Hexaware Technologies Limited
Earnings Conference Call

Q1 2012

April 27, 2012

Management: **Atul Nishar – Chairman**
P. R. Chandrasekar – Vice Chairman & CEO
R.V. Ramanan – Executive Director & Head Global Delivery
Prateek Aggarwal – CFO
Deependra Chumble - CPO
Sreenivas V - Chief Strategy Officer

For further information, please feel free to contact
Sreenivas V
Chief Strategy Officer
E-mail: sreenivasv@hexaware.com
Phone: +91 99401 90091

Moderator Good afternoon ladies and gentlemen, welcome to Hexaware Technologies Limited Earnings conference call. As a reminder all participant lines will be in the listen only mode, there will be an opportunity for you to ask questions at the end of today's presentation. Should you need any assistance during the conference call, please signal an operator by pressing "*" 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 Ms. Gidwani.

Latika Gidwani Good afternoon to all of you and welcome to the Hexaware Q1 2012 Earnings conference call. From Hexaware we have with us Mr. Atul Nishar-Chairman, Mr. P R Chandrasekar-Vice Chairman and CEO, Mr. RV Ramanan-Executive Director and Head Global Delivery, Mr. Prateek Aggarwal-CFO, Mr. Deependra Chumble – CPO and Mr. Sreenivas-Chief Strategy Officer. The safe harbor statement is available on the Hexaware Press release and also on our website so I will take that as read, handing over to Mr. Nishar for opening comments.

Atul Nishar Good afternoon to all of you and appreciate your interest in Hexaware and joining this call. This has been one more quarter where I am extremely pleased with the performance of the team. Sekar and team continued to do a great job and this is a 8th consecutive quarter where we have well outperformed the industry and I'm sure in the medium-term this outperformance is likely to continue.

If we see some specifics where I'm particularly happy about Q1, the volume growth has been 6.6% which is very sizeable, the offshore percentage has gone up as high as 1.7% that shows not just the improvement in revenue but the quality of the revenue has also improved.

We outperformed the guidance, we had guided for 87.5 million at 4% and those of you recollect when we gave that guidance there was misbelief that we will really grow at 4%

the guided number. We have well outperformed that at 4.7% growth. If you look at the margins the most important margin of gross margin has gone up quite well, on a constant currency basis by 140 basis points quarter-on-quarter, even on the actual basis it has gone up by 60 basis points and 41.3% is quite healthy which again reflect the health and quality of the business that we do. The other margins, the EBITDA margin which is another major indicator on a constant currency basis has improved by 40 basis points and which on a constant currency basis would have been 23.4% which of course at 22.4% in the actual term is down by 60 basis points quarter-on-quarter as against the impact of dollar-rupee rate difference which is 3% appreciation of 100 basis points on EBITDA margin. The PBT has improved quite well and that is up 5.5% quarter-on-quarter. However, the tax outflow has increased substantially by 5 crores and in spite of that the PAT level we are higher than last quarter's profit.

Apart from the revenue and the margins which remained quite healthy, the several very positive indicators if you see in terms of clients we have added 12 new clients for the client addition continues to remain quite healthy and the active client number has gone up from 190 to 201. We have won two large deals which Sekar can talk more about during the quarter and the number of large deals that we are pursuing.

On the people front we added more than 300 people, of that to 230 are fresher's which of course has reflected in our low utilization which includes trainees. The attrition which is another major indicator of how the employees view the company is 11th% which is 4th consecutive quarter of reduction in attrition which is again among the lowest in the industry. This is our last 12 months basis so not even any specific move of the quarter.

The working capital management Hexaware has always been very efficient which is one more indicator this quarter is the reduction in DSOs at 52 days down from 62 days last quarter so that shows the efficient management of working capital. So these are the various angles if you look at the company has done quite well.

If you look at the last eight quarters the CQGR has been 7.7% and along with that there has also been a margin expansion which is 22% EBITDA growth over last eight quarters on quarter-on-quarter basis. If anyone thought this is a short-term phenomenon, over last nine years we have grown at 22% CAGR and 39% in terms of EBITDA. So there has been consistent growth and I have confidence that we will maintain the same at least in the short to medium term. So Sekar would you take it forward.

P.R. Chandrasekar Thank you Atul. Thank you all for joining this call and continuing to show interest in Hexaware. I don't want to put it in this way but I think there is no better way to say it except that there is not much to say. Numbers, I think to some extent, speaks for themselves. Atul I think spelt out the fact and we spoke about the various numbers of Hexaware's performance during the quarter. What is to me particularly satisfying is the fact that the growth in the operating performance of the company has been very broad based that has been one of the endeavors of the management team.

So if you look at it from a revenue perspective volume grew that growth have come in all geographies. US, Europe, APAC also have been strong; it has come in two of our verticals, travel and transportation as well as healthcare and insurance the newly formed vertical which has given us a good growth. BFSI has been stable which given the trend from some of the other peers in the industry has been satisfying and more important is the fact that we have won several new customers in the BFS in this particular quarter that is Q1 and more importantly based on pipeline, based on the information we have from our customers, we feel actually quite good about the fact that we will actually see growth in BFS in Quarter 2 therefore frankly to answer you, even to us it allays some of the fears one gets when you read some of the news about performance from the industry from which we are not immune.

So that is from a vertical standpoint barring BPO which have been a difficult environment in terms of given the labor and the unemployment and some of the other situations, all of our horizontals have grown. Particularly satisfying is the fact that the highest growth horizontal continue to perform very strongly, specifically business intelligence as well as infrastructure management. These are horizontals which we have invested a lot of resources, lot of management attention and people and it is good to see them not only now delivering good growth but more importantly as we could see from this quarter numbers they are now beginning to open doors for us which is also a part of our theme. So for those of you who have felt that Hexaware as an organization is PeopleSoft and PeopleSoft is Hexaware. I think the last few quarters have demonstrated that not only are we opening businesses in using our vertical capabilities now we have opened doors using PeopleSoft of course and as you can six customers have been opened in this quarter with enterprise solution but we are now opening doors with business intelligence as well as infrastructure management services which to me is a very healthy sign. In fact one of the theories I have is that in a very peculiar way for you to continue to maintain this growth you need good large sized accounts there again we have delivered well.

One the number of million-dollar customers have gone up to 55, the number of 10 – 20 million-dollar customers have gone up to three as well as the average size of our top-10 clients continues to increase quarter-on-quarter and as we told some of you have attended our investor meet last quarter it actually has doubled in the last 24 months which again allows us to demonstrate the kind of operating improvement we have on the margin front. Atul has talked about it at length and I'm sure Prateek will also explain a little further. But it is good to see gross margins, EBITDA, EBIT from a constant currency basis, all going up and to me that's the testimony to the kind of performance we have as an organization.

Finally, we have continued to invest in this organization which is one of the reasons our SG&A has gone up but for those of you who might be a little concerned that as a percentage - is this a trend of increasing SG&A? The answer is no. Yeah we will continue to invest in our future growth but I do anticipate that our overall SG&A will settle at about 18% over the year. Our repeat business is strong, top 10 clients remains strong notwithstanding some of the news that were there in the quarter so I want to settle back we see good business there as I already mentioned BFS remains strong and the outlook is good for the next few quarters.

Our large deal pipeline, I know there was a remark I read in at least one of the analyst reports put out that we did not announce a big deal this quarter, we would have loved to but I do want to tell the people that we do have 6 decent deals which we are actively pursuing at this point in time, two of them are in advanced stage of discussion and while clearly we cannot talk about it now and I'm superstitious about counting chickens before they hatch. I would like to say that we are pretty well-placed which again should add to our growth momentum. We are more than happy to answer all the questions but before I hand it to analyst community listening to us, I give it to Prateek who will walk you through a little more detail on the financials. Thank you again.

Prateek Aggarwal Thank you Sekar. As per usual schedule I'll walk you through the movement on the quarter-on-quarter basis, both on the revenue line as well as EBITDA.

To start with on the revenue line there are four factors which drove our increase of $3.9 million for a quarter to quarter basis. The biggest one and we have mentioned earlier is $5.6 million increase which translates to 6.65% volume growth and that has really been the largest factor in delivering the $88 billion that we have delivered this quarter. $2.1 million was actually a negative movement due to the offshore movement which as you know offshore rates are about 1/3rd of onsite rate so 2.1 million negative is the movement because of that factor. We gained about $0.3 million on account of better billing rates on site and the cross currency benefits gave us about $0.1 million as well. So those four factors 5.6 million volume growth, 2.1 million negative due to shift to offshore, 0.3 million increase is bill rates and 0.1 million from benefit of cross currency rates.

Moving on to the EBIT margins, large number of factors drove the 60 basis points improvement in gross margin. To start with the offshore mix improvement gave us additional 45 basis points. The bill rates gave us another 20 basis points as well. FOREX the rupee appreciation of 3 percentage points on a quarter-on-quarter basis took away 75 basis points at the gross margin level and utilization was lower by about one percentage point that took away about 35 basis points as well. The balance 105 basis points improvement in gross margins is basically from the improvement in the human capital, the pyramid that we have on the delivery side as well as other efficiency factors. Other efficiency factors include the betterment from the huge volume growth of 6.6% during the quarter. So on the SG&A front we had a decline of 120 basis points, 25 basis points out of that 120 is explained due to FOREX again the 3% appreciation of the rupee and the balance 95 is really we have added more people and we had a few once in a year kind of activities like sales kick-off summits to start the year of as well as a few extra costs and as Sekar mentioned earlier we are looking at for the year SG&A spend of something like 18%. So that drove really the EBITDA margins on the quarter to quarter down by 60 basis points on reported basis but if you factor out the 100 basis points of the strengthening Rupee through FOREX impact, we actually grew on the constant currency basis by 40 basis points.

Moving on below the EBITDA line, we had depreciation go up on the quarter-on-quarter basis because we grew people, we have added floors in both our Chennai campus as well as new building in Mumbai has been added to the CAPEX to the asset base. Moving onto other income it was largely flat on the quarter to quarter basis. On the FOREX line we gained 2.6 crores this quarter versus a loss of 5.3 crores last quarter so that's one good almost 8 crores in our favour what we lost at the EBITDA and EBIT lines we gained back most of it because of our hedging program. The effective tax rate for the quarter was finally at 15.7%. I must state this number with the ending of the financial year April to March. As we step into April to March next fiscal year this number is forecast to go up. As I have said earlier 21% effective tax rate is what we expect going forward because of the completion of the usage of certain tax shields which we closed at the end of March this year.

Few other statistics quickly to cover DSO, we have ended the quarter with 52 days including unbilled basis we continued to be at 72 days which was the same last quarter. We had a CAPEX during the quarter of 21.3 crores and the board has taken a decision to pay out 58% of the profits during the quarter which translates to 75% dividend declared on Rs.2 a share which comes to Rs. 1.50 per share. So with the final dividend for the last year which should get paid out early next week this will be another Rs.1.5 per share which would get paid out on the May 17th as per our schedule. We ended the cash at 31st March with 490 crores. I must point out there is hundred and three crores almost which will be paid out during the month of May and then of course we will start the climb back once again.

With that I complete the financial metrics. Over to you moderator.

Moderator Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone. Participants are requested to use handsets while asking a question. Anyone who has a question may press "*" and "1" at this time. We have the first question from the line of Sandeep Shah from RBS Equities, please go ahead.

Sandeep Shah Congrats to the management for consistent and good performance on all counts. Firstly on the BFSI can you give us some color on what is happening, is it broad based across most of the clients or is it in the selective buckets in terms of the caution and spend to budget ratio remaining low?

P.R.Chandrasekar I am assuming you're referring to specifically Hexaware because I am not providing a comment on what's happening in the overall financial services marketplace. I think there are larger peers you guys have probably have a better feel for that so commenting on our specific customer base only. As you are aware the particular business you're talking about includes both banking vertical as well as a capital markets business of which we are clearly have a larger portion of our revenues coming from the capital markets business and there frankly growth is fairly broad based across most of the customers. There have been ups, there have been a few downs, nothing major yet I'm talking of Q1 in particular again. We also have some opportunities opening up for us in Europe and the indications in our deal pipeline as well as things that we have done in Q1 shows that both in North America as well as in Europe, in fact we also opened up a customer in APAC. All of that combine will actually lead to some growth Sandeep so I don't know if I'm quite answering your question. Growth is fairly broad based;

most of the clients have grown. There have been one or two that have been stable; there have been one or two where we did end one or two projects but nothing that is the source of concern where it has been down. We are pursuing some decent deals in these areas. Our EDM 3.0 that we launched has been taken off very well with the clients so all in all it's fairly good I must say. I don't know how else to answer that question actually.

Sandeep Shah Just further to that, flattish kind of performance in BFSI was as per your expectation when you enter the quarter?

P.R.Chandrasekar Yeah I was hoping for a little more growth. I will be honest with you but at the same time we also knew that there were one or two clients where certain projects were coming to an end. So it's not anything that I'm disappointed with but it was more or less in line. I do expect next quarter where we will show growth in our BFS on a quarter-on-quarter basis.

Sandeep Shah Any color in terms of operations coming through vendor consolidation within BFSI or within our set of clients?

P.R.Chandrasekar Nothing specific but I want to add a couple of things which is where clearly the dynamic out there is, the competitive situation is still pretty competitive, and customers are looking for innovative ways to streamline their operations. Having said that the good news is that at least over the last year-year and half was most instances where we have been an incumbent and consolidation has taken place. Fortunately we have actually come out better. So when one talks of consolidation because the tone of your question seems to imply that it is necessarily a bad thing. I would like to suggest that for us it is actually been a good thing.

Sandeep Shah For most of our large clients these renewals must have happening within BFSI for entering into CY12?

P.R.Chandrasekar Broadly yes Sandeep.

Sandeep Shah Then coming to the two new deals of 10 million each, I presume these are new businesses and then you give us color in terms of tenure and the service lines?

P.R.Chandrasekar As we can kind of I am sure deduce from the commentary about the wins, both are in the horizontals using our enterprise solution, capabilities.

Ramanan R V As mentioned these two deals are on the Enterprise Solutions space, primarily related to PeopleSoft. One is large financial consolidation project where we are helping one of the Fortune 500 companies in terms of their financial consolidation of their IT ERP systems which in turn with that way reduce a footprint on IT and bring an overall consolidation effort which is a $10 million over two year period.

The second one you are talking about is the large insurance customer where we have actually going through consolidating their HR systems. It's a combination of building a centralized HR system as well is moving them into a SaaS based model software as a service model.

Sandeep Shah And what is a tenure there?

Ramanan R It also is a 2 year range.

Sandeep Shah In terms of margins...

P.R.Chandrasekar I did want to add one more thing which is that although we entered through this enterprise solution space, in both of these clients we are now offering other service lines as one and so while tenure of these particular projects are for two years. Two things are worth noting, one they have extremely high visibility given the nature of transformational nature of both these engagements number-one. Number two they as a group are extremely confident that they in turn there will be a lot of stickiness and they will become fairly important client for Hexaware.

Sandeep Shah So one is the new client and one is the existing client?

Ramanan R V Both are existing clients. One of them has been acquired in the last 12 months but both of them are existing clients that we have……..

Sandeep Shah And are they top 10 or smaller clients ramping up?

Sreenivas V No, They are both outside our top 10.

Sandeep Shah Just on margins if I'm not wrong, are we guiding that despite of wage inflation the margins on a constant currency basis are likely to be maintained at the first quarter or may improve?

P.R.Chandrasekar What you are saying is that for a year, we will be maintaining these margins. During the Quarter 2 we will be declaring obviously wage increases off-shore. There is going to be an impact of that wage increase on our margins. Having said that we are also expecting that we will recover some of these downsides of that wage increase through both volume as well as operational improvements, as well as a little more movement offshore so the impact will not be to the extent of the wage increase.

Sandeep Shah Can you give color in terms of wage increase planned, effective April-May-June?

Deependra Chumble Right now we are in the process of the appraisals going on as we talk. We hope to complete these processes in next two to three weeks time. From our perspective, annual wage revisions which was always planned from the beginning and I must add here that we will have the wage increases, salary increases effective 1st April, there is no change in that and even the percentages planned are also as per the plan which we did in the last quarter that we will continue to the double-digit kind of increase for this year also.

Sandeep Shah So Sekar what we're saying is for a year as a whole we're looking at closer to around a similar margin on constant currency basis?

P.R.Chandrasekar That is correct Sandeep.

Sandeep Shah On a YOY Basis?

P.R.Chandrasekar Yes sir. At Q1 2012 levels on a constant currency basis

Sandeep Shah And there was a comment that SG&A would be 18% for whole year of CY12?

P.R.Chandrasekar That is the comment because the reason I made that comment was, if you look at our Q4 of 2011 we had dropped under 18%. However in Q1 we went up to 18.9 so I just wanted to go out of my way to little bit to indicate that our trend is not in an upward direction, we are very much in control of our SG&A we have been working very hard to manage over the last two years and that's the kind of range we are looking at for the year. even our plans in terms of sales and marketing as well as other SG&A expenses.

Atul Nishar At the same time along with scaling up arithmetically one can say it should fall even below 18% but we will invest in sales and marketing. The idea is to make adequate investment to sustain growth so even this quarter we have added about four sales people in this quarter so we will continue to invest in sales and marketing and therefore around 18% would-be the right indication.

Sandeep Shah And just the last one the six large deals which you are talking we continue to maintain that the deal sizes would be about $25 million?

P.R.Chandrasekar That's right, six large deals we are actively pursuing. Yes our definition is each over 25 million.

Sandeep Shah And all of them are the additional new businesses or is it renewal of older ones?

P.R.Chandrasekar The ones we are talking about are all additional new businesses. I did want to add before you come back with this. The good news is that while our previous deals have primarily been with existing customers I think one of the noteworthy features about at least a few of the deals we are pursuing is that they are with new clients.

Sandeep Shah I will come in the follow-up all the best and thank you.

Moderator Thank you. We have the next question is from the line of Kunal Sangoi from Edelweiss. Please go ahead.

Kunal Sangoi Thanks and congratulations to the whole management for good numbers. Sekar my question is with regards to some of the deals that you have been pursuing. If you could highlight has there been any change over the last year six to eight months in terms of the size of the deals that the clients are looking forward in terms of $10-$40 million or $25 to $50 million and if you could highlight how vertical wise quarter what are kind of key drivers that you see at this point in time from the spending perspective?

P.R.Chandrasekar I can't really talk about the pattern in terms of customer preferences, I think the trend for the big bang large deals declining has been well reported by advisors such as TPI and everyone else and I must say that the deals we are talking about are in the 25 million plus range. There is, I also want to say although I didn't want to, at least one which is significantly larger actually two which are significantly larger. If I were to pick a trend I would like to mention and I don't want you to read negative in this is that some of these deals can also be reasonably complex which by that I mean it involves the capability to deliver fairly complex services sometimes on a redesigned platform or a completely new service so from an execution standpoint it is fairly sophisticated that's number-one. Second all of them are quite competitive so the point I'm making now in this world there is no deal regardless the size where it is not competitive that's number two. Number three, there is a fair amount of work that needs to be done either from a people or a financial standpoint. I think some of these deals will involve that. So in that sense it will test our mettle but at the same time it also demonstrates that as an organization we have also evolved a little bit, in our ability to win these deals and the fact that in at least two of them where we are even competing, I would say in fact in everyone of them we are competing with the big boys.

Kunal Sangoi No doubt about the effort through the last two years that you guys have put in terms of strengthening the front end plus account management so definitely that has led to this. Now the only question is that with regards to some of the capabilities or if you could highlight some of the operational parameters where you see scope of improvements within the organization?

P.R.Chandrasekar One clearly is that and although we have been endeavoring as an organization over the last two years very, very consciously is operationally improving the pyramid mix of the organization that endeavor continues like we pointed out three years ago our percentage of fresh intake of an overall intake was almost zero, last year it went up to about 35%. The objective in 2012 is to raise that to in excess of 40 to 45% that is one. Two, as our customer size as well as our deal size increases we are also clearly pushing the lever a little more both consciously, it also enables us to do that, it is movement towards offshore which again you would have notice the trend barring maybe one quarter where there was a little bit of a change, mainly because there was an increase with the couple of clients on-site so that is also an area which I think will help us on the margin and efficiency front. Our third piece that we are talking about is that Atul mentioned is continue to remain fairly conscious on our SG&A expenses but at the same time continue to invest in our sales and marketing. Finally, there is also been each of our verticals and horizontals that I'm going to ask Ramanan to talk a little bit more. The whole planning process in terms of where they are going to focus their efforts in terms of customers, in terms of domain as well as in terms of technology is very well and clearly spelt out and there was investments in COEs, etc., are continuing along our well laid out plans.

I want to let Ramanan talk a little bit about some of the efforts in that area.

Ramanan R As Sekar mentioned our investments in terms of COE and innovation continues. We have set up COE centers across various technologies. They are actively investing in the newer and emerging technologies. Some of which may not lead to immediate revenue but are the trendsetters for the future direction of the IT industry, for example cloud computing, social media analytics, mobile computing which is both if you had seen even in the press release we have given, we have talked about the mobile testing accelerator saying that we are the first one which ever come out, we have built testing accelerator framework. So there are a lot of investments in terms of bringing up closer to the new technologies, keeping up-to-date with the industry and also coming out with new business models to actually meet the new technology initiative. Primarily when I'm talking about that something like SaaS based model which is becoming more operational than the traditional model as we see that option is really going up. We will be also building our own SaaS based platforms, we are also investing in building capability in tying up with implementing SaaS based solutions on servicing different kind of an integration effort. So these are all the kind of R&D work, the kind of innovation, and those activities continue and those will be the investments for the future.

Kunal Sangoi Last question to Prateek, Prateek if you could break down the FOREX gain that you have had this quarter into translation gains and the realized FOREX gain or loss on hedges.

Prateek Aggarwal The numbers are basically a loss on both the translation because monetary assets and liability they came down from 53.1 to 50.87 so there was a loss on that and as you know our hedge rate was at 48.20 or thereabouts and the average for the quarter has been 49.78. Where we made up as overall we have a gain is on the partial term hedges that we have, we gained on the premium on those.

Kunal Sangoi Partial term hedges?

Prateek Aggarwal That's right.

Kunal Sangoi Maybe I will take this offline I didn't understand. Thanks and all the best for the future.

P.R.Chandrasekar Thank you Kunal.

Moderator Thank you. Next question is from the line of Srivatsan Ramchandran from Spark Capital. Please go ahead.

Srivatsan R I just wanted to understand slightly better one of your most silent achievements, the attrition is down almost 11% at this point of time which is possibly the lowest in the industry. It will be helpful if you just help us understand what the secret behind it is and do you see if this is the kind of sustainable level in at least for the medium-term?

P R Chandrasekar Before I pass it to Deependra I would like to say people are enjoying what they do Srivatsan so when they enjoy what they do they stay. There is growth, there is opportunity we're winning deals so clearly there is a reason both in terms of the future as well as the type of work we have been doing for which we would like to believe that the attrition has come down. But I will also let Deependra elaborate little bit more. We do hope that we continue at this rate in terms of attrition.

Deependra Chumble The first consideration remains the growth opportunities within the company. We have grown financially that has given tremendous confidence to all the employees; the motivation levels are definitely high. People can see new deals happening and more work coming into India at the same time even on-site opportunities for many of them. We have also increased our communication channels from regular frequency. Many more channels have been opened. We have increased the employee engagement activities in manifold from what we were doing before. We see more participation from the employees also coming from that perspective. All of these put together and I would like to say that to a large extent we must be paying some competitive salaries because that remains one of the considerations and with the salary hike coming we are cognizant of that particular fact and that's why it has mentioned that we will continue to pay the double-digit as well effective 1st April, all of these things are positive where we particularly see the external environment which is not necessarily the same way. While we continue on our path as we had planned and inform to the employees.

P.R.Chandrasekar One more small thing and I haven't done the math which also contributes is the fact that over the last two years we have added 1400 and as the percentage of the fresh student intake increases in this community and to some extent that also helps TCS who traditionally has been the leader in terms of attrition. So in their intake is close to about 43,000 odd in a year, to that extent it does help your attrition levels but to some extent we have also gained from that front, both in terms of attrition as well as in addition of fresh new blood in the organization.

Srivatsan R My next question relates to the BPO, what is your medium-term strategy for this piece of business because if we see around most mid-caps don't have a BPO as an offering so just wanted to know what is your medium-term strategy for the BPO? Is it going to be stick to PeopleSoft, HR related BPOs or are you going to diversify into other areas especially the BPO strategy over the medium-term.

P.R.Chandrasekar BPO remains important element of our business but as a percentage it has been dropping a little bit not because they have not grown, more because the IT side of the house has been growing a little faster. But the fact is that in the Caliber Point has been operationally a very strong Business Unit and in fact over the last year or so we have very consciously worked on diversifying the portfolio services. HRO is an area they have always been well-known and given the original, initial focus of Hexaware on PeopleSoft and HR has been remained strong. But we have added F&A, we have got at least 4 or 5 customers now in F&A. One of the deals we are talking about deals that we mentioned actually is an integrated IT-BPO opportunity. So to that extent Srivatsan it will remain an important element and going forward we will further strengthen our capabilities on the field. We have hired a new leader to head our BPO field sales operations. We have introduced a field sales presence in Europe where we have not really gone after that market historically. So the strategy will be to get into F&A well clearly there are larger volumes compare to HR. we have also if and when hopefully we win these larger deals gives us an entry in financial services BPO as well and we are also increasing our field presence and parallely we are trying to formulate integrated solution for example Republic which is the platform that we launched last year is an integrated IT and BPO-HR platform which we will be further strengthening and launching with capabilities for multiple languages in countries as well. So clearly it is very much element of our strategy going forward. However, I must say the growth has been challenging partly because of the kind of labor climate and the economic environment in the both United States as well as Europe but we view this as an area that will remain a good focus for us.

Srivatsan R Sure that's it from me.

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

Manik Taneja Congratulations to the team for good execution. Just wanted to get a sense on demand environment within top client for you guys as well as if you could talk about the ramp ups on some of the large deals that we won in CY11 and then in terms of the large deals that you pursuing right now, you mentioned some of the large deals could involve some financial investment or in people transfer, if you could elaborate on that front and last question would be for Prateek in terms of what proportion of our total hedges right now would expire in CY12 and what proportion would go into CY13?

Sreenivas V In the quarter gone by you have realized that our top client has given us a double-digit quarter-on-quarter performance. If you look at our top 10 also, top-10 has led growth and in percentage terms it is around 53% of the revenue now.

But more importantly the two deals that we have signed are outside of the Top 10, Ramanan spoke about the two deals. But the deals that we are pursuing, we are pursuing 6 of them now, two of them are in fairly advance stages, out of the two one is a completely new client and the other five our spread across both existing and new clients. The deals which may require people transfer or the deals which may require financial investments are currently work-in-progress. We will speak more about size, implications and other once we close the deal. It is premature to talk about them know. But these deals cuts across both US and Europe, these deals cuts across financial services, travel transportation and what we call as emerging verticals so it is fairly broad based in the market space.

Prateek Aggarwal Regarding your FOREX hedges question I won't be able to give you exact figure. But as we say our hedge book of $203 million is spread over eight quarters so on a rough state basis three out of eight quarters are in 2012, four in 2013 and one quarter of 2014 on a rolling eight quarter basis. So you can roughly take it as 40 and 20 kind of.

P.R.Chandrasekar I'm also assuming Manik you are aware because I think we have mentioned it before that as our hedging policy has remained consistent, it has not really changed as a result of the volatility in the last quarter or in the last few days or in the last week or so. Clearly it is governed by policies laid out by our FOREX committee which is run by the board. It's an area where we watch it carefully but at the same time the primary objective is to protect fundamentals of our business and simply put its based on a rolling 24 months basis where for the first 12 months we take 80% of the underlying cover as well as 50% for the next four quarters so that's the broad policy that we follow. Once you figure it out as Prateek mentioned you can then calculate a little bit of what is the exposure for this year and in the next.

Manik Taneja Thank you.

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

Ashwin Mehta Congrats on a good set of numbers. The questions, first Sekar what is the reason for not raising guidance despite the 1Q beat and the positive commentary on deal flow, what is making us cautious?

P.R.Chandrasekar You used the word cautious not me. Frankly I don't want anybody to read too much into it one way or the other. We gave the guidance of 20% in February of 2012, this is April of 2012. The year as far we are concerned is still early. We have a good first quarter. We have given decent guidance for Q2. We are not trying to suggest that our momentum in H2 is slowing down but it is satisfying. We don't feel like a compelling need to raise guidance either. So don't read too much into it, as the year progresses if required we will do so. But as we feel that given the commentary from the marketplace in general, at this point in time where we are at is a good place to be.

Ashwin Mehta The second question is on the on-site pricing increase that we saw in this quarter. Is it more a mix function of analytics going up or this is something which we got on a like to like basis?

P.R.Chandrasekar Very clearly that has helped because if you think about it our pricing, even in the worst of times has been good. We have continued to increase this and that is largely on account of the mix of our business.

Ashwin Mehta And last question is for Atul, in terms of our dividend policy. Are we looking at keeping it steady at current levels and secondly for Prateek in terms of what is the CAPEX outlook for the next year?

Atul Nishar When the year began we had indicated in February that we would look at around 50% of the profit as payout. So a few per cent plus minus not so much the point, we would like to continue to have a policy where we have a decent pay out but as a percentage of profit, we would not look at any one time dividend or any large outflow or any such thing. It will always be a percentage of profit and broadly I would say the current policy of dividend payout would continue which we have started more than a year back. We had said we will give every quarter dividend, we had said it will be decent percentage. Last year we gave 53% of the profits as dividend so unless it is in the same region that we would maintain.

Ashwin Mehta And lastly on the CAPEX outlook for the year?

Prateek Aggarwal Ashwin as you know we follow the calendar year, our outlook for the calendar year 2012 is 65 to 70 crores. Out of which in the quarter one we have already spent about 21 crores so for the balance three quarters we expect to be in the region of 45 to 50 crores.

Ashwin Mehta Thanks a lot and all the best

Prateek Aggarwal Thank you Ashwin.

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

Kunal Tayal Thanks. Just one question from my side and the business intelligence part of your business, if you could give some more details as to what the typical deal sizes in the service lines and how much would you think is the annuity component here?

Ramanan R V Business intelligence portion comes in about three different forms. The first area which is basically data extraction the & migration, there is the high-end area which we call as the analytics piece of the business and then there is a significant portion of downstream revenue which is generated out of reporting services. The reporting services revenue tend to be annuity in nature, the extraction migration as well as the analytics tend to be project based. If I would give you a flavor of it about 70% of our revenue comes from annuity in the business intelligence area. Though the analytics is the leading-edge, we win projects using the analytics. But the effective revenue comes from the downstream which is the reporting services. We do work across various platforms in the business intelligence section. We do have a very highly domain flavored BI structure, for example Sekar mentioned something in the capital markets, the EDM structure which is enterprise data management which is primarily a warehousing structure which is done for the capital market industry. We have built a new framework which is a BI work, predominantly BI work with highly domain orientation. Even the analytics piece which we have built-in, we have specialized analytics for example like credit card industry. We have specialist analytics for the HR analytics vis-à-vis the performance analytics, employee engagement analytics, and various kind of analytics depending on the kind of the domain which we do. So there is a multitude of work in terms of analytics reporting in data extraction and data warehouse of building. As well as the annuity piece of it, it is pretty high about 70% would still be annuity business. Deal sizes tend to varied, in fact one of the customers which we have which are a pure BI customer the revenue is in excess of $5 million per year and he has been a customer for the last 5 years now. So he is a continuing customer, in revenues in excess of $5 million per annum and that is an all in all BI component. In another client, where we do a large amount of healthcare work where we do the work for the client, the significant portion of work is actually extracting data, putting in the warehousing components and generating their various segments reporting out of it. Almost 90% of this analytics is annuity based and the customer is a very large customer in excess of $10 million customer which we currently do. So the BI work tends to happen across all sectors, the deal sizes vary but we do work on all the spectrum of the BI

Kunal Tayal Got it, if I could ask roughly with how many clients will be working on the BI side?

Ramanan R I would think between 45 to 50 clients we will be working on the BI side.

Kunal Tayal That's helpful.

Moderator Thank you. The next question is from the line of Vimal Gohil from Asit C Mehta Investments. Please go ahead.

Vimal Gohil Thank you for the opportunity. My question is on your hiring for the next year, you have indicated that he will be hiring around 1500 employees. So how much of that would be freshers?

Deependra Chumble Freshers as per the planning is somewhere around 650 to 700 and balance will be lateral hires.

Vimal Gohil Thank you.

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

Deepesh Mehta Sir I have three questions, first is I just want to understand about healthcare and insurance segment, it is showing good traction so can you provide which segment is driving growth and overall what is the demand outlook there. Second question is about margin outlook, you suggested in constant currency we would like to maintain margins. I just want to clarify whether we are suggesting Q1 margin or CY11 margin. Third is about what would be the loss on rollover cash flow?

P.R.Chandrasekar Let me address the first two. I couldn't quite follow the last question that you asked so first let me address that. The healthcare and insurance piece you wanted to know where is the growth coming from. Frankly the answer is both, at this point we don't give a breakup of those but clearly in the healthcare space where we do have a large client who has contributed a good amount of revenue to us. Insurance in the last several quarters we have seen some good growth, we have a particular client that we won in the last year so. Although we provide more horizontal kind of services that has been an area approach but to some extent the base effect have also helped us because relatively speaking it has been a smaller vertical and therefore it has grown but it has come both from the healthcare side as well as the insurance and I'm sorry I'm not able to give you anything more specific than that.

On the margin front when we say that we would like to maintain these margins, clearly we hope and the expectation is that these were margins comparable to the Q1 2012 level for the full year.

Deepesh Mehta I just want to understand is because in cash flow statement we are not reporting quarterly so I just want to understand last year in our annual report, the deferred cancellation on loss rollover cash flow is about it becomes so what will be the comparable number in Q1?

Prateek Aggarwal Deepesh first let me explain to you what that line item means. I spoke a little while back about something call partial term hedges. These are hedges which are for maturity which is lower than the ultimate maturity of that period, of that underlying exposure. I don't want to use too many technical terms trying to keep it as simple as I can. But basically it means that we're trying to capture the higher premium that is available for shorter durations of time as compared to longer durations of time and specially when we're talking about covering for the second rolling year which is months 13 to 24, it makes sense for us to take a hedge for a shorter period of time and keep rolling it over on each maturity, by doing which we get total premium which is much higher than what we would have got as compared to going for a full term hedge. We can talk offline if that is not clear but I'm trying to keep it as simple as I can and I can explain it offline in more detail.

Deepesh Mehta Okay maybe I can take it offline thanks.

Moderator Thank you. We have the last question is from the line of Shashi Bhushan from Prabhudas Lilladher. Please go ahead.

Shashi Bhushan Thanks for taking my question and congrats on a good quarter. What will be the comfort of the level of offshore leverage that is possible for our business model?

P.R.Chandrasekar We are at about 46, few quarters ago we were at 43 so we have moved up effectively over the last several quarters by three percentage points. At least what we have given the mix of our business which is a lot of it is BI; a lot of it is enterprise solutions so the initial stages of it tend to be more on-site centric. We also have even in our testing domain, testing horizontal a good component of it is somewhat higher end automated testing, consulting services and finally even in our capital markets area there is a fair amount of domain and high end work that we do. For us the offshore percentage of about 50% would be a good target to set for us at least in the next year or so.

Shashi Bhushan And the 12 clients that we added in this quarter, what are the verticals in which these clients were added?

Sreenivas Shashi we have detailed it out both in terms of geographies, verticals and horizontals. So from specifically since you asked verticals three clients are in the BFS space, one client is in the travel transportation space, one client is in the healthcare and insurance space, the others are in the so-called emerging segment.

So if you look at the horizontal component you will see that six clients are in the enterprise solutions which should constitute most of the emerging vertical so this is the breakup.

All the numbers are in the press release in case if you just want to read through what I said.

Shashi Bhushan And our billed DSO has gone down significantly but un-billed has gone by the same magnitude, what is the reason for this? Is it like some large project on this and that is for the same or some fixed price project?

Prateek Aggarwal Actually our DSO including un-billed is pretty much steady on the quarter-on-quarter basis. We had 72 days last quarter and we continue to have 72 days this quarter.

Shashi Bhushan So billed has gone down from 62 to 52, including un-billed it has remained steady that means un-billed has gone up in this quarter so just wanted to…

Atul Nishar We can be more efficient in collecting once you billed something. So 62 we brought down to 52 by extraordinary efficiency but when we don't bill a customer we can't collect it. So un-billed there is no way we can collect so only the billed part that can be collected. So we can improve efficiency of reduce efficiency once we bill. The un-billed portion is beyond our control or if you compare with the industry at 72 days is much more efficient than many other companies that I have seen. I'm saying what is on financial parameters or on metrics whatever is in our control we can improve. Certain things are beyond our control. What is not billed is not in our control, FOREX is not in our control, certain thing which are not in our control we cannot do anything.

Shashi Bhushan Thanks that's all from my side and all the best for 2012.

Moderator Thank you. I would now like to hand the floor over to Mr. Atul Nishar for closing comments.

Atul Nishar Prateek wants to just add one comment before I thank all of you.

Prateek Aggarwal I just wanted to mention one thing as you might have noted, this quarter is the quarterly audited quarter instead of a limited review quarter like we used to have. So this quarter we have audited books of accounts and Deepesh to your point about cash flow we will be publishing the audited numbers on the website and you can see the cash flow in that.

Atul Nishar I would like to thank all of you for your interest in Hexaware. We are grateful to all the analysts, investing community for consistent and very strong support to Hexaware. We value the trust that you have put in us and the trust increases our responsibility and would like to acknowledge that and assure you we will continue to do our best. Our team is clearly among the best you can see anywhere in the industry. With that we will continue to do whatever best we can in meeting your expectations. Thank you very much for joining us today.

Moderator Thanking all on behalf of Hexaware Technologies Limited. That concludes this conference call. Thank you for joining us. You may now disconnect your lines.

In the interest of timeliness, this document has not been edited. If you need clarification on any aspect of this, please feel free to reach out to:

Sreenivas V
Chief Strategy Officer
sreenivasv@hexaware.com
+91 99401 90091