Hexaware Technologies Limited
Third Quarter Earnings Conference Call – Financial Year 2008-2009
October 24, 2008

Moderator: Good Evening Ladies and Gentleman, I am Pooja, the moderator for this conference call. Welcome to the Hexaware Technologies Conference Call. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would now like to hand over to Ms. Latika Gidwani. Thank you and over to you ma'am.

Latika Gidwani: Thanks Pooja. Good afternoon to all of you. Yes, I think the call is for the Q3 results. From Hexaware, we have Mr. Atul Nishar, Executive Chairman; Mr. Sekar, Vice Chairman and CEO; and Mr. P. K. Sridharan, Executive Director, Mr. Prateek Aggarwal, CFO; Mr. R V Ramanan, Head Global Delivery; and Mr. Deependra Chumble, CPO. I shall just start by reading the disclaimer. Certain statements on this conference call concerning our future growth prospects are forward-looking statements which involve a number of risks and uncertainties that could cause actual results to defer materially from those in such forward-looking statements. The risks and uncertainties relating to these statements include but are not limited to risks and uncertainties regarding fluctuations in earnings, our ability to manage growth, intense competition in IT Services including those factors which may affect our cost advantage, wage increases, our ability to attract and retain highly skilled professionals, time and cost overruns on fixed timeframe contract, client concentration, restrictions on immigration, our ability to manage our international operations, reduced demand for technology in our key focus areas, disruptions in telecommunication network, our ability to successfully complete and integrate potential acquisitions, liability for damages in our service contract, the success of the companies in which Hexaware has made strategic investments, withdrawal of governmental fiscal incentives, political instability, legal restrictions on raising capital or acquiring companies outside India, and unauthorized use of our intellectual property, and general economic conditions affecting our industry. With this, I hand over to Mr. Atul Nishar.

Atul Nishar: Good afternoon, ladies and gentlemen. On a day with such a massive turmoil, all those who have joined this call clearly shows that you are very much interested in Hexaware and I would very much like to acknowledge your interest in Hexaware for joining this call on a day like this. Also, it is relevant that today evening is the beginning of the weekend just before Diwali holidays. So, we will try to be brief as well today, and so at the outset let me make a comment on the overall results that, I am broadly pleased with the results announced because I see an overall improvement and that too significant enough in our several operational metrics in spite of the external situation being very challenging and the overall turmoil that we see around, and I believe that the approach that we at Hexaware have of multi-pronged niche specialists would continue to hold us in good stead even in this environment. In addition, several steps already initiated by the leadership team ably led by Sekar, I am very confident will reflect in superior performance in the quarters that you will see going forward, and with this I would now handover to Sekar, the Vice Chairman and CEO of the company to walk all of us through the quarter three results of Hexaware.

P. R. Chandrasekar: Thank you very much Atul. Good afternoon ladies and gentlemen. I second Atul's views on being the very interesting nature of today and the fact that many of you have shown up to hear our results. The quarter itself has been very, very interesting for the new management team as well as all of us here at Hexaware, and in the midst of all this turmoil, the Hexaware team has focused on the set of tasks that we had laid out at the beginning of the quarter in building the organization for sustainable and profitable growth for 2009 and beyond. In terms of quarter three 2008 revenues, we have reported revenues of US dollar 66.3 million, adjusted for the rather steep 6% depreciation of GBP and 4.5% depreciation of the Euro, our revenues would have been approximately US dollars 67.4 million. This is in line with our quarter two 2008 revenues and the guidance we had provided in July.

If we look at some of the operational metrics our operating margins have increased significantly and materially by 330 basis points from the underlying margins of 7.8% in quarter two 2008 to a double digit 11.1%. One of the major contributors to this has been an increase in the global utilization by 220 basis points to 65.9%. As we speak, we are continuing to tighten our belts not only in this area, but across all operating parameters to drive an improved offshore utilization further as well as our operating efficiencies further. Our PAT increased by 60 basis points and was tempered to an extent by losses on account of foreign exchange forward contracts. We will explain this in a little more detail later.

Coming to some of the business updates, the order book executed in quarter three 2008 was US dollars 51 million. While still not where we would like it to be, the good news is that it is higher than the 42 million we signed in quarter one 2008 and 40 million we signed in quarter two 2008. With regards to clients, we have added four marquee names to our list. We expect these clients to ramp up and deliver growth in the forthcoming quarters. We have 66 clients in the Fortune Global 500 list on our roster. The quality of our client accounts continues to be impressive. The pipeline also that we have garnered and looked at in this quarter holds a lot of promise, both in North America as well as in Europe. However, the deal closures appear to be taking somewhat longer than usual which is understandable given the marco-economic climate. In addition, the climate is also forcing some of our clients to take a little more of a circumspect approach, and this has resulted in slowdown in both the order book as well as deferment of some projects.

Our subsidiaries, especially Caliber Point and Focus Frame have also delivered numbers along the expected lines, and like in the past, we continue to remain confident that their performance will hold promise for us in the future. Looking ahead, we are focusing our efforts to improve our efficiencies while at the same time, we are continuing to take steps to further strengthen our ability to add value to our customers.

As we have mentioned during our last call, we have now launched our vertical structure. We have initiated plans to strengthen our horizontal competencies both in terms of core competencies as well as presence on the field, and we have also initiated steps to further leverage the capabilities of our subsidiaries much better in the market place. This we feel will allow us to capitalize on opportunities as the market environment improves. We believe this will enable us to improve the revenue shares from the existing customers by increasing cross-selling and also improve our ability to mine these accounts. The initial steps and setting up the organization structure have already been taken, and we have also hired key leaders to head these organizations as well as earmarked existing people within the current organization into these vertical and other horizontal structures. We are confident that these steps will propel us better in the future, and we look forward that once the market turmoil subsides, we will be in a better stance to build good revenue pipeline as well as a profitable growth going into 2009. I will now hand it over to Prateek, our CFO, to elaborate on the financial highlights for quarter three 2008. Over to you, Prateek.

Prateek Aggarwal: Thank you Sekar. Hello, everybody. I will talk about some of the financial details. Sekar has spoken about the revenues already. I will walk you through the elements of the margin increase. Our operating margins reported a healthy increase of 330 basis points compared to the underlying numbers of Q2 FY 2008. To understand the variance in the margins, the breakup reveals a picture as following. I will talk through three items on the positive side. One item which has impacted negatively and the third part would be the impact of foreign exchange.

On the positive side, we have as Sekar mentioned, improved our utilization by 220 basis points. That increase leads to a 170 basis points improvement in the margins. The second key metric that has been impacted favorably is the onsite and offshore mix, which has again increased by about 2 percentage points. That has delivered 20 basis points improvement in the margins. The third factor on the positive side is the impact of higher working days in

Q3 compared to Q2, which has delivered 160 basis points improvement in the margin.

On the negative side, we have increased the salaries of our onsite people by an average of 3% to 4%, and that has impacted our margins by about 90 basis points.

The impact of foreign exchange is again in two parts. On the GBP and Euro, they have depreciated by about 5% each during the quarter. That has affected margins by 50 basis points negatively. The second impact has come obviously from the rupee depreciation versus the dollar, which has given us 160 basis points improvement in the margin scenario. For the record, INR has depreciated by 5.8% from Q2 to Q3 FY 2008.

The other factors that contributed to our margin hit of 50 basis points and that completes basically the 330 basis point, which is as I referenced before, an increase over the underlying 7.8% that we had reported last quarter.

Coming to some of the metrics, our revenue mix depicts a shift towards offshore, and as the percentage of revenues, the offshore share of revenue has gone up by 1.9%. On the billing rates, in constant currency terms, based on the Q2 exchange rates, the bill rates are marginally higher. Of course, the GBP and Euro depreciation has affected them, and therefore, the bill rates that you see in the metrics page are about 1.4% down basically because of the GBP and Euro depreciation against the US dollar. Despite the daunting economic scenario, the bill rates are stable and are holding up.

Coming to one of the accounting treatment changes, commencing Q3, that is this quarter, in view of the SEBI format, new SEBI format of operating income for the first time, we have revised the accounting treatment of foreign exchange gains and losses to show under other income rather than as operating expenses or income. Therefore, following this change, losses in quarter three worth rupees 38 million rupees were reclassified from expenses to other income and so was the gain which was in Q2 that has been reclassified as well. The second item appearing there is mark-to-market loss which is amounting to 204 rupees million related to future hedges has been also booked in the other income line. This change of accounting treatment has made us to recast the past quarters for apple-to-apple comparison.

Finally, coming to the revenue guidance given for Q4, we have arrived at our Q4 guidance with reference to the latest exchange rates and we have mentioned the exchange rates as Pound at 1.65 and Euro at 1.25 to the dollar. There is nearly 10% depreciation in these rates compared to Q3 average. Therefore, at Q3 average constant currency assumptions, our Q4 revenues would be higher by 1.5 million dollars. So, the 61.5 to 64 range actually becomes 63 million dollars to 65.5.

With this I leave the floor open for questions. Thank you all for your attention and over to you moderator.

Moderator: Thank you very much Sir. We will now begin the Q&A interactive session. Participants who wish to ask questions, please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, please press *1 now. First in line, we have Mr. Vishal from Citigroup. Please go ahead with your question sir.

Mr. Hitesh: This is Hitesh from Citigroup. Just wanted to understand on the hiring front, we had guided for 500 people decline for second half. We have already seen a decline of 674 people in the third quarter itself. So, what are we expecting for Q4 and probably for the next 6 to 12 months?

P. R. Chandrasekar: Hitesh, this is Sekar. I will just speak on this, and I will also then invite Deepen, our Chief People Officer, to give his comments. You are right that the numbers that are indicated in quarter two are significant. The major reason for this has been our attrition rates which we have chosen not to backfill given that our utilization numbers continue to remain or give us the possibility of utilizing our bench better. We have relocated our facilities from Delhi and as a result of which we have lost some people who chose not to relocate, and those numbers where somewhat higher than we had anticipated, and finally, we have also continued as is the normal course to take some actions relating to performance, and there has been some attrition on that front. Given that, that is the scenario as far as quarter three is concerned. In regards to quarter four and going forward, I would not like to provide a specific number, but what I would like to state is that at this time we are very cautious about our hiring and at the same time, there is no major plans for any layoffs or any action and any additions to our workforce will frankly depend on the nature of the business and the pipeline that we see, but in terms of specific numbers, I am reluctant to hazard a guess at this point. We have a good bench at our disposal and none of our business has been affected as a result of this, and we continue to service our customers well, and given the difficult market scenario, we are going to be very careful with regards to our people. With that Deepen is there anything that you would like to add?

Deependra Chumble: Sekar, you have covered most of it. I will just add one more point here that the people whom we have lost some of them are who are the people who were on the bench for a longer period of time. To reiterate Sekar's point, it has not affected the day to today operations of the organization because of that, but at the same time, yes we are definitely saying that we would like to look into these things and we are looking into these things to reduce the right attrition.

Mr. Hitesh: Sure. In terms of this 28% attrition, how much of it was voluntary and how much was involuntary?

P. R. Chandrasekar: Deepen, would you like to answer that?

Deependra Chumble: I would not want to hazard a guess on that. I think this is what is the combined thing that we have from the last quarter to this quarter.

P. R. Chandrasekar: Deepen, one correction….the 28% is the voluntary attrition number.

Mr. Hitesh: So, involuntary was over and above this?

P. R. Chandrasekar: Yes sir.

Mr. Hitesh: Okay sure. Lastly, in terms of the hedge position, what is the hedge position at the end of last quarter, and also what are the hedging losses in OCI of the balance sheets, and have we started recognizing hedging in P&L from balance sheet, is what I wanted to understand?

Prateek Aggarwal: Sure Hitesh, this is Prateek here. Our hedge position as of 30th September as we have given in the press release is 213 million dollars, and to your question about accounting treatment, I will try to cover in slightly more detail than I did earlier. See, in terms of Accounting Standard 30, there is a process of judging the effectiveness of forward cover, and therefore, as part of that process, given that our revenue guidance has been lower, there were about 30 million dollars out of the 213 million dollars which were considered as ineffective, and as per Accounting Standard 30, the mark-to-market on the ineffective forward cover is taken to the P&L. For the balance 183 million dollars basically, leaving apart whatever has been matured or already on the balance sheet as debtors, has been taken to the balance sheet. So, to answer your direct question about how much has gone to the OCI or reserve, that is an amount of 100 crores in the balance sheet as on date. This number was 86 crores at the end of quarter two, and so therefore, in this quarter there is an additional provision in the balance sheet of 14 crores. I hope I have answered your entire question. In case not, please feel free to ask again.

Mr. Hitesh: Sure, that means basically we had 34 crores of forex losses this quarter of which about 20 crores in P&L and 14 went to balance sheet, is that right?

P. R. Chandrasekar: That is correct.

Mr. Hitesh: Okay, thanks and all the best.

P. R. Chandrasekar: Hitesh, one other thing, I would like Prateek to also talk about a little bit on some steps we have taken with regards to the forex covers. Prateek?

Prateek Aggarwal: Yeah. See, the data that I gave you just now was as at 30th September 2008. Subsequently, in the last three odd weeks, we have taken some further steps. So, I am going back to the hedge book position as on quarter two, which we had shared with you which was about 196 million dollars. Out of that as we stand today, we have either canceled or replaced by another by some options almost 55 million dollars out of that. So, we are left with as on today, about only 140 million dollars out of that.

Mr. Hitesh: All the loss and the cancelled position which would get pass-through P&L this year?

Prateek Aggarwal: Yes, the loss on the ineffective hedges which has already come into the P&L on 30th September, that was at a rate of roughly 47 rupees. The rate at which we have actually canceled is slightly short of 50 rupees. Therefore, the balance 3 rupees will come to the P&L in Q4.

Mr. Hitesh: And also the losses which were there in the balance sheet for this 50 million dollars would also be get pass-through P&L, is that right?

Prateek Aggarwal: Hitesh, no that is not right. Basically, only the hedges which are determined to be ineffective will come to the P&L which has already happened in Q3 as I just said. For the hedges which were effective and we have replaced some of them with options, that will continue to be in the balance sheet.

Mr. Hitesh: Okay, thank you and all the best.

P. R. Chandrasekar: Thank you very much.

Moderator: Thank you very much sir. Next in line, we have Mr. Sujeet from Irevna. Please go ahead with your question sir.

Mr. Sujeet: Hi, good evening, just a couple of questions on the demand scenario. Last quarter, you mentioned about a couple of clients having certain issues with regard to their own budgets, etc., and decision making being slow. Do you see that continuing with the same set of clients or widening to much broader base?

P. R. Chandrasekar: Sujeet, this is Sekar. I would like to answer that in two ways. One clearly, the market environment has gotten if anything even more daunting than it was when we talked in the last quarter. I think that is visible to all of us. The good news is, we have not been materially impacted in any significant fashion in terms of any calculations, even in the financial services sector which is the big chunk of our business partly because some of the people affected like Merrill and Lehman, etc., were not our clients. The second thing has also been even in the BFSI sector, our exposure or the number of clients that we have had has been concentrated more on the buy side of the business as opposed to the sell side of the business. So, once again we have been spared some of the serious implications that some of the other IT service companies have faced. That is good news, but the environment remains tough. Uncertainty is abound not only in the financial services sector but across the board in all other sectors as a result of which people have been somewhat cautious about placing orders, proposals have been taking longer to be decided, the order cycle continues to be a little stretched, and so therefore, the environment is tough. Our order book had actually improved this quarter not as good as we would like, but it is still reasonably healthier than what it was in quarter one and quarter two, and the other good thing is we do have some reasonable pipeline both in the North America and Europe. So, I would say, we are cautiously optimistic, but things are going to remain tough for at least the next couple of quarters.

Mr. Sujeet: Okay, sir. So, how is that going to pan out into your both pricing and the volume side. Could you give us a sense because not just that we are also seeing decline in headcount numbers. Is that something to do with your demand uncertainty?

Atul Nishar: Well, if you really take the headcount reduction is also on account of our desire to increase the utilization, and utilization has improved over the last two quarters consistently. That is one reason. Second, we have already given offers to freshers whom we can take whenever we want, and third, the lateral hire, people are available in the market without any difficulty. So, we do not need to really keep large bench the way the situation warranted earlier in the industry. I think the industry dynamics have changed, and in tune with that, the headcount reduction that will happen does not in anyway impact the future possible growth. So, there was a premise in past that if you are going to grow, you will add so many people in advance, which we do not think today is necessary in the changed environment.

Mr. Sudhir: Okay. Yeah, coming back to that question that I had asked, I mean, how much do you see volume and pricing pressures on your clients, I mean obviously now that there is lot of pain in the environment? How much do you see that impacting?

P. R. Chandrasekar: We had one or two instances where we had been under some pressure from the pricing standpoint from customers. Again, not very material. We have not really seen too much on that front, but clearly we cannot avoid the fact that given the market circumstances, pricing will remain a factor and a source of concern for us and for everybody else in this industry. It has not affected us yet, but we are being extremely watchful about pricing and the situation because it is very competitive out there.

Companies are being quite anxious to get business. Although it has not affected us, clearly pricing is something we will watch going forward. With regards to volume, again, it would not be difficult, but we are hopeful that somewhere in 2009, things will pick up.

Mr. Sujeet: Okay and I remember last quarter you had mentioned that for the full year you will be having somewhere in the range of 270 to 275 million dollars of revenues and you have clocked around 200 now and you are saying something like 64 for the next quarter. So, is that ….should we consider that as a downward revision of the guidance or is there something?

Prateek Aggarwal: Sudhir, yes, it is a downward revision, but I would like to point out a few facts here. See, our guidance given in July was at an exchange rate of almost 2 dollars to every Pound, and Euro was at that point in time1.58, almost 1.6 actually. That has changed considerably in Q3 itself as well as has changed drastically in the last three weeks particularly in the last 1 week as well. So, that has had an impact of at least 4 million dollar. So, if you see our let us say 201 is the actuals for the last three quarters, add 64 means 265. So, if I add to 64 million dollars to 265, we are at about 269 million dollars, which is not a material difference from the guidance that we gave you last quarter.

Mr. Sudhir: Okay, right. Thanks a lot. That is it from my side.

Prateek Aggarwal: Thank you very much for your question.

Moderator: Thank you very much sir. Next in line, we have Mr. Vipul of Avaya India. Please go ahead with your question sir.

Mr. Vipul: Hello, this is Vipul from Avaya India. First of all, I congratulate the floor members for decent numbers in this uncertain environment, and my question is in three parts. So, I have seen that, you have somewhere mentioned that you have acquisitions strategy. So, my question is that are you still pursuing that strategy. If yes, then you want to acquire a company just for revenue or for the capacity?

P. R. Chandrasekar: I was waiting for you to ask the other parts of your question. This is Sekar. Vipul, acquisitions remain an element of growth at

Hexaware. We acquired a company called Focus Frame as you are aware, and it is doing well. We are hoping that it will do even better into the future. Having said that, we clearly will view acquisitions as and when required as part of our strategic growth in the future, and it will be driven primarily by a desire to acquire both either capability or a market presence in an area that we want to grow. The reason will not be to aggregate revenues.

Mr. Vipul: Okay. Second question is, are you open to get acquired in this environment when things are not falling in shape. If yes, then what parameter you will like to look for?

Atul Nishar: Let me answer that, this is Atul Nishar here. We have absolutely no interest of any type of being acquired either by way of cash or by way of merger or any other mode. That is absolutely out of question.

Mr. Vipul: Okay.

Atul Nishar: We will grow on our own. I have seen in my career enough ups and downs in the economies of different countries and in the world economy. I am not the one to get unduly disturbed. I do not lose sleep either. So, I can assure you one year later, we will be on the call. Two years later, we will be on the call, and three years we will be on the call. You can record this.

Mr. Vipul: Okay, okay. So, actually, in portion you have answered by third question, which was like would you like to give any message to shareholder of Hexaware?

Atul Nishar: Well, I would say that the truth is we are going through turbulent times. You all know better than me. You are all the analysts and can analyze the global scenario much better than what we are doing while running a software business, but in this turbulent times, in spite of that we will take all that we have. We have high quality management and what clearly makes a good future of a company, high quality management. So, I am very confident that with this team that we have, in these difficult times also, we will go through and come out more confident and we would have a brighter and better future. Nevertheless, just as this difficult time will impact various industries and various companies, we would also have to go through the same. We cannot swim against the tide. We will swim with the tide, but I am very optimistic that the future of the company is going to be good and positive.

Mr. Vipul: Thanks Sekar, thanks Atul.

P. R. Chandrasekar: Thank you.

Moderator: Thank you very much sir. Next in line, we have Ms. Nikita from SKF Securities. Please go ahead with your question ma'am.

Ms. Nikita: Good evening. I wanted to know what is the cash position and cash equivalents as of date?

Prateek Aggarwal: Nikita this is Prateek here.

Ms. Nikita: Yeah.

Prateek Aggarwal: Our cash position as on date is 244 crores, and this is higher than the last quarter by about 13 crores.

Ms. Nikita: Okay and this also includes investments in mutual funds and other quotable units?

Prateek Aggarwal: Yeah, in the last three weeks since the quarter was closed, we have actually moved out on our investments from mutual funds where it was liquid or FMPs, and as of today, we are 100% in bank fixed deposits.

Ms. Nikita: Okay. One more question. Could you explain this again of 100 crores that has been taken to the balance sheet in the forex losses?

Prateek Aggarwal: Sure. See, there is a mark-to-market impact for forward covers for future forward covers. So, there is a significant part of our hedge book or at least there was at 30th September which was at 40 rupees or thereabout, 40.4 or thereabouts. With the dollar at almost 47 at the end of September, there is a mark-to-market of roughly about 6 rupees 60 paise. So, that is the loss which typically under the Accounting Standard 30, is taken to the balance sheet rather than to the P&L.

Ms. Nikita: Okay.

Prateek Aggarwal: I hope that helps understand

Ms. Nikita: That is YTD, no? 100 crores?

Prateek Aggarwal: YTD?

Ms. Nikita: For 9 months?

Prateek Aggarwal: That is right, that is as at 30th September

Ms. Nikita: Okay.

Prateek Aggarwal: Like I explained earlier, this was a 86 crores in the month of June as at 30th June. So, during the quarter, that has gone up from 86 to 100, which is a growth of 14 crores.

Ms. Nikita: Okay.

P. R. Chandrasekar: Nikita, the other thing which we also talked about or mentioned earlier…this is Sekar

Ms. Nikita: Okay.

P. R. Chandrasekar: is the quality of this hedge since the last quarter has also been materially changed in terms of the underlying nature of the price at which these hedges were made.?

Prateek Aggarwal: Sure, like I said earlier, there is out of the carried forward hedge book of 196 million as on first of July. As of today, we have only about 140 left at that rate of 40.4 average. About 30 million, which was judged as ineffective, has been canceled, and another let us say about 15 to 20 million has been replaced by put options, which typically will only have a positive mark-to-market, will not have a negative effect either on the balance sheet or on the P&L.

Ms. Nikita: Okay.

Prateek Aggarwal: Except of course, for the cost of the products.

Ms. Nikita: Okay, thank you.

P. R. Chandrasekar: Thank you.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Nimish from CLSA. Please go ahead with your question sir.

Mr. Nimish: Hi, this is Nimish here. I just wanted one…the 30 million dollar of hedges you canceled, the ineffective hedges, the 220 odd crores of losses which you projected in P&L are arising from those, right, directly, the ineffective hedges?

Prateek Aggarwal: There is 204 million rupees

Mr. Nimish: That is what 20.4 crores, that is right.

Prateek Aggarwal: Yeah, so 20 crores

Mr. Nimish: Yeah.

Prateek Aggarwal: I would not like you to read it as 200 crores….

Mr. Nimish: No, no..

Prateek Aggarwal: …..the 20 crores is related to the 30 million dollar hedge.

Mr. Nimish: Yeah, do not you have any gains on receivables or something which have been canceled, I mean…which would have given you some forex gains for the quarter or do you book them…how do you book those gains?

Prateek Aggarwal: There is this other figure of 38.25 million which we have given in the press release…..

Mr. Nimish: Okay.

Prateek Aggarwal: …..that is an amalgam of all the various other forex impacts that we have during the quarter…..

Mr. Nimish: Okay.

Prateek Aggarwal: …..which includes the realized gains and losses, which includes the unrealized gains and losses which is basically the restatement of monetary assets and liabilities of the balance sheet.

Mr. Nimish: Okay.

Prateek Aggarwal: ….including the cross-currency movements, including the debtors as on 30th September, which I have already bought forward covers related to them. For example, in the month of October, that also gets pulled into the balance sheet because the debtors are already on the balance sheets for that particular hedge.

Mr. Nimish: Okay and what are these structure for the 30 million because almost 4 million dollars loss, the 30 million seems high. I guess that is some 8% to 9% currency movement, but what have these been mark-to-market at across two quarters because of which the losses are almost 13% of the underlying?

Prateek Aggarwal: See, as and when, forward cover is judged to be ineffective, it is the YTD mark-to-market, that moves to the P&L. So, it is not the currency fluctuation from June to September, which is this 204 million rupees. Its worth is the 40.4 average which I talked about.

Mr. Nimish: Okay.

Prateek Aggarwal: This 204 is the difference between, say 47 was the spot rate on 30th September, the forward rate on the maturity of the 30 million minus the 40.4 is what this is.

Mr. Nimish: Yeah, got it. Okay, okay. Thank you, thanks. That is helpful.

Prateek Aggarwal: Most welcome.

Moderator: Thank you very much sir. Next in line, we have Mr. Kunal from Edelweiss. Please go ahead with your question sir.

Mr. Kunal: Yeah, thanks for taking my question. One data point, what is the cumulative order book as on September?

P. R. Chandrasekar: Kunal, we would not like to provide that number for you.

Mr. Kunal: We have been sharing that until last quarter?

P. R. Chandrasekar: Yes, we have decided that going forward it does not really add too much meaning.

Mr. Kunal: Okay, but I believe it would have increased if you can provide at least that much?

P. R. Chandrasekar: I would be unfair of me to make a comment when I have just said that I do not want to talk about it. In future, I would rather not give you a cumulative order book.

Mr. Kunal: Okay, second question is with regards to the clients. We have seen that over the last two quarters, the clients build have remained constant despite you know having 10 clients in the previous quarter and four in the current quarter. So, just wanted your comments on that and second is that the new clients at what price points have we been adding them?

P. R. Chandrasekar: The client list in terms of 177 remaining stable is a combination of some attrition as well as frankly some conscious pruning that we have undertaken because when I evaluated the account portfolio of 177 clients when we got into this, not that it has not been a practice in the past, we found that there were some clients who were neither not growing or did not have potential, so especially during the first two months, July and August, we were quite aggressive. That is one. The second aspect is with regards to the pricing. The pricing has been on an average stable for the new clients. There has been no material change in terms of the average pricing at which we have gotten the new clients over the last quarter or so.

Mr. Kunal: Okay and during the current quarter, you know, pricing onsite-offshore declining by about 1.4% to 1.3%. What would be the reason for that?

Prateek Aggarwal: Kunal, that is in line with the GBP and Euro depreciation that we have experienced.

Mr. Kunal: Okay, that is essentially because of the foreign exchange fluctuations, right?

Prateek Aggarwal: Absolutely.

Mr. Kunal: Okay, thanks.

Prateek Aggarwal: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Sunil from Credit Suisse. Please go ahead with your question sir.

Mr. Sunil: Hi, thank you very much. Sir, I just wanted to get back to your comments on the guidance. When you explained that with 64 million dollars and 4 million dollars of the currency impact, it goes up to 68, but I think in the press release mentions, 64.5 as the constant currency guidance. So, I would assume there wouldn't be anything on top of that to be added to make it comparable?

Prateek Aggarwal: Sunil, the currency what we have given is 61.5 to 64, and therefore, I mean this is already factoring in what has happened during quarter three in terms of GBP and Euro depreciation as well as what we have seen till basically day before yesterday. So, just to read out some figures, the GBP as on June end, was 1.9950, virtually 2.0. As of today, it is something like 1.55 that is the depreciation of 22%. Similarly, Euro, at June end was 1.5767, and as of today, it has come down to 1.26 or even 1.25. That is a depreciation of again 20%.

Mr. Sunil: Yeah, no. I mean, I understand what you trying to say, but I am just reading out from the press release, where you say that in constant currency terms, the guidance would have been 64.5. So, I think that would take care of these changes that you said?

Prateek Aggarwal: Okay, I understand the question better. So, let me provide some more details. Basically, the 66.3 million that you see for quarter three is after already taking a hit of roughly about 1.1 million in Q3 itself.

Mr. Sunil: Okay, okay.

Prateek Aggarwal: And that level of GBP depreciation in Q4 is another 1.3, 1.4 million dollars.

Mr. Sunil: Okay, okay.

Prateek Aggarwal: So, that put together based on GBP and Euro as at Q3 end is a figure of 2.4 to 2.5 million dollars. Over and above that, in the last three weeks, we have had another drop of GBP, Euro which amounts to 1.5 million dollars over and above that 2.5. Putting all these three together, we come to the figure of 4 million dollars.

Mr. Sunil: Okay, okay.

Prateek Aggarwal: So, if you see the press release, we have specified in constant currency terms, average Q3 rates. If I was to put Q2 rates, the 1.5 million would become more like 2.9 million.

Mr. Sunil: Okay, yeah. Thank you for the clarification. That was useful, and thank you very much. Happy Diwali.

Prateek Aggarwal: Thank you very much and a very happy Diwali to you too.

Moderator: Thank you very much sir. Next in line, we have Mr. Ajay from India Capital. Please go ahead with your question sir.

Mr. Ajay: Hi, good afternoon. I have a question about…just wanted to find out if you have any debt on the balance sheet at this point?

Prateek Aggarwal: Yes Ajay, we have a little bit of debt in our balance sheet, which is about 18 crores, which is one of our subsidiaries have taken a small bit of loan for developing a new center in Nagpur.

Mr. Ajay: Okay, and what is your DSO outstanding at this point?

Prateek Aggarwal: Well, that is a very good question. I like to talk about that because our DSO is down to something like 66 to 67 days.

Mr. Ajay: Okay and could you just put down the perspective of historical numbers?

Prateek Aggarwal: This number has come down by about 1 or 2 days compared to the previous quarter.

Mr. Ajay: Okay.

Prateek Aggarwal: So, it was about 68 days in the last quarter.

Mr. Ajay: Okay, great. Thanks so much.

Moderator: Thank you very much sir. Next in line, we have Mr. Prateesh from DSP Merrill Lynch. Please go ahead with your question sir.

Mr. Prateesh: Hi, thanks. This is on the four deals, you know, that you have mentioned last quarter. Could you just give an update on that?

P. R. Chandrasekar: Prateesh, this is Sekar. The four deals that we mentioned, the good news is they are still there, but we have not yet closed. They are still very active. These are one of the deals that we mentioned where there had been some deferments. We are still in the final stages of evaluation in all of these deals, and we are sincerely hoping that it will come to closure in quarter four, at least the signs based only indicate that they will.

Mr. Prateesh: Okay fine, and you know, secondly just in terms of the environment, you know, which you also mentioned that it is pretty tough and you know clients or companies are getting anxious to get out of this. In this kind of environment, you know, where clearly tier I vendors are also, you know, struggling, what would be your strategy in terms of being niche small company to survive and to get out of this?

P. R. Chandrasekar: In terms of our approach, Prateesh, we clearly feel that the niches at which we have some very strong compatibilities, for example automated testing as a competency or PeopleSoft as a competency will continue to provide us entry into accounts and the ability to continue to undertake assignments. Having said that, we have now launched an initiative wherein we will pick some specific verticals. We will remain bullish at least over the long term in both the financial services as well as the travel and transportation areas where we have significant capabilities. In addition to that, we are having manufacturing and healthcare, and we are going to build domain capabilities. We will hire some good people in those areas and the intent is take this list of customers that we have 177, 66 of whom are Fortune 500 customers, and significantly increase our cross-selling and improve our ability to provide much greater value to these customers. So, clearly as a strategy, get into more domain, provide more solution oriented capacities, increase the average size of customers and deals, and therefore, also hopefully improve our profitability as well. So, as a strategy, we are going to leverage the arrowheads that we have, but at the same time, we want to focus our energies in terms of horizontals, subsidiaries as well as the verticals, to gain more depth and breath within the set of accounts that we have.

Mr. Prateesh: Okay, sir should one expect more investments in terms of these verticals, you know, which could probably impact margins going ahead?

P. R. Chandrasekar: If you may note it, yes, we are going to be making some investments in terms of a few people. We are not talking about significant investments in terms of hardware or CAPEX or any of those other things. Having said that, clearly we are also trying to take parallel actions to make sure we get that money within through operating efficiencies. Will it impact something in the short-term, we are going to try and see that it does not affect us too much.

Mr. Prateesh: Sure, yeah. Thanks a lot yeah.

Moderator: Thank you very much sir. Participants who wish to ask questions, may please press *1 on their telephone keypad. Next in line, we have Mr. Akhil from Lotus Investments. Please go ahead with your questions sir.

Mr. Akhil: Hi, guys, I had two quick questions. One was, can you talk a little bit about just the philosophy in terms of, you know, replacing and cancelling some of these hedges and taking on options at this point in time?

Prateek Aggarwal: Akhil, the philosophy behind that is frankly a stop loss kind of a scenario because we did not want to, you know, continue suffering these mark-to-market losses on the entire bunch of our forex hedge book, and therefore, we have decided to do this. At the same time, you know, if at a later point of time, we find that the rupee starts appreciating again, we did not want to leave ourselves completely uncovered. So, considering those factors, we have decided on this strategy. Akhil?

Mr. Akhil: Yeah, hi sorry. I was asking can we expect to see more of this if things stay the way they are.

Prateek Aggarwal: Akhil, all I can say is forex is a decisioning, but given the volatility that we are seeing in

Atul Nishar: No, let me add that once, you know, we believe and the auditors believe that, our hedge has become ineffective, that means that the underlying is not there. I do not think the question is rates. We cannot continue having ineffective hedge in our books. That is it. So, till the projections have changed and some hedges have become ineffective, we have to cancel. On the second point, on the put options, I think that gives us an opportunity to really gain or de-risk by gaining on both way. Even if rupee appreciates, you are better off. It is not just one way. So, I feel the cost to it, but clearly, when you have bought an option to do that both way, this is not some kind of exotic options, we can buy for free but creates problem later, this is a paid option. So, we have no compulsion to exercise that. So, I think under this highly uncertain scenario, an option also makes sense though it is not a very big magnitude that we have done hedges 17 million dollar

Mr. Akhil: Okay, and you know, the second question was just on your sort of cash balance. You know, you guys are obviously sitting in a good position, you are sitting on a large cash pile. Do you think you can spend a minute just on philosophy in terms of how you are thinking about using the cash if at all?

Atul Nishar: Well, one thing is there, we would over a long period of time would like to have a decent cash in our balance sheet. That is an ongoing factor. It give comfort to the client. It gives comfort to the employees, and it is a shield against any unforeseen events. So, that will remain in the balance sheet as a strategy itself, but when we improve that cash position and when we see further addition and to the extent, we see in excess of the infrastructure requirements, by that time, we may even be ready for another acquisition, which I do not think we want to venture into in a very immediate future since we are busy with our overall integration of Focus Frame, but we may use at that time the excess cash for acquiring suitable strategic acquisitions as Sekar as explained.

Mr. Akhil: Thanks guys.

Atul Nishar: But let me clarify, that cash is important, and we would like cash to be on the balance sheet.

Mr. Akhil: Thanks.

Atul Nishar: So, the last question, if at all anyone has?

Moderator: Thank you very much sir. Participants who wish to ask questions, may please press *1 on your telephone keypad. At this moment, there are no further questions from the participants. I would like to handover the floor back to Mr. Atul for final remark.

Atul Nishar: So, I would like to thank all of you for joining the call on a day like this and wish you all and your families a very, very happy Diwali and a better New Year. All the good wishes and greetings from all of us here in this room form Hexaware.

P. R. Chandrasekar: And thank you very much for you interest and we look forward to connecting again next quarter if not sooner. Thank you.

Moderator: Thank you very much sir. Ladies and Gentlemen, thank you for choosing WebEx Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.