Moderator

Good evening ladies and gentlemen. I am Rita, 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. I will be standing by for the question and answer session. I would now like to hand over the floor to Mr. Naishad Desai. Thank you and over to you sir.

Naishad Desai

Good evening to all of you. Before I read out safe harbor statement, with me here is Mr. Atul Nishar (Executive Chairman), Mr. Peyman, (CEO of RiskTech), Mr. P. K. Sridharan (Executive Director), Mr. Ramanan (Head – BFSI Practice) and Mr. Rusi Brij is joining from US (the Vice Chairman and CEO). I would just read out the safe harbor statement.

Certain statements on this conference call concerning our future growth prospects are forward-looking statements which involve a number of risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. The risks and uncertainties relating to these statements include but are not limited to risks and uncertainties regarding fluctuations in earning, our ability to manage growth, intense competition in IT services including those factors which may affect our cost advantage, wage increases, our ability to attract and retail highly skilled professionals, time and cost over runs on fixed price, fixed time frame contracts, client concentration, restrictions on immigration, our ability to manage our international operations, reduced demand for technology in our key focus areas, disruptions in telecommunication networks, our ability to successfully complete and integrate potential acquisitions, liability for damages on our services contracts, the success of the companies in which Hexaware has made strategic investments, withdrawal of governmental fiscal incentives, political instability, legal restrictions on raising capital or acquiring companies outside India, and authorized use of our intellectual property and general economic conditions affecting our industry.

Now I would hand over the floor to Mr. Atul Nishar who will brief about the entire today’s transaction.

Atul Nishar

Good evening to all of you. I must say that I am truly excited today that Hexaware has launched this new venture that we have named as Risk Technology International Limited, RiskTech in brief. As you all know Hexaware has a strategy of focusing on under served markets with niche offerings. In line with the same strategy this new venture will exclusively focus on ERM (enterprise risk management) space and in recent years ERM the growth has been very high. Current year the global market size is estimated to be $5.5 billion and the growth rate is expected to be 18-24% in terms of expenditure.
This venture would be in the form of a joint venture and Hexaware will own 85% of the equity. We believe that this new initiative will boost our banking, financial services, insurance – the BFSI practice. Currently, as you know, Hexaware gets around 40-45% of its revenue from BFSI practice, and so far we have been focusing on two micro verticals – asset management and wealth management, both in the space of capital markets, ERM will be the third micro vertical in this BFSI space.

In recent years since the regulatory compliances and government requirements have necessitated meeting the ERM guidelines the growth has been in the double digits, and we believe that focusing on risk, technology, the ERM space will open doors in the premium banking and finance institutions for both RiskTech as well as for Hexaware.

In terms of revenue we believe that in the third year of its operation Risk Technology would be able to generate $20 million of revenue in this space alone, and what is even more important is the downstream revenue that the Hexaware will be able to generate in BFSI space by offering other services to the clients where the doors have been opened. So we believe this venture will act as a door opener as also a driver of growth in the banking and financial services space.

Let me also talk a little on Peyman Mestchian, the Chief Executive Officer of RiskTech. Peyman has a Bachelors degree in computer science and an MBA from London Business School. He is the former head of ERM practice at global leader SAS Inc. He was instrumental in conceptualizing the strategy and leading the execution of a global business plan positioning SAS as a dominant player in risk technology space and generating over $100 million of revenue. Prior to this he was with Ernst & Young, again in the business risk consulting practice. Peyman will be based in UK and I would now request Peyman to give you more details on this venture. Peyman.

Peyman Mestchian

Thank you very much. Good evening. I am delighted to be involved in this venture and in this announcement. I wanted to focus on three points: First of all, we are happy to say that we are starting this new entity not from a standing start, we can share with you the fact that we have already signed four customers with regards to our ERM offering including one of the largest banks in Europe and two of the largest banks in the Middle East. Secondly, I want to say a few words about the strategic intent here. RiskTech will be able to leverage Hexaware’s international reach, especially in USA, Europe, and Asia Pacific, and RiskTech will also benefit from Hexaware’s existing competencies in areas such as business intelligence, analytics, ERP, and also the vertical practices in asset management and wealth management. The third point is a more general trend in the market today that as you may know increasingly financial institutions are looking to move their risk technology environment away from mere compliance technology but also move it into the performance aspect getting the value from their investments in compliance technology. Therefore the combined capabilities of RiskTech which will have deep domain knowledge in ERM and Hexaware’s existing competencies and the practices that it has already developed, actually provide a unique one stop shop in the area of enterprise risk technology, and this is truly unique and highly differentiated in the current market place. Thank you.

Atul Nishar
Rusi also has joined from US. Rusi is an early riser and he is joining from the US. Rusi would you add something to this?

Rusi Brij

Yes. Thanks Atul. The few other things that I wanted to highlight were that the risk area is an area that actually is a very natural growth of our BFSI business where as Atul mentioned we are already in the capital markets and in wealth management area, so there are lots of commonality or synergy when we go to Risk Technology. It gives us tools like SAS or tools from Oracle and SAP which we already have relationship with and it is also from geography where we are already operate in which is Europe and APAC largely. So in the sense we are actually now offering a set of expanded services to a similar set of clients, some of them are already our clients and some will be new, in fact the four new customers that Peyman also now that he has brought to be table are all new customers to Hexaware and we hope that Risk Technology business should add at least 3X to 4X type of downstream business in testing for banks or ERP like PeopleSoft or any other new build on dot net Java type of applications. So it is a pretty well synergized offering, very much in line with our approach to going to organic approach towards the same market space as BFSI that expanded sort of capabilities, and I also reiterate what Atul has been saying on Peyman that we are very fortunate to have somebody of Peyman’s stature and he is the author of several articles and books on risk technologies and he is a very well known name in that space. So I believe that we have started as strongly with Peyman and his team as well as the four new clients that we added. We believe he should add at least another few more clients within the current fiscal year. A really good start to an exciting new area. I guess with that we can open the call to question and answers from all of you.

Moderator

Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions may kindly press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, kindly press *1 now. First in line we have Mr. Kunal Sangoi from Edelweiss Security. Over to you sir.

Kunal Sangoi

Thank you and congratulations to the management team. Sir could you please let us know what would be the kind of investments that you are looking over the next 3 years in this JV?

Atul Nishar

I would say that, we would not be able to give number for all 3 years, but initial phase over next few months or in the first year we have planned an investment of $2 million.

Kunal Sangoi

Okay, and what kind of revenues over the initial 2 years? Will the JV start contributing to revenues from the coming quarter itself or it will take some time before the regulatory approvals?
The company is already incorporated, so we are just in the process of now getting all the people to join the company, that was already planned, but we are not waiting for all that since we have already got the clients, we will start serving them. So I think to answer your question, from the very coming quarter the JV will be operational.

Kunal Sangoi

Okay, got it. Thanks a lot.

Moderator

Thank you very much sir. Next in line we have Mr. Hardik Shah from Asit C Mehta. Over to you sir.

Hardik Shah

Thank you. Good evening sir. Sir when do you expect the JV to contribute to the bottom line?

Atul Nishar

See well, the ’07 we would not expect this JV to add to the profits of the company since they will be investment mode, but we believe that while I am not giving any guidance, but we believe that ’08 onwards it would add to the profits.

Hardik Shah

And sir what kind of margins are there in this kind of business normally?

Atul Nishar

We are not giving as I said any guidance, Rusi do you want to comment on it?

Rusi Brij

Yeah, see Risk Technology focus that we are currently going to start with is largely along implementation of technologies from SAS and later from other products. So they would have margins which are quite similar to what they would expect in package implementation.

Hardik Shah

Okay sir.

Moderator

Are you done with you questions sir?
Hardik Shah

One last question. Sir how much dilution you expect in equity in the next 2 years?

Atul Nishar

No, we didn't understand your question.

Hardik Shah

Sir how much dilution you expect in equity in the next coming 2 years, equity dilution how much will be there?

Atul Nishar

Dilution in equity of?

Hardik Shah

Of Hexaware Technologies.

Atul Nishar

What is the relation with this venture announcement?

Hardik Shah

It is not related to the JV sir, this is normal question sir.

Atul Nishar

This JV will not lead to any equity dilution of Hexaware, in Hexaware share holding.

Hardik Shah

Okay sir, thank you.

Atul Nishar

Whatever investment Hexaware would make will be either in cash or by enabling its infrastructure to be used by this JV or its sales network. The equity of Hexaware is not changing by that.

Hardik Shah

Okay sir, thank you.

Moderator
Thank you very much sir. Next in line we have Mr. Krishnan with DSP Merrill Lynch. Over to you sir.

Krishnan

Yeah, hi, you know you talked about this four clients who have come in, what is the kind of revenues visibility that you have from these four new clients?

Atul Nishar

What is the likely revenue from four clients, Peyman would you like to?

Peyman Mestchian

The combined revenue from the four clients will approach a million dollars. All four clients are really in the initial stage relationships, the projects are all first phase of longer relationship. So, from purely a transaction and project transaction perspective they will approach a million dollar, but from a more long-term relationship we expect every RiskTech relationship to be a long-term of few million dollar relationships.

Krishnan

And this one million dollar is something which you said for ’07?

Peyman Mestchian

Yeah, I think a lot of it would depend on when the work is billable and it would vary by projects.

Krishnan

And what is the kind of downstream revenues that one can expect from the project of RiskTech to Hexaware?

Rusi Brij

See the idea here is that while RiskTech will get its own revenue in implementation of various form of risk based solutions and implementation, we would be able to sell to those same clients whether banks or financial institutions or insurance companies our normal set of testing or application of dot net Java, maintenance of BFSI applications etc. If you look at a normal ERP implementation type of procedure like we have for PeopleSoft or others, we end up with anywhere between I would say between 2 lakhs to 5 lakhs type of downstream business. So a customer with whom we have done PeopleSoft we are able to scale up to about 2-5 times the revenue and other downstream business. So I would imagine that in 3 years time if we do less than 3-4X of additional downstream revenues then we would have lost opportunity to grow in these accounts.

Krishnan

Okay, but this will be primarily driven by the cross selling of services to …..
Rusi Brij
That is right.

Krishnan
And what is the role of Pemtrad International or profile of this company?

Peyman Mestchian
Pemtrad International is purely an investment vehicle for holding the 15% equity.

Krishnan
Okay, and this is owned by the management or this is owned by, I mean?

Peyman Mestchian
It is an investment vehicle of professional team who have come together who are going to focus on the risk technology space and provide a specific service to RiskTech.

Krishnan
Sure, thanks a lot.

Moderator
Thank you very much sir. Next in line we have Ms. Divya Nagarajan from Motilal Oswal. Over to you mam.

Divya Nagarajan
Hi, congrats on your new venture. My question relates to the kind of services that we plan to offer, will it be a new solution that you are developing for this space or it would be more like a package implementation solution with customization that you are looking at? Could you give me some sense of that please?

Peyman Mestchian
Yes, it would be a combination of those. We will be taking to market and a number of packaged service propositions specifically around key regulatory compliance projects such as Basel II and these will be tried and tested methodologies and service offerings. Also through partnership with key risk technology vendors we will support the growth of some of our partners through the provision of implementation services. So, it will be a combination of those two.

Ramanan
To extend on what Mr. Peyman has mentioned, the solution offerings will not be a product based but it will be basically implementation of packages and building certain solution kits in the risk management area for customers, implementing the products in the market which are quite popular in the risk management space, and building the solution around that product.

Divya Nagarajan

Which are these products that you are looking at currently?

Peyman Mestchian

So if I may continue, sorry we got disconnected, because the question was potential partnerships with application partnerships. There already is an existing global partnership between Hexaware and SAS, which is obviously where I have come from, and we will continue to build on that partnership with a particular focus with regard to the risk technology suite, that is our stand. In addition to that we are right now looking at another 3 or 4 potential partnerships and hope to be making some announcement in that area over the coming months.

Divya Nagarajan

Thanks that was helpful. Just another question, what kind of people would you require for this JV, are you looking at domain experts, if you could give me a sense of the kind of people requirement that you will for this JV?

Peyman Mestchian

On the people side, as you know risk management in the financial services industry is very highly specialized field, so we have already in our recruitment pipeline have identified a number of key global experts who joined our senior team with deep domain and industry knowledge. Below that senior layer we will also recruit a number of middle level consultants with project experience and then the core pool of resources will be more so in the technical implementation areas of risk analytics and data management and of course RiskTech will leverage highly the existing pool of resources from Hexaware and the various practices that exist.

Divya Nagarajan

Right, thanks, I will come up for a follow you later.

Moderator

Thank you very much mam. Next in line we have Mr. Sandeep Shah from ICICI Securities. Over to you sir.

Sandeep Shah

Yeah sir, on the total market which we have mentioned, close to around $5.5 billion, I think the press release is mentioning it is largely external expenditure, which I mean that the users are using the third party software. So can you throw some idea who are the leading software OEMs in this market and where are we in terms of the package implementation partnerships with these
OEMs, and I believe there will be a lot many companies like Hexaware who will also be a software implementation partners for these kind of software OEMs, so what will be our niche while tapping this market?

Peyman Mestchian

We have already mentioned SAS has been one of the leading pack in the ERM space and will be a key partnership for us. Now there are number of others that to join that, and you know I used to head up SAS's global risk practice, so I can tell you that actually many of the larger players don’t have the deep domain expertise required to implement this business and follow through with an end-to-end solution, so the real differentiator with regard to this joint venture is the combination of skill sets that we are bringing to the table; the deep domain expertise that would be brought through the RiskTech entity, but also if you think about where enterprise risk management is going in financial institutions, there is a convergence between the risk and finance systems, there is a convergence between operational transactional systems and risk systems, back office and front office, and many of those skill sets and core competencies already exist within Hexaware in its vertical practices such as the capital markets, wealth management, asset management, and also their ERP - the finance side, so the uniqueness and the compelling value proposition here is that we can offer a one stop shop to a typical financial institution around the total ERM piece. And actually with my 15 years in the market place I don’t think anyone has that capability.

Sandeep Shah

Okay, and what will be the wallet share of SAS within this market, in the ERM market?

Peyman Mestchian

SAS announced street analysts a $100 million revenues specifically from its risk application, while the thing to take into consideration there is that similarly SAS has downstream revenues generated from its risk applications as well, so you know the definition of some of these expenditure pockets is sometimes ambiguous. But the dedicated risk software revenues crossed $100 million, and that is public.

Sandeep Shah

Okay, and who are the other vendors in the ERM space?

Ramanan

There are quite a few players in the markets, there are people like Algorithmics and Sungard, these are the key players who are already there in the ERM space with product presence today, but some of the market is also evolving, some of the regulatory and compliance related reporting markets are also still in the evolving phases, so this is where we would like to leverage our strengths in terms of building the compliance framework on top of the existing products which are available in the market and so we bring in our domain knowledge and our technology capability and the implementation expertise to tap the market to the fullest potential.

Sandeep Shah
Okay, and any plan in terms of employee ramp up in this joint venture?

Ramanan

We will start off initially with high end consulting resources from this company, we were looking at anywhere between 25-30 resources to start off this engagement with the high end consulting level eventually growing to about 300 people over a period of 3 years.

Sandeep Shah

300 employees.

Ramanan

And that is only in RiskTech, and in addition to that they will also leverage key employee strength which is currently we have more than 300 people in our business intelligence practice in Hexaware which is also growing at a rapid pace, so in addition to RiskTech they will also leverage Hexaware’s capability in that area.

Sandeep Shah

Okay, and billing rates in this space will be what, higher than the normal offshore or onsite billing rates?

Ramanan

The consulting billing rates in this space are significantly higher, it will be in par with any other consulting rates available in the market; however, the significant portion which is on the technology implementation side, will be on par with the rest of the technology implementation.

Sandeep Shah

Okay, thanks and all the best.

Moderator

Thank you very much sir. Participants who wish to ask questions kindly press *1 on your telephone keypad. I repeat, participants who wish to ask questions kindly press *1 on your telephone keypad. At this moment there are no further questions from participants. I would like to hand over the floor back to Mr. Rusi Brij for the final remarks. Over to you sir.

Rusi Brij

Thanks. In fact just in closing I would like to reiterate that this is a very fast growing market. It is 24% annual growth and as you may have heard there are lot of synergies with our other businesses and we are very fortunate in having Peyman to venture in this space. So this is a very good initiative on our part to build new business solutions. So with that we will have this
session closed, and if there are any more questions we can always do that subsequently in the email or other forms. Thank you all.

Peyman Mestchian

Thank you.

Atul Nishar

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 and have a nice evening.

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