

Hexaware Technologies

Conference Call

April 24, 2007

Moderator

Good evening ladies and gentlemen. I am Pratibha, the moderator for this conference. Welcome to the Hexaware conference call. For the duration of the presentation all participants' lines will be in the listen-only mode. From Hexaware we have with us today Mr. Atul Nishar, Executive Chairman; Mr. Rusi Brij, Vice Chairman and CEO; Mr. P. K. Sridharan, Executive Director; and Mr. Rajesh Ghonasgi, CFO. I will be standing by for the question and answer session. I would now like to hand over to Mr. Rajesh Ghonasgi of Hexaware. Thank you and over to you sir.

Rajesh Ghonasgi

Thank you. Welcome friends and good morning, good evening, and good afternoon to you wherever you are. We are meeting for our Q1 2007 conference call; you would have had the results with you, they are also on our web site in case you need a copy of the PDF file. Before we start let me give a word of caution. Certain statements that we would be discussing would involve a number of risks, future events, and such. As such hence this should be considered as forward-looking statements and hence there could be substantial variation between what we say and what happens in the future. Having said that I would like to hand over the microphone to Atul.

Atul Nishar

Good evening to all of you. By now you would have gone through the press release of Hexaware and would have familiarized yourself with the data. Let me just make a few points and then have Rusi give more detailed comments. Firstly, the growth continues. The 50% year-on-year growth, 10.1% sequential growth, clearly indicate that Hexaware is a growth story that is very much alive, and then looking at the order book as also the new orders that we have won the growth story is likely to continue through the year.

The heartening features were, we had record new client acquisition, 20 new clients, \$61 million new order book, both from new clients as also from existing accounts. The million dollar clients which indicate the depth of relationships have gone up from 41 to 46, and the Fortune 500 clients continue to be 1/3rd that is 50 out of 151 active clients. Repeat business also continued at around 88%. So the client scenario has only improved in the current quarter.

The margins, there are two important points I want to make. In this first quarter, that is January to March, we had \$1 million one time cost on account of professional fees involved in reorganization exercise that we have done and that had an impact on the margins in this quarter. Also in the coming quarter the factors that will impact, one is wage inflation, we are looking at around 14% to 15% offshore and between 3% and 5% onsite increments, and that along with visa charges which are one time that will come in April would cost around \$3 million

and that would need about a quarter more for us to fully absorb and show growth in the profits. So, in the coming quarter we have given guidance of profit which is lower than this first quarter, and of course forex impact which continues to have negative impact on the bottom line this quarter, next quarter, in fact roughly we calculated next quarter alone the negative impact could be as high as \$700,000. So, we have taken all that into account while giving guidance of around \$7 million to \$7.2 million PAT.

Another point is on testing services. As you all know the acquisition of FocusFrame that we have done, the integration is going extremely well and the fact that the strategy is working well is reflected in our winning eight new clients in testing services out of the 20 that we have won, and clearly this has emerged as a second major growth driver for Hexaware after ERP that you have seen over long period of time. So, in this year just to give some data we expect testing services to contribute around \$50 million plus in the overall revenue as compared to \$11 million that we did last year, and we believe this trend will continue to take us to over \$100 million by 2009. So, clearly we have succeeded in this strategy of acquiring FocusFrame, integrating the two, and that way winning not just new clients but also winning more testing business from our existing clients by having entire range of offerings there.

The head count, as you may have seen that there is a reduction in this quarter. This was very much planned to improve the utilization, which has gone up by 2.5%, and therefore we have planned a quarter back to phase out the head count increase. Rusi will give more information but just to add we have already offered for freshers and we expect around 650 graduate engineers to join in early Q3 this year, so our recruitment is very much on track for freshers as also the lateral hires that we will continue from this quarter, but at the same time as I said we do want to be conscious about improving utilization further in the coming quarters. So, overall, I would say that we believe that over a period of time not just the revenue growth will continue but even the margin expansion will continue, and barring the reasons that I gave for current quarter and next quarter, overall the goal that we have set for ourselves from last year's revenue of \$187 million to double that in 8 to 10 quarters, looking at current performance is also next two quarters as we see we believe that we are very much on track to achieve that, that is a goal not a guidance, but we think that it is better to stick our neck out than not do that. So, as things look we believe that that is very much achievable. So, these are just a few points I wanted to make and Rusi will take it forward to give some more comments. Rusi.

Rusi Brij

Thanks Atul. I will just give some more operational information about how the business was in first quarter and the outlook for the Q2. I wanted to start with the sheet on the matrix sheet as you would have received and there we have a new list of technology split and the split by vertical, and the idea here was to start focusing upon work or new outlay structure also have devised in terms of the business focus. So, there are actually six go-to-market businesses that we have here. In a vertical split the travel & transportation has been in past also one of core areas. Capital market and asset management, which is a part of the BFSI business, is very lively but we are now going to give it a split here so that there will be better visibility on how this focus area is growing. On the techno side there are four new areas that we have addressed. Testing, as Atul has mentioned, is going to emerge as second largest source of business and this is going to be shown every quarter separately. Enterprise application which is largely PeopleSoft and the growing SAP business that we also include here, and a small number of Oracle and other enterprise related application that we do. Business analytics and intelligence

(BI-BA) is the small area that we have incubated, this involves the technology high end work that we are doing and we talked about one of the large wins in this quarter has been in this area. I have great hope of this area to become a new source of downstream revenues for us and as our IT services, which we have seen in the past, but it is increasingly becoming bigger area in terms of pipeline. So, these four technology splits and the two vertical splits would be the future areas of focus.

In the reorganization that was done starting January or so this year and which is now fully in place, the primary theme has been to get more focused upon these six areas and get each of these six areas under one leader or leaders with our company with P & I responsibility. So, we now manage P&L independently for both the horizontals and the vertical areas of focus.

The second theme that has been is to look at how to mine accounts better. You would see the number of million dollar accounts growing; 4 to 5 every quarter we are adding on, and there has been one new addition in the \$10 million plus category. So one out of the \$5 million account has become a \$10 million account, and all these million dollar accounts are on a trailing 12 months basis. So, on one account the reorganization and the refocusing of some of the areas of business is now under way, and the reiteration of our doubling our business within 8 to 10 quarters basically underlines this theme.

The order book that was recorded this quarter is the POs that we have signed from new and existing clients and that will probably be between 2 years and 2-1/2 years they will get exhausted. The new client additions that we have done in this quarter as many as eight customers alone were in testing, they includes FocusFrame and the Hexaware testing. As I also mentioned that our internal plan that has been that Hexaware testing business will also grow very rapidly that will probably double in size within the year.

We also thought of speaking about the client that we have won in BA-BI and ERP etc. Now the America is where we do most of the business, while it shows 2% decline quarter-on-quarter because Europe has gone up, I will add here that it does not indicate that we believe that there is no softening of demand in the US markets, yes there is talk about the economy slowing down and number of those areas, but I do not believe that 2007 numbers are impacted in anyway by any change in the external environment for demand in Northern America. This quarter Europe had couple more kind of billing higher amounts, but I would expect going forward that it will get normalized back to the 25% range.

The other part is that global head count that Atul referred to the decrease there, last quarter we had seen that because of the big addition of the trainees into the billing pool had lowered the utilization level, so we had been very focused from December onwards to manage that level of utilization to improve this quarter and what we had decided was to reduce the replacement for attrition, so not the all attrition were replaced by new hires and that is how we basically managed the utilization levels and that resulted in a 78 people decline in this quarter. The Q2 we will be adding about 300 new people, all lateral hires, and another 650 are planned for addition in Q3, so that is about 1000 people, and I believe we will probably add another 500 plus people for rest of the year. So we will be adding between 1500 to 2000 people this year despite Q1 lowering the actual head count.

Attrition has increased very marginally from 15 point something to 16.1. I believe it is going to be around 16% level. One interesting thing is that the **rate show** has increased and this is

without taking into account the FocusFrame rates. If we had taken FocusFrame rates, which are generally in a \$100 an hour upwards figures, they would have skewed these rates for onsite, and it would not have given you a good basis to see what is the growth for the Hexaware software non FocusFrame numbers in terms of rate. So those rates are not included here. The offshore rates have gone up by one and half percent point to 23.26. Onsite rate increased by about 0.6%. Outlook for rates remain stable, may be there will be an upward bias, but I do not see a significant increase happening in Q2 rates area.

On FocusFrame, just to add to what Atul had mentioned, a key part of the integration is to unify the service offerings of what we sell in testing and what FocusFrame sells in testing, that rationalization is coming underway and we will be rolling out a unified service offering by next month to both these organization. The idea here is to clearly identify what type of projects FocusFrame will do in Hexaware clients and what type of projects we will do in FocusFrame clients, which is more manual, more offshorable, while they are more in IT strategy, IT governance and the automative tool based businesses including Accelerator. They are working on the PeopleSoft Accelerator and I believe we will have the Accelerator available within this quarter, which will be very good, because the PeopleSoft version 9 is just now gathering steam, and we believe that if we make Accelerator available sometime in mid of this quarter we would be able to make strong headway in procuring new business on the version 9 of PeopleSoft.

Some joint wins have already happened and the work on that has already started between FocusFrame and Hexaware, but one last thing I would like to add here is that the outlook I mean revenue guidance, we are projecting that the organic growth in all our growth from now on is 100% organic, there will be a 6.5% to 8% quarter-on-quarter growth in dollar term. On the PAT terms we have baselined our profit at Rs. 42 to the dollar given that the current rate is already below 41.5 now, but we have taken at Rs. 42 because that is what is the general feeling is that this quarter might be around 42 on the average, and that has an impact on the profit to almost about 1% point. The wage hike, which is 14% to 15% for offshore and 4% to 5% for onsite, depending on the visa charges to this would probably decrease the profitability by atleast about \$3.5 million plus. So that has reduced the profit from \$8 million to \$7 to \$7.2 million, but for these two factors of wage hike and the rupee our margin would have further expanded in this quarter. With that we will open the call for Q&A now.

Moderator

Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions may please press *1 on your touchtone enabled telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to kindly use only handsets while asking a question. To ask a question, please press *1 now. First question comes from the line of Mr. Sandeep Shah with Motilal Oswal.

Sandeep Shah

Yeah sir, just on the guidance, which is like 10% decline what you are guiding on the PAT front, and you said that it will be effected by the rupee-dollar assumption as well as wage hike and the visa charges, but if I am not wrong last quarter we said that in the first quarter of calendar year 2007 there will be a one time \$1 million charge which will be debited to the P&L, so just wanted to know whether it has been there in this quarter and under what head has been accounted and

despite that which is not expected to recur in the second quarter we are guiding for a 10% decline, so what are the assumptions here?

Rajesh Ghonasgi

Yeah, the cost that we talked about is factored and is really accounted in Q1 and it appears in G&A, so it is in the SG&A ratio that is factored in. Talking about going forward we have talked about pay hikes, visa charges, and the possible effect of the rupee, and some efficiency coming from improved utilization etc., however, there is going to be an impact on account of these three and this quarter is the one that gets most impacted because of wage hikes, but that has been factored in, so in effect what you talked of first that one time cost off course is not there, but there are other cost increases which Rusi had described - wages, visa, and of course the impact of the rupee.

Sandeep Shah

Okay, what will be the impact through wage hike on the margins in this quarter?

Rusi Brij

Yeah Sandeep, the arithmetic is like this that \$8 million is the profit of Q1, now if you take on that a hit of say about \$3.5 million or so you are down to \$4.5 million, and we have given a guidance of \$7 million, which means about \$2.5 million plus will come from higher revenue and other efficiencies.

Sandeep Shah

Okay, and sir what will be the tax rate going forward?

Rajesh Ghonasgi

The tax rate as we have right now is around 13%, going forward also it will be around 13% factoring in the fact that last year we were at an average of 10% and we have added FocusFrame which is going to have a higher tax rate, and of course there will be tail end of FBT which would come in, so FBT on certain items, so 13 to 13.5 looks like the rate going forward.

Sandeep Shah

Okay, and based on our target as well as what we have mentioned that the testing revenue are likely to show a significant jump, so if we look at that means your other lines of business may not grow or might be growing at 25% to 30%, so is there a traction is little bit reducing or it is you can say nothing has changed even in terms of the other lines of the business?

Rusi Brij

Really speaking, the testing was earlier included under the group called eCommerce and Application Management area, so what we have done is we have separated that out into testing services plus added the FocusFrame testing which is pure testing. Now going forward the growth is in the testing area more than in the normal e-commerce application area, so that

facility is the one that will go on decreasing. Now this is a normal billed and ADM work, now that is not going to grow and see the rate of growth as testing services. What you would be seeing is a higher than normal growth in testing, in ERP, and possibly in travel and transportation going forward, rest will grow largely at the average rate of growth for this year.

Sandeep Shah

Okay, can you share some outlook in terms of what is you are witnessing in from your clients from the PeopleSoft HR practices because some clients might have some concerns towards Oracle might discontinue, as we know that Oracle has already committed to support it, so what is the traction in terms of the new packages as well as maintenance of the existing ones on the PeopleSoft HR?

Rusi Brij

You know if you would have seen the results of Oracle last quarter, it has been one of the best results they have given and even their share of license fees have been very very high, much higher than what the analysts had expected that Oracle will do, and one of the things they have said is that the integration of Oracle with PeopleSoft, with Siebel acquisition, all have gone very well. So that is one part that the robustness in the PeopleSoft license fee market remains. The version 9 that was actually announced late last year has only now started taking shape because the full scripts of that upgrade was not available, so one could not really buy and implement it. So there was some delay in the market for implementation of the upgrade because the full upgrade was not available from Oracle, which is now available now. So going forward as I said earlier it looks like a new marketing opportunity opening up in the PeopleSoft and we are very keen that with the PeopleSoft Accelerator that will be available from FocusFrame we should be able to start showing higher growth, and I have mentioned that enterprise application would be one of the faster growth areas. And in HR we are seeing a fair amount of traction in the SAP HR market also, though it is bit difficult to hire enough SAP people and that is where we are feeling a bit of pinch in being able to hire SAP people in enough numbers. So HR in both PeopleSoft and SAP is showing a decent growth, faster than average growth that we have seen.

Sandeep Shah

Okay, and just last question is I believe the employee addition may be similar or might be little lower than the last year and which may result into a improvement in the utilization rate, and based on your guidance for the second quarter just wanted to know whether management is also looking a higher performance in the second half on the PAT level for the calendar year 2007?

Rusi Brij

We are not expecting the attrition to decline in any seasonal manner quarter-on-quarter, and it is very difficult to say because we will have to first see wage increases etc., etc., before we make a call, so I do not know if we have a view on whether attrition will reduce in a big way in Q2 because of wage hike.

Sandeep Shah

Sir my question is not on the attrition, what I am asking is based on my metrics I believe that with a growth number which we are talking about over the next 8 to 10 quarters, but the employee addition remaining at 1500 to 2000, that means we are looking at a further improvement in the utilization rate?

Rusi Brij

That is correct.

Sandeep Shah

And looking at the second quarter guidance on the PAT, whether your projection or the estimates also factors in the significant growth in the PAT in the second half over the first half?

Rusi Brij

Again I will take you back to the arithmetic I gave you earlier, we are talking about a revenue of \$2.5 million of new PAT from a \$5 million of profit, so obviously we are looking at some efficiencies from the existing business plus the new business, so this guidance does include some improvement in some of the metrics.

Sandeep Shah

Okay, thanks.

Rusi Brij

And if you looking for the second half of the year, we have not given guidance, so we cannot really comment on the outlook for PAT for H2.

Sandeep Shah

Okay, yes I am not asking a number, just on the overall broader direction towards that?

Rusi Brij

Yeah it will be better of course, I mean it will be better in the second half certainly.

Sandeep Shah

Okay, thanks a lot.

Moderator

Thank you very much sir. Next question comes from the line of Ms. Runjhun Jain with Tower Capitals.

Runjhun Jain

Yes hello sir, can you get me the figure for a professional cost, which is one time in Q1?

Rusi Brij

About \$1 million.

Runjhun Jain

\$1 million.

Rusi Brij

It is shown in the SG&A cost.

Runjhun Jain

Okay, and sir what is the salary hike you have given to your freshers?

Rusi Brij

Freshers?

Runjhun Jain

Yes, people who are to be joining in Q3, you said about 50 people, so have you given any salary hike to these people as compared to last year?

Rusi Brij

Yeah, the freshers are joining at a higher salary than the fresher last year. I think about Rs. 2.5 lakhs is the salary offered this year, last year I think it was about 2.4.

Runjhun Jain

2.4 in this quarter?

Rusi Brij

Last year, see we are talking about the starting salary for entry-level people, is it?

Runjhun Jain

That is right sir.

Rusi Brij

So, last year it was i.e 2006 the entry level people who joined fresh from college joined at just under Rs. 2.4 lakhs, this year the people who have joined in Q3 were joining at about Rs. 2.5 lakhs plus, somewhere there.

Runjhun Jain

Okay, sir what you said about your forex strategy, what is the forex strategy you are following and what is the cover you have as of now?

Rajesh Ghonasgi

The cover we have is around \$60 million at 44.73, we also have certain options which are all in money. However, our strategy going forward, #1, is to be ready for reverse, but we cannot gauge what the rupee would do. Currently, we are about 70% of our net inflows into India have been covered. Now the question could be as to whether we should have done more or otherwise, but we believe that looking at the rupee we just need to conservatively cover as much as we can keeping a small margin for a change. So in that sense we will be conservative, we will keep on covering, unless the rupee changes direction. However, we will not try to gauge the rupee, so in that sense our strategy is to be conservative, cover as much as we can.

Runjhun Jain

Okay, and one last question sir what is the capex you are planning for 2007?

Rajesh Ghonasgi

The total capex that we are planning for the year is in the range of around Rs. 100 plus crores because we are putting up the phase I at our Chennai location. It is actually going to be around Rs. 125 crores worth giving us about 4000 feet. In addition, we will also be investing in, although we wouldn't be starting the work, we will be doing some design work and some other such capex as in working on architectural plan for our Pune location, which also is 25 acres of SEZ land. In addition, of course we will have computers and the normal capex, but a large chunk will be these two infrastructure additions.

Runjhun Jain

And when you are planning to start this Pune facility?

Atul Nishar

In Pune we are planning to as we said we will start the design work etc. soon, I would say we had planned to start the work next year, but now we are looking at preponing it and we could start the work in next 3 to 4 months, may be you can say by August or so, and it would take about a year to complete again the phase I of that campus. Hingewadi is where we have taken this 25 acre land, so Pune will be next after Chennai, and then third will be in Navi Mumbai at Airoli where we have got 14 acre land, which definitely will start next year not this year.

Runjhun Jain

Okay sir, okay, thank you sir.

Moderator

Thank you very much mam. Next question comes from the line of Mr. Prateesh Krishnan with DSP Merrill Lynch.

Prateesh Krishnan

Yeah, hi, what is the order book position currently?

Rusi Brij

The total order book is roughly about \$260 million or so.

Prateesh Krishnan

And what proportion of this like could be implemented in this financial year?

Rusi Brij

See we have said in the beginning of the year the order book was \$170 million.

Prateesh Krishnan

So for this current financial year?

Rusi Brij

Yeah, current financial year 2007.

Prateesh Krishnan

Yeah, and utilization, what is the kind of improvement you are factoring in utilization numbers for CY07, this fiscal?

Rusi Brij

Utilization for 2007, see basically what we are doing is that we are trying to improve it every quarter. I do not have a figure to give you for the whole year, but we are anticipating further improvement in Q2 also beyond the current level of 70.7%, it may not be 2% may be about 1% to 1.5% improvement in Q2.

Prateesh Krishnan

Okay, thanks a lot.

Moderator

Thank you very much sir. Next question comes from the line of Mr. Hardeep Shah with Asit C Mehta.

Hardeep Shah

Good evening sir. Hello.

Rusi Brij

Yes, go on.

Hardeep Shah

Sir actually if you look at the figures of the application management it has come down in absolute terms. Sir what is the reason for this?

Rusi Brij

You know as has been explained earlier that what we have done from this year onwards is split the data into more areas where we have a particular focus like testing or BA-BI or HR IT etc., so testing was earlier included in the e-commerce application management area, so now they are shown as separately.

Hardeep Shah

And sir you said some figures for your long-term growth in revenue, what you said, can you get the figures please?

Rusi Brij

Sorry, I did not hear that, can you repeat it?

Hardeep Shah

Sir you have given some figures in your long-term goal, in revenue, can you give us please?

Rusi Brij

Yeah, what we have said is that we said last quarter in the analyst meeting also that we believe we would be able to double our business, our revenue within 8 to 10 quarters from January 2007.

Hardeep Shah

Okay, thank you very much.

Moderator

Thank you very much sir. Next question comes from the line of Mr. Sameer Goyal with Alchemy Shares.

Sameer Goyal

Yeah, hi, good evening. A trend which was clearly witnessed was the improvement in billing rates, what is the outlook going forward on this?

Rusi Brij

I think we should be comfortable by seeing the billing rate, which is stable, there is definitely an improvement in billing rates for new client wins, that I emphasized, new client wins not existing clients, some existing clients have improved their rates that is what you see as a marginal improvement here in this quarter, but going forward I do not believe we will be able to show any major growth at least in Q2, so outlook is stable with an upward bias.

Sameer Goyal

And the other was strong client acquisition which we saw this quarter. I would like to know what change in marketing strategy has happened or was this more to do with testing coming into play and if testing coming into play was it more to do with cross selling to the existing customers rather than new customers, so could you throw some light more on that how this sharp increase in new clients has happened?

Rusi Brij

Yeah, both the things that you have mentioned, one is that because of the FocusFrame there is a greater internal focus and direction on selling testing as more comprehensive suite of solution, but the larger thing is as a result of the reorganization that we did and I talked about it earlier we now have a clearer competency related focus. So all our sales strategy or go-to-market strategy now are better aligned by these six areas whether BA-BI, HR IT, Testing, ERP, Capital Markets, Travel & Transportation, this is how the numbers are also shown in metrics sheet. So the sales organization is also increasingly being aligned by some of these areas. We have also started giving people individual responsibility, so now there is one person responsible for BA-BI business, one person for HR and IT, one for testing, so each one has a individual leader, so by giving better defined for competency-lead focus and the P&L responsibility we have seen better traction in the market and our ability to win new clients. And testing as we have said is going to be for us a huge area of focus.

Sameer Goyal

Has introduction of testing lead to some change in your hiring plans, what I understand is testing business could absorb higher number of non-engineering graduates as compared to that development kind of work?

Rusi Brij

Testing for us last year itself was about \$11 million at hexaware itself, so we already have a large pool of people that are trained on testing and which are engineers. We are also going to

experiment by hiring some B.Sc. computer science level people purely for testing, but this year the number will be small, below 100 people, but you are right that for testing we can use non-engineer people, so that will be something that we will try out this year as we believe the testing is going to be a very fast area for our growth, it may be better served by bringing in may be B.Sc. level people with good skill sets and able to learn faster.

Sameer Goyal

Would you like to talk at this point some thing on the BPO business of yours?

Rusi Brij

No, not yet.

Sameer Goyal

Not yet.

Rusi Brij

But I assure you that next year we will be talking about a lot and you will asking us more question about BPO, so give us another year.

Sameer Goyal

Okay, last question from my side. Actually a year ago the story in Hexaware used to be a strong revenue growth driven by improving margins, the revenue growth seems to be intact, the margin seems to be coming in pressure because of FocusFrame and because of currency, what is the broad outlook on the margin front going forward?

Rusi Brij

Last quarter I had said that despite the numbers of FocusFrame, which are onsite driven, that our goal for this year is that we want to increase our operating margin between 100 to 150 basis points, so consolidated numbers for the year should show a 100 to 150 basis point improvement.

Sameer Goyal

Correct, thanks, and best of luck for the future.

Moderator

Thank you very much sir. Next question comes from the line of Mr. Kunal Sangoi with Edelweiss.

Kunal Sangoi

Yeah, hi, good evening everyone. My question pertains to the client base, now we have a total client base of 150 and of which 50 are Fortune 500 and Global 500 companies. So my question on that is what is the company doing to build entrenchment into these clients, as I understand that you know the incremental growth or the new areas of strong growth are coming from the testing and more from the ERP side, which are non-annuity based. So what is the strategy that the company is following on building higher entrenchment with these marquee clients?

Rusi Brij

That is a very important point for our growth and I shall also explain a little bit of what we are doing there. Several things are actually underway and results also are there. First is that one more thing we have done is that we have created nine strategic account units, SAUs as we call them, where we combine delivery and account management under one leader, so there are 9 people each managing our top 9 customer relationships. The idea here is that by making them individual Hexaware units, now they basically represent full Hexaware but only with one for one client, we are able to improve the responsiveness and the ownership of account growth and mining with one individual who also manages execution. So delivery and sales account is under one area. So one is bringing up a sharper focus on what are our goals and KRAs for each account and improving customer satisfaction as a basis for mining. Two is that, in account mining we needed in the past more horizontal services strength, now once you acquire a client through PeopleSoft or HR or capital markets or travel or whatever to mine further you needed to be able to sell the dot net, the testing, the ADM and stuff. So the acquisition of testing was finally driven by the reason that we want to offer market competitive solution there, and testing is largely going into the existing clients. So if you see one metrics of repeat business, so despite new client addition the repeat business is slightly higher than the last quarter, which shows that despite a high degree of client wins we are able to grow more revenues through existing clients. Two is that, the million dollar accounts has moved by 5 within a quarter, which again shows that the mining of accounts is going ahead. So these are some of things that are in place to focus on account mining as a basis.

Kunal Sangoi

Okay, thanks a lot for the explanation.

Moderator

Thank you very much sir. Next question comes from the line of Mr. Rajeev Mehta with India Infoline.

Rajeev Mehta

Yeah, hi everybody and congrats on good performance. Sir, firstly some information, what was the realized rupee rate for the quarter?

Rajesh Ghonasgi

It was just short of Rs. 44, 43.98 to a dollar.

Rajeev Mehta

Okay, and secondly is, what was the FocusFrame contribution to revenues in this quarter as against the previous quarter?

Rusi Brij

You know, it is very difficult for us to internally to separate the revenues because there is so much of cross selling happening, and the whole idea of integration is to make sure that the business are one, so there is no separate data available for FocusFrame that we can give out.

Rajeev Mehta

Okay, if you can just give me the date of integration. I think it happened the previous quarter.

Rusi Brij

November 28th I think was the day of integration.

Rajeev Mehta

20th of?

Rusi Brij

28th of November.

Rajeev Mehta

Okay. Sir I believe, just correct me if I am wrong, that FocusFrame is an onsite business where margins were comparably lower than Hexaware. So that got integrated fully in this quarter plus we had integration cost of \$1 million, and despite that we were able to improve our margins slightly on sequential basis. So apart from utilization, which were the other factors which helped to improve margins or may be just stay back the margins?

Rusi Brij

Well rates were the other part and you have seen the rates have gone up by 1.5% for offshore and 0.6% for onsite. That was another lever.

Rajeev Mehta

Okay. Sir are you quantifying the impacts of utilization and rates on margins as well as what was the impact by the rupee appreciation?

Rajesh Ghonasgi

Yeah see there is percentage point improvement on both, I mean both put together, and of course there is an negative impact of the rupee. Now, I will not be able to give you the rupee impact. I cannot slice it out because we are talking of dollar terms, but that was not as large as

the earlier quarter because we had a roughly 1.5% appreciation of the rupee during the quarter, which was made good by our hedges. The amount was marginal on that count.

Rajeev Mehta

Okay. And sir lastly, we include forex loss in SG&A, right?

Rajesh Ghonasgi

Yeah.

Rajeev Mehta

So what was the amount this quarter as against previous quarter?

Rajesh Ghonasgi

See, as I said the number one is the debit as well as the credit goes to the same account, so you see it only in one account, the SG&A line item. Now can you just explain what you are looking for?

Rajeev Mehta

Normally you do not give that in other income and you include debit or may be loss or gain you add it to SG&A level, right?

Rajesh Ghonasgi

Yes.

Rajeev Mehta

So in the quarter was it a gain or a loss for us?

Rajesh Ghonasgi

It was a gain.

Rajeev Mehta

It was a gain. Okay, thanks a lot.

Rajesh Ghonasgi

Thank you.

Moderator

Thank you very much sir. Next question comes from the line of Mr. Ajay Nandanwar with India Capital.

Ajay Nandanwar

Hi, good evening

Rusi Brij

Good evening

Ajay Nandanwar

A quick question, might be a slight repeat of the previous question, but if you include the rupee dollar hedge income or loss under the SG&A line, and it seems like your current hedge is sufficient to cover your next two quarters or more net \$ receivables.

Rajesh Ghonasgi

Yes.

Ajay Nandanwar

The net do you still expect any margin head because of rupee appreciation?

Rajesh Ghonasgi

Well, as I said we have a cover up to about 70% of our net inflows into India. Now the impact of the rupee appreciation is three fold. Number one is a translation of dollar to rupees in revenue; the restatement of working capital; and the actual inflow that come into India. So in effect we are covering the actual inflows. There is a translation impact, which we cannot hedge, it is the FEMA rules do not allow us that, and it comes in our consolidation. So to that extent because we are not 100% hedged and we cannot be 100% hedged, there would be some amount of impact which will be visible in our financial.

Ajay Nandanwar

So you are hedging your cash flow?

Rajesh Ghonasgi

Yeah, we are hedging our cash flows.

Ajay Nandanwar

So in that case, am I correct that your liquid assets are primarily working capital assets?

Rajesh Ghonasgi

Yeah.

Ajay Nandanwar

So in that case it should not really, you know, only the cash flows are what are impacted, right, and that is really, you know, the translation impact will be negated by increase in, you know, by the difference in cash flow and net income.

Rajesh Ghonasgi

Yes, but what happens is a lot of the items that get translated do not flow into India. For example, FocusFrame revenues, will be translated and they wouldn't necessarily flow into India because net of expenses they would be transferred to India later on, similarly, for our other subsidiaries abroad and our branches abroad. So in that sense our revenues, for example, for this quarter would be a 60 million, but my cover would be to the extent of flows into India, which would be 20-22 million. So in that sense, there would be an un-hedged part, which we cannot hedge by law and there will be an impact on that because translation last quarter would have been at a higher dollar versus this quarter while our hedges would be a smaller percentage of that, so there would be some impact.

Ajay Nandanwar

So, what you are saying is the subsidiary cash flow is not hedged.

Rajesh Ghonasgi

The subsidiary cash flows cannot be hedged.

Ajay Nandanwar

Okay, even if you consolidate like even if you have fully acquired the company?

Rajesh Ghonasgi

Yes.

Ajay Nandanwar

Okay. Thanks.

Moderator

Thank you very much sir. Next question comes from the line of Mr. Sangam with India Independent.

Sangam

Yeah, good evening sir. My question is that 20 large clients that you have added this quarter, could you give in which geographies would be maximum concentrated on?

Rusi Brij

Actually they are shown in the press release, 12 are from North America, 2 from Europe, 4 from APAC, and 2 are for the BPO business.

Sangam

Okay, and sir regarding the visa thing, this year it is unusual thing that within two days the visa window was closed.

Atul Nishar

One day, first day.

Sangam

Yeah it is the first day in fact, so how do you see this impacting your onsite offshore mix coming and going ahead. That is going to be allotted on a lottery basis and god forbid that by chance you do not get the required amount, how do you see this onsite offshore mix impacting and that further impacting your margins or the 150 basis point improvements that you are actually talking about?

Rusi Brij

Just to explain the visa thing, under the US law they have to keep open the acceptance of visa for three days, though the visa got over in the first afternoon itself they ended up with 130,000 visas, which is now under lottery, so even if you duplicate half of what they had asked for if lottery works that way whatever. So at the moment we have no idea of how many visa we will get, because the rules for lottery also have not been announced whether it is going to be in proportion to what we have done. We will have to explore other avenues. There are two, see basically to look at L1 visas, which are restricted to only people with about one year with the company or more, so we will have to use L1 more aggressively than we have been doing in the past within the laws of the L1 requirement. Two is that, this would be I guess more hiring from within those markets such as US market at least for the team that remains in the US, you know, typically a team is 20:80 with 20 % people are onsite, that is percentage of the people are onsite. Some of those people who are going to start projects may be hired within the US markets, it may not be very high numbers and may be on a very short term basis, but we will have to adopt several newer ways to look at this, may be we will have to also multiplex some of whom who are already there, you know, move them from project to project so that we can use them better, but at the moment there are no alternative to H1 other than what I have described.

Sangam

Okay, so if you were to say assume that 50% of your visa requirements are filled and then the remaining is being done through either lateral hires or L1 etc., there would be a big increase in your costs coming in because of this. So how do you see that in your plan of action of this 150 basis point improvement that you talked about for the full year?

Rusi Brij

See one is I do not believe the cost will get so high, one because we do not know how many people we are going to hire locally, but other thing is with L1 visa are not in the same H1 salary levels. So as you know I mean that is what L1 has no salary level requirement per se, so we should be able to adjust some of the higher cost through the L1 lower salary level.

Sangam

Could you give me the differential in the salary in an L1 and H1 guy?

Rusi Brij

See that depends on the individual because H1 law says that the individual based on his profile and where he is going to work must get the minimum salary which is posted by the department of labor for that region. So the US Government actually posts salary for every region to the local department of labor and which is the average salary for a profile, so if somebody has got two years, somebody has got three years, somebody in different skill set, the salary will be available at that time, and in L1 there are no such restriction per se.

Sangam

Okay.

Rusi Brij

So really I cannot tell you if a guy is going to get 60 in one or 50 in another one, particularly L1 guys are paid less than H1 guys.

Sangam

Okay, and in your onsite offshore mix like this quarter it has gone up to 62.1%, that is primarily because of FocusFrame coming in. Do you see that in the coming quarter more of offshoring thing could take place from FocusFrame, as we have discussed earlier, and this could actually come down and be a margin lever for us?

Atul Nishar

Yeah, I mean the very purpose of acquiring FocusFrame is to create offshore business out of the current onsite business and use their good client base and sell offshore services to them and that way improve the margins in FocusFrame and build more value out of that business, so that clearly we are moving in that direction. One client we already won for offshore business from FocusFrame side and there are four more situations where we already bid for offshore business. So we believe that gradually that shift will happen. It will take some time, but that shift will happen. They have a good client base and good value proposition, but at the same time this will help us as we said earlier sell our testing services also more than what we did earlier. So together this will help us grow in offshore revenue, but the overall trend as you rightly pointed out, the offshore as a percentage will increase once again, it was on the upward trend, only this acquisition has reduced that, but once again that will resume.

Sangam

Okay, can we assume that like by the year end it could come down to say 60:40 or 59:41 or some thing like that? Is it possible to achieve from offshoring thing in the company?

Atul Nishar

Well it will improve but it will not go right up to 40%, not by Q4.

Sangam

Okay, and lastly on attrition, like in the metrics that you have sent, your Q1 FY06 also had around 16.5% attrition, similar to what this 16.1. Is it Q1 kind of phenomenon wherein the attrition goes up a bit or the company actually cleans up some of the unwanted people or something like that?

Atul Nishar

Q1, it is a very interesting observation actually, I think some of us may not have thought of that. It is a very interesting observation. But well I think the truth is there is higher attrition across the industry.

Sangam

True.

Atul Nishar

And particularly in last few months the problem has only worsened and the lateral hiring is also taking longer than it did earlier, so definitely there is an issue. We cannot complain, we have to mitigate it by having better HR practices and creating better work environment and challenging work environment to retain people, but you have to accept this is the range that will continue.

Sangam

So this 16% could be a range that we could see.

Atul Nishar

Yeah, more or less that could continue, I do not think reduction will be...., see some quarter it may go down, some quarter it may go up, but around this more or less it will continue.

Sangam

Okay sir, and the new order wins for this quarter is around \$60 million, which you mentioned during the early part of the call, was that...?

Atul Nishar

Yeah 61 million, yeah

Sangam

And so the total order book for the year stands at?

Rusi Brij

Actually, the total order book is about 260 million, which is for all the year put together.

Sangam

All the new orders also taken into consideration?

Rusi Brij

Yeah.

Sangam

Backlogs?

Rusi Brij

Yeah.

Sangam

Thanks a lot sir.

Moderator

Thank you very much sir.

Rusi Brij

May be just one last question.

Moderator

Sure sir. Our last question comes from the line of Ms. Mythili Balakrishnan with JP Morgan.

Mythili Balakrishnan

Good evening sir. I had a couple of questions. One was on the Europe growth, which seems to have accelerated a lot this quarter. Could you comment on the client wins that you are seeing in this region and how you see this going forward?

Rusi Brij

We added two new clients from Europe.

Mythili Balakrishnan

Okay.

Rusi Brij

Which actually is lower than the 12 from North America and 4 from APAC, actually both clients were in testing services.

Mythili Balakrishnan

Were in what?

Rusi Brij

Testing.

Mythili Balakrishnan

I am sorry, I did not understand that.

Rusi Brij

The two clients that are won in Europe were both in testing solutions.

Mythili Balakrishnan

Okay, both in testing solutions. Okay, see the other question which I had was basically on volumes, could you give us some indication of what your onsite and offshore volume growth has been during the quarter?

Rajesh Ghonasgi

Yeah, our onsite volume, now I am giving you hours, and I am not counting FocusFrame because they have given billing rate for the rest of our business.

Mythili Balakrishnan

Okay.

Rajesh Ghonasgi

We had the onsite volume of 464,000 odd, 464 K came rounding off the figure, and offshore was 897 K hours.

Mythili Balakrishnan

Okay. The last question which I had was basically on the people addition. During the last quarter you had mentioned something about 2000 people and during this quarter we have lost a certain amount of our head count. Are you still comfortable with your 2000 target?

Rusi Brij

Yeah, see it will be like this that 300 people we are going to add in Q2. About 650 freshers who are going to join around July or say Q3, and there will be other lateral hires done between Q3 and Q4, so I believe we will be between 1500 and 2000.

Mythili Balakrishnan

1500.

Rusi Brij

1500 and 2000, somewhere in between that.

Mythili Balakrishnan

So 1500 to 2000 is what you are giving. Thank you sir. That is all.

Moderator

Thank you very much mam. At this moment I would like to hand over the floor back to Mr. Atul Nishar for final remarks.

Atul Nishar

The revenue and profit have grown consistent to our plan in this quarter and we believe going forward also there is every reason to believe that it will be as per the medium term business plan that we have drawn, both revenue and profit would continue to grow. And with that I would like to thank all of you for joining this call, and if any of you have any queries, please feel free to contact Rajesh Ghonasgi, our CFO. Thank you.

Rajesh Ghonasgi

Thank you.

Moderator

Ladies and gentlemen, thank you choosing WebEx conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.