



Hexaware Technologies Limited

Q2 2011

Earnings Conference Call

July 27, 2011



Hexaware Management Team

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Mr. R.V. Ramanan – Executive Director & Head – Global Delivery
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Moderator Ladies and gentlemen good afternoon and welcome to the Hexaware Technologies Limited earnings conference call. As a reminder, all participant lines will be in the listen-only mode. 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, you may signal the operator by pressing "*" and then "0" on your touchtone telephones. 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 ma'am.

Latika Gidwani Thanks Farah. Good afternoon everybody. Welcome to the Hexaware conference call. From Hexaware, we have with us Mr. Atul Nishar, Chairman, Mr. P. R. Chandrasekar, CEO, Mr. R.V. Ramanan, Head – Global Delivery, Mr. Prateek Aggarwal, CFO, Mr. Deependra Chumble, CPO, and Mr. Sreenivas, Chief Strategy Officer. The safe harbor statement is there on the Hexaware website and also in the press release, so I consider it as read. I now hand over to Mr. Nishar.

Atul Nishar Good afternoon to all of you, and thanks for joining this call. I know you have several conflicting engagements today being a busy results season, so I very much appreciate the time and the interest you have taken in Hexaware. We will keep it brief in terms of the points that we are making, so that there is more time left for questions and interactions.

Let me just take you through the quarter broadly. It was an all-round satisfying quarter. The revenue grew 6.2% in Dollar terms, 4.9% in Rupee terms. This translated to 36% year-on-year growth in Dollar terms and this continuing momentum of revenue growth gives us confidence to up our annual guidance to a growth rate of over 30% taking the revenue to over USD 302 million at a minimum level. In terms of margins, we have seen improvement in both EBIT level as well as EBITDA level. The EBITDA crossed 15% once again after many quarters and EBIT level we reached 13.5% which was 110 basis point improvement. At the gross level, while the wage increase impacted by 2%, the gross margin in spite of that it has gone down only by 70 basis points. Sekar will explain the several factors that have

contributed to other improvements in gross margins. The headcount improved by 750 people, now we are just under 7500 people. The attrition after troubling us for many quarters is coming down. This quarter it was 18% and we are quite hopeful that probably in terms of attrition the worst phase is over. Hopefully, it is a stable phase that we seem to have entered.

On the client front, we acquired 14 new clients. One large deal that we just announced 177 million, but apart from that we had announced two other large deals, so that takes the total to about three large deals in a matter of just three months or so. So apart from the revenue improving in future on account of these deals, it also improves the predictability of revenue over short to medium term on account of now almost 5 large deals that we have won in a matter of a year plus.

In terms of dividend, I want to touch upon the new dividend policy that we have announced. In view of the strong financial situation and very comfortable cash position, the board has decided to give higher percentage of profit as dividend. This would be done every single quarter and this would be linked with the profit earned by the company and so we would be in other words more liberal, I am not defining the exact percentage, so that it does not become a guidance, but this would be a more liberal percentage every single quarter. We already announced 50% dividend after this Q2 now, so that is Rs. 1 per share and we had already announced 25%, that is, 50 paise per share a quarter back, so that total comes to 75%, so Rs. 1.50 dividend on a Rs. 2 share. And all this of course is after 1:1 bonus that we had announced recently.

So I will now leave it to Sekar to take you through a more detailed presentation of the operations of the company.

P. R. Chandrasekar

Thank you very much Atul. Welcome ladies and gentlemen and as Atul mentioned I echo his sentiment that appreciating your interest in Hexaware and taking the time to join us despite a rather hectic morning already. As he said, this has been a healthy and a very gratifying quarter and it's good to

see that we have continued our momentum both on the revenue side as well as the margin expansion side and starting with Q2 of 2010 and now into Q2 of now 2011. It is good that it is on the back of good performance on all areas, revenue has been strong. We were in line with our guidance, grew 6.2% Q-on-Q and on a year-on-year basis, that is about 36% and that growth is on the back of what was actually a fairly healthy growth in the 2nd Quarter of 2010 as well. Good thing about this growth is that it is fairly broad based. Our two key markets both North America as well Europe are doing well.

It is also good from a client perspective. Our top 10 accounts continue to drive very healthy growth. In fact in this quarter they delivered 10% plus sequential growth for us at Hexaware, which as many of you are aware has also got implications for us going forward and has helped us, and will continue to help us in terms of managing many of our operating metrics better, that is in terms of the bulge mix, the pyramid, the ability to move more work offshore, etc. So I think the scale of these clients and the increasing kind of work that we do clearly allows us to also add value to these customers, which brings us to my next good subject, which is the fact that this relationship, the fact that we are now increasing our ability to add value to clients, I think have been key to our ability to close three good deals during this quarter.

Atul mentioned them, so I am not going to belabor the point, but all three are mentionable in their own way. One of them was a deal in the BFSI space. We won it against good competition in some specialized areas of domain, which I think is creditable. The second is a large infrastructure deal in Europe, all incremental business, 25 million over three years. Yes, it was with an existing client, but it allowed us to venture into a newer area and further increase our share of wallet with that customer. And the last one which we announced last week was the largest deal that we have announced in a long time, 177 million over five years, delivering us 100 million incremental value over the next five years. In addition to the 77 million expanded business that we currently already do with this customer,

again over five years, which as Atul mentioned, allows us a certain level of predictability and I am hoping as we go forward, also gives us some scale benefits as well. In addition, he mentioned we got 14 new customers. Again the satisfying piece is that broad based again, all three geographies contributed as well as some of the key focus areas that we as a company have targeted and really invested a lot resources and energy on, enterprise solutions, business intelligence and data warehousing as well as BPO.

In addition, I think what we are beginning to see which is I think a good sign is that since the last quarter, the engine that we have put in place in terms of hunting, in terms of practitioners in the field, in terms of greater collaboration between our verticals, horizontals and geographies in terms of deal pursuits, is beginning to pay off and new business as a percentage of our revenues has expanded to 7.5% versus what has normally been a 5% run rate over the last many quarters. We also now have 50 one million dollar clients, several in the 1 to 5, 5 to 10 and 10 plus customers and the average size of our client base as well as the average size of the deals has also shown the improvement, again areas which will allow us to further improve on our operating metrics. On the back of this momentum, we have improved our annual guidance to 302 million, which represents 30% year-on-year growth and our guidance for the next quarter is 78-79 million.

Similarly, margin performance has been strong, Atul talked about it, both at the EBITDA as well as EBIT as well as PAT levels. And despite the salary increase, we were able to mitigate the increases by improvements in other areas to keep our gross margin impact to only 70 basis points. Some of it is because of clearly the mix of business that we as a company have given, if you look at our percentages, the share of the high value added or premium services such as business intelligence and data warehousing represents 10% of our business versus 5-6% just a few quarters ago. Enterprise application continues to be strong at about 31% of our revenues. Some of the domain oriented business also has been growing which is one aspect. Second aspect, pricing has remained steady. Our offshore content has moved by 2 percentage point on the back of 1 percentage point last quarter, so which is

really a healthy movement. Volume has also grown up and a lot of that is offshore. In fact most of that volume gain is offshore which has again helped us from a margin standpoint.

In addition to that, our workforce profile has materially changed for the company. Within the last few quarters, we have added over 1000 freshers. So the lateral, the fresher intake in the organization has fundamentally changed from about almost zero freshers somewhere in 2009, except for the last quarter of 2009, to now has materially changed and as they get assimilated into the system, it is beginning to pay dividends in terms of our employee cost and our ability to manage our gross margins. Below the gross margin line, clearly SG&A has continued to help. I do want to add a line here to reassure the listeners on this call that while our SG&A by design has been brought down and we will continue to work towards that to get to peers and the industry in-line numbers, we have not done it by compromising our engine for growth, which is our sales and marketing. We have maintained our sales and marketing investments at levels in both in absolute as well as percentage terms of the company and we will not compromise there. So really the gains have come from G&A, which we are watching very closely across all parameters, rent, facilities, travel, and other expenses. And at the same time, trying to make sure that it is not on the back of compromising future growth. And we do believe that there is an opportunity for both areas for us to continue to get some gains especially as business improves, volume improves. While Prateek will walk you through these details, I just wanted to tell you that we do have levers still available both in employee, the pyramid that we have, as well as on SG&A, which is one of the reasons Atul has so confidently suggested that we will continue to hold our margins and could even improve further.

On the headcount front, again a very good picture, we added 755 employees to our fold, which again I think is probably the highest number we have added in the quarter in a while. The good news is out of this 755, 145 are freshers, which makes the total to 270+ freshers added in H1. We are planning to add 250 more in Q3 and I think we are on line to achieve the

1500 guidance that we had given earlier in the year. The other good thing about this particular quarter is that attrition is down to 18%, I hope it is sustainable and if that is so, it will also further add to the health of the company.

Finally, these pipeline remain stable. We still continue to chase 3-4 good sized deals at various stages in terms of the process. So all in all, good quarter, we are in a good position, the mood is good. And with that, I would like to hand it over to Prateek, who hopefully will continue to keep the mood up.

Prateek Aggarwal

Sure Sekar, thank you. I will quickly walk through some of the main financial metrics for the quarter. Starting with the revenue movement during the quarter, we moved from 70.4 to 74.8, which is a 4.4 million increase. 6.2% is basically broken into three parts, 5.75% is the volume growth, so that is the largest chunk of the 6.2%. We did gain about 0.7% from the cross-currency movement and the balance third factor really changes in the offshore mix and bill rate realization changes, which together added up to about 25 basis points negative. So that is on the revenue side.

Going on to the EBIT margins, I will give you some more details on what Atul and Sekar have already talked about. The 200 basis points which includes the wage increase and the small impact from the small drop in utilization, is the negative movement in the gross margin line, which was compensated by two positive factors, the first one is the offshore mix which added 65 basis points and the second positive factor is basically the change in the pyramid and the productivity using the rotation policy, reduction in attrition etc. all things put together is the balance positive impact of 65 basis points. All four put together, finally resulted in a 70 basis points reduction in gross margin, which was more than made up on the SG&A line. I would like to reiterate that the 170 bps movement is all from G&A and to help you understand that better, it's basically coming out of our moving away from rented premises in certain cities and, therefore, it is sustainable and definitely not compromising on the sales and marketing side. Depreciation

also gave us another 10 basis points and thereby resulting in a 110 basis points improvement in the EBIT margins.

The third metric where again we have had a good quarter is on the DSO. We reduce the DSO to 55 days compared to 63 in the last quarter. In fact if you see the debtor's number in the balance sheet on a quarter-on-quarter basis, the debtors have come down despite the 6.2% increase in revenue.

The fourth metric is on the Cap Ex during the quarter. We spent 16.3 crores this quarter, which is on top of about 17.5 last quarter, so for the first half, we have spent about 34 odd crores on Cap Ex. All these factors both the margin side, DSO and Cap Ex resulted in our cash increasing to 456.6 crores, \$102.2 million, which is mind you after paying out 40 crores of dividend during this quarter, which included the final dividend for 2010 as well the first interim dividend for Quarter 1 of 2011.

The sixth metric I would like to touch upon is For Ex gains. I know all of you have questions around it, so let me take that in some detail. The 10 crores profit of last quarter increased to 16 crores in this quarter. About 6 crores of this 16 crores, actually came out of an activity of rolling over portion of our hedge book to a longer period etc. and the activity of rolling over gave us the 6 crores during the quarter and therefore, this is something which we do not expect to recur in the going forward quarters. At the end of this quarter, we continue to have a healthy hedge book of \$168 million as well as €11 million, which are at respective rates of 48.17 per Dollar and 72.03 per Euro. There have been questions around this, so let me get into some more detail, how does this translate to the number in the balance sheet which is 21.8 crores as well as how does this translate to the P&L on a quarter-to-quarter basis. It is a simple calculation. If you just take the difference between 48.17 versus the quarter ending rate of 44.70, so that is about Rs. 3.50 per Dollar, if you multiply that by 168 you will come to a figure of about 58-59 crores. The second part which is the Euros, 72 minus, let us say Rs. 64, Rs. 8 per Euro into €11 million hedge book, that is another 8.8 or let us say 9 crores, totaling up to 68 crores over a period of eight

quarters, on an average works out to 8.5 per quarter. We expect the next quarter which is Quarter 3 for us to come in at about 9 crores. So that is how this hedge book which we declare in detail currency-wise as well as average rates for the currency, translates into profits on a quarter-on-quarter basis. The number of 21.8 crores in the balance sheet has two factors which we should be cognizant of. Number one is, it takes into account the underlying maturity of the hedge and, therefore, the premium that is there on the last day of the quarter as published by FEDAI. And over and above that there is a discounting factor applied based on the risk free rate of return and that is how this figure of 22 crores is coming in the balance sheet. Hopefully, that helps you understand this factor a little better.

The seventh factor I would like to touch upon again important thing is the effective tax rate. As you would have noticed our effective tax rate has gone up from a level of about 7.5% last quarter to now north of 16%. This is primarily an impact of the STPI tax holiday coming to an end and for the balance part of the year; we expect to hold it in the 16%-18% kind of a range for the effective tax rate.

With that, I have covered what I wanted to talk about and floor is open to questions. Back to you moderator.

Moderator

Thank you very much sir. The first question is from the line Kunal Sangoi from Edelweiss. Please go ahead.

Kunal Sangoi

My question is with regards to the top clients, what we have seen over the last 4-5 quarters is the each of the top 5 clients in the last four quarters have been growing by about 11% sequentially. If I look at the top clients that have probably doubled over the last one year sequentially. How do you see the traction coming from them in terms of whether the growth rates that we are looking at can continue? Secondly, with the kind of large deal wins that we have had, will this dependency which has now increased to about 52% by the top 10 clients continue to move up?

P. R. Chandrasekar

Kunal, I do not know how you managed to be the first guy asking the question. Congratulations on that, a good question. Clearly logical observations. The good news is that our top clients are growing. What you are saying is, is that too good to be true and for how long? And the answer frankly is that we believe that the growth will continue to be fairly strong from what we can see from our top 10 clients, particularly our top 5 clients and which I guess is why they are our top 5 clients. I do want to add a couple of things, one is they are big clients, so even in terms of our revenue or our share of their spend, we represent as a percentage, so there is still room for growth and, therefore, we can continue to grow with those. Clearly, the growth will change quarter-on-quarter from one client to the other. At this point in time our top 10 client is growing well and we do not see any reason why that should change in the near future, so that is as far as that is concerned. With regards to, do the deals tend to come from those clients where you have good relationship; the answer is clearly, yes. Will that, therefore, affect the percentage of the share of revenues from your top client? The answer is yes. Having said that, I do want to say that if you also look at our other numbers, while it will take a little more time for it to ramp up and actually show up in our revenue stream, we have been adding new clients at a reasonably healthy clip over the last few quarters, number one. Number two, the percentage of revenues we are getting from new clients is also inching up. Yes, it is at a slow rate, but that is understandable, it now represents 7.5% of our revenues and I am hoping that it will accelerate. And as we look at the deal pipeline where I am also looking at 2-3 other deals, which comes across both existing and new clients, then this will help. And finally, the installation of over 25 account managers in our top 25 accounts, I am hoping will further broad base this growth. But at this point in time, as far as at least we as a management team are concerned, we absolutely see no reason to be worried about this client concentration. If anything, frankly, I think it allows us lot of opportunities to further improve upon our operating metrics as I mentioned during my initial conversation. So to cut a long story short, good news is big clients are growing, good news is, it gives us an opportunity and if at all, there is a risk, it is being mitigated

by the addition in our new customers and various other actions we are taking. Long winded reply, but given your question I thought we wanted to make sure that we address your question.

Kunal Sangoi

Second is with regards to pricing, we have seen that offshore pricing has been moving up each of the last three quarters. I do understand that you commented earlier on the media, that pricing should be expected to be flat. How do you see overall as in terms of say, the new business coming through and how do we see this pricing moving through the rest of the year?

P. R. Chandrasekar

Kunal, I do not remember what I said in the media, but I was just trying to suggest that our pricing would be stable because of the fact that the environment out there is still tough, Kunal. It is tough and with the winds of cautions, if I were to add that in the market place in terms of the situation in North America as well as the situation in Europe, clearly there is a certain amount of caution which kind of was what was reflected in my comments in the media. In addition to the fact that we have won several large deals, we are continuing to pursue certain other growth opportunities and when you bid for large projects, the situation does become more competitive. Therefore what I was trying to suggest was that please don't think that it is an environment out there on one hand where you can go and really get great pricing because it remains competitive. Two, we are seeking growth and, therefore, that also comes into play. Having said that our mix of business is good, in fact if anything is with the growth BI and the growth of Enterprise Solutions as well as some of our domain areas which are high value propositions, our ability to hold our pricing is good. So bottom-line what the message I would like to leave you with Kunal is that we believe pricing will be stable.

Kunal Sangoi

Thanks and all the best.

Moderator

Thank you. The next question is from the line of Niral Dalal from Almondz Global, please go ahead.

Niral Dalal I wanted to know your hiring plan on the sales front. I have seen that the sales strength has gone up quite a bit this quarter, so what is your plan going forward in terms of hiring these sales guys?

P. R. Chandrasekar Niral, clearly like I mentioned before we are continuing to invest in our growth engine specifically our sales and marketing organization and I want to say that I think we will continue to do that and the point to mention though is that what we have changed in the last one year more than the numbers is the mix of the kind of people we have, so if you actually look at the numbers that have gone up because we add all people in the geography customer facing roles in the so-called sales kind of an environment, the fact is that we have actually added practitioners in PeopleSoft, we have added practitioners in Quartz for our testing business, we have added in practitioners in BI, we have even added one or two practitioners in our domain which in turn, I think will help us not only convert opportunity but improve the quality of our revenues. So we will clear continue to invest in our growth engine.

Niral Dalal So we can expect a further ramp up in the sales force from here on also?

P. R. Chandrasekar Yes, but at the same time because I know what the next question will be, which is what is the implication on cost? The objective is to manage our sales and marketing cost in absolute terms it will go up but as the percentage I think we will hold it at similar levels.

Niral Dalal One more question on the new deals that are in the pipeline, do you see any pricing pressure over there because as you earlier alluded to that the situation is quite competitive so do you see those new deals coming in at probably lower rates?

P. R. Chandrasekar I do not want to say new deals because we continue to win several new customers, we win a lot of new opportunities both with existing customers as well as, shall I say, we go provided a PeopleSoft upgrade which is our premium service, at a good price. But when you talk of deals where you are entering into an RFP situation where the size of that deal is

say 10 million plus or 15 million plus, clearly it becomes more competitive. I do not think anyone can deny that. Will it compromise my ability in terms of margin on that specific deal versus say some others, may be. But what I am telling you is that we have still got levers, the mix of business etc. which we feel will allow us to continue to deliver the kind of operating margins that we have delivered this quarter, over the next two quarters as well.

Niral Dalal

Why I was asking that was because the large deal that you announced this quarter was an extension of an existing customer which has come in at relatively stable margins as the last quarter margins, so perhaps that is because of win from an existing client. So the deals in the pipeline which could possibly come in from new clients, possibly we can see some pressure in margins from these new clients perhaps?

P. R. Chandrasekar

Yes and no. You are right. The fact that you are winning it with an existing customer obviously gives us an advantage because we know that customer well but these are still one in a multi vendor environment so, therefore, they are competitive. So I do not want to give you the impression that because they are existing clients where you do not face competitive pressures when the size of that opportunity materially changes. Having said that it is more controllable, you know it better, you are able to make certain changes, for example, increase your offshore content, change the way you price it by going from a blended price to pricing at different grades and, therefore, manage the overall price to the customer which is favorable to him and at the same time, is able to shall I say not compromise our margins with that customer very high. So not sure how to answer it but whether it is new or existing customer, there will be pressures that we will face.

Atul Nishar

Let me add that the lower rate does not necessarily mean lower margins. Sometimes and often the situation comes when there is large deal, the rate can be lower but the margin need not necessarily be proportionately lower or may even be higher, when there is scaling up at a particular

client, our ability to use better pyramid, use more freshers is far more and the SG&A on account of that deal comes down because we do not need too many sales people there, we just need an account manager. So at the EBIT level, the margins can be stable or can even improve, so the two are not necessarily connected in the same direction. In fact our experience is larger the deal better the margin. If you have 3 million clients, 10 million clients and a 25 million client and if the rate is same in all three scenarios, the margin will keep improving with the scale of the client. So it does give in large deals some opportunity to us to cut the rate, margin can also come down for a short period, that is one or two or three quarters when there is knowledge transfers phase but once that engagement settles down and goes into normal stable state, the margin starts improving quite well. So overall a larger deal does give a better margin so we would continue to go after larger deals whenever possible and I also want to add that larger deal for a mid size company like Hexaware needs lot more creativity, lot better relationship and not a single deal we have won without environment being highly competitive and after competing with all kinds of companies.

Niral Dalal

One more question, can you the share the proportion of fixed price contracts in your overall portfolio?

P. R. Chandrasekar

We really do not publish that data. Niral, I think we have historically not kind of talked too much about it. It is a growing number and if you like maybe you can have a call with Sreeni at some point.

Niral Dalal

Thanks a lot. All the best.

Moderator

Thank you. The next question is from the line of Sandeep Shah from RBS, please go ahead.

Sandeep Shah

In terms of the new clients which has been added which has been like a double digit on a Q-on-Q basis, can you share some details in terms of the quality of these clients? What I mean to say, are they within the global 1000 or 2000 category where the potential could be better?

P. R. Chandrasekar See we have indicated that we have added 14 customers. What I would like to say about that is as I said that they are a cut across Asia-Pac, about 5 of them is our North America, two of them are in Europe and 7 in Asia-Pac, so they really cut across sizes. There are several who you would consider very large clients and at least 3-4 in our view will be and can be potentially multimillion dollar clients over the next 18-24 months.

Sandeep Shah Is it possible to share the number of Fortune 500 or Global 1000 clients in our total portfolio?

P. R. Chandrasekar 50 plus would be our Global Fortune 500 companies.

Sandeep Shah If you look at the number of clients between \$1 million to \$5 million, it has more or less remained stable over the last 6-8 quarters. So is it like here the potential is lower or the kind of investment we have done in terms of hunters may increase the potential from these clients going forward?

P. R. Chandrasekar Good question Sandeep, I ask the same thing to my sales and account managers and I guess it is like half depends on how you look at it, glass half full or glass half empty. To me, at this point good news is that I think there are reasons to believe that it is more a glass half full because the investments we have made in the last year or so have resulted in some pretty good growth across the broader base of clients which I think has been one reason why our growth has been stable and reliable and predictable because the nature of the relationship has changed. As I have said earlier in the call we now have about 25 account managers, obviously they are spread over this set of clients that you talked about, the \$1 million accounts that we have. I am hoping that picture will change, that one million will move to the 3-5 and the 3-5 will go to 5+ and I think if you and I talk about this maybe 12 months from now, I am reasonably confident that you will see a very different picture.

Sandeep Shah These 25 account managers are being newly recruited over the last 2-3 quarters for the \$1 million clients?

P. R. Chandrasekar Very consciously we have taken a program to elevate some people in the company, some with good talent, and some with good strong delivery capabilities but also all with good customer facing and client handling skills. In addition to them over the last few quarters we have launched in Hexaware good account management and account training program where we have identified the people with certain requisite skills as well as the aptitude and the mindset to grow the mind. I have had training programs, have a graduating class etc. There are a few people we have hired from outside but by and large the majority has been home grown talent. Because one of the thing that you will have to recognize is that for a good account manager to succeed obviously he needs to be good account manager, he needs to understand the customer well but it also significantly helps if he also understand Hexaware well and get things done and so, therefore, I think the lot of it is also home grown talent.

Sandeep Shah With couple of deals where its more than \$25 million now opening a door in Fortune 500 clients, has it become a little easy to access for Hexaware versus what it used to be around may be 12-18 months back?

P. R. Chandrasekar It is easier on a number of ways. It is always difficult to go win a big client and a big deal of this nature. I do not want to say that the competitive environment in any way has changed. Having said that there are 2-3 factors I think that help us. Number one, most important of all there is belief. There is now a belief starting with the \$110 million deal we won about a year ago to several deals that we have subsequently won from, smaller but some equally actually complex, to this really large deal, that is number one. Number two, that belief has led to both the desire, the confidence and then appetite among the sales people to create opportunities. So I am finding that I have got sales guys who when they see a PeopleSoft opportunity instinctively are now trying to speak, can I now roll in a maintenance contract, can I include a BI component, why cannot I do testing for this guy. Therefore there is confidence as well as a natural inclination to try and make these things bigger. Number three, both with the analyst community, with the people who watch us, as well

as the customers who follow us, they now see that we have done deals which involves taking people, which involves running fairly complex systems, which involves transition of fairly complex engagements, which includes the handling applications and stuff involving multiple countries, finally doing stuff on the hostile environment. So clearly all of this is making it a little easier for us to get on to that table.

Sandeep Shah The next question Prateek, what would the tax rate look like in CY2012?

Prateek Aggarwal 2012 would go up to something like 22% odd.

Sandeep Shah Is it more to do with some subsidiary or tax benefit getting over?

Prateek Aggarwal We have certain tax shield available this year which would expire this year.

Sandeep Shah In terms of a rough breakup of G&A and S&M in terms of percentage can you give that?

Prateek Aggarwal We really do not publish that Sandeep but I guess you can refer to the annual report which has more details on that.

Sandeep Shah This rental benefits where you have given up some of the facility plus may be other levers do you still believe G&A has a scope for improvement?

Prateek Aggarwal My boss always says there is always scope for improvement. So while he is sitting here I will not.... but jokes apart I really do believe, yes there is scope for improvement particularly on the leverage front. I mean in absolute terms we have cut a lot and especially on the G&A part of SG&A and as we grow forward we might need some more G&A to fuel the growth as well. But as a percentage I think with 21.3, I would say there is still scope for improvement.

Sandeep Shah Just the last thing in terms of offshoring, there has been a healthy improvement of 250 basis point Q-on-Q. So is it more to do with a large deal where the transition got over and most of the business transferred to

offshore or is it a combination of other deals where you were able to achieve higher offshore?

P. R. Chandrasekar

Sandeep, it is because of some growth in some clients where the offshore component has currently been the higher growing components. When we actually look at the volume growth of almost 6% this quarter, a lot of that is really offshore. In fact most of it is offshore because of the nature of the growth. Having said that, I do want to want to tell the audience that while clearly we are very pleased with this increase in our offshore component by actually more than 3 percentage point over last two quarters, I want to also say that I do not see this as a continuing trend continuing every quarter as well. In fact, as we pursue new business and if we win something larger or we do a large project etc., the onsite percentage can go up again. So I would like to say that our onsite to offshore ratio will kind of operate in this range. So I do not want to guide that offshore as a percentage is going to continue to change materially at all.

Sandeep Shah

Thanks and all the best.

Moderator

Thank you. The next question is from the line of Pratish Krishnan from Bank of America, please go ahead.

Pratish Krishnan

Just one question on the fresher hiring or the fresher to lateral ratio for you, what is the ratio today and what do you expect it to be by the end of next year?

Deependra Chumble

As Sekar mentioned that we did begin our freshers hire some time back in the last quarter 2009 and since then we have been improving on that front. So today the ratio has changed almost to 60 laterals and 40 freshers and we hope that it will even improve little bit more in the coming quarter.

Pratish Krishnan

In terms of the overall parameters itself I believe the number of employees less than three years is probably much lower today. I was referring to that number.

Deependra Chumble As I said that the number of freshers is certainly growing but currently it does look like we do have more experienced people in those grades which in the next few quarters will even out.

Pratish Krishnan Any number you can put into that?

Sreenivas Pratish, this is Sreeni here. If you look at 0-3 years band over the last couple of years the number has frankly increased to about 1200 people and over the next year or so with our fresher addition plan, we plan to add 250 people in Q3 and we will have a plan for Q4 and so that percentage of 0-3 years experience will continue to increase.

Pratish Krishnan The second is in terms of the service lines, may be if you can elaborate in term of which are the service lines that you are still seeing a strong demand at this point of time because if I look at the ERP side for you today, probably for the quarter it has kind of grown at a slower rate than the company average. Anything one should look into this, in any data point here?

R. V. Ramanan We are seeing traction across all service lines. If you look at it the fastest growing service line is remote infrastructure management which is an area where we are seeing quite a bit of growth and some of the large deals which we have signed has a significant component of remote infrastructure management. But we are also seeing quite a bit of the PeopleSoft which has been one of our leading-edges in terms of client acquisition as well as growth. We are also seeing good traction, the 9.1 implementation we have done quite a bit of them, so we are continuing to seeing traction in that area as well as other ERPs. We are seeing SAP as an area of growth itself, but slight variation in quarterly numbers primarily due to some of the other services. From an absolute number ERP has still grown quarter-on quarter. Remote infrastructure management has grown quarter-on-quarter, testing has grown quarter-on-quarter and we also have seen quite a bit of traction in the BIBA area, the business intelligence is an area of service line which we are continuing to see. These are the

horizontal services which we grow and on the vertical side our focus areas of capital markets and travel and transport also continue to attract attention.

Pratish Krishnan Just finally on the dividend side, I mean clearly this time the payout ratio has been 50%. I believe this is not a special dividend so is this the level that you are looking at or is there any policy for that?

P. R. Chandrasekar As I mentioned, this is a part of our policy, so this is not one-time and this is not special dividend. This is a regular dividend as given as interim dividends. This will be done every single quarter and as I mentioned that we would be declaring more liberal percentage of profit every single quarter as dividend. We will take into account the need for working capital and the normal CapEx requirement if there is any major campus requirement, it need not impact that quarter dividend but we can draw out of our cash and add-on to the cash over a period of time. All this comes out of a philosophy that we have \$100 million in cash and we do not need to keep adding to the cash because that is not going add more value to shareholders. So the concept behind it is that distribute more out of profit to shareholders on a quarterly basis. This is a recurring thing, I cannot give you exact percentage but it is unlikely to have very wide fluctuations in the percentage.

Pratish Krishnan Thanks a lot.

Moderator Thank you. The next question is from the line of Srivathsan Ramachandran from Spark Capital. Please go ahead.

Srivathsan Ramachandran I just wanted to understand a couple of points. First is on the market share it seems may be your top 10-15 clients, you have see where Hexaware was maybe a year back to now where it is, just wanted to understand what has led to the growth? One, some of the clients spending more or has there been material market share gains in the top 10 amounts? A consolidated view would be more than helpful.

P. R. Chandrasekar

The answer obviously differs from client to client but I know you are happy with a consolidated view but clearly there are some clients where they spend in IT or the programs that they are launched in the last few quarters has reaped and given our presence there our opportunity to participate in that particular program has, therefore, resulted in growth in those areas. Clearly there are some of these wins that we have had including the one we announced last week has been partly due to a result of say the anticipated higher spend on some programs as this companies moves and expands and implements their own strategic plans over the next five years. But a large portion of this has also been winning it in a multi vendor environment which will lead to improved market share for us. In fact if all things go well with that particular client we will have a dominant share of that client spend.

Srivathsan Ramachandran

The second bit I just want to understand is in some form if you have to look at what the commentary from software product vendors are, the kind of mix you have, somebody like Temenos come and give a profit warning, where as today SAP has reported blockbuster numbers, just wanted to understand what you are seeing especially for the enterprise application space on the PeopleSoft, the BI front? Is it in some form mix or is it more because of client portfolio that these kind of differences- or are you seeing any specific weakness in BFS in Europe otherwise just wanted to have broad comments on that front?

R V Ramanan

Let me answer the question, the first part of the question regarding ERP. The ERP market side across the board irrespective of whichever ERP you are talking about is not seeing any slowdown. In fact we are seeing an uptake in the market place for PeopleSoft, the similar trends are continuing both Oracle and SAP and as you also know Oracle Fusion is in the horizon it is an ex-product which is going to have some game changes in the market. We are also seeing trends on one side, is the ERP sales, the other side is also movement toward cloud computing. Cloud if you look at it is the top most in most of the CIO's mind share so the products sales are shifting towards more a hosted solution and a SAAS based solution. We

are seeing trends in that area. We are not seeing in the ERP or in the business intelligence area. BI, of course, there is lot of consolidation in the BI area, most of the BI products are either owned by the ERP vendors themselves, primarily SAP has purchased BI products, Oracle has its own BI products and they tend to have a good traction in the market and their sales are not going slowing down. Temenos is particular story specific to the banking industry with a presence in Europe, I do not want to comment on that but typically the product market, ERP market there is no sign of slowdown as of yet.

P. R. Chandrasekar I frankly lost track of the second part of your question, Srivatsan?

Srivathsan Ramachandran Just on the product side what I wanted to understand what are you are seeing, is there anything specifically you are seeing on the European BFS clients because that seems to be hitting some slowdown on pockets, so just wanted to understand specifically in European banks?

P. R. Chandrasekar Srivatsan, there is good news, one of the **reason** they said India did not have a major Y2K problem was that they did not have too many computers. So similarly for us I guess our, as in absolute terms we represent a fairly small share of that market. Jokes aside, it is again client specific. BFSI does represent a reasonable chunk of our business of our Europe business and there we have seen fairly stable situation in the existing customers. I do not want to say that there have been spectacular growth but we have not seen any major declines either.

Srivathsan Ramachandran Thanks a lot sir.

Moderator Thank you.

Atul Nishar Okay, I would just like to thank all of you for joining the call, taking your time off on a very busy day for Hexaware and thanks for your interest and support to Hexaware. Thank you.

Moderator

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