Hexaware Technologies Limited
Earnings Conference Call

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Representatives from Hexaware Technologies Limited

Mr. Atul Nishar – Chairman

Mr. P. R. Chandrasekar -- Vice Chairman and CEO

Mr. Prateek Aggarwal – CFO

Mr. R.V. Ramanan -- President Global Delivery & Chief Software Architect

Mr. Deependra Chumble-- CPO
Ladies and gentlemen good evening, this is Marina, the Chorus Call Conference Operator. Welcome to the Hexaware Technologies Limited Earnings Conference call. As a reminder, all participants will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal an operator by pressing "*" and then '0' on your touchtone phone. 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.

Good evening. Welcome to the Hexaware Conference Call. From Hexaware, we have with us Mr. Atul Nishar, Chairman, Mr. Sekar, Vice Chairman and CEO and Mr. Prateek Aggarwal, CFO, Mr. Ramanan, Head, Global Delivery and Mr. Deependra Chumble, CPO.

Before we start, I will start with the reading out the disclaimer. Certain statements on this conference call concerning our future growth prospects are forward-looking statement which involves a number of risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statement.

The risks and uncertainties relating to these statements include but are not limited to, risks and uncertainties regarding fluctuations in earning, our ability to manage growth, intense competition in IT services including those sectors which may affect our cost advantage, wage increases, our ability to attract and retain highly skilled professional, time and cost overruns on fixed price, fixed-time frame contract, client concentration, restrictions on immigration, our ability to manage our international operations, reduced demand for technology, and our key focus areas, exception in telecommunication network, our ability to successfully complete and integrate potential acquisition, liability for damages on our service contract, the success of the companies in which Hexaware has made strategic investment, withdrawal of government fiscal incentives, political instability, legal restrictions on raising capital or acquiring companies outside India and unauthorized use of our intellectual property and general economic conditions affecting our industry.

With this I hand over to Mr. Atul Nishar. Thanks.

Good afternoon, ladies and gentlemen, warm welcome to our second quarter results discussion today. As being calendar year accounting this becomes the second quarter of the year as such.

Coming to the results in view of the general environment, the global slowdown that we have all been going through in that context I must say that we are quite pleased with the second quarter performance and I believe it was a strong performance on several parameters.

In terms of revenue we had given a guidance of $51 million to $53 million; we have exceeded that to reach $53.6 million which also means our sequential revenue growth of 1.8%. While
1.8% may sound low, but in the context of last few quarters’ & prevailing circumstances we feel this also is a decent growth.

In terms of margins that has been the real achievement, there have been substantial improvement across all the margins, gross margins, EBITDA, operating margin, that is EBIT, net margin, the PAT, the operating margin has gone up to 18.8%, the EBITDA has gone up from 14.8% to 21.5%, the gross margin has gone to 47.6%. The point I want to make is that this is not an accident, this is not a one-time uptick that you are seeing, this is a result of a series of measures taken by our competent leadership team led by Sekar over last three to four quarters and now we are seeing the result of that, we have always said that we are confident about being able to build a stronger business, stronger operations and this I feel is clearly a reflection of these measures. In spite of the challenging environment that we have gone through and though you are seeing reduced costs we have made substantial investments in the same period including last quarter in further enhancing our domain expertise as well as strengthening our competencies.

We have continued to invest in our IP led growth strategy and have created more IPs during this quarter as well. Our client customer satisfaction has gone up and which is reflected in the survey that we have done and we are very confident that today we are delivering more value to our customers than what we have done earlier.

So taking into consideration our financial achievement the board was also pleased to announce an interim dividend of 30% for the current year as compared to 25% that we had announced in the middle of last year.

So to take you through more detailed analysis of this result and also the performance that happened during the quarter I would now request our Vice Chairman and CEO, Sekar to take you through all this.

P. R. Chandrasekar

Thank you, Atul. Good evening ladies and gentlemen. We certainly seem to have picked an interesting day to announce our quarterly results. From what I understand watching the ticker this morning and the news items out there certainly seems to be a lot of activity in the Chinese bourses which as well as now in the Indian markets and I am grateful that all of you have taken the time to attend the session to listen to Hexaware's results.

From every standpoint this has been a rather gratifying quarter, where we have improved and registered healthy improvements on several operational parameters as Atul mentioned. When I really look at the Q2 2009 results a number of highlights come to my mind.

For starters as we mentioned we are at the higher end or exceeded the higher end of our revenue guidance in dollar terms at $53.6 million though the growth number is not that substantial in terms of 1.8% it is a very, very satisfying that we have arrested the slide that we have experienced over the last few quarters and this positive revenue growth is hopefully also
a sign that in terms of the pipeline, the nature of our business, and the value we are delivering to our customers. Even more important has been the number of changes that we as a company at all levels have instituted in terms of how we function.

In all aspects in terms of how we execute our projects, the facilities and the utilization of those facilities, the people and the utilization of those people, the costs and other things that we have whether we travel, whether we communicate and whether we can do that in a better way. And we over the last few quarters have actively been targeting many of these areas like in terms of rented premises versus owned premises in this company. There were some tough actions taken but at the same time everything with a plan and a purpose with the objective of making ourselves a leaner, stronger and a more efficient company. And I would like to believe that many of these are sustainable and have changed in many ways that the way we and all employees at Hexaware have begun to think about this business. All of these have resulted in as you can see a substantial improvement in our operating margins which today stands at 18.8%, a healthy increase of over 650 basis points relative to Q1 2009. I am sure many of you do have questions regarding this significant improvement.

And I would like to take this opportunity right at the outset to assure you that many of this operating margin gain, substantial part of this is sustainable as a result of cost measures that we implemented across the company and are going to help us from an operating margin performance going forward as well.

Acceptably there are a few factors which are temporary in nature, primarily the salary cuts or the salary corrections that we have made which will be rolled back, but what I would like to do is to add more color to this, Prateek Aggarwal will walk you through some of the details so that the conviction and confidence that we have as a company in terms of our operating performance we can also share with you. Equally important we have been able to generate cash of Rs 488 million which is over $10 million and have closed our quarter two 2009 with a cash and equivalent balance of $79.5 million.

In terms of the business while the environment remains challenging it is also good to know that we have added ten new clients this quarter. It is important to note that these ten customers have come from all three geographies, APAC, North America, and Europe. These ten customers have come from all of our verticals, financial services, TTHL as well the emerging verticals market, equally important, every single horizontal or every single competency that we as a company have. BTO, business intelligence, application development and enterprise solutions as well as BPO have also won new clients. So these wins have been broad based and some of them are marquee names which hopefully will enable us to continue to build a good business with these customers.

To me it also is a testimony to some of the structural changes that we as a company have implemented in terms of our verticalization, our horizontal competencies and the geographies
working together to win customers which are much stronger and can provide us the base and the foundation for future growth.

At the same time while we have taken these measures to improve our operating margin it has also been very, very important to us that we do not compromise the long-term ability of Hexaware to grow. In that context I would like to inform the audience here that we have actually invested in some key aspects of our organization. We have added to our sales team in North America as well as in Europe as well as in APAC. We have added four sales members in the U.S., we have added a BPO practitioner in the US and a BPO specialist in Europe, and we have added three to four sales members in the Asia Pacific region.

In addition to that we have added several domain consultants, we have also added as Head of SAP practice so the point I am trying to convey is that hence in the areas that really matter to us and which we believe represent areas of future growth we have continued to invest despite these difficult times and I am sure we will benefit from it once the economy improves.

We are also watching the demand side, the reality is, and it is hard for us to even at this point speculate what, where the future lies. Having said that we certainly seem to have and we are witnessing an increased level of activity, please note the word “activity” in June and in the months of July of this particular quarter. Pipeline is improving, the number deals in which we are participating has increased and therefore at least in terms of this activity, there is some optimism for us going forward. However, deal closures continue to take very long, discrete projects or discretionary spending are still not being worked on, IT budgets across the board still remain very, very tight and ramp ups are being staggered so, in terms of revenue, I would suggest that it would still be a little while longer before things really dramatically improve.

Further from an investment standpoint as Atul mentioned in addition to our sales field and vertical organization we also have continued to invest in our COE and IP-led practices this spans across several of our activities in the capital market space, which is a representative vertical as well as the business intelligence as well as BTO wherein we have launched several new projects and have even filed a patent in one of them because we believe it’s a very, very unique offering and therefore we have not comprised in that area where Hexaware has always been very, very strong.

To sum it up the strategies and approach that we as a company had adopted at the beginning of 2009 which is at one level tactical, which is implementing specific action plans whether it be in terms of facility, whether it be in terms of costs, whether it be in terms of employees or whether it be in chasing a few select large deals in order to tide over or to really face the tough economic environment continues and will continue through the rest of 2009.

Parallelly we have also been pursuing the strategic aspect of our sustainable long-term business in terms of strengthening our verticals, enhancing our horizontals, as well as making the investments that I have spelt out before.
We really believe that we today are a much stronger company than we were a few quarters ago, we are more agile, operatingly more efficient and once the business turns around in a good position to really perform well and be a strong factor in this market place. I am sorry I have been a little longwinded, but I felt it was important to spell out the rationale and the reasons behind our improved performance and also to assure the audience that this is as a result of well-thought through plans, more importantly systems, processes and habits and cultures which are beginning to take place and take a route in an organization that is changing in the last few months. Thank you, once again and I am now going to hand it over to Prateek, our CFO who will provide you some more color regarding our financial highlights. Prateek?

Prateek Aggarwal

Thank you, Sekar. Hello and good evening, everybody. I will walk you through the variance in the revenue as well as operating margin and all the factors with some numbers. Let me commence with the revenue first. Revenue increased from the last quarter of $52.6 million to $53.6 million which is an increase of $1 million or 1.8% sequential. Largely that was driven by the impact of Euro zone currency which is appreciation of Euro and British pound against the US Dollar, both of which added to give us almost USD 900,000 extra. The balance 0.1 million is really an impact of slight improvement in the bill rates etc.

The Euro appreciated versus the dollar in the Q2 that’s under consideration by a factor of 7% and the GBP by 11%, so that’s on the revenue variance.

I will now get to the operating margin which is the EBIT, earning before interest and tax which improved from 12.3% in the last quarter to 18.8% this quarter, an improvement of 650 basis points. So I will break it out into six factors.

The first factor is our improvement in utilization which has gone up from 72.2% to 74.8% this quarter, which has given as an improvement in EBIT margins by about 130 basis points.

The second factor is again direct cost like direct travel, the impact of the virtual bench and other efficiencies in the direct cost line which has generated another 130 basis points. So in the direct cost line these two factors have generated 260 basis points.

The third factor is on the SG&A which is basically in the costs of travel, in the rental costs, in terms of communication costs, utilities, maintenance, admin, all driven by either giving us some rented premises and associated costs linked to that or by actually a cultural change which we have been driving over the last three, four quarters actually and which has started bearing fruit in a big way whether it is a sales person traveling or whether it is a G&A person traveling, everybody has been, you know, very, very conscious of costs. That is not only in the Hexaware standalone entity, it percolates down to all the subsidiaries that we have three of them. That has given us a big saving of 180 basis points.

There is a fourth factor which is basically improved realization that we have seen which is over and above the Forex factor that I talked about earlier which gave us $900,000, there is impact
of 60 basis points coming from improved realization which is basically driven by executing better or fixed price projects and a little bit of business mix as well.

These two factors put together give us another 240 basis points, so 260 in the direct line and 240 in the SG&A and realization give us 500 basis points which are all sustainable and should sustainably boost our margin going forward on a sustainable basis.

Apart from that the Forex movement which is primarily the INR appreciation versus dollar gave us a setback of about 100 basis points thus reducing the impact of 500 basis points to a net of 400 basis points.

Additionally, we also had the temporary measures which we had taken at the end of last quarter and like what Sekar said they continue for at least the rest of the year which are giving us temporary benefit of something like 2.5 percentage points or 250 basis points. So that is really the breakdown of how that 650 basis points breaks up and hopefully that give you a good insight of how this encouraging operational performance has been delivered.

Coming to our revenue guidance for next quarter we have given basically a flat guidance against a 53.6 we have given a range of 52.5 to 54.5 where the midpoint we have basically talking about a flat guidance compared to quarter two 53.6 million.

The other notable fact is the cash generation, which gives a healthy 49 crores this quarter, thus we have ended up for this quarter with a cash pool of 380 crores. Most of it almost 310 crores of it is very safely deployed in fixed deposits and very, very safe mutual fund, the details of which are also given in the press release and this has obviously been enabled by a whole lot of action on the DSO front, the DSO is now down to 57 days as you can see in the metrics table, as well as controlling our CAPEX cost which are next to nothing less than a million dollar this quarter.

Coming to the Forex front I think there is a good story there as well. We have now reduced hedge corpus of about $129 million left and a much lower mark-to-market hit in the balance sheet as you can see which has reduced over the previous quarter from 136 crores to about 94 crores so that is giving us a good movement there, resulting in an increased net worth of the company, which is now almost 750 Crores. The lower Forex losses have obviously helped our PAT as well which has also reached almost a level of 40 Crores this quarter. So that is what I had to share with you.

I would like to open the floor for questions now. Moderator, back to you.

Moderator

Thank you very much sir. Ladies and gentleman we will now begin with the question and answer session. At this time if you would like to ask a question please press ‘*’ and then ‘1’ on your touchtone phone. If you decide you want to withdraw your question from the question queue you may press ‘*’ and ‘2’. Participants are requested to use only handsets while asking a
question. The first question is from the line of Mr. Rohit Saxena from JP Morgan, please go ahead.

Rohit Saxena Yeah I wanted to know about your people front what’s happening because your balance sheet shows that there has been a decline of about 250 people and how you will be handling those people and what is the scene with the freshers you had recruited last year?

R.V. Ramanan Hi, this is Ramanan; I am the President of Global Delivery. On the people front we had a net headcount reduction of about 255 during this quarter but going forward we expect Q3 to be more or less stable on the number of people front. We are also initiating measures to introduce talent into the system based on the business demand and we will be bringing in freshers whom we have already given offers into the system on a phased manner in line with the business requirements starting from the next quarter onwards.

Moderator Thank you very much, Mr. Saxena. The next question is from the line of Mr. Srivatsan Ramachandran from Spark Capital. Please go ahead.

Srivatsan Ramachandran Just wanted to get a sense of the costs cuts and SG&A gone back on an absolute number by close to 10 Crores quarter on quarter, is it something that more because of rental or other things, what would be breakup within SG&A that's driven this kind of a cost cut?

Prateek Aggarwal Srivatsan, like I had explained before it is the combination of number of factors, starting with the reduction in the support headcount which you can see, in the headcount metrics have come down from 10.5% last quarter to 10% of the total and the total as you very well heard has gone down by 255. So there is a huge reduction in the support headcount to start with. Then we have given up huge premises in Chennai, one of our largest delivery centers and moved the people to our own centers.

Srivatsan Ramachandran What could be cost saving on this rental shift?

Prateek Aggarwal It will be in the region of Rs 3 Crores per annum. But it is not only the rental which matters, it is also the utilities costs, also the administration costs, also the communication costs and all the associated costs that go with the premises. So all these costs put together would climb it to almost 5 Crores. So there are a list of other items like communication costs, the money we spent on telephones and so on, travel costs, international travel, domestic travel, all of that, and the list is endless.

Srivatsan Ramachandran The other thing I wanted is the overall pricing improvement, you said that's a part of it would due to the cross currency tailwind. Has there been any change on a like to like basis, which is for the same service offering, have you been able to get any pricing hike or anything?

Prateek Aggarwal No, I would not say that there has been a price increase per se. But like I explained earlier if you deliver a fixed price project better and faster that does improve your realization.
Srivatsan Ramachandran  Okay, sure. Thanks a lot. I will come back later.

Moderator  Thank you Mr. Ramachandran. The next question is from the line of Pratish Krishnan from DSP Merrill Lynch. Please go ahead.

Pratish Krishnan  In your opening remarks you mentioned about cost savings from the virtual pool bench and the salary cuts, is it possible to quantify the benefits here?

Prateek Aggarwal  The virtual bench savings for this quarter would have delivered something like 40 to 50 basis points kind of a figure.

Pratish Krishnan  And the salary cuts?

Prateek Aggarwal  That is the one which I said it is about in the region of 2.5%, so 250 to 300 basis points kind of a range.

Pratish Krishnan  Okay, temporary basis that you refer to?

Prateek Aggarwal  That is right.

Pratish Krishnan  When you say it is a temporary basis I mean what is your objective, I mean when would you kind of look at reversing this?

P. R. Chandrasekar  This is Sekar here. This is something that we have deliberated in terms of obviously it is linked to what is the kind of utilization levels that we as a company would like to maintain. In an environment that we see as well as frankly the objective also is about the financial health and the operating margins that we would like to sustain. Given that our decision is that we will be rolling back both the salary cuts as well as the virtual bench component starting January 1. For the virtual bench we expect we will take back most of the employees by December 31st, clearly they would be based on billable projects and therefore the increment across impact is expected to be marginal or negligible or even maybe not there. With regards to the salaries of the employees I think we will roll back these salaries starting January 1. Having said that there is very important element that we are introducing going in to January 1 which is that we are introducing a variable component to our salary across multiple levels of the company. We are using this opportunity to do that as well.

Pratish Krishnan  Okay. And just to clarify when you roll back the salary, I mean this would be with retrospective effect or…?

P. R. Chandrasekar  No it will not be with the retrospective effect.

Prateek Aggarwal  Only prospective for this.
Pratish Krishnan
Okay. Thanks a lot.

Moderator
Thank you, Mr. Krishnan. The next question is from the line of Nayan Mehta from ARG Securities Pvt Ltd. Please go ahead.

Nayan Mehta
One thing I wanted to know there was some mention earlier, in one of your press clippings about cross selling of various services, which was not happening earlier in the major way, and the management has shown some inclination towards that. I just want to know how many clients out of the 166 active are being offered these kind of cross selling services like Peoplesoft implementation, remote infrastructure management and software testing. If you can just throw some light on that before I continue with another question.

P. R. Chandrasekar
See, one of the objectives of our entire change vertical structure is that is primarily one of the major reasons in addition to of course building domain competency, etc., is to ensure account ownership. So as it stands every single one of our 166 Hexaware customers is owned by a field sales person as well as those maps into an engagement manager in the vertical. And of late I would like to say that starting in the last quarter and a half to two quarters by and large at least the top 30 customers have been approached at multiple levels on a cross selling basis and we are hoping that by the end of the year we will be able to at least offer these services to all our existing customers, and they are also implementing the same for all our new accounts. Now in terms of how many of them have actually used multiple service lines of Hexaware, that number is growing, we are tracking in literally on a month by month basis, our review process measures that, but in terms of actual numbers we probably would have – I will have to kind of really check, but I would think that at least 50 customers would have multiple service lines of Hexaware being utilized by them. That still gives us an opportunity to grow.

Nayan Mehta
And while we do that, would there be a requirement to an upside to your guidance?

P. R. Chandrasekar
Yeah, hopefully! That will be part of our upside to revenue numbers going forward. But clearly that is a critical element of our future growth approach.

Nayan Mehta
All right. When you had some about 4 odd customers who are giving something like $10 million, in excess of $10 million revenues, each of them, and how do you plan to increase that, because some mentioned about doubling the revenue from these four customers in the next couple of years. Is there any roadmap that you would like to share with us?

P. R. Chandrasekar
Clearly, I recall the meeting that I had on the basis of this which clearly what I mentioned and what is reported I think was that our intent would be to improve and increase the number of larger customers that we as a company service. And clearly the path that have been laid out, there is no rocket science to it, it is a question of creating the structure which we have done in terms of both our vertical organization, having account managers responsible for that account as well as the vertical managers responsible for that account. Combined with account plan wherein practitioners from multiple service lines would service these customers, providing more proactive proposals so that we can do this, doing
much more with our IT and creating domain solutions which again can grow. And I think this would help us to create provide more value to customers, develop relationships at somewhat higher levels, and gradually increase the size of our account and therefore also have much larger $10 million plus customers or much larger many more $5 million plus customers.

Nayan Mehta

And I guess we have lost two customers during the quarter rather I see that the net addition is still lower than what the figure was showing in the March quarter. I think the net loss is about two customers. So after having gained ten and still we have net loss of two customers. So can you explain what could be the reason for that and how do we see our customers acquisition number for the year end?

P. R. Chandrasekar

With regards to the loss of the customers we have not lost any material customer at any geography, any vertical, anywhere of Hexaware. Having said that we do add a few customers who tend to be somewhat more project driven, this would be a small BTO or BI engagement occasionally, all offering or executing a small test accelerator or a short consulting solution, and those sometimes those projects ends that customers goes off the radar screen from reporting standpoint. But in terms of adding new customers we will continue to add what I believe is an average of what we have been doing in the last few quarters which is in the double-digits.

Nayan Mehta

Okay and lastly I want to know about SOASTA I think if you can what the progress on that?

R V Ramanan

SOASTA is a cloud computing testing environment which we have partnered with the company SOASTA and we are offering that cloud computing testing services, we have started the practice and we have started offering the services, we are seeing quite a bit of interest both in our existing customers and in the prospects, we think that is a good traction in terms of getting expanding our BTO business.

Nayan Mehta

Okay. Thank you. If there is any follow-up question I will come back later.

Moderator

Thank you Mr. Mehta. The next question is from the line of Akhil Dhavan from Lotus Investment Group. Please go ahead.

Akhil Dhavan

I just had a couple of questions, one is alluding to this client, the client metrics again, if you could just spend a minute maybe on over the last couple of quarters churned in 5 million to 10 million and 10 million plus clients has been sort of negative, could you just address that in terms of these customers I guess it sounds like you have not lost them, but how much has shrunk by and what the potential is to grow them?

P. R. Chandrasekar

See the explanation is that we have not as I said really lost the clients. But if you look at our overall revenues as a company it has shown a decline in the same quarter where you are referring to. And as we have been explaining the loss in revenue has not been because we lost the customer or frankly even lost some of these two projects, I mean, to compare competition. The primary thing is as you are aware in this business a customer is a combination of a number of small projects or in some cases
some large and some small projects and in the challenging market environment that we have faced just like everybody else, some of these projects come to a closure and sometimes typically in good times those people then roll on to newer engagements and newer projects or some other get added on to additional projects. But in this environment some of these projects have ended, there were no new projects for us to go on. And this has been not just in one or two customers, it has been fairly broad-based across a large number of customers and frankly explains the decline in revenues over the last several quarters, and this is also resulted in since we count our say, 1 million or 5 million or 10 million based on trailing 12 months revenues and this kind of a market environment has persisted over in the last 12 months has taken one or two of them of that chart on a cumulative basis. It may not materially mean that during this quarter that has dropped, it could be that on the last 12 months when you add that number it may not be 1 million or 5 million and I do not want to read too much into that. In fact I would suggest that you do not read too much into it because we have studied this and it is not an implication in terms of any major customer, any major project, or any major prospect either.

Akhil Dhavan
Okay, fair enough. And then just a couple of small questions for Prateek. If you could just give us of your CAPEX guidance now for the rest of the year as well as the tax rate?

Prateek Aggarwal
Akhil, we had given guidance at the beginning of the year of about $10 million, I think we will stick to that for now, time will tell how much yes actually going to spend.

Akhil Dhavan
Fair enough. And tax rate?

Prateek Aggarwal
Tax rate is we had earlier been running at something like a 15% but due to some tax planning activities and the business mix and frankly the savings that we talked about where they are being driven, if it is part of the 10A benefits and then that comes to the PAT tax free. So I think on a sustainable basis we could look at 12% kind of the figure going forward at least for the next two quarters which is the rest of the 2009 basically.

Akhil Dhavan
Okay, great. Thanks, guys.

Moderator
Thank you Mr. Dhavan. The next question is from the line of Mr. Rohit Saxena from JP Morgan. Please go ahead.

Rohit Saxena
Since you have given flattish guidance for the rest of the year, how are you expecting to take in virtual bench people and the freshers who are recruited because there is no revenue increase we are seeing in the next year going forward, how are we supposed to fill, are these people from the virtual bench, or are they going to come from the freshers you had hired last year?

P. R. Chandrasekar
Rohit, first of all, we have not guided the flat for the rest of the year. What we have given is the next quarter's guidance where we have said it will be from 52.5 to 54.5. That is number one. Number two there is a process of natural attrition that takes place in our company, which again is documented in terms of our attrition rates therefore we will have to back fill these people which would be done to the extent possible by the virtual bench employees, clearly that is the first and foremost priority that we
would like to have. Third, our utilization levels are now at a fairly high point. And if you actually dig into that a little deeper there are segments within the company, depending on the practice or depending on the location where actually the utilization levels are even higher, and at frankly levels where in order to execute any new projects we will have to induct new people, as a result of which we feel that any growth going forward will require us to do some induction of people whether it be from the virtual bench ideally some from a fresher community and therefore we feel that is the reason we will go from let to the kind of provide some level of comfort, at least the intent is that for the next two quarters we clearly do not want to negatively impact in any major way the utilization levels that we have achieved if that is the underlying question.

Rohit Saxena
So basically the revenue that is going to come is going to be done by the virtual bench rather than freshers being inducted into the company?

R.V. Ramanan
It will be a combination of both, virtual bench people will be inducted into the projects where they have specific skills and an area where definitely as Sekar mentioned there are certain areas we also need to backfill some of the attrition. It will be a combination of both inducting freshers in a phased manner which absolutely essential going forward.

Rohit Saxena
Okay, can you give me this bit more update on the virtual bench size it is going on right now? Is there a reduction in the number of people on the virtual bench?

R.V. Ramanan
Currently we have around 75 people left on the virtual bench. And we also got the extensive cross-training programs and we retrained them across different technology platforms and we will be absorbing over the next two quarters.

P. R. Chandrasekar
We have absorbed over 80 in the last quarter or so. So that has been an ongoing process.

Rohit Saxena
So we can expect freshers only join after the virtual bench is completely absorbed back in the company?

R.V. Ramanan
I think it will be an ongoing simultaneous process if you ask me, because the freshers although we have given them a good amount of basic training already they would require additional special skill set training that is what we will do and both of these things would be happening.

Rohit Saxena
Alright. Thank you.

Moderator
Thank you Mr. Saxena. We have a follow-up question is from the line of Mr. Srivatsan Ramachandran from Spark Capital. Please go ahead.

Srivatsan Ramachandran
Just wanted to know what is the rate at which these FOREX hedges are mark-to-market for the OCI in the balance sheet?
Prateek Aggarwal  
Srivatsan, it is about 7.5 Rupees per dollar, I mean 94 crores if you divide it by 125, that is roughly what it would come.

Srivatsan Ramachandran  
And then the taxes are slightly lower, because of any writeback or deferred tax?

Prateek Aggarwal  
Like I explained to the earlier gentleman, there is an impact of the savings that have come for example, the SG&A savings which are basically coming out of India primarily. That being 10A profit it flows right down to the PAT. So that is why your tax rates are coming down because your PBT is higher, but there is no tax on those kinds of savings.

Srivatsan Ramachandran  
In terms of outlook for the remaining two quarters what would it be?

Prateek Aggarwal  
We mentioned a figure of about 12% for the rest of this year.

Srivatsan Ramachandran  
Anything on what the tax rate could be for 2010, the STPI being extended now?

Prateek Aggarwal  
We have not guided that maybe we will take that out separately.

Srivatsan Ramachandran  
Sure. Thanks a lot.

Moderator  
Thank you Mr. Ramachandran. The next follow-up question is from the line of Pratish Krishnan from DSP Merill Lynch. Please go ahead.

Mitali Ghosh  
Hi, this is Mitali Ghosh from Merrill Lynch. I had a question actually on the sort of medium term revenue growth strategy and the positioning that Hexaware is really looking at. Because in the current environment we have been hearing of vendor consolidation by clients. And in that context I was wondering first if you could offer some comments as to what maybe you have seen happening in some of your clients, because I know you work for a number of large clients. And how that maybe impacting you? And secondly like I said a medium term perspective are there certain areas that you want to focus on and what you are really doing to achieve that even in terms of sales team expansion, etc.,?

P. R. Chandrasekar  
Mitali, this is Sekar. I think it is a very good question. And frankly probably the one area which is utmost in the leadership teams mind which is how do you grow, how do you compete, and how do you change the way you function for that, that is sustainable and you do it profitably. And I think that has been the underlying aspect on which we have tried to drive this business over the last ten years. As you very well know having covered this industry for a while there is no magic, it is not like you can come out with magic solution which is currently dynamically changed the way the business functions. Therefore it has to be built on a series of actions, series of activities we have to undertake, continue to do and implement and execute going forward.

Now, coming to a little more of the specifics specifically that is one of the major reasons we are saying here are the three or four verticals on which we will operate, we have hired people in those
verticals and we did a charter over the last few months and in the remaining months of the year has been pick certain sweet spot, some of them I cannot really talk to you about it during this conference call but areas where we think we can offer something different and something in terms of customer benefit allowed you whether it be in terms of trade reconciliation where we have a platform that we have built or the open source solution that we have launched on the BTO where we truly believe it is very unique, in fact, we have filed a patent for it and which can fundamentally change the way some companies go about testing their operations. So clearly the objective is to focus on certain verticals, but at the same time utilize a number of these lack of a better word, arrow heads or specific solutions that might already exist in the company and we will continue to focus on and built to gain attention and gain entry into that customer. Once we do that the other element is from a structural standpoint, given the vertical ownership, given the greater emphasis that we now have of appointing an engagement manager who bring in both a little bit of a delivery/consulting as well as some element of the business development background. We would be able to grow that account by the virtue of the cross selling elements that we have. So the focus is to pick where you want to go, prepare solutions that you have that you can that will draw attention that it can differentiate yourself and more importantly offer some kind of a value that some of the other competitors cannot do, deliver and execute that in an outstanding fashion, and then provide great relationships that we hope to build going forward and frankly still have some of our leading customers, leverage the additional practitioners, distinction I am making here in a horizontal competency that we will be adding more practitioners in the field on the horizontal competent guys who truly can speak the PeopleSoft language or people who truly are business intelligence and data warehousing experts who can speak to the people on the customer side and actually talk a language in terms of business value and benefit that they can rely. And therefore build once you penetrate build a larger number of accounts that can grow faster and hopefully some of them would also grow to a large size which frankly we have not been able to grow today. That is one element of the business growth.

The second is participating in some of the larger deals, very consciously as an organization in terms of the average size of the deal that we participate in we are changing which in turn has required us to make some very, very major changes in terms of how do you identify the bids that you participate in, in terms of really a go no-go kind of a criteria which was some of are opportunistic in the past. Once you decide that you go after it, who owns that particular opportunity, what kind of teams are put together, to chase that opportunity etc., so and therefore the conversion rate in terms of the opportunities that we bid in as well as in these bid if we chase will also increase. And in my mind once you are able to achieve this it will take time, it does require change in culture, we feel we will have good accounts, growing accounts and larger accounts in a set of verticals and which in turn will add momentum in terms of the knowledge that we gather in the company and is really the approach we are taking to grow, using and continued to build IP that will build allow us to get in the get in the door. Sorry for the really long drawn answer, that was a very, very involved question, and if you really wanted the answer that is really the story.

Mitali Ghosh

Thanks. I think that is helpful. One follow-up that like you said it is an involved question but if I understand correctly let us take for example, a vertical like banking, that is one of the verticals you
sort of focus on, then you would essentially be going on after the same clients that the large vendors have and with more or less the same suite of offering because you are sort of I think your strategy seems to be a wide range of offerings to specific verticals rather than sort of niche offering to specific verticals, have I sort of understood that correctly?

P. R. Chandrasekar

Yes and no. I agree, unfortunately we cannot invent a new set of banking customers. So meaning that there is an existing set, having said that there are a set of customers that we can go after which may not be of that much interest to some of our larger competitors or the tier I players. There are a bunch of mid tier banks who spend a lot of money and we do for whom we can offer value that is one approach. The second approach is that with these customers as well there are pockets where we can offer very good value. We can offer for them either in the testing or in the business analytics we believe certain capabilities that the others will find hard to replicate and three, there are pockets where despite our shall I say relatively smaller side, we bring very good expertise. For example, in leasing, having done some very good work for some very large customers including building a ground of leasing engine, from the design to concept, to implementation which includes every element of the leasing engine. We actually have a strong set of capabilities which some of the largest companies would find hard to replicate and we believe we have an edge. Asset management is another area where we think there are some pockets where we have some unique skill sets. So using that or in airlines. I think in terms of what we can offer and say a cargo or passenger or reservation system we have executed projects which would be fairly unique again. So even within these set of industries which are reasonably well served, we will pick pockets where to penetrate in and once we do that, we will have to use the good relationships to grow. So yes we will offer broader services, but the plan is also to try and build differentiated set of values that within each of these which will make people sit up on at least make sure that we are part of that party.

Mitali Ghosh

Right. That is very helpful. And just as a follow-up to that what is involved then like you mentioned hiring, more consulting oriented people, engagement managers, so should one assume that where would you be comfortable in taking your instance selling and marketing kind of investment as a percentage of sales possibly or broadly does this require a lot more investment in that area?

P. R. Chandrasekar

Very clearly we will need to hire or we will need to promote or we will need to train good engagement managers both for some of our larger accounts. Incidentally many of them already have good engagement managers, but will have to increase that practice. Not only for some large existing, even for some potential accounts. Similarly we will have to beef up a little bit in terms of the business analysts that we have as well as some of the domain people that we have but that is an investment which is necessary for us to get there. The key is how do you balance it with trying to achieve and hedge your operating margins and we are hoping that this will result clearly in larger accounts, will improve our offshore ratio which today is frankly can be, there is head room for us in terms of going, moving work. Once we get much larger projects, in a lot of other operational efficiencies which we will hope will give us the dollars to make investments.

Mitali Ghosh

Thank you very much.
Moderator

Ladies and gentlemen we will take the last two questions. The next question is from the line of Kunal Sangoi from Edelweiss. Please go ahead.

Kunal Sangoi

Sekar, my question is I think over the last few quarters I think the way Hexaware is held up to the billing rates both offshore and onsite, it is quite impressive, given the fact that in this difficult environment. We have seen billing rate cuts and all. My question is how is that probably that we have been able to manage this at a stable rate and if you can take us through some of the client renegotiations that would have happened and how has Hexaware manage to, to keep the billing stable?

P. R. Chandrasekar

Well, we would like to believe that we are good people doing good work. Does that count? I guess you need a little more detail. The fact is that it is a combination of some fairly strict discipline on the part of growth our organization at all levels. It is not that we are walking away from projects or refusing work, but as a culture we are either really resisting some of this as well as finding some creative ways to deliver projects or work or customer value without really compromising on our rates. Clearly, an element that we examine almost literally everyday, every time we get asked or pushed by customers that is one. Two in terms of our business mix as well as some of the differentiated services that we offer we have been able to frankly hold our rates whether it is some of our Peoplesoft kind of services or whether be in the SAP TAO testing kind of area, where we have strengths that many of the others do not have. And as a business mix that has helped us. Our business intelligence has been one of our growth engines which again have helped us boost our capabilities. The third element is we have also been able to frankly keep our offshore rates fairly constant and once you raised the offshore utilization in terms of flow through of rates that come through and finally our delivery and our execution teams also deserve credit because some of the fixed projects that we have, we have now created a very good quality system, a very good project management system, where any high risk project is monitored very, very closely, by that I do not mean it is not risk, but any project that has the potential to create an issue so in that sense our execution has also improved. All of this has really helped us.

Kunal Sangoi

Just to get more detail on the fixed price project, how significant those fixed priced projects would be in terms of total revenues? What would be that proportion?

P. R. Chandrasekar

About 30% of our projects are the fixed price.

Kunal Sangoi

Sure. Okay. And if you can give some color with regards to some other top ten clients whether most of the vendor consolidation activity has been concluded there and what kind of revenue share do you see from those particular clients. Is it stable or still some you see some kind of projects getting over and probably you need to replace that with some of the new business?

P. R. Chandrasekar

See, our top ten today represents about give or take a percentage about 50% of our revenues. If you look at that flow over the last five quarters, it is kind of hover around anywhere from 48 to 50%. Within these there maybe one or two customers, where in a quarter may dip a little and another one
kind of grow. We expect that at least in the next one or two quarters there is not going to be any material change.

Kunal Sangoi

That was helpful. Thank you.

Moderator

Thank you, Mr. Sangoi. The last question comes from the line of Mr. Rohit Saxena from JP Morgan. Please go ahead.

Rohit Saxena

You mentioned that first January of 2010 has a roll back for salaries and people coming back to your company, any reason why this January 1, any specific reason?

P. R. Chandrasekar

It was the start of the new financial year, number one, I think that is the good reason, that is we are as you may have noticed our financial performance has been fairly strong. Equally important our utilization rates are good, and we are beginning to see some signs in the marketplace of the mood changing, few more projects in the pipeline and while I will accept that this has not really resulted in any revenues, we do expect things to start changing around that timeframe. In that context it is important to have good people, motivated people and where the competitive environment with regards to those people could also likely shift. And likely we have been ahead of the game in terms of taking corrective actions, last year, in 2008, when things were beginning to look bad; we want to be ahead of the game when things are going to look good.

Rohit Saxena

So basically when more projects come in has there been hiring done from the 2009 batch or people from the 2008 batch has been recruited will join the company, has there been any speculative hiring done from 2008 year batch?

P. R. Chandrasekar

I did not quite follow the question. If the question is will we meet the hiring from freshers in the 2008 batch? I think both Ramanan and Deepen have answered yes.

Rohit Saxena

I am asking for has there been speculative hiring in the 2009 batch for your future needs?

R.V. Ramanan

We have not come to that 2009 batch yet. We will try to honour that commitment we have done for the earlier batches before we go to next batch.

Moderator

Thank you very much, sir. Ladies and gentlemen that was the last question. I would now like to hand over the floor back to Mr. Nishar for final comments.

Atul Nishar

I would like to thank all of you for joining on this call and sharing your time. It is pleasure interacting with all of you and if you have any further questions going forward I suggest you contact Sreenivas V, who handles our Investor Relations or Prateek Aggarwal, our CFO who can respond your questions. Once again thanks a lot for your time.
Thank you, gentlemen of the Hexaware management and Ms. Gidwani. On behalf of Hexaware Technologies Ltd, that concludes this conference call. Thank you for joining us on the Chorus Call Conferencing Facility and you may now disconnect your lines. Thank you.

For any queries or information – please write in to: sreenivasv@hexaware.com