Hexaware Technologies Limited

Q3 2012 Results
Earnings Conference Call

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Management: Mr. Atul Nishar – Chairman
Mr. P R Chandrasekar – Vice Chairman & CEO
Mr. R. V. Ramanan – President, Global Delivery
Mr. Rajiv Pant – President, North America
Mr. Deependra Chumble – CPO
Mr. Rajesh Kanani – acting CFO and
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Moderator

Ladies and gentlemen good day and welcome to the Hexaware Technologies Q3 2012 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. If you should need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Latika Gidwani. Thank you and over to you ma'am.

Latika Gidwani Good afternoon and welcome to the Hexaware Q3 2012 Earnings Conference call. From Hexaware we have with us today, Mr. Atul Nishar – Chairman, Mr. P. R. Chandrasekar – Vice-Chairman and CEO, Mr. R. V. Ramanan – ED and President, Global Delivery, Mr. Rajiv Pant, President, North America, Mr. Deependra Chumble – CPO, Mr. Rajesh Kanani – Acting CFO and Mr. Sreenivas – Chief Strategy Officer. The safe harbor is there on the Hexaware website and in our press release and I shall take it as read.

Before we start the conference, I would like to point out that there has been a typo on page 4 of the press release. On the second paragraph, the paragraph should read as 'The annual performance appraisal for the year 2012 is now complete, abiding by the usual timelines existing in place for several years now, Hexaware gave an average of 11% wage increase for its personnel at offshore effective April 1, 2012 and an average compensation increase of 4% for employees at overseas locations effective July 1 2012'. The typo is the press release says October; the increase is actually effective from July 1, 2012. With this, I handover to Mr. Nishar.

Atul Nishar Good afternoon to all of you and thanks for joining this call. I appreciate your interest and support to Hexaware. I would very briefly take you through some of the key points. This quarter, we have met the revenue guidance. There was a large deal signed in Europe, multiyear, multimillion dollar deal. 12 new clients we acquired during the quarter, across different geographies, across different focus areas. There is a strong man power addition of 410 people including 170 freshers. We added just under 1,000 people in the last three quarters. Attrition has touched a new low; we had a record attrition in Q2. Now in Q3 we have broken that record also and it has come down to 8.4%. This represents an extraordinarily high morale that we have at Hexaware among the employees, which also reflects in superior productivity and performance of the employees in the company. And this we are very proud of.

Apart from these key highlights of the quarter, I want to make three other points.

One, promoters have increased their stake in the company. We have made market purchases of 7,80,000 shares at an average of Rs. 121, during the quarter. This takes our stake from 27.9% a quarter earlier to 28.14% as on 30th September.

Another point is on annual guidance. We have given in the beginning of the year, a guidance of $370 Million or 20% growth. As you all know, there are very few companies that give guidance. Hexaware has given quarterly guidance each quarter and given annual guidance. There are still fewer number of companies that gave a high guidance in this range of 20%. Still fewer companies retain the guidance all through the year without any change. Hexaware is again one of them that we have kept a stable guidance all through the year and we retain that guidance even now. We are working towards meeting the upper end of the guidance for Q4. And if we achieve that, we would have met the annual guidance on a constant currency basis. As on today, I do not know where we will end the quarter with. Nor do I know whether the whole year revenue would be a growth of 19.5%, 19.7% or 20% or 21.1%. But in all fairness, it would be appropriate to say if it is any of these, Hexaware would have met its annual guidance. I am pretty confident that we would do our best. Our team would do its best in meeting our expectations in this quarter also.

The last point that I want to make is on dividend distribution. As you know, about a year and half back, almost six quarters back, Hexaware had announced some new dividend policy. That we would give dividend every quarter, we would give higher percentage as distribution we had indicated around 50% of profit. In the last three quarters, we have declared a total of the declared interim dividend amounts to 55% of the profit after tax. In this quarter itself it is around 50% of the PAT that we have declared as interim dividend. We continue to maintain this liberal dividend policy. You all have seen Hexaware name featuring among the high yield, largest dividend yield companies week after week in Economic Times and other financial journals. I do hope you all keep note of this. I do hope you all look at the bank credit of the money that you receive in dividend and give us due credit for maintaining, creating a whole new policy different from what the IT industry has been doing for a long time.

With that I would put you to Sekar, our CEO.

P. R. Chandrasekar Thank you Atul. Good afternoon. Thank you for taking the trouble and the time to join Hexaware's call. To concur with Atul, I feel we have had a satisfactory quarter at Hexaware across a variety of fronts. We met our quarterly guidance. We opened 12 new customers as we mentioned. The good news is it cuts across all our geographies, 8 in North America, 2 in Europe and 2 in Asia Pacific. From a qualitative standpoint, it is worth noting that we feel that at least 3 to 4 of these will generate over a million dollars in the forthcoming years, therefore giving us some good growth opportunities. Atul talked about the deal that we closed during the quarter. While we are unable to give details too specific about the nature of this deal due to client considerations, it is a very satisfactory deal. And R.V. Ramanan, our Global Delivery Head, as well as Head of our practices will elaborate a little further from a technology and practice standpoint. From my perspective, it is note-worthy deal simply because it is in the capital market space, in an area which is of our core strength. It is in a competitive situation where we beat out some of the best and biggest companies in the market place. It is in Europe which is a market area where we have not been as successful or as wide as a presence as we do in North America in capital markets. And finally, this has laid the foundation for us to use this to grow into other areas. Last but not least it is a new client, so therefore it is even more special to us.

In addition, Atul mentioned about our attrition rate of 8.4%. To us it is a reflection of the confidence that the employees have in us, the opportunities that they see. And it also as all of you are aware, does have implications from a cost standpoint, because every new hire you take does cost more than an existing employee. We have added 420 people into Hexaware. Good news is that 170 of those are freshers. Even more important, if you look at our track record over the last 9 months this quarter from a net addition standpoint, over half of the addition are fresher's. Which from a people pyramid standpoint and cost based standpoint allows us to be a competitive player.

While I can say that this was a satisfactory quarter, we in our management team of Hexaware, are acutely aware that we are judged against even higher expectations. For which I would like to thank all of you. Makes us work harder, make us aim higher and makes the entire team perform better. To that extent, I would just like to let all of you know just to again reiterate what Atul said, it is the endeavor of every member of this organization to strive, to try and get to the annual guidance that we laid out, if I may say myself very bravely ahead of everybody else in the industry or even before NASSCOM gave any number of 20%. We read this number; every single team member is constantly reminded about it. And I know this is a question in the top of all your minds, whether we achieve it or achieve it is something that we will obviously know at the end of the quarter 4. But I just wanted to let everyone of you know that, we will leave no stone unturned, no opportunity that we will not chase or no customer that we will not try and build a better relationship with in order to achieve this. I thought it was very important to let you know that this is the case and we are not in way trying to shove you away from a commitment that we make, because we do take the guidance that we make as a very serious commitment, both to you as well as all the investors, or the employees at Hexaware and the world in large.

I also wanted to address a couple of points that I am sure are on the top of each of your minds with regards to the performance of this quarter. Because, while it is being solid, we have already told you about some of the significant achievements which are worth talking about. Like in any business, there have been some ups and downs and I think it is important for us to address those so that you feel comfortable that the organization in which you are interested, remains healthy remains strong and remains committed to growth as well as doing it so profitably.

First, our margins, they did drop at about 1.3% in terms of EBITDA. Rajesh Kanani who has been with the organization for many years, who understands this business deeply and who is now our acting CFO, will walk you through the details. But just to highlight, out of that I just wanted to mention 0.5% is in the gross margin line and 0.8% is in the SG&A line. A lot of this 0.5% is explainable due to the salary increases; if I may say the healthy salary increases we implemented onsite. A lot of the 0.8% is also attributed in many ways to the investments we as a company has continued to make in our ability to win growth, whether it being in terms of facilities or in terms of our willingness to invest in people, in sales, marketing and in the practitioner forms

Next, the important thing which I am sure has caught your attention is the fact that our performance of our top five clients is somewhat now muted than it has been in the past. To address that client number one has grown, is stable, the relationship with that customer is outstanding. We continue to do work across all segments of their business and we are confident to continue to give us growth over the next many quarters. Clients' number 2 to 5 slacked off and that to some extent explains the fact that it did not come in at the higher end of our guidance. Because based on that was the confidence that we in turn would continue to do well in Q4 and therefore meet the guidance. This happened because there were unfortunately simultaneously a bunch of projects that came to an end. And although there are many more lined up with each of the clients, they did not come into fusion concurrently. Therefore leaving a gap and we lost some revenue on that front. We have not lost any of these clients nor have we lost any projects. And all of this has been baked into our projections or the guidance for Q4 which is in the range of 2 to 4%. Therefore we have already baked into the fact that some of these issues are already there. All of these clients are stable and we obviously hope that if many of these projects come into play, it can also give us some growth. The good news is that despite this, we still delivered a growth in the organization on the back of the wins that we have secured over the last many quarters, not only in the bunch of accounts in the top 20 but also a bunch of accounts beyond top 20. So the clients and the investments that we have made of having an account management structure, which has now expanded to 50 accounts in the company, are already beginning to deliver results and will continue to deliver better results going into the future.

Europe, again I am sure has caught the attention of a number of people on this call. I do not want to take refuge behind the aspects that are impacting Europe today from an economic standpoint, because in a scheme of things, we are a very small factor. Having said that we are not immune from some of the things that happened in Europe either, it did impact us with a few clients. I wanted to let the fact known to the team that we believe that it is stable number one, number two, year-on-year we still have registered 12% growth in Europe. Finally, Q4 Europe revenues will remain stable and we see no danger of it dipping any further. Coming back to the good news, North America has performed very well.

Before I get into the good news, the other element I wanted to address because again it is somewhat glaring in terms of the numbers is our enterprise application business, which again you would have noticed has dipped and given the fact that it is one of the corner stone strengths of Hexaware is noticeable and therefore might be a point which you folks are concerned about. I just wanted to assure you that this is on the back of a 15% sequential QoQ growth in Q2 over Q1. So it is of a base effect that is there. We believe that it will continue, it will come back strongly on the back of the pipeline that we have as well as the various customer projects that we still see visibility into. And I would not like any of you to read anything further into that particular incident.

To end on a good note, North America remains strong. We grew 4% QoQ in North America. BFSI which for many companies has been a source of concern remains healthy and strong for us. As evidence for the 15% on QoQ growth we experienced in Hexaware for the BFSI business.

The management team remains stable. We have added over 15 people over the course of the year into our field force, which are beginning to deliver results. SG&A which again have moved a little going further to Q3 after several quarters of steady or lower performance is in control. I already explained to you the jump in this quarter to some extent, which would not have shown up if we had actually met the revenue numbers that we thought we would, will remain within a narrow band of 18 to 18.5% in Q4. Therefore, we think that our margins can be stable.

Once again, it is the high expectations that are set on us, which makes me say most these things which are rather not. I wanted to let the team know we take both that the expectations that you have and our need to perform very seriously. We have also mentioned in our press report that as an organization, we are beginning to think or we have seriously started to think about inorganic opportunities as a means to booster our strength. This is not primarily to drive revenues but more because we think that number one, we as a management team has the stability and the bandwidth and the capability now to take on an acquisition which as all of you know require incredible bandwidth and time and attention to be able to digest one such acquisition. We also feel that as this market place becomes more complex and more demanding, we have to continue to deliver more value to our clients and therefore we want to add more value to our focus verticals.

Lastly, we have continued to invest in this business. So, whatever we do we have done in the past and what we will do in Q4 and beyond will not be at the cost of mortgaging the future. By that I mean not only 2013 but beyond. We are investing in cloud, we are investing in mobility, and the number of people in our COE continues to expand. And we are also building expertise in terms of consultants, practitioners as well as tools and accelerators to add to your value. Not only we open new accounts but also grow those.

With that I will hand it over to Mr. Rajesh Kanani with the thought that Hexaware remains a strong, stable, growth oriented and highly profit oriented company. And while the 21.6% EBITDA margins we have delivered is frankly better than most companies in this industry, we will strive to do better and I think next year we will see that we have the ability to both grow better than industry as well as deliver margins which are also ahead of most players in this industry. Over to you Rajesh.

Rajesh Kanani Thank you Sekar. I will start with the revenue since all of you have the results.

Revenue growth has come primarily from volume growth which is 1.7%, as impact of FOREX and bill rates are negligible.

EBITDA has gone down 130 basis points and EBIT by 150 basis points. Gross margin has dropped by 50 basis points due to following factors: 1) onsite salary increments, for which 80 basis points margins have gone down, 2) utilization drop of 2.5%, margin have gone down by 135 basis points. However we had positive volume variance of 40 basis points. And absence of one time visa cost which was there in Q2 adds margin of 130 basis points. And other 45 basis points are on account of various cost control and productivity measures.

I will come to SG&A. SG&A drop was 80 basis points as Sekar said, which is primarily since we have invested in marketing and also we had provisions to works for incentive of 2011 in Q2. Depreciation has increased by 25 basis points as we had added new floors in Mumbai premises.

FOREX we had a loss of Rs. 39 Million, even though we had a translation loss of 70 million, it has happened due to partial term hedging benefits.

Now let us come to CAPEX. We had a CAPEX spend of 17.3 Crores this quarter.

On tax side, we had ETR of 21.1% which was indicated earlier. In our last quarter itself it was indicated and tax rate that it is going to go up to 22 to 23% in coming quarters.

We had a DSO of 56 days which is a normal DSO and very healthy and very favorable as far as the industry is concerned. In Q2 we had DSO of 46 days which was an exceptional quarter. I think with that I will hand over to moderator for Q&A session.

Moderator Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from Kunal Tayal of Bank of America Merrill Lynch. Please go ahead.

Kunal Tayal I had a question on the margin front; the aspirational margin outlook for the year had been to maintain Q1 levels on a constant currency basis. As per your remarks, part of a reason that may not be achieved is some surprise in the volumes. But I just wanted to pick your brains if there were any other surprises in terms of either transition cost or some other costs.

P. R. Chandrasekar No there was no surprises. It was really more a function of volumes as you anticipated number one. I am trying to think about is there are any other factor here. The only other thing that I can mention is the investments that frankly we have made in our market facing teams, has been a little more than we had anticipated. And I would like to believe that it is something that we as an organization felt was needed for us to compete in an increasingly difficult environment and to sustain the kind of growth we have.

To that extent it was a little bit above what we have planned in the beginning. Having said that, what I did want to assure you and the rest of the team is that we do expect our margins in Q4 to be stable.

Kunal Tayal My second question was related to acquisitions to understand that the verticals you are looking for are BFS, manufacturing and health care. But from a services perspective, any particular service line that you intend to call out? And whether we should expect that there is already an imminent acquisition?

P. R. Chandrasekar The answer to that is a little varied depending on the verticals that we get into. Clearly one of the intentions of getting into manufacturing, one is that we do believe that there is a market opportunity for a company like ours and our ability to win that will be little easier than in some other verticals say compared to utilities, oil and gas etc. Number two we have the horizontal strengths across a variety whether it is testing or BI which does form a large chunk of the services required in a manufacturing environment. And finally it is our desire to strengthen our SAP capabilities, because while we have been very strong in PeopleSoft we have made investments in Oracle and I think we have made great strides. We do feel the need that we should do more in SAP which in turn will allow us to participate in a lot more market opportunities. So if you ask me in a prioritization standpoint that would be a number one area of interest, manufacturing with a strong SAP footprint. Clearly it also depends on the kind of assets that we happen to get because 1) it has to add value, 2) It has to have a good team, and 3) We have to be comfortable that it meets our financial goal as well as lastly but most importantly, we are able to integrate it well.

Kunal Tayal The potential size of the deal at the upper end that you could look at?

P. R. Chandrasekar I do want to add here before we get too caught up in this, that there is nothing imminent it is not like we are likely to make an announcement tomorrow. But we wanted to say that we are not going to say something quickly and we are serious about it but it is not that it is going to happen tomorrow.

From a size standpoint while we are not hung up on any size, we are reasonably clear that, of course we cannot afford bet the house kind of acquisition, at the same time we are also clear that we want an acquisition which will have enterprise value and give us some reasonable scale. So, the size that would be ideal is in the $40 to $60 million range.

Moderator Thank you. The next question is from Sandeep Shah from CIMB. Please go ahead.

Sandeep Shah One of the reasons which we have said that to achieve the lower end of the guidance in this quarter was some of the projects not started within top 2 to 5 clients and the projects been completed. What gives you confidence entering the 4th quarter that the same will not repeat in this quarter also?

P. R. Chandrasekar Whatever confidence we have is reflected in the guidance that we have given. I am not going to say anything more than that which is to suggest that at a guidance of 2 to 4%, while we have clearly want to have given more, that is what it is, so in Q4 that is the visibility we have at this point. Do we believe that if some of these things click it can be better? The answer is absolutely yes. In fact we have fair hopes on that. The visibility is also given based on the opportunity by opportunity tracking that we do and with the timelines that we have gathered and the probability that we have factored into each of these accounts. Other than that frankly there is no other way to guarantee this Sandeep.

Sandeep Shah Okay. But some of the projects which got delayed, have they started at the tail end of the quarter?

P. R. Chandrasekar No. I do not want to say that. If they have been then they would have already been reflected in my guidance. There are some that are starting, there are others that are ramping up, so we do believe that there are several in these which could start towards the end of Q4 or beginning of Q1.

Sandeep Shah Okay. What has actually changed for client to delay these projects? Because some of the enterprise services which we do are being little differentiating, some of the verticals where we are present is also been different. So, what has led to this change?

P. R. Chandrasekar Client's specific aspects, Sandeep. If you look at the clients that we are talking about is hard to come up with a common reason. Some of them were fairly large engagements. They have been deferred a little bit as the client is revisiting the architecture of some of these. There have been one or two that has been delayed because the client is not yet ready. So, it is nothing to worry about but I cannot say that there is a unique or a common thread here.

Sandeep Shah Okay. Will these trends give you any kind of worries while entering CY13 versus when you have entered CY12?

P. R. Chandrasekar If one worries then the confidence with which we were giving our high growth numbers before, I would not be able to.

Do I worry that I will still do better than the industry, I do not. I think we have the base to do that. So, if really that is the question you are asking, then at this point in time that is the best answer I can give is that Sandeep.

Let me be a little more specific. Say client 1, based on the visibility that we have, the pipeline that we have, the interactions I have with the top customer, I have no reason to doubt that we will do well going into Q4. Do I have confirmed orders, the answer is no. But the visibility is very high and there are a lot of commitments. So, I have reasonable degree of confidence.

Going into 2 to 5, the growth rates there in one customer will be high and there is one which is little more muted and the other two are somewhere in-between.

Sandeep Shah So you mean to say that the confidence to grow higher than the industry on organic basis in CY13 still remains?

P. R. Chandrasekar Yes, it does remain. I feel that, I might be getting ahead of myself if I ventured further than that, I would like to give you far more details with a far more greater degree of reliability and confidence in next conference call in February.

Sandeep Shah And these comments are on organic basis?

P. R. Chandrasekar Yeah. None of the comments I am making build any inorganic considerations into the equation.

Sandeep Shah This next question is why the acquisition now? Do you really believe that the penetration levels within the top clients are now not as healthy as it used to be earlier? My question is because your organic growth is giving you a good profitability while the inorganic growth, gives you a scale, but it comes with a challenge of integration as well as margins.

P. R. Chandrasekar I think you make a good point. It is a very good question because you are trying to balance the two. That equation is always something that will be there. It does not matter what size you are or what size you are not. And we are not trying to acquire revenue. I just want to make clear to all the listeners in this group.

Having said that we do as we grow in this business, we do need to be able to add certain capabilities and expertise, which will not only allow us to provide more value to our clients. Because at the end of the day we want to try and move away from a technology based or an opportunity based growth trajectory**.** To a value on an account based growth trajectory and there we feel that more customers we are able to acquire, and if you provide more value to them, we can grow better and faster. The reason we have not done this in the last two three years was, primarily to attack this notion that acquisitions will come at the cost of margins, which normally happens if you do a bad acquisition but more importantly it happens when whatever you try to get out of or integrate it does not happen. We do believe we have the organization bandwidth and we are also very clear we will not do an acquisition for the sake of doing an acquisition. That is why we are very clear, in my head; in the organization's head we are very clear that we will do one that has strategic value that brings truly some decent domain expertise, which brings at least a certain set of customers with some deep relationships. And also brings us one or two skill sets that we do not have. And we in turn can add more synergy but leveraging some of the other horizontal capabilities, it will also be in markets where we are comfortable and we have a presence, whether it be the North America or parts of Europe, like say UK where both the language and the cultural or the integration capabilities are ones that we can manage.

Sandeep Shah And we will just focus on EPS accretive or are we also looking on some of the acquisition which adds value but may be initially EPS dilutive?

P. R. Chandrasekar I think we are jumping ahead of the gun a little bit here Sandeep. I think we should wait till we actually make an acquisition before we come to a conclusion. For the year 2012-2013, which is what I think you are trying to figure out, or going to Q4, none of the equations that we had so far will change much.

Sandeep Shah Okay. Once we do this, it will definitely have an impact on the dividend payout also, because the size which we are referring to is $40 to $60 million?

P. R. Chandrasekar We are a responsible company. While Atul can answer that, I guess the dividend payout is a decision of the board. But you are right it will have implications, if we actually do an acquisition of that size.

Atul Nishar To add this, I think it is quite hypothetical at this point, while we are seriously looking at that it will depend on so many factors. What will be the down payment, what will be the valuation, the nature of the company, their margins, I think in this whole discussion we are presupposing that the margin will be very low. So, I think these are factors that are difficult to comment on. It also seems implied in your question that the entire acquisition will be done with own funds and there will be no leveraging at all, which has been the standard formula of the IT industry. We have deviated from that formula by having liberal dividend distribution. We will debate whether we should leverage for that purpose or not. So, at this point while we have followed a very conservative policy, for over a decade now, of remaining debt free and we have been adding to cash, but we will review all this when we come closer to that policy. I can assure you we will want to take all the steps necessary to make sure that the shareholders are happy and that includes my wife also. So that is very important that everyone is kept happy.

Sandeep Shah Last question in terms of the FOREX, this quarter it is just 4 crores loss versus last quarter it is 5.5 versus this quarter should have higher translation loss. So, can you give us more explanation how this hedging gain is arising?

Rajesh Kanani As I said, we have a translation loss of 70 million and then we have a gain of partial term benefit, hedging benefit.

Sandeep Shah Because, every time we say that our strike rate is closer to around Rs. 50, 51, the realization rate in the last two quarters spot rate being at Rs. 54.5 to 55.

Atul Nishar I think the difference between the two would be some element on the premium. So that would happen every quarter. So exactly it will not match because of this premium element. I think you should also give us credit for managing FOREX, extremely well, consistently in this respect.

Moderator Thank you. The next question is from Srivatsan Ramachandran from Spark Capital. Please go ahead.

Srivatsan Ramachandran I just wanted to get some color on the large deal that you have announced this time around. So, we can we expect it to ramping up and also it will be helpful if you can just give some color about, we had about six large deals. Now, any update on the same?

R. V. Ramanan I will talk about the large deal which we announced and then I will hand it over to Sekar on the other pipeline. The large deal which we announced is in Europe, it is in the area of capital markets. It is a multi-million dollar deal, which means it cuts across many service lines. The predominant win was because of our strong capability in the capital market sector. Primarily in various areas, in terms of portfolio accounting, in terms of dealing with fund accounting, fund management, corporate valuations, corporate actions, performance attributions kind of skills which we have displayed to the customers in various areas. In different types of securities, be it fixed income derivatives or equities, this is the primary reason why we won this contract and we won it against some tough competitions from IT majors, who also are equally adept and against stiff competition. From our service line perspective, it actually cuts across multiple service lines with predominant focus on business intelligence and analytics. Being in the corporate banking side, you would know the importance of intelligence and analytics which plays a role a significant portion of that would be in the business intelligence and analytics. But it also cuts across multiple package products as well as custom download products across various technologies. And it also has a significant portion of infrastructure management as part of the deal. So from a service line perspective, it actually touches every single service line that we have to offer, the fact that we were able to offer end-to-end services to the customer is a significant focus on the domain is what made us win this deal. From a deal perspective, it kind of gives us a license to hunt within the organization. It opens us a large door in terms of application support, application maintenance, infrastructure maintenance over a sustained period of time. Usually with such large deals when a sign up have a period through which it will go through, you will have through the initial phase of understanding, initial phase of study and it will have gradual ramp up and as of now, it is in the ramp up stage. We will also let you know. It will take a couple of quarters for it to reach some kind of steadiness where revenue flow will be more or less steady. Eventually, it is a multi-million dollar deal over a longer period of time, over 3 to 5 year range, kind of contract.

P. R. Chandrasekar Srivatsan, there are four other deals we are pursuing. They are in several stages. Actually all three geographies none of them is imminent. All are competitive and all decisions are likely only in 2013.

Srivatsan Ramachandran Okay. And then on the fresher hiring, you have been a bit steady about 150 to 200 for quarter, so just wanted to know are you making offers for the CY13 cycle also. What are the thoughts on that?

Deependra Chumble We have already started our campus recruitment and we have already visited over 13 colleges. It is as per the plan. While we have not fixed the final number, we have already started the process and that should continue till February. By next meeting I think we will be able to give you the firm number.

Moderator Thank you. The next question is from Pratish Krishnan from Antique Stock Broking. Please go ahead.

Pratish Krishnan My question is from the initial remarks you made in terms of expanding the focus to around 50 clients. May be you can just provide some qualitative inputs to as what has changed here and what is the reason for expansion in terms of focus here?

P. R. Chandrasekar It is just the extension of the strategy we had adopted by about 2.5, 3 years ago. Here, we started with our first strategic accounts, really changing both the quality as well as the nature of engagement that we had with our first top 10. And as you know, that has resulted in some very material benefits for Hexaware. I would like to believe for the clients. So, the average size of that has gone from somewhere in the 8-9 million to about 20 plus million. Then we focused on the next 10 and then we did the next five. And so it has really gradually evolved from 10 to 20 to 25 and now we are talking about 50. It is not that we did not focus on the other clients in the past, but it could have been through a joined high hunter/mining kind of a capability. It could have been on a single particular competency with which we entered into that account. So, the nature of what has changed is one, by and large almost all of them now have dedicated account managers. There might be one or two which have got share in the account management. There is a fairly rigorous account planning process involved which was not just about the horizontal or the technology or the particular area in which you first penetrated, but would involve all the elements of account planning which one normally does and I am not sure if you are aware of the details. Including where we will spend the money, who is the competition, who are the key influencers, proactive proposals of that nature. That is really the nature of the change Pratish.

Pratish Krishnan If you look at the top 10 accounts, it historically has been at the range of like 47 to 50%.This has been the case despite the pretty strong growth over the last two years, Should we expect that to change? How does it work out?

P. R. Chandrasekhar I do not see any reason why that should change. Having said that there are a few clients we have in the next year, which is in the $10 to $20 million range, which are also showing good signs of growth. There is a good possibility that there could be one or two or maybe even three of those which is there in the 11, 12 or 13 or whatever number. I do not want to be more specific than that which could out-grow say some in 9 and 10 and enter the 10, in that top 10. So there are two or three candidates in that category. But by and large, because I do not want to say that it is the same 10 clients that will deliver that kind of a percentage. But our top 10 I believe, Sreeni, I would be incorrect in saying, the exact name of the client may change, would still continue to represent 50% of our revenues give or take in 2013.

Sreenivas V Just one more point. Earlier in the year in April when we reported our numbers, we spoke of two deals, both of them were in the 10 to 20 million range. Both of them were outside the top 10 clients. For example, though they do not belong to the large deal as per our definition, they have given us tremendous growth this year. So there is a good probability that one of them or both of them may be in the top 10 next year.

Pratish Krishnan Finally in terms of the BOT deals signed last quarter, any update on the progress there?

P. R. Chandrasekhar Well, I wish I could give you better news; I am not saying there is bad news. It depends on how you look at it. The fact is the partner with whom we did this big deal has made significant investments. They remain committed significantly. We have also made significant investments including in people and for space and development center, etc. We have participated in almost 30 or 40 active opportunities. For various reasons, we are not been able to convert too many and we have not been able to get the kind of success conversion that we would like. To some extent, it has frankly been a little bit of a disappointment, because I was hoping that would also give us the opportunity to grow not only into 2013 but also in Q4. Having said that, both of us are actively revisiting, not the partnership, but more the mechanism with which we interact, how we go address the customer's requirements, the kind of solutioning we provide. As well as the way we price these products to see how we can frankly win some of these, because some of these are good, decent sized opportunities, not trivial by any standards. And so even if one of these we convert frankly, it would be a great thing. We got to find a way to get this to succeed. So resolve is still there. Opportunity pipeline has been actually far better than we thought. Conversion rate has not been very good.

Moderator Thank you. The next question is from Atul Soni from Macquarie. Please go ahead.

Atul Soni Sir, with just two months to go for CY13, any initial feelers that you are getting on client IT budgets?

P. R. Chandrasekar I am not going to comment on the market place or the environment as a whole, but based on what we have seen at least amongst our top 10, the next 10, etc., particularly in

North America which represents a bulk of our business. The major clients in APAC and all our significant clients in Europe probably barring one, the numbers we are talking about seem fairly good and we do not see any cause for concern.

Atul Soni If I can just get a breakup of the EBIT margin drop?

Sreenivas V Atul, gross margin fell by 50 basis points, SG&A as a cost ratio went up by 80 basis points. Depreciation went up by 25 basis points. As a result EBIT came down by 1.5% on a QoQ basis.

Moderator Ladies and gentlemen, due to time constraints, we will take one last question from Vimal Gohil from Asit C Mehta. Please go ahead.

Vimal Gohil Just wanted your views on your offshoring component, which has largely been stable at 46.6 since last three quarters. Considering the fact that we do consider increase in offshoring as one of the margin levers, your views on offshoring component whether it is expected to increase forward as your new contracts get shift? The ramp ups happen and the contracts then shift to offshore. So, do we expect the offshoring component to grow from 46.6 or we expect it to be stable at these levels?

P R Chandrasekar Yes, as you mentioned increase in the offshore volumes is definitely lever to margin improvement. However we have to see that the growth comes from all sectors. The large deals definitely help us improve this quotient. And as we see some of the deals which we announced, as they ramp up it will definitely have an impact, it will help us improve the offshore component. Having said that, we do have some large customers, we do work with the sectors in some of these countries which do require local presence. In fact they have to make sure they are operating within that particular country region in order to make sure that there are country regulations which are being met, information security requirements so that the data does not leave the country. With this kind of a mandate, we do not want to miss out on those opportunities as well. So, they are opportunities with larger onsite presence, with good margins. However, due to nature of the work needs to be done onsite since we aggressively pursuing these two, I expect the offshore ratio to be more or less in the stable range.

Vimal Gohil Okay. Just one more data point, your tax rate expected in CY12 and 13?

Rakesh Kanani 22 to 23% Effective Tax Rate.

Moderator Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Atul Nishar for closing comments.

Atul Nishar So, thanks for your time, I would like to wish all of you a very Happy Diwali and Saal Mubarak. And have a great next Samvat Year very profitable with lot more gains all around. Thank you.

Moderator Thank you very much. On behalf of Hexaware Technologies that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.

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