



Hexaware Technologies Limited  
Q3 2010  
Earnings Conference Call

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MANAGEMENT: MR. ATUL NISHAR  
MR. P R CHANDRASEKAR  
MR. PRATEEK AGGARWAL  
MR. R. V. RAMANAN  
MR. DEEPENDRA CHUMBLE

**Moderator:** Ladies and gentlemen good day and welcome to Q3 2010 the earnings conference call of Hexaware Technologies Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during this call, please signal an operator by pressing \* and then 0 on your touchtone telephone. I would now like to hand the conference over to Ms. Latika Gidwani from Hexaware Technologies Limited. Thank you and over to you madam.

**Latika Gidwani:** Thanks Farah. Good afternoon to all of you and welcome to Hexaware conference call. At the outset, we have hosted the Safe Harbour Statement on our website. Please go through the same before we proceed further on the call. On the call we have with us Mr. Atul Nishar, Chairman, Mr. P. R. Chandrasekar, CEO, Mr. Prateek Agarwal, CFO, Mr. R. V. Ramanan, President & Head - Global Delivery, Mr. Deependra Chumble, CPO. I now hand over to Mr. Atul Nishar.

**Atul Nishar:** Good afternoon to all of you and thanks for joining in such a large number. Just to give you some highlights I am sure all of you have gone through our press release but just to repeat the highlights, the revenue front we have for the second consecutive quarter of double-digit growth, we reported 61.1 million revenue indicating a growth of 12.2%. The top-10 clients grew 15% sequentially. The margins were also better; the operating margin improved by 200 basis points which is after providing for 220 basis points of cost on account of knowledge transfer phase of the 110 million deal, so effectively our operating margin would have been around 8.5%. We believe this margin improvement will gradually continue and we hope to do a double digit operating margin for the calendar year 2011 which is our accounting year also.

The new client addition is also higher than all the recent quarters at 13, 4 of them were Fortune 500 clients and we continue to maintain our Fortune 500 clients at over one-third of the total clients of the company. The employee addition continued as well. We have crossed 1,170 till date this year. The guidance for next quarter again we are optimistic, as you all know there are fewer working days in Q4, also towards the end of the year new projects really do not start in the month of December and generally this quarter has lower growth in the whole industry. In view of that, I believe we continue to be showing decent growth and the guidance of 4.5 to 6.5% likely growth. We also inducted one of our very senior persons on the board of directors, R.V. Ramanan who has been with the company for eight years. He has been the president and head of global delivery as well as chief software architect. He joins the board as the whole time director with immediate effect. These are just the broad points. I would leave it more to the CEO and Vice Chairman Sekar to take you through in greater detail and of course all of us will be available for Q&A. Sekar.

**P. R. Chandrasekar:** Thank you very much Atul. Once again a warm welcome to all of you for joining this call after a long day. To start with, just for caution we have our safe harbour statement on our website and I am going to record that as having been read in this call, so please make sure that this is also recorded for abundant caution so to speak. It does feel good that this is a second successive quarter for double-digit revenue growth and more importantly it has been a quarter of robust performance on a number of fronts. I think after a long period, I think as an organization two such quarters does a lot for the organization in terms of morale, in terms of attitude and in terms

of the confidence of this company and the reason I am saying that this in turn I am hoping will reflect in continued good performance going forward.

The good thing about this growth is that it has been clearly driven by expansion in business volume and this business volume has come across the board. If you look at the demand side, we also believe business climate continues to be good particularly in North America for us which has grown, Europe has also grown as has APAC, as a percentage though Americas has grown faster but I do want to assure the analysts on the call that all three geographies recorded growth last quarter. Our top-10 clients grew 15% sequentially, we expect them to continue to grow going forward and again that will drive growth. Atul mentioned that we have added 13 new clients which is a satisfactory increase, good news is that four of them are large corporations, the quality of the wins in those clients and the manner in which we won them are satisfying and we believe that again our ability to accelerate our revenue in those accounts there is a fair degree of confidence leading to good prospects for 2011. Furthermore, it is also satisfying that these wins have come in our key focus areas, financial services where we had five customer wins, travel and transportation where we had a win as well as PeopleSoft and quality assurance and testing and BPO services.

These are areas that we had focused as a company for the last few quarters and invested in our sales organization and solutions as well as presales support and it is gratifying to see that this is now beginning to result in growth opportunities and certain closures and we hope that this will pave for the actual way going forward. In turn this confidence gives us the ability to guide fairly healthy \$64-65 million for Q4 and despite the fact that lower number of working days in December generally tends to be somewhat slower both in Europe and North America in terms of lot of deal activity. The other aspect which is good is the pricing, it is showing signs of stability with our existing customers and with our new customers we are beginning to see that we are able to be a little more forthcoming in asking for better prices and I am hoping that with this you would have noticed that our onsite bill rates have marginally improved, the offshore bill rates are flat, I do not want you to read anything more in it, but at the same time, it is good to see that bill rates are at least beginning to be stable, however I do want to alert the team listening that it is still a very, very competitive market out there and for any deal of substance that is still a very, competitive environment, so I think that we should be watching it very carefully, but we are definitely seeing that bill rates are beginning to be stable.

Our profitability has gone up by 200 basis points, yes as an organization, there is room for improvement, the good news is that with the large deal once it gets transitioned profitability would improve, that is one aspect, the second aspect is that as we move forward, we are likely to see more revenue growth and as a result our SG&A as a percentage has also dropped and finally from a direct cost standpoint, as you would have noticed as a company we have hired a number of freshers in the organization, 410 to be exact and the plan is to continue to do so, this in turn will allow us to reduce our average employee cost, in addition given that our utilization is at 68.5, there is room to improve our utilization as a result of which we hope that the lateral hires that we hire which tend to be at a higher cost can be better controlled and which in turn should help us improve our operating margins in Q4 and going forward again. We have talked about our

Bangalore facility it is now fully operational. We have now staffed it with 125 employees and the facility has the capacity to grow to 250 employees in addition to catering to some existing customers we are also seeking to leverage this operation to target certain specific segments of the domestic market and having a location in Bangalore will facilitate our ability to compete better for both customers in the Southern metropolis there as well as other captive centers which we see as an opportunity for growing.

Demand for employees as you are aware remains very, very high not just for us as a company but also for the industry as a whole. This in turn has led to a surge in attrition across the industry; the good news is we have managed our attrition in the last quarter. Things certainly are creditable on that front. Having said that we have to be very watchful on how we manage this situation and as an organization we are taking all necessary steps in terms of employee welfare, employee engagement. We have gone back to some of the schemes and events that we used to do as an organization which during the really tight times was somewhat more controlled to ensure that we are able to have a happy employee base. More importantly with growth and demand coming in and optimism we think that attrition itself, morale first and attrition also will hopefully be contained. In addition, people will be able to work on interesting engagements, which will give them a reason to continue to stay in Hexaware.

Specifically speaking about the large deal I am sure a lot of you have questions, things are going according to plan, like in any large deals there are minor road bumps that you hit, but the good news is I think that we are managing both from a people's standpoint as well as an operation and execution standpoint to the satisfaction of the customer who is quite happy with where we are today. We did record some employee related costs which we have provisioned for when the employees joined us and this is however I want to assure the listeners that this is a one-time provision and we do not envisage any further exceptional costs going in to Q4 and forward.

Given the nature of our quarter where we have had good robust growth in our revenues operating margins have gone up, utilization has gone up marginally, we have added new customers, and we have been able to give a good guidance too.

There could be a couple of areas where a number of you have questions specifically with regard to our cash as well as with regards to our profit after tax and I am now going to hand it over to our Mr. Prateek Aggarwal because we believe that we would like to clarify this number completely so that you are comfortable both in terms of our operational performance as well as our financial performance in every regard. All of us will be available for questions post this call and thank you very much for dialing in.

**Prateek Aggarwal:**

Thank you Sekar. Hi, everybody. I will walk through the details of the revenue variance quarter-on-quarter as well as the operating margins variance to start with. On the revenue we grew from \$54.9 million in Q2 2010 to \$61.1 million this quarter. More than 10%, 10.2% to be precise of the growth is purely from volume and there is an added benefit of about \$300,000 from increased realization and another \$300,000 from the cross currency benefits, totaling up to the 6.2 million increase which translates to a 11.2% increase on the 54.9.

On the operating margins our reported margins have gone up by 200 basis points from 4.4% to 6.4%. It is explained by six factors starting with the realization improvement, which has given us 55 basis points, the forex which includes the cross currency benefit as well as a bit of rupee movement benefit is another 50 points. We had mentioned that there is onsite increment being given this quarter which has taken away 65 basis points and there is a huge impact of the volume growth to call it differently the SG&A and depreciation leverage which is 220 basis points on the SG&A and 30 basis points on the depreciation, in total 250 basis points. The last aspect is there is an incremental impact this quarter of 120 basis points due to the large deal that we announced last quarter, which ramped up to its full size this quarter. It was already at 100 basis points till last quarter and I am talking about an incremental 120, both of which put together adds up to the 220 basis points that Atul talked about earlier in this call as well as in his quote, so all these six factors and there is a benefit of about 30 basis points from the improvement that you see in utilization from 68 to 68.5% plus other efficiency factors, so all these six factors put together explains the variance of 200 basis points.

Going on to some of the other key metrics before I get to the cash question the DSO for the quarter has moved to about 63 days versus last quarter it is a movement of 10 days but our regular if you see the last three quarters before that we have been at 57, 58 odd days and we are fairly confident that going forward also we should be able to come back. This quarter we were affected by a few large customers payments which got delayed by a few days, two to three days to be frank, so that is something which I would see as a blip 63 and we should be headed back to 60 next quarter and onwards.

In terms of forex you would have seen that the liability and the negative marked to market that was there is completely out of the balance sheet now. It is a watershed quarter given that our older hedges have finally fully matured and has been fully settled. In its place now, you will see in the balance sheet a current asset in terms of what the banks owe to us in terms of marked to market now and you will see an increase in the reserves as well. We are currently sitting on mark to market gains of 22 Crores which is a 17.5 Crores increase over the last quarter and we have about \$138 million equivalent of total hedges including the Euro, Rupee hedges which the dollar rate is 48.21 and 71.87 for the Euro rupee hedges.

We had capital expenditure during the quarters exact figure is 12.9 Crores as we expand the facilities in our SEZ campus and this will continue as we build more seating capacity at the Chennai Campus.

I now go to the cash position question which I know several of you have questions on, so I will explain two parts, first is for the quarter, so I will start with the gross cash that is there in the balance sheet of 5250 million and moving down to 4694. Profit before tax adds Rs.429 million; if you add back the depreciation it is 58 million rupees for the quarter. The tax paid for the quarter is 67 million rupees and I am adding back the restructuring cost provision during the quarter, which is Rs.384 million.

There is a change in working capital, which is negative 386 million rupees and you can associate with that, you can see the debtor number in the balance sheet has gone up by 40 Crores partly due to the growth that we have had and partly due to the DSO going up. There is profit from sale of fixed assets, which is a negative item in the cash flow I was going through, 64 Crores and the capital expenditure of 12.9. The proceeds from the asset sales that we have talked about in the quarter were 21.5 Crores, Rs.215 Million. Now, the fact of the matter here is that while the benefit ,P&L gain from this asset sale has been recorded in this quarter, the actual proceeds from this asset sale is Rs. 215 Million. The balance has come in the last three quarters and this 215 is actually the final installment of the payment on the closure of the deal, there were lot of regulatory approvals to be taken as well as there are exit clauses in this particular contract of asset sale because of which we could not sort of talk about this earlier and now that the deal has closed we are able to now put it in the P&L.

Over and above this on the financing side we repaid the PCFC loan worth Rs. 275 million and we paid out dividend during the quarter, which was the interim dividend announced in the last quarter of Rs. 100 Million, and there are some other small factors of Rs. 46 Million, which comprises a whole lot of small items, which I am not going into the details of. So, just to give you a quick summary for the quarter movement 525 Crores, the cash flow from operation is more like 42 Crores, there is an investment item, which I am accounting 21.5 Crores received minus the 64 Crores profit and capital expenditure, which accounts to 55 Crores negative, and the financing item outflow, which is basically the PCFC and the dividend, which is 37.5 Crores. All these items explain the 4694 that you see in the balance sheet at the end of this quarter. So this is the detailed kind of cash flow for the quarter.

Let me now go on to address the other question, which is last 12 months, so I am talking about September 2009 versus September 2010 balance sheet that you see in front of you as well. So the starting point from the gross cash in September 2009 was Rs. 4019 million.

During the last four quarters we have added profit before tax, PBT of Rs. 1081 Million. The depreciation has been to the order of Rs. 242 Million. The tax paid last four quarters is 234, which is negative, I am adding back the Rs. 384 Million of provision made this quarter and the change in working capital over the last four quarters is a figure of negative Rs. 919 Million – if you see the September 2009 balance sheet the current liability on account of forex is 865 Million versus the mark-to-market of 748, so 117 over and above the mark-to-market was due as at the end of September 2009, which has been paid out during the last four quarters. That brings us to about 55 Crores of CFOA, cash flow from operational activity. In the investment item, I am counting three items, there is a receipt from sale of asset this quarter as well as last three quarters totaling up to Rs. 1095 Million, i.e., 109.5 Crores, and against that I am setting off the profit on the sale of fixed assets, which over the last two quarters is to the tune of Rs. 831 Million and capital expenditure during the last four quarters is to the order of Rs. 277 Million. On the financing side over the last four quarters we have taken working capital loan of Rs. 367 Million and over the last two quarters we have paid out dividend equal to Rs. 232 Million, which is including the final dividend payable for the year 2009, which was paid out sometime in the second quarter and 10 Crores that we have paid in this quarter. I hope that helps you understand

the movement both over the last one-quarter as well as last 12 months. With that I give the mike back to Farah for the Q&A session.

**Moderator:** Thank you sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question comes from the line of Bikram Mahajan from Bain Capital. Please go ahead.

**Bikram Mahajan:** Can you provide to us some quantitative flavor to the new client addition this quarter in terms of acquisition in the total contract value and at what position will these contracts be executed?

**P.R. Chandrasekar:** We can give qualitative inputs, as you can see from our data new customers at this point in time represent about 5 odd percent of our revenues, which is an area we are very determined to grow and 13 customers that we have won have come in different segments and as you are aware you can start with a penetration strategy in one particular area for example PeopleSoft or it could be a testing engagement and then cross selling, account management, you can grow this account. What we feel is there are at least six to seven accounts out of this 13, which are amenable to the opportunity both because of the manner in which we opened them.

In addition, I just wanted to also mention that as company over the last two to three quarters we have also leveraged the opportunity to restructure our sales force in a manner in which we have created a hunting pool of talents, which focuses that specific area, it could be verticals like financial services or travel and transportation or we are also looking hunters to go out specific opportunities across the set of accounts in the PeopleSoft area as well as in the QATS and testing in addition to IMS and BI. In addition to that we have created a separate account management structure, which we launched somewhere in the early part of this year in North America first, we have now taken the good benefit and the success we have seen on account of that to grow that much more in Europe as well, we are also leveraging our delivery organization specifically support Asia-Pacific with dedicated people whose job is to manage those accounts.

Bottom-line, what I am trying to say is that we have had good success outside of our top 5 as well as top 10 accounts and we are beginning to see leverage and cross sales and we expect to see the same in Europe and Asia-Pacific as well as going forward, so that is one of the reasons we feel that the Q4 will benefit and we are optimistic about 2011. I am sorry for a somewhat long winded response but I am not in a position to give you specific orders and details.

**Bikram Mahajan:** That was a very interesting comment in terms of educating the business metrics, aligning with verticals and services but since the last three quarters we have been witnessing an increase in revenue contribution towards travel and transportation and manufacturing and healthcare segments and a decline in BFSI. So, is it a function of demand from the verticals given our technological capability or is there a conscious strategy of diversifying our portfolio proportionally?

**P.R. Chandrasekar:** That is a good observation when you look at it from a percentage standpoint. What I would like to add though is if you look at say our Q3 performance versus Q2 performance specifically in absolute numbers all segments actually grew, it just so happens where the travel and

transportation vertical there were certain wins and certain customers that grew much faster, so I do not want you to come to the conclusion that our business in BFSI in absolute numbers have actually declined, it has in fact increased in absolute terms, it has been growing faster elsewhere. We want to correct that, so it is not that we are happy with the situation, so we are obviously challenging our BFSI vertical head as well as the entire team, we have new BFSI vertical head whom we had recruited a couple of quarters ago, he is on board, he is a very seasoned and experienced professional in this field and he is based in the United States, comes with a lot of experience and we have launched a number of initiatives, for example leasing practice leveraging the work that we have done in a set of leasing accounts in Europe as well as in the United States, payment solutions, again leveraging both technology as well as skill sets that he brings to the table as well as a relationship with our partners as well as enterprise data management in capital markets where we are leveraging capabilities we have built as well as demonstrated experience we have built in one or two customers, so therefore we are confident that going forward BFSI also will grow.

**Bikram Mahajan:** Sure. My last question is on the pricing environment, which you mentioned as stable right now, on the contrary in terms of financial metrics provided the average delivery to onsite services has been volatile, for example 69 to 71 since last quarter, so is that because of change in services mix for a particular quarter and not a peculiar trend across geographies and verticals we are operating?

**P.R. Chandrasekar:** I would not read too much into this minor variation, if you notice it has been in a range, a small range and it could be explained on by a number of reasons. It could be exchange rate related, for example in the last quarter some of that is explainable through an exchange rate variance that we gained and we got in Euro, so I would not really munch in terms of where our onsite pricing has moved, it has been stable, if anything it has been tending to move upward.

**Bikram Mahajan:** So, the pricing has been stable both for our existing clients and contracts as well as incremental clients and contracts?

**P.R. Chandrasekar:** Yes, that is true.

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

**Kunal Sangoi:** Sekar, my question is with regards to large deal you had last time saying that you would share more details about this deal. Could you explain us more about that 38 Crores of provision and what is the number of people that have been taken onboard because of this large deal and third is what is the nature of the cost, you did mention that you do not see any provision but just, you know, detailing about what are these costs?

**P.R. Chandrasekar:** Kunal, for obvious reasons given the importance on this customer, the size of this transaction as well as the sensitivities involved not just for us frankly much for so for the customer since this is an outsourcing deal and you being in this industry are aware employee related issues are involved

and you are also aware of the current political and other environment in the United States regarding unemployment and labor that we really are not having that liberty to give too much details. Having said that what I would like to tell is that these are employee related costs for which we have to make provision, we believe that we have accounted and made all the provisions that we envisage or likely to happen and we do not expect to see any further provision that we need to take going forward. The knowledge transfer in many aspects of this business has done well, execution is going to proceed but as we move into the next quarter and probably even Q1 there are still certain areas where we will continue to transition and therefore you will see kind of in terms of an impact or our margin continue to be there but from a work standpoint things are going well and from a provision standpoint we believe that we are fully covered.

**Kunal Sangoi:** But more or less whatever employees were expected to be taken over by the terms of the deal, have they been taken over or that would continue is what you are saying?

**P.R. Chandrasekar:** If you are asking me have more or less been taken over, I would say the answer is yes.

**Kunal Sangoi:** The other question is despite last two quarters we have seen a double-digit volume growth utilization has tended to be more or less constant, so what is the particular reason, is it just new additions or probably that does not include the knowledge transfer related efforts that goes in?

**P.R. Chandrasekar:** That is all included, so when we are giving you utilization and the overall employee numbers we do take in which we have included all the employees, so the reason for this shall I say it has improved by about 0.5% but the bigger factor is that starting early this year as a company when we saw demand outlook likely to continue to return improved deal flow and improved RFP responses etc., from both existing and prospective customers as well as specific areas that we have decided to spend more energy and focus on, for example in PeopleSoft where there is a need to hire and train employees we as a company made some very conscious decisions to invest in this business, we have added 1100 odd people actually in the last three quarters of which of course 410 freshers, these are net additions because we have also added laterals and we have continued to have some attrition, so when you look at the net addition it is a very significant investment as a company that we have made at multiple levels and this is based on preparation on what we believe to be good growth going forward as well as in some specific areas where we believe that this will give us leverage to supply talent for customers on a much, much quicker and responsible basis, Ramanan you want to add something.

**R.V. Ramanan:** Kunal, to your question regarding utilization being stable or slightly improvement in spite of the knowledge transfer, some of it is attributed to the trainees which we have taken over the last three, four quarters who have gone in to billable roles, effectively improving their utilization, that has actually contributed to either being stable or slightly up in spite of the knowledge transfer which we are executing in this large scale, I think that was your question.

**Kunal Sangoi:** The other question Sekar is with regards to top clients, now if you were to look at last two quarters, large part of the growth has been contributed by top-5 clients, how do you see that going in to next calendar year, whether post beyond top-10 clients how do you see the demand

traction there and even after top-5 clients basically, basically top 6 to 10 clients if you can comment on that please?

**P. R. Chandrasekar:** I think the answer with regards to the top five clients we remain more than optimistic that the demand and growth and in term revenues we will continue to increase going into a Q4 and in 2011. With regards to the next set of clients both six to ten as well as actually even beyond that we are beginning to see better deal flow as well as results of our account management initiatives paying off. Kunal, actually we remain fairly positive across the first 15 to 20 clients in fact we have that is account management structure we have launched with the next 15 accounts, we have now got account managers some of them of course on a shared basis or actually another 15-20 customers both in US and Europe again beginning to show signs of life in terms of actual opportunities we have been responding to and so really both top five and the next five and if you actually look at our data our ten million plus remained as we hope we can increase that. Our one to five has gone up from five to seven, so we have actually increased the number of clients in that range.

**Prateek Aggarwal:** The total number of million dollar plus has go up from 49 to 50 and two clients have moved from the one to five bucket to the five billion to ten million bucket you can see that number has gone up from five to seven and that is the reason that 40 is looking with 39, 40 went up to 41 and two moved to above five million.

**Kunal Sangoi:** Thanks for that. The other question is on the PeopleSoft new 9.1 version, how do you see the demand there? What is the kind of contracts or probably implementations that you would have seen during the quarter in terms of new orders?

**P.R. Chandrasekar:** Ramanan you want handle this?

**R. V. Ramanan:** Yes. On PeopleSoft side primarily we are seeing good demand of the PeopleSoft 9.1 upgrade. We have already done the first major implementation upgrade of PeopleSoft 9.1. I think it is the one of the first in the industry successively upgraded the PeopleSoft 9.1. We are also seeing quite a bit of traction primarily both in the HR PeopleSoft HRMS as well as in the PeopleSoft financials area. We are also seeing some surge in the campus solutions business of PeopleSoft, which is primarily used by the universities, seeing quite traction especially in the APAC region, Australia and Middle East etc., whereas large number of universities have demands for this kind campus solution, which is of a unique PeopleSoft solution. So far we have added ten new client this year in the PeopleSoft area primarily however, finance and campus solution.

**Kunal Sangoi:** Wonderful. Thank you and all the best.

**Moderator:** Thank you. The next question comes from the line of Srivatsan R form Spark Capital. Please go ahead.

**Srivatsan R:** I just wanted to get some clarity on the provision that is made. Did I hear that the extent of provision is 38 Crores?

- P.R. Chandrasekar:** That is right Srivatsan.
- Srivatsan R:** 38 Crores. Adds up to something 12%-13% of your revenue just wanted to know where it is sitting in the P&L?
- Prateek Aggarwal:** It is in the exceptional line item.
- Srivatsan R:** The last quarter. This is not to that extent?
- Prateek Aggarwal:** No I am talking about this quarter there are two items that have been clubbed to show the Rs.252 million that you see in the exceptional line item so that is the net of two items 640 million, which is the profit on sale of fixed assets and cost provision of Rs.384 million linked to this employees cost.
- Srivatsan R:** Employee cost and the next question I just wanted to understand Sekar especially from a demand perspective. How do you characterize the demand? Is it just pent up demand that is coming from some of your top five or ten clients or is it these guys are going out doing 18 month, 24-month transformation kind of program? It's clearly being driven by top clients; just want to know what you have seen there?
- P.R. Chandrasekar:** It is clearly a combination; the couple of our top clients who had toned down or controlled their IT investments and spend have launched two or three very, very significant major initiatives. This is company initiatives, which had been there in the works for almost a year, but frankly in the last quarter or so that has come up and effectively after a long time we are seeing discretionary spend and developmental projects begin to actually come into play and did our existing plans of course. So that is helping us plus there are some new initiatives that we are working on this large deal obviously also adds a nice chunk.
- Srivatsan R:** Sir the other thing I just wanted to get some comments you have said you were looking at double digit growth for a CY11 just wanted to know what else we could a kind of mean double digit it means early double digits, mid double digits just wanted some idea on that?
- P.R. Chandrasekar:** Obviously we want to do a healthy double-digit margin. That is the intention and you are talking of operating margin. So clearly you see where we are today. We have explained to that given the deal that we have and the drag that has been once you get this in order, which we expect to do quickly we will add another 2%-2.5% to our current position. We are also guided forward and therefore once in terms of good growth I have already spelled out some of the initiatives, which would again result in this percentages improvement in SG&A in terms of reduction of our SG&A level, which will easily take us to 8.5% to 9% and way after that the volume itself will give us some additional leverage because the pricing we are seeing has been is reasonably good and as a result we feel 10% is an achievable number in a reasonably quick period of time.
- Clearly we get demand and revenues continue to grow a lot of that we are hoping will obviously flow down both to gross margin and the EBIT line, because there is leverage from a utilization standpoint, there is really not much investments that we as a company need to make in terms of

facilities or operation etc., there is more than enough space available, there is CapEx that have been growing in Chennai but we have more than enough space available to grow. So we do believe that the EBIT will continue to improve but it will improve gradually.

**Srivatsan R:** Prateek, just more from a financial understanding point of view just wanted to know if I had to see gross margins on a YOY level it is down some 15%. Just wanted to know what proposition of this would be manpower related cost and what would be kind fixed cost, which is spread out when revenue improves?

**Prateek Aggarwal:** Srivatsan, more than half of the substantial portion would be manpower cost. It is basically in all the geographies whether it is onsite, near shore offshore costs have gone up on YOY basis.

**Srivatsan R:** Just wanted know what is the overall hedging policy going because the current hedge book comes about \$15 million a quarter for the next nine quarters; do we up face division just wanted to know what is the hedging policy going to be on a rolling forward business?

**Atul Nishar:** If I have to talk the policy, here the policy currently is to hedge for around two years and we would hedge two years meaning since already in late October 2011-12, but in the policy two years would be we would hedge about 70% to 80% in the first year and about 40% to 60% in the second year so that we would do on a rolling basis so that is a policy we have adopted and then of course it is executed based on the right opportunities from time-to-time, which clearly you can see has worked well at a time when since the past the rupee was in a reverse direction instead of appreciated, it depreciated so there would have been an hesitation to go forward and continue to hedge but we have stuck to our policy and continued with medium tenure, which has worked well for us.

**Srivatsan R:** Thanks a lot.

**Moderator :** Thank you. The next question is from the line of Sandeep Shah from ICICI Securities. Please go ahead.

**Sandeep Shah:** Sekar, first of all congrats on a good set of numbers. Just in terms after taking into account this employee related expenses on the large deal, you believe the margins would be at the company average for this large deal?

**P.R. Chandrasekar:** Sandeep the short answer is once the transmission is over and we hit steady state the margins for this particular deal will be equal to even better than company average because there is scale, there is heavy offshore component to this, our ability to implement the pyramid in this particular opportunity has been better than it is as a company as a whole so one thing that is now actually bring margins will actually be better.

**Sandeep Shah:** Even after considering the total expenses on the employee?

**P.R. Chandrasekar:** Yes.

- Sandeep Shah:** Just related other question on the margins if I look at the overall matrix do we believe that the investment on the account management the SG&A is now done in over and the incremental growth will lead to some kind of positive leverage?
- P.R. Chandrasekar:** The answer is yes; having said that we are looking at some investments in select areas on account management front, where we do have and we are continuing to identify the account base that we have is fairly large. We have 160 or plus accounts of which 50+ are Fortune 500 accounts and that is we believe in several of them groom to grow if we make the right kind of moves with the right kind of people and once we identify that and that we find the benefits of making that investments or the odds for the probability of payoff is high we are not going to shy away from making this investments because we believe that it will be a good return for the investments that we make.
- Atul Nishar:** But with that I would add that since the growth phase has started as you have seen in the past at Hexaware I will believe that the leveraging effect will work over next two quarters.
- Sandeep Shah:** In that scenario with 10% EBIT margin for CY'11 would be a targeting? Is it like conservative because we have SG&A leverage we have offshoring leverage, we have employee pyramid leverage plus we have already hedged for the next nine quarters at a favorable rate so is there something else which has been missing in your budget which we don't know?
- Atul Nishar:** Let me respond for that because this double-digit operating margin has come from my quote and my statements we have not given any guidance on a particular margin as a policy we don't give guidance on margin at all. I have gone ahead against our stated policy to indicate this much because I mainly wanted to address the concern that the investors had expressed. Last quarter when we reported 4.4% operating margin, this quarter 6.4% I think we have taken some extra effort to reassure investors that we are not going to operate at a single digit kind of margin so explained in greater detail that why this was down this quarter and we are showing that we will be in double-digit. What exactly it will be even frankly we have not calculated today. We are not seen it will be 10, we are saying it will be more, but we are reasonably confident it will be double digits, but beyond that we won't give guidance operating margins.
- Sandeep Shah:** Secondly, just on the Q4 guidance on the topline, if we analyze we will end up to closely around 13%-14% growth in CY'11 itself without any QOQ growth so does that once you will make a conclusion at CY'11 our outperformance to the industry growth can be with a big margin?
- Atul Nishar:** Let me address that as well. While we don't know what guidance NASSCOM will give and I am an active part of NASSCOM. This year the guidance given was 13%-15%. That is for financial year ended 2011. Without doubt we will exceed the industry average growth rate as given by NASSCOM. Next year we don't know what it will come but I believe while I am not supposed to speak on behalf of NASSCOM but I believe I think Hexaware we will exceed the guidance that is likely to come on an overall industry basis.

- Sandeep Shah:** Prateek, can you give some colour on how the maturity of the hedges will look like at least for the next four to six quarters?
- Prateek Aggarwal:** Sandeep, we don't give quarter-by-quarter figures. In total we have 115 million for the next nine quarters and as Atul explained our policy is to have higher percentage for the closer quarter for the first four, five quarters and slightly lower percentages for the subsequent four, five quarters.
- Sandeep Shah:** Thanks and all the best.
- Moderator:** Thank you. Our next question comes from the line of Pratish Krishnan from Bank of America Merrill Lynch. Please go ahead.
- Pratish Krishnan:** This is on the large deal that you have won just; just to confirm has the revenues from this deal started in a meaningful way today?
- P.R. Chandrasekar:** Yes clearly this is the full quarter we did get revenues from the last year.
- Pratish Krishnan:** When you think this kind of reach a steady state and in which quarter would that be?
- P.R. Chandrasekar:** I would say Q1. Is your question, will we achieve the full implementation and the transfer for Q1 or are you saying where will we get revenue fully from this particular customer what clearly you give the question?
- Pratish Krishnan:** In terms of the ramp up in which quarter would have achieved the peak rates client?
- P.R. Chandrasekar:** I think we are at proper scale in revenue. This is the first full quarter of revenue. So revenue wise you can we have reached the level. Next year when some parts of revenue can go up but offshoring will bring down the revenue as well, so you can assume that the revenue has reached the peak. In terms of operations and executions we have not reached the peak because of the knowledge transfer that is going on which costs will reduce as the time goes so margins will improve in the deal but revenue we are at steady state.
- Atul Nishar:** This is a fixed price contract for five year period. It is not each person the contract is not varying with each person put on the project. So this is not a body-shopping contract, it is not a T&M contract.
- Pratish Krishnan:** Fine, my second question is more in terms in terms of the client base and if I understand you always had a fairly large base of Fortune 500 accounts but here the scale has been issue even in the past so what could probably change now going forward?
- P.R. Chandrasekar:** Change for what?
- Pratish Krishnan:** In terms of ramping up this Fortune 500 accounts mining this accounts?

- P.R. Chandrasekar:** There are two elements to this; one is that we have been successful in ramping up a set of accounts. We have Hexaware adopting what we have what you could call strategic account units, business units, which are functional with its own leadership, its own teams where a shared degree of economy in terms of making decisions and which help us really grow these accounts. We have now identified some more accounts and created SAU structures with the primarily objective of mining these accounts, building relationships across the board. It is having some decision-making powers as well. In addition to that I talked earlier that is about the created key account units, which are again mining may be there are set of accounts, which fall under a certain leader but again with a fair amount of decision-making capability, focused on the company in terms of support, identifying resources where you would train and advance and fairly well articulated plan and process both from their management, relationship, planning review process etc., and I think this will help us; one is the process side, second is relationship side and third is focusing specific solutions that we are now trying to customize to these set of accounts. All of which we think will give us greater traction with the clients and increase the average size of a larger amount of these accounts.
- Pratish Krishnan:** It was quite helpful and in terms of your top client that is 11% today, I mean is there a level at which you would like to cap the client concentration here or what is the objective?
- P.R. Chandrasekar:** Now expectation is that the growth in the business in general will take care of that problem. It is a nice problem to have. If all of our customers grow well but we do not envisage this customer really going beyond 10% or 11%.
- Pratish Krishnan:** Finally any numbers with the hiring plan for the rest of the year or may be for next year?
- Deependra Chumble:** We have set these hiring targets we have exceeded what we are projected for this year in 2010. We have been consistently hiring freshers every quarter. I think we will continue to hire the freshers in this quarter. Number may be marginally less than what we were doing it in the past and really lateral hiring has always been as far as the demand and as per the requirements, during the last quarter it has been 277 people that we added in terms of the net. It could be something similar number or a little bit on higher or lower side.
- P.R. Chandrasekar:** I want to add one more thing to the previous question, because we looked at several positives why the margins will go up that was the question and also our assurance that we will in double-digit margin I do want to point out two things so that the unreasonable expectations are also not built in. One that the lateral hirers are been hired at a much higher cost than we used to do earlier or the existing cost level. Secondly, the employee wage inflation will come in April 1, next year for the offshore employees and with the market fairly heated up that is likely to be fairly good again. So just to say the several factors in our favour why margins will improve these are the factors that will also impact the margin. So taking into account all that as I said we would be in double-digit margin. So once you look at both angles this what I wanted to clarify.
- Pratish Krishnan:** Thanks a lot Sir.

- Moderator:** Thank you. Our next question comes from the line of Nimish Joshi from CLSA. Please go ahead.
- Nimish Joshi:** Hi Sekar, once again to repeat your question, which was asked earlier. What is the nature of the cost, which we have booked as exceptional? Because do not you think what you have booked is exceptional bumps up your margins going forward because we will be booking revenues from this deal but not booking appropriate cost and also what is the rationale behind doing the exceptional and not above the EBITDA line?
- P.R. Chandrasekar:** I would like Prateek to answer this. This is as per the advice for auditors and I will make sure that you get that.
- Prateek Aggarwal:** Nimish, I think your question is more of an accounting practice kind of a question, which has been as you know that we have Deloitte as the statutory auditor and we have gone as per the accounting standards and to qualify that this is the exceptional line item.
- Nimish Joshi:** What is the nature of this cost? Have you paid any money for getting this deal?
- Prateek Aggarwal:** Like we mentioned earlier it is employee related cost.
- P.R. Chandrasekar:** Make it clear no money has gone to the client.
- Nimish Joshi:** So what is the nature of the cost sorry?
- Prateek Aggarwal:** It is the cost that is to be paid to the employees.
- P.R. Chandrasekar:** Nimish, let me step in here. This is a large customer and we have kind of indicated in the past that given the nature of the environment these are sensitive questions. This is clearly employee related. We are talking of large outsourcing contract and a provision has been made with the relation to the costs. I do not want to speak much more on that given that this item is read by all employees.
- Nimish Joshi:** The second thing is of course given that some of the top line has been driven by this deal. Now would you be open to more such deals in the future?
- P.R. Chandrasekar:** Definitely, if we evaluate these deals and we find that one it adds to our top line. It allows us to move a lot of work offshore, it allows us to staff with freshers and much more junior people and we feel comfortable about our execution skills. One of the reasons we won this deal is not because we offered a great value proposition in terms of price, I guess it was, but the major reason we won this deal is we executed flawlessly over the last several years with this particular customer and they handed over certain critical applications to us and that is the reason we won this particular deal without frankly having to face very much competition. There is no pass through involved. There is no requirement for any major asset purchases. If it is the clean outsourcing deal that makes the economic sense we would be more than happy to do such a deal in fact if you know of any such opportunities please let us know.

- Nimish Joshi:** My worry is potentially half of you EBITDA on the deal have been paid upfront by you; you were bearing it so from a NPV sense I am not quite sure how it is make economic sense?
- P.R. Chandrasekar:** No payment has been made.
- Nimish Joshi:** I am saying you are bearing the cost. You are paying the employees. I am not saying you are paying to the client, but you are paying this the employee, you are bearing a cash outflow of probably that \$10 odd million or \$9 million is being been made upfront and the revenues will flow through over a five year period, but purely from NPV perspective I am not quite sure how would it make economic sense unless you are making the 35%-40% EBIT margins on this deal?
- P.R. Chandrasekar:** See we have clarified two things one is no payment is made to the client to win any deals. Secondly, even after taking into account the cost involved pertaining to this provisioning we believe that the margins in this deal will be as much or better than the company average.
- Nimish Joshi:** Margins and NPV I think are two different things anyways that is different.
- P.R. Chandrasekar:** See we are not allowed to talk. We have talked more than what we have permitted to.
- Nimish Joshi:** Thank you.
- Moderator:** Thank you. Our next question is from the line of Avinash Prabhu from Centrum Capital. Please go ahead.
- Avinash Prabhu:** I would just like to reiterate some couple of quarters ago I remember reading in the newspaper that you are in talks with government to get some good deals along with Infosys as well. So what exactly do you have to say on that?
- P.R. Chandrasekar:** I am not sure exactly what you are referring to. Is this opportunities in the public sector in India is that what you are referring to?
- Avinash Prabhu:** Yes.
- P.R. Chandrasekar:** All right. I think frankly I will confess I am not familiar what you are aware. There is no association with Infosys on any such pursuits or transactions. On the other hand we do have a focus on India as a market where we have invested multiple sales people pursuing different kinds of customers and clearly one of them is the public sector or the government business and we have identified and actually put in place a couple of sales people who are focused on pursuing this business. The cycle time is long. They are complex deals. Some of them involved consortiums and we have started participating in these opportunities already and I am hoping with directly one opportunity not a very large one but it makes and gives us the reason to continue to go and venture after a larger opportunities in this sector of the market.
- Avinash Prabhu:** One more question here about your forex gain, now the forex part is the like you had certain contracts which you had hedged at \$ 40 before. That was not for this year it was for the previous

years. You had some hedging done around \$40 and currently you have an average hedge of \$48.21 which has been discussed like which will be carry forward for the next few quarters so how exactly would you at unwinding those hedge if you see a downside in a dollar assuming, just pure assuming the hypothetical situation if dollar for example tomorrow you see at 42 or 40 so what exactly would be your strategy at this point in time. How would you look at it?

**Prateek Aggarwal:** I am not sure I understand the question. We did clarify that the old hedges that we had at the \$40 range that you talked about, on that there are no such hedges left we got rid of the last such hedge in the September quarter. All hedges are going forward as I have just given you the current hedge position on an average 138 million and 48 plus. So if there if the pricing goes to 42 I am not quite sure on I understand. I guess we will benefit.

**Avinash Prabhu:** You would certainly benefit but what would you look at doing in such kind of situation, would you like to go ahead and unwind the hedges and keep it open or would you still continue with your policies that you have made?

**Prateek Aggarwal:** The policy we have as it is a rolling period, for example we are hedged for the next four quarters at a certain percentage of our dollar earnings and then a slightly a lower percentage going forward into the next four quarter. As and when we get open up for example now in Q4 of 2010, we have the ability to do a little bit more, for example in Q4 2012 wherein we have not hedged that much. So we will go depending on the rates and depending on our belief we will continue to hedge. That is our policy.

**Avinash Prabhu:** The average billing rate per hour for the quarter you said has improved to \$ 71.20 onsite services and 21.50 on the offshore projects. Do you look at slightly improvising it a little further or would you tend to keep it continuing at same pricing?

**P.R. Chandrasekar:** At any point, we are obviously working with both exciting customer and sales force etc., to try up to push up pricing up but at this point in time I would like to say that our pricing is likely to remain stable.

**Avinash Prabhu:** What exactly would have to say on this thing about the Hexagreen virtue on the power space on the ecosystem saving power space and power which helps to maintain that carbon footprint. So we are exploring opportunities on the power side as well or like it is only the cloud part...?

**R V Ramanan:** We have invested quite a bit on the server visualization in terms of bringing in and creating around private clouds minimizing with our consumption going in for system, which are energy efficient. We have also invested quite a bit on the energy saving mechanism in our campus accessory including natural lighting facilities, minimizing of air conditioning through natural ventilation systems as well as the energy conservation measures which we have put in. So those are the activities, which we continue to do, and those are the activities, which are mentioned in the Hexagreen initiative.

- Avinash Prabhu:** That is about it for. Now I do not have any question because most of the questions have already been answered. So thank you so much for your time and the information that you have given. I wish Hexaware all the best for the coming quarters.
- Moderator:** Thank you. The last question is from the line of Nihar Shah from Enam Holdings. Please go ahead.
- Nihar Shah:** Thank you. I am going to harp a little bit on the margin side at least in terms of utilization what levels of utilization do you think a business model, where do you see this trending up over the next few quarters to?
- P.R. Chandrasekar:** We believe that on a blended basis that is leverage for us to get up to 75%.
- Nihar Shah:** Okay so you see this can go up for about 75% or so going forward?
- P.R. Chandrasekar:** See gradually it will be gradual. It is in the growth environment anything beyond 75% we believe would be tough and would post certain challenges for us because if you say on a blended basis for an overall company 75%, there will be pockets, which are higher. Sometimes 85%-90% and we want to avoid a situation where we are not able to capitalize on opportunities and demands. So that is one. Second is Atul already mentioned one very significant factor which is the hiring of laterals costs you 20%-40% more, so therefore we do want both hire and build talent within the system which will hopefully enable us to cater to a particular resourcing needs without having to go lateral. So we have the way that it is balanced but in principle I would say at least in the near term 75% is probably a number that we would be looking at the higher end.
- Nihar Shah:** One more question would be you had a one-time profit on sale of certain assets, if I recall correctly it is about 64 Crores or 640 million. Can you tell me what these assets exactly were?
- Prateek Aggarwal:** It is a property.
- Nihar Shah:** You have showed some of your property that you had and besides the one time sort of expenses on of the 38.4 Crores which you have marked as an exceptional item you mentioned that there is a 220 basis point impact also in your cost because of knowledge transfer?
- Prateek Aggarwal:** That is right.
- Nihar Shah:** Okay, what would be the exact quantum of that about 6 Crores?
- Prateek Aggarwal:** It was about \$1.3 odd million on a 220 basis points.
- Nihar Shah:** Okay that comes under your direct cost right?
- Prateek Aggarwal:** Yes.

**Moderator:** Thank you. As there are no further questions I would like to hand the floor over to Mr. Atul Nishar for closing comments.

**Atul Nishar:** I would like to add we talked so much about the \$110 deal. I do want to add that when we take over the internal applications of a company we can just visualize the equivalent of taking over a captive unit and companies have been paying 1 to 1.2 times one year revenue to take over that whereas the cost that we have provisioned not even paid are way below that and clearly this deal is more profitable than the take-over of captive units that have been announced of some of the large companies. So I think this has been a very good quarter and an all round improvement in revenue margins, client acquisition, employee addition, reduction in attrition and we hope that the good run continues. Thanks for joining the call. Thank you very much.

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

For any further questions or clarifications: please feel free to contact:

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