it is keeping tapering and it all depends on what is the exact rate that you have for that particular quarter depending on when you booked the hedge, so number of factors equally the way the accounting formulas work, the further out in the future you go, the marked-to-market gain does get discounted, so the number in the balance sheet is after taking those discounting factors in to account as well.

Pratish Krishnan: Lastly in terms of the cash levels you are sitting on $100 million plus cash, any thoughts in terms of the use of cash, either acquisitions or pay out or?

Atul Nishar: There will be in the normal course of declaring interim dividend, so we are not looking at some large pay out in the sense that you are saying, acquisitions yes, we are open to looking at opportunities but if you ask where is the management focus, it is on organic growth, we are doing well in organic growth today, we see it as more sense in spending management time in meeting existing clients, exploring opportunities with them or new clients and continue to grow organically and keep the money also with us, that seems a smarter strategy as of today but if we do come across any right opportunity to acquire, not in terms of a very large acquisitions but the right company in the range of $20, $30 or $40 million then we would be willing to look at but we are not going to look at $150 million revenue company.

Pratish Krishnan: What is the CapEx guidance for this year?

Prateek Agarwal: The budget that we have for the year is about 70 Crores but the amount of spending is definitely lower amount than that for CY 2011.

Pratish Krishnan: Any thoughts on next year?

Prateek Agarwal: That is too far away, we plan by the year.

Atul Nishar: We have no reason to hike it up next year, if at all it should come down because of substantial investment in campus is being made, so it would be same range or lower but it would not materially higher.

Sreenivas V: Just to set the context the actual CapEx incurred in the last year was around 35 Crores so that you have the run rate picture in mind.

Moderator: Our next question is from the line of Girish Pai from Centrum Broking; please go ahead.
Girish Pai: I wanted to understand this $110 million contract; how much of this would be implementation versus maintenance and how it is spread across different tiers?

R.V. Ramanan: To answer your first question regarding implementation versus support, primarily it is support, mainly 80-90% of the whole deal is support, there is a very small percentage of the R12 implementation and certain smaller implementation but primarily the whole deal is support, it is spread across multiple horizontals, to a large extent it involves IMS as a practice, it involves our enterprise services, it involves our testing horizontal and ADM practice as well, so it covers all the horizontal and primarily its support functions. In terms of revenues it is evenly spread across five years.

Girish Pai: You mentioned the employee pyramid to be one key lever for you in terms of margin maintenance going forward, you mentioned zero percent fresher intake in 2009 incremental employee add that you have but in terms of existing employee base, what is the kind of mix you have and how does this compare say with Q1 of 2010?

P. R. Chandrasekar: Just as a matter of data in 2009 we did not take any freshers, till the last quarter but effectively literally no freshers, 2010 we have added about 770 and so automatically your metrics in terms of employee raise has changed between say beginning of 2010 and beginning of 2011, between then and now we have added almost 1000 freshers which did not exist before.

Deependra Chumble: I think what you have said is right and the trend that you also mentioned in your original talk that the percentage is likely to move higher when it comes to freshers versus lateral, we will move towards higher percentage of freshers, that itself will take care of the pyramid.

P. R. Chandrasekar: One of the reasons we feel somewhat good about our ability to do that is Ramanan and his team have been remarkably successful in inducting these freshers on board, training them at Hexavarsity and most importantly getting them billable very quickly, I do not want to give a precise percentage but it is surprisingly healthy and it has surprised me, I think it is in excess of 60% let me say that.

Girish Pai: I want to understand structurally from EA support maintenance standpoint would the lateral or more experienced employee to a relatively lower experienced employee mix, would that be lot larger compared to say normal ADM implementation for instance?

R.V. Ramanan: When you look at enterprise application, there are three components to it that is fundamentally there is an implementation cycle, there is an upgrade kind of project and then there is maintenance and support kind of project. If you look at the implementation cycle the demand for laterals who are experienced would be higher especially at the
functional level, but on the technical level the demand can be evenly spread between senior and junior, however when it comes to an upgrade or especially in maintenance you will be able to manage with more and more of junior level people, so that is how as Atul mentioned in his initial discussion itself our enterprise service offering is not all project based, in fact predominantly it is actually service based and given that significant portion of that business will be support and maintenance structure we are able to induct more and more fresher talent in to those business.

Girish Pai: Where do you see the ideal mix would be, let us say mix between people who have more than three years experience to less than three years experience, where do you think it can hit a peak?

R.V. Ramanan: It is very difficult to give an ideal structure, it could vary by company, it could vary by the nature of the project but in a typical maintenance project it could be 60:40 ratio, 60% junior and 40% senior whereas in an implementation upgrade it would be the other way round.

Girish Pai: Another point you mentioned in terms of maintaining or improving margins where some cost containment measures, what exactly are you referring to?

P. R. Chandrasekar: In terms of cost containment it is both at the direct cost level as well as SG&A level and in the direct cost level clearly the pyramid is one, clearly the fresher intake which leads to the pyramid is another, on the SG&A side we have implemented measures across the board, getting away from rental facilities, moving in to our own operations, close monitoring of travel cost, centralized booking systems, approval mechanisms, communication cost in terms of our sales people and over the last two years a very diligent effort across the board in watching every penny and I think if you have been watching our SG&A absolute numbers quarter-on-quarter, we have actually been bringing that down every single quarter more or less for a long period of time and we do believe that this has now become somewhat of a practice, it is fairly broad-based, procurement practices, it is really fairly long, we have been watching hiring, for example I personally approve non-billable hires, Ramanan approves any billing or hiring of even billable persons above a certain grade, so it is both process, discipline, activity improvement, certain key norms we have established in terms of execution of a project what should be the rookie ratio there and number of these practices are now beginning to flow and this will continue to be emphasized and I think will help us to manage our cost.

Girish Pai: This ADM part, is it linked to the enterprise solutions part in a very close fashion in your service line mix?

R.V. Ramanan: The way we have defined our services, these are independent of each other, if you talk about the way we have classified enterprise services it includes implementation upgrade and maintenance of all enterprise
applications that does not reflect in the ADM, ADM is application development maintenance of other technologies, custom applications, whether it be Java, dot net, Legacy, Mainframe, those kind of applications are classified as ADM.

Girish Pai: The Peoplesoft implementation what kind of Indian competition do you come across, other Indian players?

R.V. Ramanan: By far we are the best, all the players come in to the picture but significantly we stand out due to our long nature of relationship with Peoplesoft as well as our ability to execute this project, probably every Indian IT company is in to all the ERP.

Moderator: The last question is from the line of Srivatsan Ramachandran from Spark Capital; please go ahead.

S. Ramachandran: Hi Sekar, just wanted to round it off in the quest of expansion margins, is there a kind of a steady state you would want to kind of stop SG&A or will you go on expanding it because now it is about 21.5, 22 percent, would you look at a minimum base level at which you would be comfortable or would you allow it to go down sub 18%?

P. R. Chandrasekar: You are sounding like my boss, he has been pushing me now on SG&A for a while now but I think it is a good question what is the ideal number, clearly we believe that a number in the 20% range is achievable, we would like to aim for that, is that my target? No, we would like to do better but I do not want to kind of give you a number.

Moderator: Ladies and gentlemen, that was the last question; I would now like to hand the floor over to Mr. Atul Nishar for closing comments.

Atul Nishar: I just want to thank all of you for spending your time and taking so much interest.

Moderator: Thank you very much, on behalf of Hexaware Technologies Limited that concludes this conference call.