Hexaware Earnings Conference Call

Q3 2011 Results

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Hexaware Management Team

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Moderator Ladies and gentlemen good day and welcome to the Hexaware earnings conference call. As a reminder for the duration of this conference 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 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. At this time I would like to hand the conference over to Ms. Latika Gidwani, thank you and over to you madam.

Latika Gidwani Thanks Bineeta. Good afternoon to all of you, welcome to the Hexaware Q3 2011 earnings conference call. From Hexaware we have with us Mr. Atul Nishar, Chairman, Mr. Chandrasekar, Vice-chairman and CEO, Mr. Ramanan, Executive Director and President - Global Delivery, Mr. Prateek Aggarwal, CFO, Mr. Deependra Chumble, CPO and Mr. Sreenivas, Chief Strategy Officer.

I will just read out the safe harbor statement. Certain statements on this call concerning our future growth prospects are forward-looking statement which involves a number of risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. The risk and uncertainties relating to these statements include but are not limited to risk and uncertainties regarding fluctuation in the earning. Our ability to manage growth, intense competition in IT services, including those factors which may affect our cost advantage, rate increases, our ability to attract and retain highly skilled professional, time and costs overruns on fixed price, fixed time frame contracts, client concentration, restrictions or immigration. Our ability to manage our international operations, reduced demand for technology in all key focus areas, disruptions in telecommunication network, our ability to successfully complete and integrate potential acquisition, liability for damages on service contracts. The success of the companies in which Hexaware has made strategy investments, withdrawal of government fiscal initiatives, political instability, legal restrictions or raising capital or acquiring companies outside India and unauthorized use of our intellectual property and general economic conditions affecting our industry. This safe harbor statement is also available on the press release published today and on our corporate website www.hexaware.com

Thanks and with this, I hand over to Mr. Nishar.

Atul Nishar Good afternoon to all of you and welcome to Hexaware call and I want to acknowledge each one of you for your time and efforts and interest that you have in Hexaware.

Let me today start with a quote, George Bernard Shaw says, "**the only man who behaves sensibly is my tailor, he takes my measurements anew every time he sees me while all the rest go on with their old measurements and expect me to fit them**". The point I want to make is maybe it is time for people to relook at Hexaware. The way we are governed, the way we look, and what future holds for Hexaware.

Let me give you some pointers starting with the management team which is fundamental to any company. Over a period of time we have considerably strengthened the management team. We have the leaders who are capable of running billion-dollar Company or even multibillion-dollar Company. Starting with Sekar is the CEO with strong background. The whole leadership team today is energetic, young and very competent. We are comparable with the best anywhere in the world.

Look at the revenue momentum that we have achieved. Six consecutive quarters of above industry average growth rate, the seventh quarter which is the Q4 for us for which we have given guidance will almost certainly be above average growth rate. How things look in 2012, while I'm not giving any guidance but I would say not just 2012 but for a longer period, it is likely to hold for the medium-term that I can see Hexaware will continue to outperform the industry and we will have higher growth than the industry average growth by a decent margin in this medium-term. What gives me confidence; number-one indicator is Hexaware team's ability to win and execute large deals. As you see we have signed five large deals in last five quarters, each above $25 million, two above $100 million. Two years back I had not imagined that Hexaware would sign 177 million deal. Today we don't hesitate while talking about the 100 million deal with our client. We have four deals in the pipeline for which we are actively working. In some cases we were in negotiation stage, four deals each again above $25 million.

The success in growing large accounts, the top-10 accounts have been growing at higher than the company average rate. Today 52% can come from top 10 clients. Each of those clients would interest the largest of global service provider to service them. In some of these cases we compete with very large global players and continue to grow and continue to win deals and in some cases we have a very strong position in terms of being almost the sole offshore vendor. But what is important is our ability to either win large deals or being able to grow account and make them into large recurring revenue on a long-term basis. 52 of our clients are fortune 500 clients. We have gone through with them through ups and downs and still we are able to retain them and able to grow with them.

Look at the subject of offshoring, this quarter alone we have improved off-shoring by more than 3%. Today 46.3% of our revenue comes from offshore. I believe this trend will continue, it doesn't mean every single quarter it will go up but there are several more clients that we are working on towards off-shoring, that way it saves cost for them and they help build our business model. So I see offshoring percentage improving which has significant impact on our margins, both gross level and EBIT level.

I believe the cost structure with which we operate Hexaware has structurally permanently changed. We have made efforts over a period of time to make this happen. Today we hardly pay much rent. In fact most of the rental properties we have given up by moving to our own premises. Mumbai we own all the properties, Chennai we have huge campus, we still have land in Pune which is unutilized, we have land in Nagpur. So the cost structure is such that earlier every revenue growth resulted in cost increase in terms of rental that is not the case now. We have made significant investment in the

SEZ campus and rentals was increasing our G&A earlier but today at the same G&A we are able to grow there without adding much of cost. The sales and marketing cost is holding flat because of the large deals that are happening and the growth in large accounts, clearly there is no way the sales and marketing though in absolute terms the cost will keep going up but it will be less than proportionate to the revenue. Therefore SG&A there is a good possibility it can come down, not necessarily in Q4 but over a period of time I feel the direction of reduction will continue.

We still have several levers to improve margins further, we already reached a margin of 17% EBIT or 18.7% EBITDA, this is at a rupee-dollar rate of 46.5 in this quarter not at 49. So if rupee remains at 46.5 or above in future there is no negative impact that's going to be on account of rupee dollar ratio and if it remains weaker, it will only improve the EBIT further.

The infrastructure I mentioned not only that it doesn't add to the rental cost but it also scalable model. We have adequate infrastructure to service a billion plus Dollar Company plus the focus areas.

We have been asked this question many times, are your focus areas, niches that you have, can they take you to a billion dollar? But if we can win in these niche areas against global companies and keep winning deals, keep adding clients even in difficult situations then that only is the testimony and we are able to grow the accounts, cross sell to them better than ever before. That means we have the right focus areas that can grow and even in some of the areas we have grown further from just focus on PeopleSoft, we have done well in winning deals in SAP as well as in Oracle. So we are moving towards being able to have an overall ERP practice so our focus on PeopleSoft is not going to change.

Overall I believe as the chairman of Hexaware when I look at this company and I try to look at from a distance and try to think strategically I feel today Hexaware looks different than what it was, even 2 or 3 years back for which a lot of hard work has been done, we have made number of changes during

2008 and 09, we have made change in the organization structure, we invested considerably in our competency building, we have taken risks of winning a large deal and which involved people rebadging. We have gone through that, gained experience in that though it hit our margin on a temporary basis, short-term basis but we have well overcome that and created that account and such practice into a revenue generating service offering.

Today the time has come for people to relook at Hexaware, the way we stand. Thank you very much. I will ask Sekar to take over and give you brief on Quarter 3 and how he sees the situation.

PR Chandrasekar Thank you very much Atul. Thank you very much also for the kind words on the management and the faith in the team. I do believe that when I look at quarter 3 on the back of several quarters before this it is very hard not to be pleased with the way quarter has turned out across all parameters.

Revenue clearly was on the forefront and we are glad that we beat guidance despite the volatility in the Forex markets and if you look at it from a rupee standpoint the growth was about 9.6%. What really pleased me was that growth was also on the back of very substantial volume increase of over 9% so to me that was a very important factor given the environment and the feelings in the market place which despite the onsite offshore change where we also improved in terms of 300 basis point increase in our offshore content allowed us to still meet our revenues despite the fact that offshore generally is at the cost of revenues although you benefit in terms of margins.

Equally important the good news about the growth was that was broad based. We grew in North America, we grew in Europe, we grew in APAC, we also grew our caliber point BPO business. Our top client grew, our top-10 customers grew so in that sense it was a very healthy broad-based growth which in that sense mitigates risks, even if you look at the environment going forward.

Looking at it from our client's perspective, we added 12 clients and a double-digit client addition has been a track record now for the last three to four quarters. A good news about it is that in addition to the volume of the clients added at least 3 to 4 clients of these that we are adding each quarter we believe can be million-dollar plus accounts based on at least the kind of services sold, the nature of how we are opening these customers, the attention that we are giving them as well as the average size of the initial engagement that we undertake. Equally important is also is a testimony as Atul mentioned to the fact that our strategy of focusing on certain areas is working.

So if you look at the clients that were opened in quarter three 2011 four were in Americas, two were in Europe, six were in Asia-Pacific so clearly all three geographies are working. Looking at it from a service line standpoint five were in enterprise solution. Now I have received a number of questions in terms of if enterprise solutions and package applications like PeopleSoft or SAP are considered discretionary in nature. As the environment begins to look a little dicey will these discretionary expenditures go down, based on one the deal pipeline that we have in the specific areas particularly PeopleSoft and frankly increasingly in Oracle in APAC and SAP in Europe as well. As well as the healthy news coming out of the large companies like SAP and Oracle we still remain confident these trends that we have in these areas will continue to help us not only open doors but also win us new business.

The other area which has really been a wonderful door opener for us as well as a source of growth has been business intelligence again has been a strong door opener this quarter. The third area where we have invested both through acquisitions in testing a few years ago as well as significant huge investments in the last two years we now have competencies in mobile testing, we have a relationship with HP, we have a Software lab that we have opened in Mexico for global capabilities so has also opened doors for us.

So if you look at progress from service lines, five clients in enterprise solutions and wins each of the other segments, whether it be the BFSI segment, the travel segment, BA/BI as well as QATS as well as BPO. We also notice that from a geography standpoint Europe has grown and APAC has grown. In my view given this as well as the strength of the team that we have put in place now both in terms of the leadership as well as the hunting versus mining structure that we have in place plus the material increase in the field practitioners and domain experts, whether it be in APAC where we have recently added a BI person in Australia, a QATS or testing person in Singapore or in Europe where we have added a BI person, we have added a PeopleSoft person, we have also added a BPO person as well as North America where we are also looking at domain expertise in the Capital market and travel and transportation. These we do believe that the quality of our revenue and our ability to both open accounts as well as get them to grow will continue.

In terms of deal pipeline I do keep looking over my shoulder given that I read the same newspapers and we watch same TV news channels as all of you do. So I'm concerned about what the future holds. Having said that at least at the Hexaware level in North America deal pipeline remains strong, Atul already talked about the 4 to 5 large size deals where we are actively pursuing today. But in addition to that the number of smaller 200-500K or some from million to 2 million dollar deals with both existing customers and a bunch of new customers remain fairly healthy. In addition to that more to do the fact that we are probably a small presence in Europe as a market which is very large, we made many changes over the last three quarters is again beginning to pay off. Pipeline is actually is very healthy in Europe for our us and similarly is the case in APAC, again leading us to believe that barring some really cataclysmic events the next few quarters should remain reasonably good.

On the back of this operationally we have been improving things and the SG&A side, on the people side with the addition of fresher, we have said that we would add about 1500 people for the year, we have surpassed that with over 1650 in Q3 itself of which 550 were fresher's, we are going to add 200 more in Q4. So really our people mix or our bulge mix or our pyramid, has slowly but materially change say from one year ago which in turn has impacted both employee's age as well as employee cost.

Our onsite offshore as we see we have been trying to and finally in the last three quarters we have been moving it. We started with two quarters ago, last quarter we moved again and this quarter has been substantial. So between the last three quarters we have actually moved our offshore content by more than 6%.

This along with the fact that we have been able to manage our pricing fairly well despite the large deals that we have as you can see from our metrics has allowed us to improve our operating margins, has allowed us to improve our gross margins and finally clearly has also allowed us to improve profitability at an after tax level thanks to the very sound Forex management policies that we have implemented at the company.

From attrition standpoint, that is another good news as our growth has become stronger and more sustainable on the back of some good deals on the back of our ability to add freshers into our system, give them good projects to work on as well as the ability to actually utilize freshers immediately after their training period quickly on billable assignments has also made it somewhat easier for us to retain talent and which is again evidenced in the fact that our attrition rates have come down.

On the back of all of this we feel comfortable looking in the Q4 and I want to say that we have given a guidance of about 5% on in terms of constant currency, yes it is 82.5 million but if you look at it and constant currency we believe it is still a fairly healthy growth number and we also believe the business outlook given the fact that our top accounts continue to look healthy, deal pipeline looks healthy, looks reasonably robust going beyond

Q4. With that I'm going to pass it on to Prateek who will walk you through a little more details in terms of the financial performance. Thank you.

Prateek Aggarwal Hello everybody. I will quickly go through the revenue walk and the EBIT margin walk on a quarter to quarter basis and followed by some more details on the Forex hedges and cash, CapEx debtors, etc.

Starting with the revenue walk, there are four factors explaining the difference of $4 million between 74.8 of last quarter and 78.8 this quarter. The biggest factor is the volume increase of something like $6.9 million which is the 9.2% volume growth that Sekar talked about, add to this the factor of increase in realizations which has added another 900K which is 1.2 per cent point. There are two negative factors this quarter, cross currency as we all know Euro, GBP, Australian dollar most currencies depreciated versus the dollar and that has given us a negative 400K this quarter which is half a percentage point and the mix, though it is obviously a very positive factor from profitability margins and from strategic factor going forward in the revenue line on a quarter on quarter basis did give us reduction $3.4 million which is 4.5%. So those factors combine to give us the $4 million extra this quarter over last quarter which is 5.3% were it not for the cross currency it would have been those 400K higher and ahead of our Q3 2011 guidance.

Going on to the EBIT margin walk, I will start with the gross margin factors. There are about six factors which explain that 1.5% increase. The first factor is bill rate increase realization increase of 900K which translates to about 115 basis points, 1.15%. The second factor is the depreciation of the rupee versus the dollar which has added another 105 basis points. The cross currency impact the gross margin as well, the impact on the gross margin line is a negative 15 basis points, - 0.15%. The mix adds 75 basis points to the gross margin and we did have the annual increments for the onsite based employees coming up this quarter that has impacted by negative 75 basis points. That is the balance of about 0.5% which is basically the drop in utilization and cost factors like that. So that explains the gross margin improvement quarter on quarter of 1.5%, the balance increase in EBITDA margins is basically coming from the SG&A line about 48-50 basis points round off is because of the ForEx INR depreciation mostly and the balance 135 basis points is basically the leverage not growing SG&A basically and a little bit of reduction this quarter. Depreciation is mostly even, there is just a benefit of 3 basis points there. So that explains the 337 improvement in EBITDA or EBIT margins whichever way you may get it on a quarter on quarter basis.

A quick word on the foreign exchange hedges, this quarter we have about $176 million hedges, 176.7 to be precise at almost a rate of Rs 48 to the dollar, 47.89 to be exact and we have Euro hedges about €10.4 billion at one on which is at our average exchange rate of 70.48. This is over a period of the next eight quarters so October 2011, current month right up to September of 2013 on a graded basis.

In the P&L in this quarter we have a gain of 3.8 crores which is the net impact after the positive impact we have had of 1.5 percentage point at EBITDA level and therefore lower than what it would have been on last quarter exchange rates for that matter. In the balance sheet we have a negative mark to market of 35 crores which is basically the adverse moment of 10% depreciation of the rupee versus the dollar on a quarter end to quarter end basis.

Some of the other important points to be touch upon is debtors which has gone up significantly this quarter partly because of the ForEx re-statement because the 10% impact is on debtors which are largely, obviously dollar or euro or GBP denominated and of course the revenue growth and DSO is still at very healthy levels of 57 though it has gone up by 2 days versus last quarter. CapEx this quarter has been 11.5 crores and the net cash continues to be at 457 crores which is a increase of about Rs 4 million quarter on quarter.

The effective tax rate continues to be 17.3% this quarter that is the kind of level we have been expecting this year so it is in the realm of expectation.

We have also reduced our borrowing during the quarter and should be continuing that trend next quarter as well.

With that I hand it back to the moderator for Q&A, thank you so much.

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 your touchtone telephone. If you wish to remove yourself from the question queue you may press * and 2. Participants are requested to use handsets while asking a question. Anyone who has a question may press * and 1 at this time. The first question is from the line of Srivatsan Ramchandran from Spark Capital. Please go ahead.

Srivathsan R Hi Sekar just wanted, you have touched upon the enterprise services be it in Oracle or SAP side, just was more curious to understand what kind of impact do you see SAP recent move on keeping your maintenance rates, where it is or reducing and extending it for a period. Second is in terms of the demand pipeline or the number of deals or other things that you have seen in the end market at this point and do you see enough upgrade or rollout deals that you are seeing or is it more on the maintenance side?

PR Chandrasekar Srivathsan I know this is the area that you do follow closely. Let me address the Oracle and the PeopleSoft piece first. The fact is that we have been winning a fair number of upgrade deals in North America. We have won campus and educational oriented deals in Australia. We have also actually leveraging the Oracle relationship to pursue the SME sector because some of them use a license and services combination kind of an approach for example in India and the Middle East market. So we have adopted a different approach in all of these and upgrade deals are there that we are winning them and we continue to have a decent pipeline. And along with this we are also winning the maintenance piece. So the short answer really is or rather long answer is we have both and we are not running out of the upgrade opportunities if anything in the last couple of quarters have frankly heated up. Now I don't know whether it is unique to Hexaware or whether it is a market oriented trend but clearly in North America that is a factor. In Europe we have been pursuing a little more on the SAP side because PeopleSoft presence there is not as large as it is in North America and other parts of the world. Having said that as a percentage SAP remains relatively small portion of our business so we haven't felt any impact on this change that you are referring to or that SAP has made because it really is less than 3% of our business would be SAP. So it's not yet the factor that is our concern but we are watching it. So we still remain quite optimistic about the opportunities in the enterprise solutions space.

Srivatsan R My next question is on the, you did mention about certain recent sales hiring I wanted to know how would you look at sales hiring's given that in the last time around may be couple of 6 to 8 quarters back you have probably counter cyclical by hiring 16 people I clearly what number still that you have put out in a presentation. So just how do you look at maybe now on the recent times to look forward, would you continue to beef up your sales presence because there are some geographical gaps still not there material in Middle East or Latin America as such markets, would you kind of and did look at sales investment in these geographies?

PR Chandrasekar When we met last time, I have told you about the hiring we have done. One hand we have restructured a little bit in terms of more sharply aligning hunters as pure hunters because traditionally they play blended roles so we have done that in North America and we have also done it to the extent possible in Europe. Further, a lot of the additions have come in the areas of expertise and the domain areas so bottom line the nature and the structure of when I said domain / practice / horizontals so our ability to convert opportunities in addition to opening opportunities has changed and we will continue to do that because we do believe that there are opportunities for us to further strengthen.

Atul Nishar Also want to add that we have been considerably adding number of sales people. During last three quarters we have added 10 sales and marketing professionals, last quarter alone we have added 3 so merely in the fall in the percentage of SG&A to revenue should not indicate we are investing any less in sales the marketing but as Sekar said the manner in which we are approaching has also got more matured by involving more of domain and practice people as also the structuring of separation of Hunter versus farmer strictly and adding these 10 people during last three quarters.

Srivatsan R Sure I will come back later, thank you.

Moderator Thank you. The next question is from the line of Nitin Mohta from Macquarie. Please go ahead.

Nitin Mohta Congrats to the management team for the great quarter. I just wanted to understand from a structural perspective Atul talked about the Hexaware being in a new light, what is the competitive response that you are seeing in the market and is there a fear that some of them might start to do undercutting on the pricing, just your thoughts over there, thanks.

Atul Nishar We don't yet see any undercutting as such in the market place plus I don't think that is the way to win deals. We focus on certain competency areas and it doesn't mean that client is going to choose the lowest price vendor in these and the fact that we are able to marginally improve pricing though I'm not guiding for improved pricing in future, the outlook is for stable pricing. I don't see any pricing war impacting us, the competitive side we able to win against the global competition. Look at the two large deals that we won 100 plus million deals, in both the cases in terms of scale of company we were smaller than the other vendors present there in these client sides. In one case, two other very large companies, in one case, one another very large company. So we do not see problem in being able to win the deals in this environment plus on the ground reality is contrary to whatever we read in newspapers and see on TV channels where we are, clients plan continue to spend, continue to invest in IT, we have not seen anyone stopping as such as yet. We did hear from 3-4 clients that they are watching Europe and if there is some major turmoil in Europe they will look at but as on today they have not indicated any change in their IT spend.

Nitin Mohta Sure and Sekar if you can help me understand your initial thoughts by talking to clients, where exactly would be CY12 budget be and is it going to be a normal budgeting year or will have a clear idea only by January-February?

PR Chandrasekar Let me classify it in this way Nitin. If you look at our top-10 clients which is really a big chunk of our business and at present 52% of our revenues across sectors as well as spread between North America and Europe, we have not picked up any signals that there is likely to be any major change in the IT budgets for 2012, I'm not trying to suggest here that IT budgets have been firmed up for all these companies but we have also talked with and have been in conversation with the management teams of these companies, at least to kind a get a sense for where things are and there have been a couple of clients where they do not expect an increase in the IT budgets but so far we have also got good feeling that at least our 8 out of the 10 there is not going to be a decrease in the IT budget. In one or two cases actually they are still looking at increasing their IT budgets. So this is as far as our top-10 is concerned. In addition to that when I look at my pipeline I am inclined to believe at this point we are not seeing any major shift in terms of people reprioritizing or completely changing the way they were looking at spending their money on IT like they did the last time around in 2008. Pipeline is still good, it is across the geographies, it is across our top-10, the next set as well as if we look at the way we have structured the hunting is coming from the PeopleSoft, the QATS and now BI and BPO as well and again there we see reasonably decent activity.

So we are watching it very consciously Nitin and no signs yet of trouble ahead. Coupled as I said where we believe that we may have some difficulties in growing the budgets. We don't see any changes hitting us. They may push us to do a little more offshore for example.

Nitin Mohta And just in terms of so you still expected to be a normal budgeting years, things getting clearer by January?

PR Chandrasekar It is too early to comment on that Nitin. To be honest the things can change so fast that I would prefer to wait till at place somewhere in December to be able to say with confidence. At this point I don't see any reason not to feel comfortable but before I really break out the champagne I will wait till at least December or January.

Nitin Mohta Well is heartening to know, thanks and best of luck for the coming year.

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

Sandeep Shah Congrats on another good quarter sir. You said that top-10 contributes 50% which we know, you must have met them because of the macro concerns and you said 8 out of the top 10 might have indicated a budget increase and 2 may not increase the budget, am I right in what you said?

PR Chandrasekar What I said was all of them have given us confidence that there is not likely to be any decrease in their IT budgets at least 3 or 4 of them are launching more IT programs. There are two who said that we are waiting and watching and seeing but they didn't indicate cuts either. There was more a question of can we offshore more than what we do today so that they can bring our overall cost down or get more bang for the buck they spend today

Sandeep Shah And these 3 or 4 which are launching new programs it's more like a cost optimization projects or its more like where we specialize like BI or enterprise solutions?

PR Chandrasekar It is no, actually amongst our top 5 customers there are at least 2 which are on some major initiatives where they are launching. So I don't want to say that these are all either cost rationalizations or business as this kind of programs where at least 2 or 3 fairly large transformational projects some of which are global in scope that we have been engaged in.

Sandeep Shah If we look at the top customer on a Y-o-Y basis it has gone up by upwards of 60% and the size looks really very high when we compare with the mid cap peers in terms of a revenue per client from that client. So still you believe that we have a great opportunity while entering CY12 while growing this client.

PR Chandrasekar Yes but because although you are very right in pointing out that the amount of business we do with our largest client is good, a question of glass half-full or half empty depending on how you look at it. For us at this point we have every reason to believe that it is the order-book there are still opportunities for growth, there is still a lot of opportunities for new orders and newer work areas with that customer, there is no indications that things will slowdown there and finally it is an area despite which allows us to do a lot of work with regard to our operating metrics. So if you actually look at it this quarter we have now 3 customers in 20 million plus range, if you look at that so it is not that one client which has helped us, it is actually multiple clients. You had 3 and you have got 8 now in the $5 to $10 million ranges. In that since we now have a mass of customers of a certain size, for example we can take freshers, the ability to put them in to these active billable projects, move more work offshore, etc., as well as frankly get more S&M leverage also is better. So there is no cause for concern at all Sandeep.

Sandeep Shah And just on margin Prateek, can you give us some of the potential in terms of the levers through utilization SG&A and the off-shoring going forward?

Prateek Aggarwal Sandeep as Atul's quote in the press release said very clearly, there are several levers that we continue to look at in the medium-term. One of them sort of stares that you in the face is utilization which is by our own past quarters come down bit so that remains a healthy equation to improve margins going forward as well as SG&A while it has come down significantly, we continue to look at ways and means to improve that going forward.

Sandeep Shah And within SG&A as Atul might have said that the G&A may remain at a constant level and the S&M may not grow and line with the company average growth.

PR Chandrasekar That's the fair assessment but at the same time I want to assure you that less than in a year we are very conscious that we don't want to do anything in terms of withholding investments on sales, marketing or COE or capability building that would compromise our ability to grow tomorrow. We have invested in COEs, we have grown our strategic clients going into 2012-2013 which envisages investments various areas, both in our verticals as well as our horizontals, we have a fairly large team talent pool which is technically adept but at this point is engaged and what you would consider non-billable projects in our COEs, we are investing in mobiles, we are investing in cloud and in social media, etc. I already pointed out and referred to the investments remain in the field on our practitioners as well as account managers. We now have all top at least 25 to 30 account managers in place, managing most of our top accounts. We are hoping to get this out of more G&A leverage than S&M.

Sandeep Shah If I assume that if the currency at 48.5 to 49 then in the fourth quarter, there is a possibility of increase in the margin again. I do agree there would be some investment but is there any ramp-up cost of any large deals coming into play in the coming quarters or we can assume that if currency is favorable for the sector, the large part of that may flow back to the EBITDA for Hexaware?

PR Chandrasekar Let me answer it this way, there are a few deals where we pursue but at this point in time we don't envisage any major cost factor that will eat into the potential benefits that would accrue are of ForEx.

Sandeep Shah Thanks sir.

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

Pratish Krishnan Congratulations sir. My question is from the volume growth of 9.6%. is it possible to get some split in terms of what was onsite and the offshore volume growth?

PR Chandrasekar Pratish, a lot of that growth did come offshore, now again I have realized that when you throw a statistic at a community that looks at statistics very closely you can draw conclusion either side, I don't want you to read the fact that a lot of that growth is on offshore so what's wrong with the onsite, I want to say that we grew in onsite in some accounts but we reduced it in some accounts so it is little hard for you to come to any conclusions on that. Bulk of it is though from offshore.

Pratish Krishnan I just want to understand if you look at last two quarters the onsite revenue growth is virtually flat and this is despite good client addition so how do I reconcile this?

PR Chandrasekar The way to read that is if you look at the larger accounts we all have the large deals, as time progress this and it becomes more stable you are able to move more stuff offshore and given the relative size you can move fairly material numbers of people and work offshore whereas the new business that you win is relatively smaller at the ramp-up space. So in that sense the moment offshore can be far larger in scale then it is in onsite.

Atul Nishar Also important point is if we had not moved this work offshore our revenue growth would have been even higher. So we are not focusing on just revenue growth but we want all round growth by improving profitability margins as well. So we would continue to have this strategy, we are not going after some double-digit quarter-on-quarter revenue growth, what is more important is all-round growth and this has excited the people in the offshore locations as well which is reflected in our lower attrition which has gone down to 14.7%. The people are excited at the delivery centers to keep getting new projects.

Pratish Krishnan It looks like overall you are in a pretty decent place today in terms of on a year-on-year basis so for the next year what would be the top one or two priorities for you, is it going to be in the focus on margins or is it like top-line, how would you look at that?

PR Chandrasekar Pratish revenue is really the major area focus for the company because clearly with revenue you can solve a lot of problems or put another way you run out of revenue, you have to deal with more problems than you need to have and I guess all of us in this room, in the management team have lived through that. So we will not take our eyes or our desire to drive revenue. As I told you there is active pursuit on deals so the investments on sales and marketing will continue. Having said that we also believe that operationally both in terms of the continuing desire and the plans that we have actually implemented to improve our people pyramid, the fact that we have done what Atul talked about in terms of our facilities and other G&A expenses, we have changed to some extent the structure of our operating cost. So on the revenue we will drive but by driving the revenue and hopefully driving lot of it offshore we can also consequently continue to do a good job on the margins. So I would like to believe that revenue would still very much be a factor, if we drive revenue given all other things we will continue to perform well on the margin front.

Atul Nishar Before the next question comes I do want to address one point since I have another call in next 3 min, an international call so one question that has come up in recent time is on the GA stake in Hexaware and there were some report about the possibility of GA exit. We have asked GA and they have communicated to us that they have no immediate plan to sell the stake, they will not talk to a single party for exiting and they say that Hexaware is a company exceeds their expectation in terms of performance. So this is what we have been told and wanted to communicate to all of you that there is no such near-term possibility that is there.

Pratish Krishnan Just passing on to the overall hiring plan for next year and the campus offers you have made.

R V Ramanan We have already started the campus hiring for the next year so this year overall we have hired about 550 freshers so far and in the next quarter we are looking at adding another 200 plus for the next quarter totaling about 750+ could be the addition for 2011, next year will be in-line or will be higher than that, we're looking at exceeding that number. The actual operating plan is still being prepared so I don't have the exact numbers with me but maybe in line or will be in excess of current year.

Pratish Krishnan Thank you so much.

Moderator Thank you. The next question is from Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja Congratulations for good execution. Just wanted to understand apart from the large deals that we won, if you could talk about the ramp up somewhere this deal you have said we have won in the recent past. Second question is for Prateek, just wanted to get a sense on this large hedge loss that we have on balance sheet, how should we look at that number flowing into the P&L over the next few quarters and then just your take on the effective tax rate?

PR Chandrasekar The thing is that all the deals that we won, the one that we recently announced in July actually the progress in terms of the ramp up of business in that particular opportunity has actually been faster than what we've planned so I think it is going out and same is the case with the others. Beyond that I think it is little hard for me to really answer this specific question but all of them have been in good shape. The one if you recall, the first one that we launched about a year ago, the 100 million-dollar deal which kind of set us on that path is now in steady state, we have met all the criteria, the customer is very satisfied, we have gained strengths in Oracle and infrastructure Management Services which were continuing to leverage and the ones in between are in good shape. So beyond that it's a little hard for me to answer unless there is something specific you have in mind and I have passed it to Prateek to answer the other question that you have.

Prateek Aggarwal Your question on the ForEx as you can see we have about $176 million hedges and the figure you see in the balance sheet is about 350 million, that's roughly a figure of, I'm not counting the Euro so much because as you can see it is on Rs 70.50 almost. So that is still in the money but on dollar hedges, on an average across those $176 million we are negative at about Rs 2 per dollar. Nobody can predict these things, we continue with our discipline hedging policy that we have which is always under close monitoring by the board as well. We will continue with our hedging policy which we continue to do in this quarter as well and we believe these rates are equally good or actually better compared to what we had earlier and we continue to go as per our business forecast.

Manik Taneja The other question was on tax rates for CY12 and 13, if you could just give a sense on that?

Prateek Aggarwal For the calendar 2011 it is going to be in the region of 17% which is where we are this quarter but going into calendar 2012 and beyond we should be roughly in the region of 22-23 odd per cent points going forward.

Manic Taneja Thank you.

Prateek Aggarwal Thank you.

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

Kunal Sangoi Congrats on a good quarter. My question is if you can give some flavor from new client additions that you had in terms of any particular sizes that you can mention?

PR Chandrasekar Kunal of that well clients that we added, we have given some details in terms of where they originate some in terms of service lines as well as geographies. But about 3 to 5 of them I would say are good-quality openings in terms of the opportunities that we are participating in with good access to those clients with the potential to give us about a million dollar I would believe in 2012 if not more. Because I don't want to directly correlate the size of the customer of this customer to the potential of that customer today. If you can look at the size of these customers actually they are pretty good names but I have learnt from experience now that just because they are good names it doesn't necessarily mean that you're going to get lots of dollars.

Kunal Sangoi Sir my other question was, just taking this a little forward of the 12 you have mentioned 3 to 5 are good quality names, similarly so last few quarters we have seen double-digit client additions but however, if I look at clients contributing more than million dollars of revenue over last 4-5 quarters that has more or less remain stable and large part of the growth has come from top clients, I do understand that that is a focus area but when do we see this number gradually expanding? Is there some amount of strategic focus also diverted towards growing some of the smaller accounts?

PR Chandrasekar No I don't think that is really the fact, clearly there is more attention to your top account and you would be lying if we said there wasn't for good reason because there is a lot of attention from Atul, me, Ramanan, all of us are focused on trying to give the most and keeping our top clients happy because the benefits of that also very rare, 5% increase from one of these big guys who is a 20 million plus is material in terms of the absolute number. Having said that actually our percentage from new business has moved, unfortunately not as much as you would like but it was at 7.5% last quarter, it is down to about 6.5% this quarter, mainly because one particular customer the way we track it is trailing 12 months basis. To that particular guy was doing well has now crossed 12 months or he moves into an existing customer account. So it is from math standpoint I wouldn't go purely by this number but having looked at my organization with about 194 customers and the fact that we have now 51 and million plus and examine the quality of the front piece of these and the tail, the front piece is getting stronger and broader Kunal and the testimony of that is my multiple geographies are growing. So when my APAC grows by even a few percentage points and given the fact that that a lot of that is project oriented business, it is on the back of some good customers. You will notice that Europe despite everything that you read in the press has grown this quarter, has grown last quarter, will grow next quarter, and I am hoping will continue to grow again on the back of these new client additions. So it has already started paying off, it will hopefully give us something more in starting 2012.

The answer regarding the structure, we have the structure which is focused on key accounts which are not there necessarily the top account. Primarily to get the wins, if you look at it the wins which are originating out of our horizontal business whether it is enterprise solutions, whether it is BA/BI, whether it is QATS, we have a key account structure to make sure that we sell other services to the same customer, customer we acquire through are horizontal thereby expanding the revenue. You will see the results of that in the coming few quarters but effectively the focus is on identifying these customers and trying to expand other service lines with the same customer that is where generating revenue from them.

Kunal Sangoi The other question is with regards to the offshore, last quarter also you did mention that we should look at more of a stable nature towards 43%-44%. This time you have seen good offshore volume growth and the deal that you had announced in July was, you saw that ramp up has been faster. So that has probably driven the offshore, how do you see this offshore-onsite mix panning out going forward?

PR Chandrasekar There is obviously a conscious attempt not only from our side but with some of our customers also to start moving a little more extra offshore. As you have been tracking this industry for a while and the reality is that start up customers tend to be more onsite centric and also there are some roles especially of the kind we do in PeopleSoft implementation, etc., which are hard to difficult. So I feel as the average size grows and some of large increase grows, we will see some movement but I don't want to promise this kind of a dramatic 300 basis points move because this happen to some extent because two of our large customers have lot of the growth frankly came primarily offshore.

Kunal Sangoi Prateek you did mention that the hedges are on a graded basis but is it that some are front-ended as in December and January would be heavier in terms of percentage hedged in terms of net inflow?

Prateek Aggarwal Yes Kunal, as I'm sure we have discussed in the past the first 4 quarters are typically tend to be higher percentage of the forecast compared to the next four quarters. So the dollar million amount tends to taper down as we cross in subsequent quarters.

Kunal Sangoi So only December and March quarter if you can share what percentage would be hedged?

Prateek Aggarwal I don't have the exact number to share with you right now but it would be in the region of 80%.

Kunal Sangoi Sure alright thanks and all the best.

Prateek Aggarwal Thank you Kunal.

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

Vimal Gohil Congratulations on great set of numbers. Just couple of data-points, what would be our percentage of revenues basically coming in from maintenance alone which includes application development in maintenance and the maintenance work which we do for PeopleSoft.

RV Ramanan It could be in excess of 60% to 70%.

Vimal Gohil No I'm just asking the maintenance part of it. I'm sure we do some implementation part for the PeopleSoft to maintain.

RV Ramanan Yeah look at Enterprises business we do implementation, we do upgrades.

Vimal Gohil You do support work as well.

RV Ramanan 50% of the enterprise comes from support remaining would be implementation and analytics.

Vimal Gohil And what would be the current percentage of fresher to lateral ratio of the company?

PR Chandrasekar We took somewhat about 1600 in the last 9 months, 1 in 3 approx of which by 550 freshers, about 30% to 33% of our intake today is fresher. If you go for the year where we plan to do about 200 laterals will reduce because I am hoping laterals will reduce because I just more on as needed basis, the percentage I'm hoping will come closer to somewhere of 35 plus percent.

Vimal Gohil Thanks gentlemen, I'll come back later for details.

Atul Nishar Thank you Vimal.

Moderator Thank you. The last question is from the line of Shika Jalan from Smifs Securities. Please go ahead.

Shika Jalan Almost all the questions have been answered, just one thing in the tax rate, what are you expecting from the Q4 around 24-25%?

Prateek Aggarwal No I would expect it to be in the same region of about 17.5%.

Shika Jalan That would give us an average of 15% for the year so for the calendar year 2011 are we ending it at 16% almost?

Prateek Aggarwal It would be in the region of 15% to 17%, last quarter if I'm not mistaken was 16, this is 17.3, first was 7.5%. So whatever the maths adds up for the four quarters it could probably be 15%-16% for the year.

Shika Jalan Sir just one last question for calendar year 2012, what kind of revenue growth are we expecting, we expecting the same trend as we did, this superlative growth which we had this first nine months so are we expecting to repeat the history?

PR Chandrasekar We would love to but what the best I can do now is to say that the way we are positioned we would like to believe that we will do better than what the industry growth is and I am afraid I can't give you a more precise answer.

Shika Jalan Thanks a lot, that's all from my side sir.

Moderator Thank you. The next question is from Nirav Dalal from Sharekhan. Please go ahead.

Nirav Dalal Good evening sir, congratulations on a good set of numbers I just had one question. I just wanted to know how high can the offshoring go?

PR Chandrasekar It can go to even 100% theoretically. I know what you mean but given the nature of the business we are in, in terms of the mix of services we provide, I would like to believe that we are in 46 to 48 would be a reasonable number. I would not go anything more than that, even that I would say it could vary one quarter to other little bit depending on let's say we win a deal where we suddenly have a large on-site presence, but I would not like to plan based on or in your spreadsheet look at offshore numbers going way beyond that.

Nirav Dalal Thanks a lot sir.

Moderator Thank you for the question. The last question is from Sandeep Shah from RBS. Please go ahead.

Sandeep Shah Thanks for taking this question. Sir if I'm not wrong we also have couple of large accounts in within Germany, France so you might have met them in the last couple of months so specifically what is their view while entering CY12 in terms of the IT spend both on the discretionary and a non-discretionary spend?

PR Chandrasekar We don't really have any very large customer in France; I'm not going to talk about that. We do have good customers in Germany, we believe that both of those customers will remain stable as we go through the next few quarters. That way we have not received any indications to this context.

Sandeep Shah The four large deals of more than $25 million TCV, what is the nature of services which are coming in these large deals?

PR Chandrasekar It does cover a fairly wide gamut surprisingly there is a BPO, from the IT opportunity, there is enterprise solutions, and there is one which is multi-service line kind of opportunity so it is a bit of a mixed bag.

Sandeep Shah And is it largely again coming out of top-10 clients or it's beyond that?

PR Chandrasekar This time around there are some which we would classify as new customers.

Sandeep Shah And what stages we are right now in these deals?

PR Chandrasekar We are in reasonably good stage of discussion but I would like to say that closure is likely in the next two quarters.

Sandeep Shah Thanks and all the best.

Moderator Thank you. I would now like to hand the floor over to Mr. Sekar for closing comments. Please go ahead.

Chnadrashekhar Atul had to step out for a call so will take this opportunity to thank all the participants who have taken so much time to listen to us and for their interest in Hexaware. Thank you once again and I also want to take from the part of the management team and Hexaware which all of you are wonderful Diwali and Happy and a Great Year ahead of you. Thank you very much.

Moderator On behalf of Hexaware Technologies Ltd that concludes this conference. Thank you for joining us. You may now disconnect your lines.