

Hexaware Technologies Limited

Q1 2013

Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the Hexaware Technologies Limited Conference Call. As a reminder, for the duration of this conference, 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. Should you need assistance during this conference, 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 S. Gidwani. Thank you and over to you.

Latika S. Gidwani: Thanks, Mohsin. Good Evening. Thanks for joining the Hexaware Conference Call. From Hexaware, we have with us today, Atul Nishar – Chairman; Mr. R V Ramanan – Executive Director and President, Global Delivery; Mr. Rajiv Pant – President, North America; Mr. Rajesh Kanani – Acting CFO; and Mr. Sreenivas – Chief Strategy Officer. The Safe Harbor statement is available on the Hexaware website, so I shall consider that as read. With this I hand over to Mr. Atul Nishar.

Atul Nishar: Good evening to all of you who are in India and good morning to those who joined from the US. I appreciate your interest in Hexaware, and also for those who are in India, after a full day work I do understand, it takes quite a lot to continue working in the evening, I really appreciate that.

First, I would like to clarify that our CEO – P R Chandrasekar has had a small surgery just three days back. So he has been away since the last three days and he has been advised rest for next one week and therefore, he is not joining the call today. However, he will be available to talk after a week.

Coming to the Q1 – in many respects, it has been a good quarter for us. We met the revenue guidance at \$94million, giving a growth of 1.9% in volume, 1.8% in dollar revenue. Across the board the margins have expanded, right from gross margin level to EBITDA, EBIT and also significant increase in PBT and PAT level. EBITDA

level, which is very relevant has gone up significantly by 240 basis points this quarter, and we already guided that we expect further expansion in the next quarter. The operational metrics, there has been a healthy improvement, which has really led to this EBITDA improvement. The utilization has gone up by 6%; the offshore ratio has improved by over 2%; the bill rates have been steady like earlier quarters. The working capital management has been quite good. The DSOs have fallen from 66 days last quarter to 53 days. By and large, Hexaware has maintained best-in-class DSOs over a period of time, which has continued this quarter, including the accrued & unbilled revenues also, the DSOs have remained at 71 days, down from 77 days a quarter back. We expect the good working capital management to continue.

The dividend policy we had announced in the beginning of the year that the board has decided to distribute approximately 50% of the profit as dividend for the year 2013. And looking at the good cash position and the confidence in maintaining the profitability, we have declared Rs.1.20 i.e. 60% as dividend, amounting to 52% of profit as distribution.

In terms of business – we have acquired a large deal during the quarter. We signed \$30million deal over the next three years. We have further deals in pipeline that later Rajiv will talk about. We have added 11 new clients this quarter.

Coming to growth – going forward I do understand that the growth in the first half of the year is softer than our own expectations, but we do expect it to pick up in the second half of the year.

To talk more about the business going forward, and to give more color to the numbers that you have already seen and read as a part of our press release – we would have Rajiv Pant -- President of North America business as well as R V Ramanan -- our Executive Director, one-by-one they will cover various points that will give more insight into the business and what is behind the numbers. So over to you, Rajiv.

Rajiv Pant:

Thank you, Atul. Good evening to all of you. I would like to add some further color as far as the market front is concerned.

In the first half of the year, we are seeing several of our projects coming to an end, and we expect that the new projects from our existing customers will start at the beginning of Q3, which is why we are expecting strong growth in the back half of the year, so we expect things to really pick up from July onwards. And we also believe that this growth will be really broad-based across our various geographies and our verticals and horizontals. Our top 10, top 20 accounts have been big contributors, they have always grown much ahead of our overall company growth. We have broad-based this now to our top 50 customers, we have assigned dedicated account teams to mine these customers, to increase our cross sell quotient across these customers, and we expect this to be a big driver of our growth in the coming future. In terms of whatever new accounts we are opening, we are identifying the high potential accounts and we are assigning account managers to those accounts in order to help us mine those accounts and help us drive greater growth.

From a large deal perspective – Atul did mention about the deal that we closed last quarter. We have 3 to 4 deals in the pipeline, we are expecting at least one of these deals to close in the second half of the year, we are hopeful of closing that deal, we expect that to help us drive the growth numbers.

Now coming to the hunting front – I wanted to just talk about some of the highlights:

As some of you all may know, Oracle released the latest version of PeopleSoft, i.e. PeopleSoft 9.2 in March. We have had several of our customers and prospects wait for this version, so we had a little bit of lull in terms of activity, in terms of upgrades, etc. We expect this to significantly pickup in the back half of the year.

From our readiness perspective – we have a very high level of readiness. As you would have seen in our press release, we have 5500 functional scripts that we have prepared. This would help us jump start our efforts in terms of the faster time to upgrade for our customers. So clearly our investment there, we are hoping that it is going to help us payoff.

We have also made a significant investment in the Cloud-based ERP space. We are expecting the investments that we have made in that area to help us initiate several of the deals in the Cloud-based ERP as well as in the overall SMAC segment, in the areas of mobility, etc. we are starting to see good traction.

From an overall perspective – I think we are beefing up our investments significantly in the customer facing teams. I talked about the account management efforts, we are also beefing up our numbers as far as the vertical subject matter experts are concerned, horizontal SMEs, etc., and we are adding more people in the field.

And finally I wanted to take a moment to talk about some additional initiatives on the go-to market front, where earlier from a horizontal perspective we were primarily hunting with our ERP and with our testing horizontals. Our Business Intelligence and Analytics horizontal is one of our large horizontals now, and we have decided to also use that horizontal to penetrate new customer segments, and we expect and we have aligned that with our Enterprise Solutions hunting teams. So we expect that to also give us new customers and help us with our hunting efforts.

And finally, we have also aligned our BPO and IT service offerings together as an integrated IT and BPO story to take to our customers, because we see a lot of our existing customers, where their synergies in terms of buying behavior of IT and BPO together, so we expect that to yield some additional business as well. So that is at a high level on what we are doing on the market front. I would like to now hand it over to Mr. R V Ramanan.

R V Ramanan: Thank you, Rajiv. Rajiv has highlighted on the business development front, I would like to highlight some of the operational areas which we have been focusing on.

From an operational perspective – we have had a very good quarter, this quarter. As you can see the numbers, our utilization has improved over 6%, our gross margin has improved 160 basis points. And this is based on some of the events which we had discussed with you during Q4 of 2012. We had discussed about one particular project of one of our large customers, where we had to do some work without revenues, which actually caused a drop in utilization earlier, which has subsequently been corrected. Now that event is behind us, we have completed the project successfully, so the people are back on billing and eventually the revenues from the customer also has gone up as well as the utilization has also improved. In addition to that, we had cross-trained our people, we had made sure we had controlled recruitment, effectively bringing our utilization up, which is reflected in our improvement in margins. On top of it we also had a healthy movement in the onsite/offshore ratio of revenues, more tilted towards offshore, nearly a 2% increase in our offshore revenues, which also helped us improve our operating parameters. With growth about to set in, as you can see, we are pretty confident of growing from H2 onwards; from Q3 we are expecting a much higher growth momentum. And with the scale benefits which come with the growth, we expect to improve on the operational parameters as well.

On the people front – we have applied for 200 H1B visas, so we are ready for the onsite travel as well and with the probability, as of now the limit has been reached and it will be a lottery based session. We expect 50 plus percentage of conversion to get at least 100 plus in terms of number of H1B visas, which we would be able to get, so we have managed to file on time, we have managed to make sure that we have our people ready for onsite travel as well.

In addition, we are also significantly strengthening our capability in the regions. We had opened up our Mexico center, we added a new

office in Mexico, we have added capacity, overall adding to about 385 seating capacity in Mexico. That is based on the significant business which we are finding in the local region. We have also expanded our presence in the US, we are having a lot more local hires; we are going for campus recruitment, we already have 2-3 delivery centers based in the US as well. So overall, we see a healthy operational trend continuing.

On a headcount basis – on Q2, we are also planning to add 100 plus freshers. As always we add freshers on every quarter basis, and we would be adding 100 plus freshers in Q2. And lateral hiring will be based on demand, and as the demand goes up, as the revenue trajectory increases, we expect that increase in hiring as well.

From a wage increase perspective – we have currently worked out that the offshore increments would be given to our employees in Q3 of this year. The reason for giving it in Q3 is so that it is in sync with our revenue uptake which we are expecting, based on our projections, which Rajiv had just discussed. The confidence which we have in the Q3 uptake, we thought we will sync our increments along with our revenue uptake, which is expected to happen in Q3. So the offshore increments will be effect in Q3, and as always the policy, the onsite increments will follow subsequently. Lateral hirings, as I mentioned, will continue to be on demand basis.

From a technology standpoint – we are investing heavily on the latest buzz words in industry, “SMAC,” as Rajiv mentioned, Social Mobility, Analytics and Cloud. This is not something new for us, this is something which we have been working on, we do have a very strong BI and Analytics factors. In fact, as Rajiv mentioned, we are also strengthening that and using that as a horizontal as a door opening strategy as well. We do have a very big practice in terms of BI and Analytics. We are expanding that into Social Media, we are putting in a lot of investments in Mobility. We have already started winning projects on mobility. And some of the projects we are executing for our clients in Mobility, in multiple space both in

the Android space, in the iPhone space and HTML5 and different technologies which are associated with that. So the investment in new technologies continues. Then we also are investing in, as Rajiv mentioned, Cloud-based ERP. We are working with multiple Cloud-based ERP systems. The Cloud is really taking over the market, some of the ERPs, Salesforce.com, Oracle Fusion, Workday or different kind of cloud platforms for which we have built our capabilities and we have started working with our customers on these areas as well.

In addition to that we have also created our own platform called "Republic," which we had announced a few quarters back. We have now tied up with hosting provider; we are going to host the entire Cloud platform ourselves based out of Singapore and that is an area which we expect to future-proof the system and in terms of investment and technology. With this I will hand it over to Mr. Rajesh Kanani, our acting CFO.

Rajesh Kanani: Thank you, Ramanan. Since all the numbers have been circulated, I will start with revenue walk. As you all aware, revenue was USD 94 million from USD 92.4 million last quarter which means revenue has grown by 180 basis points in comparison to the last quarter in dollar terms. Revenue has grown due to higher volume by 190 basis points. Since billed rates have been stable, the negative impact is on account of FOREX, which is 10 basis points.

Now I will take up EBITDA walk – EBITDA, as you know that the good news is that our margins have gone up. EBITDA has gone up by 240 basis points. EBIT has gone up by 230 basis points. If you see the break up, gross margins have increased by 160 basis points. SG&A was lower by 80 basis points. And depreciation had a negative impact of 10 basis points due to additional depreciation in Siruseri in Chennai.

Now, I will give a break up of gross margins – Gross margins have increased by 160 basis points. The major reason for increase in gross margins was utilization which after netting off calendar

impact has increased by 250 basis points. More offshore business resulted in 75 basis points increase in gross margin. However, gross margin was lower because of H1B visa cost, which is a one-time cost by 70 basis points. FOREX has also led to decrease in margins by 25 basis points. And other costs have negatively impacted margin by 65 basis points. SG&A has decreased by 72 basis points, mainly on account of sales promotion cost and travel cost. In Q4 we had a one-time promotion cost and travel cost because of a lot of internal meetings and sales kick off meetings.

Now, look at the FOREX front – FOREX income for the quarter has been \$424K versus loss of \$833K last quarter. If you see quarter-on-quarter, there is a positive swing of \$1.25million. The main reason for gain was appreciation of rupee by 1.3% and more premia based income. If you look at our CAPEX plan which is Rs.9.98 crores in this quarter versus budget of \$80 crores plus for the entire year. Tax ETR is 21% versus 17.9% in the earlier quarter as we had one-time set off available in the earlier quarter. Expected tax rate is going to be 22% to 23% range. As you know that in the recent budget, there is a surcharge increase from 5% to 10%. DSO, as Atul, said is 53 days versus 66 days and with unbilled or revenue accrual is 71 days against 77 days.

Other information is on the dividend payment dates. Final dividend for 2012 dividend declared will be 4th May after AGM tomorrow, and first quarter dividend will be paid on May 16th 2013. And I cordially invite all of you to attend our AGM tomorrow at Walchand Hirachand Hall, IMC building at Churchgate at 4:00 p.m. With that I hand over to moderator please.

Moderator: Thank you very much sir. We will now begin the question-and-answer session. The first question is from the line of Srivatsan Ramachandran from Spark Capital. Please go ahead sir.

Srivatsan Ramachandran: I just wanted to delve a bit deeper into the growth expectations for second half. Our management commentary indicates that second half would be better. Just wanted to know if

this would be more because of the deals that have been signed already, which ramp ups are due for starting second half or is it more deals which are almost signed which you hope to close and see growth in third quarter?

Rajiv Pant:

Hi, this is Rajiv Pant here. Like I was talking about earlier, we have a fairly robust pipeline of deals, and the deals that I was talking about are with our existing clients. Some of the projects that essentially got over in Q1 as well as Q2, we are expecting new initiatives to start effective July. So we expect those initiatives to start kicking in, in terms of revenue for the back half of the year. Clearly, that is something that we are seeing right now. And we also expect the hunting activity also that I talked about in terms of some of the ERP and other initiatives we expect that to contribute to the revenues as well. So, it is not that we have all the deals in hand, but based on the probability that we have, for the deals in the pipe line, we are making that projection.

Srivatsan Ramachandran:

And on the healthcare it will be helpful if we can see what you are seeing it is now Obama back at six months and we are well into the calendar year. What is the broad thought process, especially on the payer side, are people started investing materially in either ICD-9 to 10 conversion or HIPAA compliance in terms of, are we actually going out spending on the IT systems on any deal flows will be helpful?

Rajiv Pant:

We work with several large payers, although we are not exclusive there, we work in a multi-vendor scenario, but we have been working on several initiatives like health information exchanges, which is one of the priorities right now from healthcare perspective. We are also working with several of our customers on the ICD-9 to 10 initiatives, because the US does have an extension in that so some of the laggards who have not completed that, we are helping some of those customers, complete the ICD-9 to 10 conversion, and as you know, our overall healthcare and insurance is about 16% of our business and we continue to see a fair bit of activity

there and some marginal improvement as well as a percentage of our business.

Srivatsan Ramachandran: My last question is on travel and transportation. It has been pretty soft numbers for quite some time, almost 3-4 quarters. So just wanted, is there anything specific that is happening for relatively soft growth trajectory or is it more the challenges, may be some of the client portfolios are having, or what is the broader industry growth trends that you are seeing in travel and transport?

Rajiv Pant: We have a good client names, in fact we have couple of large customers in the travel and transportation sector as well, we have excellent relationships with these customers; in fact some of these relationships go back more than 10 years. So it is a good sector for us, we are expecting some of the spend to start opening up in the second half of the year, as you know the airline industry, it is a fairly volatile industry, and we do expect some activity to pick up there again in the back half of the year.

Moderator: Thank you. The next question is from the line of Kunal Tayal from Bank of America. Please go ahead.

Kunal Tayal: On the comment that some of the projects could come to an end during Q1 and Q2, I just wanted some thoughts as to the kind of feasibility you have in refilling the existing revenue stream and the kind of discussions you might be having with your clients in this regard?

R V Ramanan: Kunal, this is Ramanan here. Some of the large development projects which would have started sometime back come to a natural end, we complete the development. And usually whenever there is a completion of development, it continues into a maintenance stream. Of course, the revenue volume would drop but the activity which we have performed in terms of building the project will continue into a maintenance mode and annuity mode. But normally what happens is, there is a pause from the customer

in starting any kind of new initiatives, when large projects end, they take a month or two or three before they can actually start out the next major engagement. So that is what we are seeing in terms of softness in what we have seen in Q1 and Q2. And once that period gets over, the new initiatives are already on, so they will start kicking in the new projects and that is the reason for our optimism in Q3 and H2 in general.

Kunal Tayal: The employee headcount declined in this quarter. Was it all because of the fact that there was no refill for that natural attrition that you saw or was there may be some other kind of optimization drive?

R V Ramanan: I do not know what you are implying, there is no other optimization drive per se, optimization is a continuous process, but in terms of the headcount decrease, yes there are natural attritions, we had also mentioned that we were controlling recruitment because our utilization was low, and the headcount change is a total cumulative effect of all that.

Kunal Tayal: Because what I was also trying to gather is that in the whole process, should one expect that your attrition levels which have in the past been good, should one expect some kind of a take off in attrition rates?

R V Ramanan: We do not expect a significant change in the attrition numbers. If you have seen, our attrition levels have always been below industry average, we have been among the best of the companies in terms of retaining talent and I think with our policies which we have and the fact that last year also we gave a healthy increment, this year also we are planning to give increments from Q3, and the salary levels which are commensurate with the industry and our HR practices, I do not expect attrition to significantly take off, it will be in the ballpark.

Moderator: Thank you. The next question is from the line of Ashwin Mehta from Nomura. Please go ahead.

Ashwin Mehta: Just wanted to check how big in revenue terms according to you is the PeopleSoft 9.2 upgrade opportunity and do you see some revenues starting to come in Q3-Q4 from this or is it more CY'14 driver?

R V Ramanan: Just to give you a background when PeopleSoft 9.1 was launched, we had done 25+ projects which we had done as upgrades in 9.1. So we expect that the number of projects which will kick off in 9.2 will be higher than that. But, in terms of the movement into 9.2, since the product has been delayed, it has been released very recently in March I think, is when the product was generally available, the customers would wait for the product to stabilize, customers would wait for a couple of months before they start upgrading their 9.1 systems. But what we see in the market is that customers are looking forward to an upgrade. there are people who are talking about whether the Oracle is clear on their product strategy, given that Oracle has been continuously coming out with newer versions of PeopleSoft, the confidence level among the customers is strong, they are going to go for the upgrade, but the upgrades will start taking off in about 2-3 months time, which also coincides with the fact that we are talking about our Q3 uptake in revenue, that is also one of the reasons we expect more upgrade products to start from that region.

Ashwin Mehta: And just a follow up in terms of our margin, in case of margin improvement next quarter, is it largely driven by the one-off like visa cost not being there in the next quarter or we see further scope for utilization improvements from hereon?

R V Ramanan: There are multiple levers, visa cost is definitely one of them. We are expecting to maintain utilization at the current level. With the addition of freshers which we are doing in the next quarter, we might also average our cost a little bit down. So effectively, we have multiple levers, but we expect margins to improve from where we are.

Moderator: Thank you. The next question is from the line of Sandeep Shah from CIMB India. Please go ahead.

Sandeep Shah: If you look at the offshore shift in the quarter, it is more than 200 basis points while the volume growth is also at 1.9% with the US dollar revenue growth also at 1.8%. So my question is why the impact of the offshore shift is not being seen on a US dollar revenue growth? Is it any SI related revenues that has been booked in this quarter?

R V Ramanan: There has been no SI related revenues booked. There are no one-time revenues or anything of that sort booked in the quarter. The revenues booked on the normal volume revenues which we have booked. If you look at it, when we talk about offshore revenue, we also include the Mexico revenue into our offshore revenue whose bill rates are higher than India bill rates. So effectively, this is the actuals which we have reported. There are no one-time revenues in this quarter.

Sandeep Shah: This time, we have not reiterated our double-digit growth guidance for the CY2013. So what gives us the optimism that some delay in the project start which we have witnessed beyond the first quarter may not happen in the second half? Are we expecting any significant deal closures in the second quarter or will the deal closures start happening from the third quarter?

Atul Nishar: On the annual guidance, I would like to say that everybody is working towards meeting the guidance, we have given guidance just 2 months back of 10% growth and everyone is working towards it; however, we would also like to see how the Q2 revenue grows and how the outlook for Q3 is. Based on that, we will revisit at the end of Q2, when we announce the result as to what is our clearer outlook on the annual guidance. Otherwise, at this point of time, we are not able to add any more light on that having given guidance just 2 months back. Also, I would like to say that most companies do not give guidance in our industry now. And we do our best to guide the investors both on a quarterly basis, on an

annual basis, as also on margin front. So, we should not be put to some stronger disadvantage by being more transparent and open, we are doing our best on that front. And if at all, we should be compared more favorably with companies who do not give any guidance. But, I somehow do not see that happening.

Sandeep Shah: Secondly, in terms of the deal pipeline, any of the deals at advanced stage of negotiation? When do you expect some of the closures of these deals?

Rajiv Pant: So like I mentioned from a large deal perspective, large deals for us are 25 million plus, so we have 3-4 such deals, we are hopeful of converting at least one of these deals in the second half of the year, but knowing the complexity and the competitive environment in these deals, it is hard for me to give you a very affirmative kind of answer, we are hopeful, we are working closely with the customer, there are a few deals in this which involve a very extensive RFP process, so it is very hard for me to give you an absolute answer here, but we are working closely and we are really hopeful that we will close at least one of these deals; however, on the existing customer front, the project that we see in our pipeline, those are projects that we are working through the initial phases, we are doing that on an ongoing basis, and we are confident that those are also going to translate into a good revenue that will provide us growth in the second half.

Sandeep Shah: And most of these 3-4 deals are for the incremental revenues or does this also include a renewal of large deals?

Rajiv Pant: No, it is a mixed bag.

Moderator: Thank you. The next question is from the line of Manik Taneja from Emkay Global. Please go ahead

Manik Taneja: Just wanted to get a sense on the growth traction that you are seeing in terms of the top clients, given the fact that top clients has been something helping us to grow for the company through the last 2-3 years. Just trying to understand, what are you seeing

within your top clients and in that respect, could you talk about the BOT deal that you signed with one of the bigger customers? And then finally, if you could talk about the different factors that come into play in terms of margins both from a tailwind as well as a headwind perspective over the next 2-3 quarters?

Atul Nishar:

Let me address the first question on the number one customer of Hexaware. This client contributed 14.8% to our revenue in Q3 of last year. This went down due to some change of specs and different point of view by the user group of the client in Q4 and so the revenue dropped to 11.7%. This has now gone up to 13% this quarter, not because of continuation of that project, that was put to a logical end and people were assigned to other projects, but some new initiatives have started which show the strength of the relationship and this client will grow further in Q2 and we expect that growth to sustain in Q3 as well as in Q4. So we expect that to go back to around 14+% or so of the revenue by Q3 and if not, certainly, by Q4. So, this client will continue to grow and will drive the growth going forward, there is no doubt there. Not this client, but another client where we have had a BOT deal that your question is, BOT deal has not taken off to our desire and it is still at a small level, so it may be further time before we see further growth in that.

Sreenivas V:

You asked about the headwinds and tailwinds and margins, in terms of margins, typical levers available for us perhaps is the grade pyramid in terms of the grade mix which we have and also as we rotate people, the new recruitments happen, they happen at a level which is on grade below the existing person, overall, we bring our average cost down, and also, we are expecting volume growth up to 2% in Q2 and then going forward from Q3 we expect the volume growth to kick in. So, those are the tailwinds in terms of the margin which will enable the positive side of the margin. Of course, negative side would be the impact of wage increment, which we expect in Q3 is what we have finalized for offshore. So, with the uptake of revenue in Q3, we expect to neutralize that

negative impact. Overall, we expect margins to improve from where we are.

Manik Taneja: Could you just give us a sense on your marketing investments given the fact that now we are seeing that you have increased your dedicated account management program to the top 50 clients?

Rajiv Pant: I think what we are doing is that we are extending what we did with our top 20 customers to a set of 50 customers now. We have seen significant return on investment on what we did with our 20 customers and we believe we can replicate that effort with our top 50 customers as well. In terms of numbers, it is roughly about 18-19% of our revenue, that is where we stand right now.

Moderator: Thank you. The next question is from the line of Ravi Menon from Equirus Securities. Please go ahead.

Ravi Menon: If I may ask, how many people were there in the Mexico center, who accounted in the offshore headcount?

R V Ramanan: The headcount in Mexico to be under 200.

Ravi Menon: And given the traction that we expect, this negative headcount has got, is it the reason of skill mismatch or is it that you decided to wait it out a little bit because of soft lateral hiring market do you think that you would wait out and see when the pipeline matures a little bit and you go into the market and hire, is that the idea?

R V Ramanan: Our strategy especially as far as lateral recruitment is concerned, is always on a demand basis. We do have a very strong process in place, where actually when there is a requirement across the board, we make sure that similar skill sets are available in the organization, we have a very strong resource management process which ensure that we first have the option of picking the people who are already within the organization. And only when there is a person not available we go to the market for recruitment. Given our utilization in Q4, there was enough scope for improvement, which made it that we were able to find talent within to fulfill the

requirements and that is how the headcount has actually dropped. But, going forward, we are planning to add 100 plus people on the fresher side, which is a strategic investment. That is not based on demand that is based on seeing our ability to use them in the upcoming quarters, not immediately. But, in terms of laterals, our recruitment has always been based on demand and that will continue and as the revenue kicks in, headcount also will proportionately go up.

Moderator: Thank you. The next question is from the line of Dipesh Mehta from SBI Cap Securities. Please go ahead.

Dipesh Mehta: I just have a few data related questions. One is, can you break down your attrition into voluntary and involuntary for the current quarter because quarterly annualized EPS to be around 16 percentage? Second is, how many freshers have we added in Q1, and what would be the total offers made for calendar '13? Third is about what would be the CAPEX we expect for calendar '13? And last is whether we have decided any quantum for offshore salary hike which we are likely to give in Q3?

R V Ramanan: I frankly did not get all the questions, because there were too many, but I will answer the attrition question and if I have missed out something, please ask me again. From attrition point of view, we only report voluntary numbers. Certain involuntary activities which might include people joining or showing up and not turning up after a couple of days, etc. certainly, involuntary actions are excluded. So, what we report the attrition numbers is fully voluntary.

Sreenivas V.: For the first quarter 2013, we did not add any freshers, fresher addition was zero for the quarter. Coming to your question on gross addition and net addition and so on, clearly, we had a decline in a QoQ terms, which means that the exits were more than additions, so that is pretty much the input we provide.

R V Ramanan: Regarding fresher addition in calendar '13, we would like to go on a quarter basis. As of now, our strategy has always been to go to market on a quarterly basis. Q2, we have already decided to take 100 plus freshers. Towards the end of Q2, we will decide our strategy for Q3.

Atul Nishar: I would like to add that we do want to maintain certain level of utilization and we always report numbers of utilization that include trainees. So, since we had seen lower utilization in Q4, we are conscious of the fact that utilization is maintained at a certain level, otherwise utilization is one place where margins get impacted quite strongly. So, we are conscious of the fact that we have to maintain certain level of margin and therefore, certain level of utilization also. So the inflow of freshers will be timed appropriately.

R V Ramanan: CAPEX for the year is 80 plus crores. We have decided that we will give wage increments in Q3 for offshore and as a practice, onsite will follow after that, we always have a time lag between onsite and offshore. Regarding the quantum, it will be little premature, our process is to go through industry comparison; we are in the process of looking at the salary data, looking at market comparative data, etc. Once we finalize that and we roll out, we will be able to give you definitive numbers next quarter.

Dipesh Mehta: Last clarification about bench cost, we consider it as part of SG&A or it is part of direct costs?

Sreenivas V: Direct costs.

Moderator: Thank you. The next question is from the line of Rohitesh Gupta from Taurus Mutual Fund. Please go ahead.

Rohitesh Gupta: Just wanted to understand the confidence that you have on the margin front. If I am not wrong, earlier in the concall you said you are expecting some of the projects to start from Q3 onwards, is it?

R V Ramanan: Yeah.

Rohitesh Gupta: So when a project initially starts, probably the margins are not the desirable kind of margins that the company might expect when a project is at a stable level. So, I just wanted to understand where is the confidence that is on the margin front that is stemming out from?

R V Ramanan: I do not think that assumption is correct. Project start and the revenues evenly spread and the expenses evenly spread. There is no real variation in terms of difference in margin during the start of a project or end of a project, because we have a very robust practice in terms of showing revenue, both billed and unbilled and in terms of booking the cost. So, I do not think there is any variation in that. Problems always come only if there are delays in projects. So given our strong delivery strength, we do not expect any problems in that area.

Moderator: Thank you. The next question is from the line of Satya Narayan from Cholamandalam Securities. Please go ahead.

Satya Narayan: The revenue has increased by 15.8% while the gross margins and EBITDA margins have compressed by 3.6 and 3.1% respectively in rupee terms. Is it purely FOREX or like is there any other factor which is....

Sreenivas V.: Satya, Sreenivas here. The way we explain profitability and at the start of the call our acting CFO spoke about it, we give revenue and margin variance on a quarterly basis. So we gave you the impact of utilization, the impact of onsite/offshore ratio, SG&A and so on, on a quarterly basis. So for us to compare on an annual basis I can tell you that last year first quarter we added freshers, this year first quarter we did not add freshers. So to that extent, if you look at pyramid as a mix, pyramids have changed on a year-on-year basis. So factors like that in addition to FOREX will contribute. But if you want further details we can have a chat off-line or you can look at our transcripts, our transcripts will tell you on a QoQ basis what are the factors and that will explain what changed from Q1 last year to Q1 this year.

- Moderator:** Thank you. The next question is from the line of Ravi Menon from Equirus Securities. Please go ahead.
- Ravi Menon:** Just wanted to check on the visa cost. Are they included in SG&A or direct costs?
- Sreenivas V:** Direct costs.
- Ravi Menon:** And how much would that be approximately?
- Rajesh Kanani:** It is 70 basis points.
- Moderator:** Thank you. The next question is from the line of Sandeep Shah from CIMB India. Please go ahead.
- Sandeep Shah:** Just on the billing rate, any comments? Some of the large peers are saying that the non-discretionary commoditized services are coming into pressure. So, are we witnessing the same in some of the renewals of our existing projects?
- Rajiv Pant:** We do not really expect to see much variation on the pricing front. I think the environment has been fairly stable and we really do not expect too much of movement there. I think you see a slight downward trend in the onsite and a slight upward movement in the offshore. So we do not really expect too much of a change there. I think it is going to be a relatively stable situation.
- Sandeep Shah:** Just on the visa cost, is it that some of the visa cost may again reoccur in the second quarter or most of the visa application that we wanted to do, we have done it in the first quarter?
- R V Ramanan:** We have made applications for 200 visas and if we calculate proportionately, that is number of applications made to the total applications, the probability comes to 52% of the visa applications made, that should come through, however, that number can vary to slightly higher or slightly lower. We have already taken the cost of visa. On the basis of this probability of 52% and that has already been debited to Q1. Now, if the actual number of visas coming

through is slightly higher or slightly lower that much change will happen. But we do not expect any material change or impact on the margin on account of change in visa cost.

Moderator: Thank you. The next question is from the line of Pratish Krishnan from Antique. Please go ahead.

Pratish Krishnan: My apologies for repeating this, just in terms of the wage hike, any particular reason to push this out to Q3?

R V Ramanan: As I mentioned, we also are seeing that the revenue uptick will happen from Q3 for reasons which Rajiv had explained to you, we are expecting a higher revenue growth. And in order to absorb the impact of wage hike, we have to do it in a quarter where there is a growth in revenue, so that the overall metrics have kept in place and we had internally debated that and we found that Q3 would be the right time so that it is in sync with our revenue growth, that is the only reason.

Pratish Krishnan: So just what you are implying is that for Q3, you do have a fairly equal number of visibility at this point of time, is that a right implication?

R V Ramanan: Yeah.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, only one last question can be taken. The last question is from the line of Ravi Menon from Equirus Securities. Please go ahead.

Ravi Menon: Could you explain the SG&A decline? How much of it was due to lesser sales and marketing expenses like conferences, travel and so on or any actual decline in sales, personal hunting teams, anything else?

Atul Nishar: Let me clarify this, there were certain one-time costs that had been accounted for in Q4 on account of the internal sales kick off meeting, as well as on account of one sales conference where a large number of people attended and participated, one of the

important conferences is that we take part every year. So all that costs incurred in Q4 which was non-recurring and that is the only reason why the cost SG&A has fallen in Q1, there is no reduction in the sales cost as such.

Ravi Menon: Would you be looking at moving to an October cycle for wage hikes going forward?

R V Ramanan: At this point, we would like to restrict to the talk on the current year and we are talking about Q3 that would mean between July and September for this year.

Ravi Menon: And have you decided on exact months, July or would it be closer to the end of Q3 or beginning of it?

Sreenivas V: Ravi, when we are ready, we will come back to you with an update in July and we follow calendar year, as you are aware, so when Atul said, Q3, he meant July-August-September, not October.

Atul Nishar: Whatever quarter we mentioned are pertained to Hexaware accounting year quarter. So just to clarify again.

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

Atul Nishar: I would like to thank all of you for the confidence put in Hexaware, for the time that you have spent with us today, and would like to assure that we would do whatever best possible to justify the trust that the investors have been putting in us. Thanks a lot.

Moderator: Thank you. On behalf of Hexaware Technologies that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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