Hexaware Technologies Limited
Q2 2012 Earnings Conference Call

July 31, 2012

Management:  
Atul Nishar – Chairman
P. R. Chandrasekar – Vice Chairman & CEO
R. V. Ramanan – Executive Director & President-Global Delivery
Prateek Aggarwal – CFO
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Ladies and gentlemen, good day and welcome to the Hexaware Technologies Q2 2012 Earnings Conference Call. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need 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 Gidwani

From Hexaware we have with us Mr. Atul Nishar – Chairman, Mr. P R Chandrasekar – CEO and Vice Chairman, Mr. R V Ramanan – Executive Director & President - Global Delivery, Mr. Prateek Agarwal – CFO, Mr. Deependra Chumble – CPO, Mr. Sreenivas – Chief Strategy Officer. The safe harbor is available on the Hexaware website and so I shall assume that it is read. With this I hand over to Mr. Atul Nishar.

Atul Nishar

Good afternoon to all of you and I acknowledge very much and appreciate your interest in Hexaware and the time that you have spared for listening to us and talking to us. Let me take you through the Q2 highlights very briefly before Sekar takes over and gives you more detail. In terms of revenue, we grew 3.6% quarter on quarter in dollar terms. This is particularly heartening because in constant currency terms it would amount to 4.4% quarter on quarter growth and if we look at the impact that it would have on the revenue, if on a constant currency basis we would have been at the absolute upper end of the guidance that we had given of 91-92 million. In terms of volume it was of 4.2% growth. Apart from revenue, the margins are another metric where Hexaware has consistently done well, this was one more quarter consecutively of improvement in the margins. The EBITDA margin reached the new high of 22.9% and the EBIT margin went up to 21.4% and the PAT, though marginally higher is after absorbing significantly higher tax provision which Prateek will explain more in detail. In terms of client addition this quarter continued to have the same good run. This quarter we added 12 new clients and took the total client whom we have billed up from 201 to 210. We have added clients across geographies and across various competency areas. In terms of head count addition, we have continued adding people on a net basis and we are now at 8,733 people. On a year on year basis this could mean an increase of 1,314. The key point here linked with headcount addition is significant fall in attrition. Our attrition has gone
down for the first time in a single digit of 9.6%. This clearly indicates the engaging and challenging environment that employees find at Hexaware and validation of our growth story that employees believe in and subscribe to as well as the right HR policies that we follow and over last 4 to 5 quarters there is a consistent fall in the attrition each quarter. While we are not indicating any specific number for future but we remain confident that we would have low attrition for a longer period of time. These also necessitates the less lateral hire to be done by us and less cost of recruitment and more steady delivery as far as clients are concerned. The operational metrics of Hexaware continues to improve which is reflected in DSO which is now as low as 45 days, again another low for Hexaware. When we reported in Q1 52 days we were also wondering how can we better this and it has so turned out that we have significantly improved our own performance in the previous quarter. So this is also an indication of the importance and emphasis we give to all aspects of running this company and not just on revenue and profit. It is also the qualitative aspects that we are constantly focused on that are important. Having talked of clients and employees it is also important since you represent the shareholder class that our return on equity has gone up significantly to 33% again taking it to a high end in the IT industry. As you know we are not holding cash and we are keeping the cash that is needed and the balance we have been distributing quite liberally which is a policy that we had announced about 5 quarters back and we have followed it on a consistent basis. So this is the broad picture and of course the new milestone that we achieved in rupee terms of 500 Crore revenue for the first time for the company that makes us quite pleased. So I would hand over to our Vice Chairman and CEO, P R Chandrasekar.

P R Chandrasekar

Good Afternoon, Ladies & Gentlemen. We do seem to pick interesting dates for our results announcement. Today is the credit policy announcement and various other important things that I am sure you were busy in, and so I appreciate your joining us. Atul has walked through the major numbers for the quarter so I am not going to repeat that. Prateek, following me, will talk a lot more about some of the details including FOREX, EBITDA, PAT etc. So what I want to kind of mention here during my introduction is that as an organization Hexaware continues to grow, continues to believe it will grow and continues to invest, behave and work as a management team where they think it will and believes it will grow not only in the immediate term but going into the future. It is reflected in the various new initiatives that we continue to launch. This quarter we have launched the enterprise EDM capability specifically the AIM product
aimed at the capital market and leveraging our BI capabilities. We have invested in the PeopleSoft areas so that as the transition occurs in that technology, just as we have been leaders in the past we will continue to dominate that market whether it be PeopleSoft v 9.2 or Oracle Fusion in the HR area, which is a practice that has given us 40 new customers over the last 8 to 10 quarters. I think it will continue to do so because we will continue to invest in that. We have added sales people or rather field people in the marketplace, 11 this year. We have added 12 customers addition to this quarter, 24 this year in addition to the 51 new customers now represent on average somewhere between 6-7% of our revenues. Our top accounts continue to grow. Yes, this quarter there has been a blip with one of our accounts but that is clearly a temporary phenomenon. That account was stabilized. We are confident that our top customer, the top 5 accounts and the top 10 accounts will continue to grow at Hexaware. In addition to that our other accounts have grown. We will invest much more in the next set of accounts both from an account management standpoint as well as increasing efforts for cross-selling, which in turn will further diversify our base of revenues and therefore make us more immune to the various vagaries of the marketplace, which anyway we never use as an excuse. So bottom line as an organization just as the theme of growth we have ensured that even at an operational level we both think and implement strategies which will allow us to grow. For example, we have moved into a new facility in Pune and we are growing there. Our new facility in Mumbai has also come into occupation and we have started placing employees in that area. We will be expanding our facility in Bangalore because now it is more or less up to the maximum in terms of capacity. We are expanding our facility in Mexico which in turn will allow us to grow in that market. We have won customers in Mexico. We have started a foray into Brazil. We have added practitioners in Asia Pacific. So the bottom line is that we continue to invest for growth. We will grow while our guidance for Q3 is in the range of 92.5 to 94 million dollars which is 1.4 to 3%. We believe strongly and therefore have reiterated a 20% growth as an organization. On an operating margin standpoint we have delivered well and we believe that we can continue to do so. With that I am going to hand it over to Prateek and would be happy to answer questions once he has taken you through the financials of the company.

As is customary I will quickly walk you through the revenue walk as well as the EBITDA walk. On the revenue front, there are basically three factors led by the volume growth of 4.2%. There is 0.2% better realized rates on a constant currency basis which is what adds up to 4.4% constant
currency growth. And there is an impact of 0.8% because of all the
currencies, Euro, Rupee everything else, which takes the reported US
dollar growth down to 3.6% for this quarter. Going onto the EBITDA
movement on a quarter on quarter basis, the total EBITDA has gone up by
53 basis points and at an EBIT level by 63 basis points. So the first
number of 10 basis points difference between the two is obviously
depreciation basically FOREX gain. The gross margin has dropped by a
factor of 117 basis points and that is after FOREX gain of about 225 basis
points. So there are two large factors this quarter, which have drawn the
gross margin down. Salary increments are the first one. We have given
increments in the offshore part of the business i.e. people based in India
as well as people based in our near shore center in Mexico and that
increment has led to a factor of 150 basis points drawing the gross margin
down for the quarter. We also invested this quarter in H1B visas. This
quarter the window opened and the entire investment has cost us about
130 basis points this quarter and the balance 62-65 basis points is other
factors as you can imagine there are host of factors but one factor that
accounts for the line share is the actuarial valuation etc. SG&A you would
have noticed has dropped on a quarter on quarter basis by 170 basis
points. 80 basis points out of that 170 is again FOREX gains, primarily the
rupee depreciating versus the dollar. The balance 90 is basically a
combination of two factors. We had certain year beginning kind of sales
kick off cost in quarter one, which was not there in quarter two and also
some provisions true-up as we paid out the incentives for the 2011 year.
Moving on from the EBITDA line and the EBIT line, other incomes this
quarter was basically flat versus last quarter, slight drop and largely
because of we paid out 2 dividends, one for 2011 final dividend and the
quarter one dividend both of which were paid out at the end of April so
that has affected the other income a little bit. The FOREX line on a quarter
on quarter basis, we had a loss of Rs. 55 million, 5.5 Crores versus 2.6
Crores profit last quarter so a total swing of 8.1 Crore or $1.5 million. That
is compared to a gain at an EBIT level at something close to $3 million due
to weaker Rupee. So on a PBT or PAT levels FOREX has still given us
positive impact, $3 million odd at the EBIT level positive and a quarter on
quarter swing of 1.5 million negative on the FOREX line. As expected the
tax rates for the quarter has gone up. We have given an expected tax rate
of about 21%; the actual has come in 20.5. This is basically as I had
explained earlier due to certain tax shields getting over in the last financial
year and we expect tax rate to be slightly higher compared to the earlier
guidance we had given. So we expect it going forward to be in the range
of 22% to 23%. DSO is at the lowest that I have seen in the last four
years, 45 days and even including unbilled we are at very nice to see figure of 66 days and that I think is the lowest and industry leading. And the next factor is the CAPEX spend during the quarter, 16.5 Crores. Dividend has been retained at 75%, Rs. 1.50 per share. Cash has come down from last quarter. It is now at 430 odd Crores and obviously affected by the payout of the two dividends I talked about earlier. The balance sheet you will see the regular format of the balance sheet in a press release but in addition in the SEBI release and the quarterly audited numbers you will see the balance sheet in the new schedule six format as well. It is a much more elongated format with breakout of assets and liabilities into current and non-current. So if you have some questions you can always get back in touch with us. Net worth continues to be at a level of 1081 Crore this quarter and ROE at 33%. And EPS is ahead of Rs. 3 for the quarter for the second quarter running. With that I hand it over back to the moderator.

Moderator

Thank you very much sir. We will now begin the question and answer session. The first question is from the line of Srivathsan Ramachandran from Spark Capital, please go ahead.

Srivathsan Ramachandran

Wanted your comments in terms of how the decision making and pipeline is looking at this point of time maybe vis-à-vis as we are at the beginning of the year.

P R Chandrasekar

It is a fairly broad question. I am going to answer it in a couple of ways. One is with respect to our existing customers. The other is with what we are looking at in terms of the prospects that we are hunting and our field personnel are chasing. With regards to our existing customers, by and large we have not seen anything that is say source for any concern. Decision making remains reasonably robust. Many of the projects that we had anticipated continue to be acted upon. There are one or two projects that have got pushed off, yes but on the other hand there have been others that have come into play because of certain initiatives that organization has. So I do not really see a major pattern which is different from what it was in the past.

With regards to new accounts, clearly we continued to do a fairly good job of harnessing our pipeline of prospects and closures on the conversion rates typically for us tend to be higher, which is if it is an area of strength like PeopleSoft for example, so we continue to do that and we continue to open good accounts there. We opened 12 last quarter, we have opened 12 overall here, 4 in the PeopleSoft area. The other area where we are finding
if we leverage our capabilities where we opened is in the business intelligence so again that has been good. So all in all Srivathsan, also from a geography standpoint, actually there is not much difference there. We do see some greater strength in Asia Pacific versus Europe and North America but I do not want to attribute that to the marketplace. We have actually strengthened that team. We have added more people there and we are kind of a little more focused in terms of what we are chasing. So all in all feel comfortable about it.

**Srivathsan Ramachandran**  On a constant currency basis how do you see margins unfolding for the second half?

**Prateek Agarwal**  We do not really give guidance on the margins, we give guidance on the revenue but not on the margin.

**Moderator**  The next question is from the line of Kunal Tayal from Bank of America Merrill Lynch, please go ahead.

**Kunal Tayal**  Firstly on the large deal that you closed in this quarter. Could you please highlight for us if this deal is any different from some of your other large deals either in terms of the investments required or the margin profile in the first 2 years and once fully ramped?

**P R Chandrasekar**  First I just want to state, although I think your question is perfectly valid and legitimate. Not for this particular question but in general because of the nature of the arrangement we have with the client we are not able to really talk too much about the deal. Having said that very clearly as we have clearly mentioned in our press release #1 it is in an area of strength which is in the enterprise application outsourcing space. #2 it does involve a possible BOT deal so therefore it does have those components attached to it. #3 from an investment and margin standpoint, the investments required are what I would consider standard operating requirements for any opportunity that you would pursue in terms of facilities, people, computers etc. but in other than that there are no other investments, nor are there investments in terms of any financial engineering or financial investments or any such matter. So in that sense #1 it is normal business as usual. #2 therefore from a margin standpoint we do not see any implication because of that. #3 from a pricing standpoint because that was, I can imagine, one of the questions in the minds of people, again it is as per our standard operating transactions there are no special considerations on involvements in that particular regards and so therefore
we view this as a business that would be any other business of ours from both investment as well as margin and pricing standpoint.

Kunal Tayal

PeopleSoft the next version is probably due for release later this year. So any feelers that you have in terms of inquiries or potential demand from this new version.

R V Ramanan

See we have seen usually that once the new version is released it takes some time for the new version to come up. If we can sense the 9.1 has been in the market for about 2 years. we are still winning upgrade projects in 9.1. If you adopt early there are people who actually take some time to adopt, wait for the products to mature if they are stabilized. So we do expect that the 9.2 will have the similar takeoff cycle which will once the product is released there will be some early adopters and that will largely go on for the next 2 to 3 years till the next version gets released.

Moderator

The next question is from the line of Manik Taneja from Emkay Global Services, please go ahead.

Manik Taneja

Firstly if you could talk about your deal pipeline that given that we are chasing 5 to 6 large deals, are you seeing an increased competitive intensity over there or delays in decision making. Secondly you were on television today in the morning and you said some 20% kind of growth looks reasonably okay for calendar year 2013 if things were to remain as they are right now, if you could talk about that and the third question was regarding this large deal that you have announced. I am just trying to understand is there a disconnect with the number of people to be billed on this deal given the fact that if I were to do the math it definitely works to $25,000 per person versus a revenue productivity of $40,000 that we have.

P R Chandrasekar

In terms of the deals, this was one of those that we were pursuing and that we have announced. We continue to chase another four deals, one of which is in a very advanced stage of shall I say development, given the nature of the deal we cannot talk too much about it but I do want to tell you that we are very comfortably placed. We are in the final stages so to speak and we are confident that there will be a closure in the near future. Given the nature of the deal it is impossible to predict when it is but we are very confident that something will happen pretty quickly, very sooner rather than later. So in that context we do have that. We have added one or two other opportunities which I do not want to again talk about. So our deal pipeline in terms of opportunities beyond the 25 million remains fairly
healthy and with regards to that comment on all of these as to whether do we see delays,

To be honest with you it is hard to tell or find the linkage between developments in the microeconomic scenario versus how a deal progresses. The reality, each one is unique. Not only today, it has always been the case and sometimes they close faster, sometimes they take longer so I do not want to say that there is any delay because of any aspects. It is just that some of these deals you have multiple stakeholders, there is procurement, there is business, there are operations. So it does take time. I do not want to call out any of these deals as having gotten delayed. The one that was in an advanced stage which we are hoping to get closure, in fact it is just normal close of business and nothing really has changed. We feel they are very well placed and hopefully we will close that. So with that is the answer.

With regards to the other opportunity that we have closed that is in terms of revenues, that is what we expect based on the plans, based on the indications, based on the discussions we have had with the particular account with whom we have made this arrangement and in terms of that pricing or in terms of the pieces you cannot do your math. It is a little more tricky simply because it is not like the nature of the deal is such that we expect so much revenues, we will be building a facility with a core group of people that will be part of that operation but having said that there will also be ramp-ups and ramp-downs because if you can visualize this opportunity I do not want to speak too much about it, it would be working along with that client to deliver services to their customers and other new markets, etc., that we will be getting access to and there will be variability there. So it will be hard for me to explain the exact math in terms of what that dollar number is nor is it possible to actually compute what that would be.

Manik Taneja
And we witnessed some weakness within one of our clients within top-5, you mentioned that in your opening remark. Could you talk about what exactly has transpired over there?

P R Chandrasekar
Nothing very significant. There was a large engagement that has come to an end. They are not pursuing that particular line of activity going forward. It is a unique customer specific event. That customer incidentally will still deliver us higher revenues in 2012 versus what we did with them in 2011. We do not see any further downsides as we see it today going into Q3 or Q4 so therefore that account will be stable. I am not sure how much it will
grow but it will certainly not decline as we see it any further. So that is really all I can tell you about that particular account. The other across the top-10 some have grown faster than others, so that is a bit of mixed bag. But the bigger point I want to still reiterate is the resilience that we have that despite this change in this account we have still been able to deliver fairly strong growth across the organization.

Moderator
The next question is from the line of Pratish Krishnan from Antique Stock Broking, please go ahead.

Pratish Krishnan
Just in terms of the deal that you signed, the BOT deal, I mean is this with some existing client or with a new client completely?

P R Chandrasekar
I am going to choose not to answer that because it really does not matter.

Pratish Krishnan
I am just trying to understand what could be the consideration If it is an existing client, to choose their BOT deal at this point of time, if it is a new client it is a different thing altogether.

P R Chandrasekar
Let me answer it in another way because the implied question from your side is what do we gain, why would we be doing something like this, right? So if I were to address the question that you were asking, for a moment leaving the client out of it, the reason we are doing it is #1 it is in an area where we are strong and we have been chosen vis-à-vis some of the far bigger, better, etc., other companies out there in this area. #2 it is fairly broad based, in the sense that while it is clearly in the enterprise application outsourcing space, as you can imagine in any such application outsourcing environment it will include, it will have PeopleSoft, it will include SAP, it will include Oracle, it will also have components of infrastructure. And based on our experience each of these other than PeopleSoft where we already have very strong capabilities will allow us the opportunity to further strengthen ourselves and build both methodologies, expertise, people and capabilities so in SAP, in Oracle as well is in infrastructure. #3 given the nature of this particular account it will give us access into certain markets where frankly as independent operators we would have struggled to participate for various reasons because those are markets where it would have been difficult for us to gain access. #4 given their size and reach and that ambitions and the kind of investments that they have made, we believe it will significantly increase in a way our footprint in this marketplace. #5 the nature of the deals does not prohibit us from a competitive standpoint or a participating standpoint so it does not inhibit us in doing other work and finally it is a good deal in terms of
profitability, pricing and all other elements and lastly actually it gives us some good revenues over the next few years and maybe more. There is no reason why we should not be doing this deal.

**Pratish Krishnan**

In terms of the ramp up of this deal when should we expect revenues to start getting reported?

**P R Chandrasekar**

We have indicated that the revenues we expect to see start flowing sometime in Q1, obviously Q1 of 2013. Having said that, activities with regards to this account will start from this quarter.

**Moderator**

The next question is from the line of Varun Sharma from ICICI Securities, please go ahead.

**Varun Sharma**

Prateek you have said that you do not give margin guidance but apparently in the last conference call we had said that we will maintain our margins for the full year basis on Q1 levels given the currency of that time. Now apparently the currency has already depreciated, rupee has depreciated about 10% from those levels. Does that mean that given that commentary we should expect an uptick in margins from what we had expected that time?

**Pratik Agarwal**

What we felt at the beginning of the year and last quarter we continue to stay with that.

**Varun Sharma**

On television today you said that there are pricing pressures, but you said that you can always get away with those with certain incentives like offshoring. Can you just elaborate a little bit on that?

**P R Chandrasekar**

There are pricing pressures. It is a competitive marketplace, larger the deal we have more of the competition and the fact is that the bigger players as well as the global players are very actively engaged and the fact is those are the ones we primarily compete against. Having set that background the reality is that our mix of services is very-very strong in the sense that not only are there areas in which we bring some good unique capabilities. They are what you would really consider relatively higher value added services, whether it be BI, whether it be PeopleSoft or whether it be some of the unique things we bring to the table in terms of what we offer to the capital markets customers. So therefore we believe we can compete on basis of value, quality of our deliverables and our solutions as opposed to price and that is something that we have always done. We will be occasionally be more competitive to secure something
which is unique and therefore gain entry, yes, but by and large on an overall basis we have maintained our pricing and actually if you look at it even in this quarter on a constant currency basis both are onsite as well as our offshore bill rates have actually improved and over the last two years, in good or bad times we have been able to do this. We think that we should be able to continue to do that. And there are times when we have been clever about doing it with one or two customers in terms of doing a little bit more offshore, finding a way to give him more value but our realized bill rate we have kept at a very-very steady level over the last 2 years and we can continue to do so.

Moderator The next question is from the line of Vimal Gohil from Asit C Mehta, please go ahead.

Vimal Gohil Just wanted to understand the reason behind the slowness that we have seen in the testing and the business intelligence and analytics service line. Would that be alluding to the fact that you had said that one of your clients had ended unique engagement? Would that be alluding to that? Would my understanding be right?

P R Chandrasekar No Vimal, actually I know the percentages as you say it in our published reports are lower. Clearly we have experienced some good benefits in our enterprise solution space so I am not going to discount that. And BI which has been steadily growing for us is been doing that. I would not read too much into this in terms of whether yes, did that customer affect as a percentage maybe in this immediate quarter, one of the service lines? The answer is yes. But as a trend line I do not want you read anything more than that. We are very-very bullish on our business intelligence area. We are making significant investments on that. We are continuing to win new customers on that front. We just launched the AIM solution in the capital markets business. We are investing more in big data and other areas and Ramanan maybe can expand a little bit more. So that plus our testing remains strong. So I would not read that because it could very well change the next quarter.

Vimal Gohil That is helpful. Just wanted to know your reviews on fresher hiring in the coming quarter because you have alluded that fresher hiring would be one of your margin levers that will protect your margins by getting the salary per employee down probably in the times to come.

R V Ramanan We had given a projection at the beginning of the year but the fresher adds would be at the rate of around 600 plus for the year and we continue
to hold that. We already made offers in the campus and as per our existing practice we do take freshers on quarter-on-quarter basis. We have already taken freshers in the first two quarters and we will continue to do the same for the next two quarters.

Vimal Gohil How many freshers have come in the first two quarters?

Sreenivas V It is 360 plus.

Moderator The next question is from the line of Ashwin Mehta from Nomura, please go ahead.

Ashwin Mehta Just wanted to understand what are the underlying assumptions in terms of our guidance for building in a softer growth for 3Q and a much wider range of 3% to 6% for 4Q for achieving the 20% growth and secondly does it in anyway relate to the closure of the large engagement that you were talking about with one of our top clients?

PR Chandrasekar No relation to that. The numbers that we have guided the street of 92.5 to 94 are based on the outlook as we feel today for the immediate quarter which is Q3. Our reiteration of the guidance that we have said of 20% is based on visibility that we have of our existing customers, the projects that are on hand and the ramp-up that we expect to see going forward as well as very-very hard look at the various other opportunities that we are chasing. In terms of the increase in the range that we have given relative to what we have given in the past, the primary reason is that it is becoming harder and harder to predict based on the variability and the volatility on your FOREX. And given that the guidance is not only watched by the analyst community but we also give a press release and probably it is being seen by a lot of other people we are just being both looking at what is our reality as well as being a little extra cautious because we cannot use that exchange as a reason tomorrow or we would not like to anyway.

Ashwin Mehta And just one more question, in terms of our salary hikes onsite, what is the quantum of hike that we are looking at and what is the anticipated impact on margins because of that?

PR Chandrasekar We will remain in the range between 3% to 4% for our onsite salary increases.
Sreenivas V

Ashwin this will be effective July like every year and the impact will be in Q3 could be to the tune of 100 bps.

Moderator

The next question is from the line of Rishi Maheshwari from Enam Asset Management Company, please go ahead.

Rishi Maheshwari

My question is largely on your participation, large deals again. A lot has been written by independent analyst on parameters for vendors to be participative for large deals. The requirements generally range from balance sheet size, to revenue size, to the requisite skill sets and the number of resources on bench. You being on relatively smaller size earlier have still defied this argument of the balance sheet size and revenue size. I actually want to know your thoughts whether that has been a limiting factor for you to participate in some of the deals and then perhaps in a couple of years when you turn a half a billion dollar company will you seek more opportunities and the automatically participative to some of the deals which I could not participate in the recent past?

P R Chandrasekar

I guess we could answer it forever and I speak a lot as it is but I will try and refrain a thesis on this but the bottom line if you look at the deals, to me it revolves around 3-4 elements. First of all ideally you would like to be invited for all opportunities. From that perspective somebody like a Hexaware is at a bit of a disadvantage versus a Cognizant or an Infosys or a TCS simply because of their sheer size scale. Because #1 visibility and access to the marketplace to that extent is limited because that is what it. #2 incumbents do enjoy an advantage over others on these deals simply because they know the customer, they can fashion their deal better and by and large as a probability they have a higher probability of winning unless the customer has made a call to exit from the incumbents. Again the larger guys have an advantage simply because of the fact that they have 600-700-800 customers versus our 200. So therefore in our case, the way we have tried to counter that is two-fold. One is first of all in the accounts that we have built relationship and knowledge of that customer to a far greater level than we have ever done. That is #1 and I think by using account managers involving senior management far more, the matrix that we have implemented over the last three years actually wherein there is geography, a vertical, and a horizontal preference therefore having multiple touch-points and therefore greater visibility of that customer, #3. Number four is the ability to fashion deals and take some risks in those deals which is that you create demand as a host to be invited to an RFP and lastly is the belief that you can actually win this and I think that has
really been more a factor and that remains very-very strong today. Finally we have added to this picture is the fact that we have now, two of the opportunities that we are talking to that we currently are in play are with completely new customers. So wherein we have got some success in our existing accounts, we are now beginning to find the ability to make a good impact even with customers where we are not incumbents. I know I may not have answered the question exactly as you wish but that has been Hexaware’s recipe.

Moderator  
The next question is from the line of Madhu Babu from HDFC Securities, please go ahead.

Madhu Babu  
Some of our larger vendors have shown 2-3% drop in offshore pricing and even some of the mid-cap peers have shown that and they are talking of commoditization of select service lens. Now considering that ADM and BPO and testing is around 50% of a portfolio, so how can we protect our offshore pricing over the next one year?

R V Ramanan  
While these services tend to be classified as commodity in some cases, but there are a variety of categories within these services. For example, our business on testing has got a good percentage of consulting business, there is high-end consulting, there is test automation and those are not commodity services and they still do command the premium in the market. So we do have our own frameworks, we have built in a lot of IP which we sell along with the services. We have our own accelerator solutions which we use it to build our customers. So traditionally, we build the efficiency improvement into our ADM as well our testing kind of deals rather than drop the pricing. So you could technically call it as a nonlinear way of generating revenue but these are the leverage we have in terms of utilizing our IT and bringing it to your services, and dropping the rate. In fact some of the large deals we are seeing testing prices as good as or even better than the normal pricing rates which we get from the industry.

Madhu Babu  
And considering this rupee depreciation any of our top 10 clients have asked for any rate cuts?

P R Chandrasekar  
No, they have not.

Moderator  
The next question is from the line of Kunal Sangoi from Birla Sun Life, please go ahead.
Kunal Sangoi

My question is with regards to sales marketing force and probably even including account manager, would you say that you have the requisite capacity spread across accounts or various geographies that you would have targeted or continuing investments are to be required from a sales marketing perspective?

P R Chandrasekar

There is never enough. It is just a question of to some extent rejigging in your priorities a little bit and we have consistently invested in our field organizations. Actually if you look at our numbers we have gone and increased somewhere between 10 to 15 every year over the last 2 to 3 years. We have changed the mix of that. When we first started doing this in 2009 and 2010 it was primarily hunters. We started introducing first practitioners from all horizontals. Then we have started adding in that mix domain and vertical specialist. Then we started further strengthening our top 10 and then our top 20 accounts. So if you were to think about at least from our stance the priority that I have or we as an organization have going into H2 and at least the initial pieces of 2013 is clearly because our hunting engine is working well. The strategy we had of using the verticals to do that and using our horizontal to open new doors which in turn will not only give us our accounts of tomorrow but also hopefully the verticals of tomorrow has frankly worked even in tough times, even continue in Q2 of this year and it will continue to do on next year. So what we are now consciously building out is the ability to further form and accelerate the growth of the accounts beyond the top 20. One because we have to build and we have to plan for the eventuality or the future where some of the top accounts may not grow as fast as they do yesterday and #2 many of these could hopefully begin the top 10 accounts of tomorrow and that is really where we are doing and we have to do that in a little bit of a clever, caution on one hand as well as in a very strategic manner. In some accounts identifying those which even though we have opened today have huge potential we will the account managers there, others we can club a set of account but clearly the plan is that we have to find a way to do better. With accounts we opened with PeopleSoft, BI increasingly as well as testing to become Hexaware accounts as opposed to opportunities. And that is the really the focus going into the second half and the beginning of 2013.

Kunal Sangoi

Thanks for the elaborate answer. The other question is in the last quarter you had said that 1500 would be the net hiring number for this year. Does that still stand or because of lower attrition that reduces?
R V Ramanan  We would like to maintain that we are on track for hiring the planned number of freshers with 600 plus. The latter additions will be depending on the market conditions, depending on the demand based on our pipeline and as business. So we will continue. We should be in the ballpark.

Kunal Sangoi  You mentioned CAPEX of 16.5 Crores. Is that correct?

Prateek Agarwal  Yes that is right, 16.5.

Kunal Sangoi  Because this quarter the GFA has gone up by 32.5 Crores, so basically this is the cash CAPEX, cash outflow you mean, 16.5?

Prateek Agarwal  Yes. You must also consider there has been a 9.3% depreciation of the rupee so the assets which are, if you see our detailed balance sheet given in the quarterly audited part of the website you will see the goodwill broken out and goodwill is in dollars. So that is one large part in the summarized balance sheet that we gave in the press release that goodwill is included in the fixed assets. When you break it out you can see the breakup and that is in dollars. So that goes up by 9.3% without anything else at all.

Kunal Sangoi  On the FOREX we have like 131 Crores in the balance sheet OCI negative. Assuming the current rupee rate what would be the kind of quarterly losses that could flow in the P&L?

Prateek Agarwal  If the rate stays at whatever, 55.60 was the end balance sheet rate; we should be seeing something in the region of around 25 Crores on the hedged amounts in the recent quarters, net loss. This is only on the hedges during the quarter but like we have discussed I think in the last conference call as well, we do have premium from the partial hedges flowing in which is to the tune of 11 to 12 Crores as well. So, on a net basis it would be something in the region of the balance 12 to 13 Crores.

Moderator  The question is from the line of Kunal Tayal from Bank of America Merrill Lynch, please go ahead.

Kunal Tayal  Just a follow-up on the employee pyramid side, Hexaware has been adding freshers with good effect. So if you could give us some sense as to what proportion of employees today would be less than 3 years work experience and where could this go up to maybe in the next 1 to 2 years?
R V Ramanan  The number of people at the lower end of the pyramid are continuously increasing. If you see on an annual basis we are taking 600 plus freshers into the system. So the number of these, if you look at our net hiring this year alone we would be looking at around 35% of our intake as fresh intake. So, around 35% of people would be in that range of less than 3 years.

Atul Nishar  I would like to thank to all of you and if any more questions left we could take them offline. You can be in touch with Sreenivas V who is always available. So you can contact him for any more clarification and I really appreciate on behalf of my entire team, would like to thank you for your time and your interest in Hexaware.

Moderator  Thank you. On behalf of Hexaware Technologies Limited that concludes this conference. Thank you for joining us.

For any additional information or clarification – please revert to:

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