Hexaware Technologies Limited
Conference Call
April 28, 2008

Moderator: Good Evening Ladies and Gentleman, I am Sandhya, the moderator for this conference. Welcome to the Hexaware Conference Call. From Hexaware, we have with us Mr. Atul Nishar, Executive Chairman; Mr. Rusi Brij, Vice Chairman and CEO; and Mr. P. K. Sridharan, Executive Director. 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 like to hand over to Ms. Latika Gidwani of Hexaware. Thank you and over to you ma'am.

Latika Gidwani Hi, Good Afternoon to all of you. I will just read the disclaimer. Certain statements on this call concerning our future growth prospects, our 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 time frame contract, client concentration, restriction on immigration, our ability to manage our international operation, 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 on our service contract, the success of the company in which Hexaware has made strategic investments, withdrawal of Government 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 am handing over to Mr. Rusi Brij. Thank you.

Rusi Brij: Thank you, Latika. I will start by giving you the sense of how Q1 for us has gone by, and how does the outlook for the remaining part of the year look like. I will start by saying that I believe that we have done a fairly decent job in the first quarter. Our performance has been in line with the guidance. And better, I would say in terms of the financial ratios, the revenue has been achieved which is in line with the guidance we gave of between USD 66.5 to 67.5 million. We have done about 67 million dollars revenue, and this revenue has come from the three regions where the North America was now close to about 66% of our revenues. It is showing a slight decline since past, and we believe that

Europe will start showing a higher ratio and APAC too. So, this quarter 66% from North America; Europe is about 27.6%, again, higher than last quarter; and the rest of the world is about 6.3%. If you look at our profit numbers, we reported a PAT of about 5.2 million dollars which is slightly lower than the Q4 PAT of 5.55 million, but if you look at three elements that have reduced this PAT, of which one is one time, that our actual performance is much better than last quarter. The first is that there is a mark to market loss of about 1.2 million. We have adopted the AS30 from this quarter for the first time, and we have declared on our forex cover a loss of 1.2 million dollars. Our current forex cover is now 196 million at an average rate of about 40.38 Rupees. So, this is one time, and we would have added 1.2 million dollars to the profit. Other than this, there are two other first-time impacts. One is that you would have noticed that the other income actually had a decline by 840,000 dollars in quarter 1 compared to quarter 4. The total amount of investment has reduced primarily because of the money that we have paid out for the forex loss, which happened earlier last year. So, that has reduced by another 840,000, and the third is that last quarter there was a 1 million dollar tax write-back, which was not available in quarter 1. So, if we add these 3, the net profit should have been higher by 3.2 million dollars. If you look at our financial ratios, gross margin up 350 basis points that had been because of no one-time items that were there in last quarter. The level of utilization will be shown as slightly up over last quarter. I will speak about that later. Bill rates for both offshore and onsite are again slightly better than last quarter. I will talk about the general pricing regime again after I finish the initial numbers. The OPM margin, operating margin before MTM is about 9.6% compared to 4.6%, so big improvement there, and PAT margin again before MTM impact 9.9% versus 8.4% last quarter. So, generally, the financial metrics has done much better than compared to last quarter including the loss, which we took last quarter. If you look at the guidance that we have given for quarter 2, we have guided for the revenue being between 71 million to 72.5 million, a 6% to 8% increase quarter-on-quarter. Now, I do believe that this is quite achievable, and there is reason to be positively optimistic on this rather than being very aggressive. Finally, because the external market scenario, as we may have seen from other results, there is in North American market a clear slowdown which has started happening, and I believe that it could be second quarter onwards, at least in Q2, which is April to June quarter, there should be more impact than has been felt so far. We do not know how the second half of the year will look like, though the often said statement in the US has been that H2 should be much better than the first part of the year. For us traditionally, the quarter 2 and quarter 3 have been the best quarters for billing. Quarter 3 probably being the best as more billing days upon the quarter 2 numbers. So, I believe that our annual guidance of USD 310 to 315 million should be achievable. We have not talked about it in the press release, but that probably is more an oversight than anything. So, I still believe that we are in line to achieve our annual guidance. If it is in need and the actual demand situation is really bad, we will revisit it in July, but at this time, I do not believe that there is any reason to doubt that we will not achieve our 310 to 315 million dollar annual guidance. So, I am quite sanguine about our ability to achieve the quarter 2 guidance of 6% to 8%. Then, if you look at our salary increase, which is effective April, about 11% to 13% increase is in offshore, average increase, compared to about 17% to 18% last year. Onsite, 3% to 4%, which is more or less what we did last year also. The salary increase impacts will be roughly be about 4% of gross margin for quarter 2 going forward. Now, if you look at the headcount, the headcount shows that we are at 6927 people globally including all our subsidiary businesses, about 141 people less than Q4. There are two reasons why we have not done significant hiring in Q1 and probably in Q2, it will remain subdued. Our level of utilization at 66%, though a slight improvement over last quarter, still means that there are a large number of people on bench. We have reported in February that we have hired 748 people from the campuses last year that had gone into billing pool only in December 2007, which of course means that they have been in the pool in Q1 too, which have added to the bench. So, we have a big amount of headroom available in the bench for us to manage Q2 higher growth without addition of headcount. Yes, in second half again, we will add more people to meet our 310 to 315 million dollar guidance, but we believe that in Q1 and Q2, we will probably be roughly flat to slightly under in our headcount. We have given 650 new offers to campus hiring for 2008, so about 650 engineers will join in the second half of the year. Coming to some of the performance of our other businesses, FocusFrame has done quite well in this quarter. We have grown almost double digit compared to Q4, and I believe that this will do reasonably well this year between 20% to 30% growth which we achieved in 2008 compared to 2007, where pipeline business from SAP has started to pick up quite well, and they are holding on to their rates which are pretty high, and their operation in Mexico is also growing, so I believe FocusFrame will do reasonably well this year. They have currently almost about 7 million dollar clients, which should increase to about 10 by the end of the year. RiskTech which actually got into operation only around Q4 of last year has already created a pipeline of close to about 15+ million dollars for the year, and that is a pretty good progress in a very short period of time. Their focus is offering Enterprise risk management solution primarily to the Asian and the European markets while they also have business in North America, but their key growth they are seeing is in the Asian market and in the European market. So, I am quite confident that RiskTech will also meet its internal target for the year. The BPO unit will also grow fairly well this year, I would imagine that BPO should grow upward of about 60% to 70% year-on-year growth, and they are on track to achieve that with a pretty strong order book, and they will do that. If you look at the customer acquisition and the order book, the only place we have seen some impact of the slowdown is in the new order book signing. Typically, we sign about 1X of the quarter revenue or very close to that figure. I had expected that this quarter, we will probably do better, but what we have shown about 42 million of new bookings done this quarter, the pipeline is actually much stronger, in fact, it has become much better compared to Q4, but there has been some slowdowns in trying to close deals and some of them might have deferred for different reasons across industries. We have deals in all our businesses. In fact, we probably have added about 100 million dollar plus of new visibility on our pipeline. There are 4 deals that I talked about in the press release which are between 25 million to 100 million. One is about 100 million dollars prospect in the HRO space and HR IT space. There is a 50 million dollar plus opportunity in airlines space, and there are a couple of 25 million dollar opportunities across other sectors which have added on to our existing pipeline, so the pipeline going forward actually is better than last quarter. This is, I think, more a result of sales execution than anything else. I talked about time to revamp our sales approach towards a more line of business based selling. In Europe, we have in the last quarter revamped sales team to a great extent. We have added 4 very senior sales people there, 2 from TCS, 1 from Infosys, and 1 from HCL for the European market. They have just come on board, and I believe our focus and time to grow Europe to de-risk from the North American market, both Europe and APAC will start doing much better from second half of the year as they start building up a pipeline. So, the sales execution has started improving. I believe this year we will show that execution is much better. The pricing environment is stable, so we have shown slight improvement with both offshore and onshore rates, but on the whole, the new business is still coming at higher rates than average pricing. It is seen that there are customers, couple of customers that are looking for some price reduction but overall I don't believe of the new addition client base which has got 90% of our revenue will show fall in prices for the next quarter or 2, so there has not been any impact so far from slowdown on the pricing either for new clients or the existing clients, new clients are coming between 3 to 8% higher than existing clients, and this is again more for ERP or Airlines by way of the special business is much better, normal build application in .Net and Java are more or less average pricing but the other ones are higher. Then, the number of million dollar customers have gone up to 56 and about third of the customers continue to be Fortune and Global 500 clients which basically means they have much larger budgets. If you look at the new client additions, which are about 11, slightly less than last quarter, but again I think because the order book is also less, new client added up because of the slowdown, 5 from North America, 4 from APAC, and 2 from Europe, and these wins are across all the businesses, FocusFrame, RiskTech, BPO, they all have added new clients, and customers are in PeopleSoft, they are in HR, and they are in BPO testing, test strategy consulting, risk management, so across various businesses. If you look at the split of our business to answer the question about what is the impact of the BFSI market. The BFSI is about 39% of our revenue. We don't have too many banks as our clients; they are largely capital market accounts. Of course we have one large bank Citibank as our customer, very few insurance companies either. Of the Capital market customers that we have, none of them have any subprime issue. Two of our big customers there, Northern Trust and Alliance Capital, both will do well for us this year. I believe our overall BFSI exposure, our clients will probably go at about 20% plus this year despite the issues that are there in the larger space. Travel and transportation is roughly about 18% of our revenues, and it will also grow fairly well, probably the biggest pipeline we have is in this sector. North America is showing issues about the Oil related fuel prices, so the Airlines in the US is impacted, but outside of the US, there is not much impact of the profitability of the Airlines, so they are still spending. Of our ERP business, the PeopleSoft business as I mentioned last time the market has slightly soften generally. We are seeing better SAP HR market which is where we are focusing on the SAP. Testing services continues to grow, and that is one where the chart is growing more and more. We believe that both our Hexaware's own testing business and FocusFrame will probably grow in the 30% range together as the Testing business. The onshore-offshore ratio is one that probably has the most room to improve. I still believe that our offshore ratio at 36.4% does not adequately show the potential we have with the clients to improve, and that actually is my #1 target focus on how to improve offshore volumes. If I can do that, it will improve my level of utilization, further improve gross margin and hence profitability, it will improve my relationship with the customers and enhance the stickiness of the customer relationships. I have not seen any change in the offshore volumes because of the slowdown, and that is to be expected, has not happened as yet; and if it happens, it will be good for us. That is what we want go towards. One other point of the client mix, Top ten clients are roughly about 50% of the revenues. We had disclosed last quarter earlier that some of these clients like Hewitt and Citibank will not grow, and despite that, which actually is in our plan for the year, that we believe that some of these customers in the top-10 will not grow, but overall the group will grow at about mid 20s, so some other customers will grow much faster, which is what we are doing. On these two customers, I believe Citibank should hold steady. We are not losing any business there. There will be some projects in Citibank, Europe, that will come to an end or will start ramping down, but I believe that Citibank, North America, will start improving towards the end of the year. That should probably make up for whatever is the decline in Citibank, Germany. Hewitt**,** our other Top - 5 customer is showing a declining revenue again. Again, we have already factored that into our plan, and unless they change their approach towards how they want to handle the HR core business and add new customers, we will not have new business coming from Hewitt, but we have given a couple of bids there which if the bids get decided, we hope to improve our revenues in that account, but again not factored in our quarter 2 or annual guidance. The last thing is on the forex cover as I said, we have a forex cover of about 196 million at an average rate of 40.38. So, with that, I will close my remarks, and we will now take any of the questions that we would have on our results and performance.

Moderator: Thank you very much Sir. We will now begin the Q and 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 the question. To ask a question, kindly press *1 now. First question comes from Mr. Rohan Admane of Keynote Capital. Over to you Sir.

Rohan Admane: Hello, good evening.

Rusi Brij: Good evening.

Rohan Admane: Sir, our EBITDA margins are at 9.8%, so are we going to maintain this or is there any downside.

Rusi Brij: Going forward, the only downside I am seeing is from the wage increase and visa costs in quarter 2. Other than that, I do not see any impact on that going forward.

Rohan Admane: Okay, so what would be sustainable margins level in long term, in case of increase in wage costs or anything.

Rusi Brij: See, while we are not giving any guidance on that figure, I do not want to specify what it will be for the next quarter or for the year.

Rohan Admane: Okay.

Rusi Brij: But, I would believe that EBITDA level should be in double digit environment.

Rohan Admane: Okay. Sir, can you state what are the strategies to reduce focus on US market for this year.

Rusi Brij: Yeah. I had talked about this briefly. There is a clear need for us to further reduce our exposure to the US market on both the short-term and medium-term basis. Ideally, from 60% to 62% would be where we want to go.

Rohan Admane: Okay.

Rusi Brij: ... now, the obvious is to build up Europe where much faster growth is happening and APAC, where the base is small, but we are doing fairly well in APAC in terms of growth rate.

Rohan Admane: Okay.

Rusi Brij: So, what we have already done in Europe is to have a much stronger sales team in place now.

Rohan Admane: Okay.

Rusi Brij: As I said, better sales strategies are in place.

Rohan Admane: Okay.

Rusi Brij: So, I expect that Europe should start showing faster growth probably by end of the year because the aim is, they have just come on board. It will take some time for them to build a pipeline and start delivering, but by the end of the year and early part of next year, Europe should start picking up. APAC is already doing quite well, and we are also seeing that some of the new businesses that we have, the new subsidiary like RiskTech and BPO……….

Rohan Admane: Okay.

Rusi Brij: ………they both are seeing a larger traction in APAC and the Europe markets.

Rohan Admane: Okay. Can you tell us what are the sentiments in overall US market after this subprime and all these crisis and overall regarding this outsourcing business?

Rusi Brij: Well, my views are not too different from what you would may have already heard from other peers……..

Rohan Admane: Okay.

Rusi Brij: When they give the results. I believe that the issues are spreading beyond just the retail market across other sectors also, and probably going forward, the quarter two probably will be much more challenging than the last quarter.

Rohan Admane: Okay.

Rusi Brij: I cannot and I am not an economist to go onto projection beyond that, but I would believe that slowdown is happening there.

Rohan Admane: Okay. Sir, what are our strategies to achieve this 6% to 8% revenue growth quarter-on-quarter for the next Q2 FY-08?

Rusi Brij: Well, we are already in the end of April. So, there is a pretty good visibility for this quarter……

Rohan Admane: Okay.

Rusi Brij: ……..and as I said earlier, we have a good order book for the year and then also for the quarter. So, I mean, I do not need a new strategy for this quarter. It is just that based on order book or visibility for this quarter.

Rohan Admane: Okay. No, actually, I was asking because for the last four quarters, we have shown a very flattened kind of revenue growth. So, we just wanted to confirm, how we are going to achieve these 6% to 8% increase in revenue.

Rusi Brij: Yeah, you know, what we have said in February was two things. One is that our order book for this year was significantly higher than we have ever done before.

Rohan Admane: Okay.

Rusi Brij: So, it was almost about 40% higher than last year.

Rohan Admane: Okay.

Rusi Brij: 40% higher order book for the year. So, we are starting the year with a much better order book plus the visibility for qualified business, the pipeline that we are seeing for the year…..

Rohan Admane: Yeah.

Rusi Brij: … the pipeline greater than at 150 million was much stronger than last year.

Rohan Admane: Okay.

Rusi Brij: So, our guidance for the year as well as for quarter two is based on a much better order book and visibility than ever before.

Rohan Admane: Okay.

Rusi Brij: So, that is the basis for………

Rohan Admane: Okay, okay. Thank you sir.

Moderator: Are you done with your question sir?

Rohan Admane: Yes, yes.

Moderator: Thank you very much.

Rohan Admane: Yeah.

Moderator: Next in line, we have Mr. Kunal Sangoi of Edelweiss Securities. Over to you sir.

Kunal Sangoi: Yeah, thank you. Sir, my question is pertaining to the four deals that you talked about in the press release, 25 to 100 million dollar range. What are, you know, at what stage is each of the individual deals and if you could highlight what is the probability level of winning that?

Rusi Brij: Well, probability level, it is a bit difficult, but I will talk about those deals. HRO deal is in phase of reaching the next stage of short listing. I would imagine that it is a six-month cycle. So, we will not know about the outcome until the end of the year. Q4, I believe is when, we will probably see and will be able to be more sure. Now, we are fairly strong in HRO business we are probably one of the very few vendors that have a strong HRO USP and HR is one of our more natural capability because of the PeopleSoft ERP business and a lot of HR work we have done in IT.

Kunal Sangoi: Okay.

Rusi Brij: So, I have already mentioned that we are fairly well placed and within our target area of focus, okay. It is not a generic deal. We have been taken into an account in the airline space. There, we are the only bidder. We have acquired certain airline domain competency that only we have in the Indian IT services market. However, the customer has to decide on that solution that we are trying to pitch. If they select our solution offering, we are going to get the business. There is no competition there, but if they decide not to go with our solution, then we will not get the opportunity. I would believe that it could probably get decided by next quarter. Quarter three will show us the decision there, and that is a three to four year deal. So, it probably will bring 50 to 100 million dollar over three to four years.

Kunal Sangoi: Okay.

Rusi Brij: And the other two deals that are about 25 million dollar plus are still I would say in the first stages ... I mean we have already qualified to be there. To give a deal bit early, so I would say even those will be probably Q4 type of opportunities. The sale cycle has become slightly longer than it was last year, especially in North America. So, what used to be six months earlier is now clearly nine months plus in the sale cycle.

Kunal Sangoi: Okay, okay, and if you look at say, you know, I was just looking at the comments that we had during the last quarter in terms of the pipeline which was looking very strong and in terms of closure if we look at, current quarter again, it is just about 42 million has been the new order booking. So, whether that has also changed in terms of that pipeline, you know, that itself has been taking longer?

Rusi Brij: Yeah, in fact, as you are saying, what I expect it or would be happier it to be in 60 to 70 million dollar range. None of the bids in that pipeline which was supposed to close in Q1 has been cancelled, but they probably will be deferred. There are a couple of bids that are there which are in the 5 to 10 million dollar range that are hanging on for the last about four to five months. So, that has got further deferred by another quarter or so. So, there are more delays in some decisions than that has resulted in a lower than expected order book.

Kunal Sangoi: Okay. One more question on you know margin side. If I look at the SG&A, probably let me just clarify that 56 million forex MTM loss has been booked in SG&A, right?

Rusi Brij: Yes.

Kunal Sangoi: Okay, so if you are to remove that and look at the SG&A, then you know, it stands at about 23.3% of revenues. How much lever do we have, you know, on the SG&A cost in terms of you know getting it down and trying to improve margin?

Rusi Brij: See, there are two elements there, and the first element is that, FocusFrame which is roughly about 3-4% or so on the SG&A is largely an onsite run business. SG&A, most of the cost, the sales plus G&A are onsite.

Kunal Sangoi: Okay.

Rusi Brij: While we are trying to move some of their, you know, cost to India, but not too much of that will change unless the revenues become much larger. Of the revenue one, I still think we are about between 4% higher, so there is room to go to that level. I cannot tell you know whether it will take one year or three years……

Kunal Sangoi: Okay.

Rusi Brij: ….but there is… I would say up to 400 basis points chances of brining down, would take one to three years. I do not have a view on that just now.

Kunal Sangoi: Sure, okay, okay. So, in terms of EBITDA margins, probably you know, again Q2 will have a 4% impact because of the salary increases. So, to offset that probably utilization is the only lever that we have currently. Would that be right to say….kind of?

Rusi Brij: Well, the SG&A will fall. I am not saying that it will not, you know, reduce, okay, but the offshore volume actually now is the key. So, if the offshore volume increases as what we wanted to target, they will improve because margin will improve

Kunal Sangoi: Alright. Thank you so much.

Rusi Brij: Yeah.

Moderator: Thank you very much sir. Next in line, we have Mr. Prateesh Krishnan of DSP Merrill Lynch. Over to you sir.

Prateesh Krishnan: Yeah sure…yeah…hi. What is your current order book and can you also give some color in terms of you know how business is on the package implementation side and do you expect any cancellations or delays in implementation of these orders?

Rusi Brij: The current book Prateesh is roughly about 170 million plus for 2008.

Prateesh Krishnan: Okay.

Rusi Brij: …which is to be implemented between quarter two to quarter four, okay

Prateesh Krishnan: Okay.

Rusi Brij: ……. This of course includes the new order book that we have signed and excludes what has already been used up in the first quarter. I do not have a figure Prateesh here what is the breakup between ERP and others …..and you talked about….the other point was…..

Prateesh Krishnan: …….any cancellation or delays that we are seeing….yeah.

Rusi Brij: See, as of now, we have no cancellations of projects or deals in the order book

Prateesh Krishnan: Sure….

Rusi Brij: If it happens in quarter three, we do not know. If it happens in quarter 2, I can’t say, but as of day today, there are a couple of projects that are going a bit slow than expected, ramping is a much slower, but then you know, that is a normal business, you know….in business it happens, some projects will be slower than the normal, etc. They are not related to the current financial issue….

Prateesh Krishnan: Yeah, okay. Any reasons, why you commented that, you may kind of revisit the guidance in…….

Rusi Brij: No, I only said that we believe that we will meet our guidance and I did not comment anything at all. The only thing I said was if the market worsens beyond what we believe it will be, then it is required. If only required, we will revisit only in July. I do not believe, we will have to….I do not believe the market will be so bad in quarter two that we will be………but in the event, market slows very rapidly, then it may be required, but as of now, I do not believe we need to revisit our guidance.

Prateesh Krishnan: Okay sir, and in terms of the SG&A, I mean like other than this forex loss, where there any other increases, you know, which actually took the SG&A up?

Rusi Brij: The SG&A seems to be forex thing. I do think there is anything else.

Prateesh Krishnan: Sure, my impression was that you know if you look at the last quarter, there are couple of one of the items like, you know, the customer summit or the debtors provision, which have gone off and should have you know reversed. So, while I understand your SG&A is more of because of forex but even excluding that probably there has not been improvement in…

Rusi Brij: Let me just…... Okay, last time we talked about the summit cost and one client we had made a provision for…….

Prateesh Krishnan: Yeah.

Rusi Brij: .,……I mean both of them have actually shown some decline. The MTM cost is about 2%. We actually had about 23.4%, where it is 21.9%, so it has not increased.

Prateesh Krishnan: Okay, and last thing, in terms of the equity capital, what is the share count that, you know, we should take into the numbers?

Rusi Brij: I think about 143 million shares outstanding

Prateesh Krishnan: Okay and are there any ESOPS, you know, which are like due for dilution or are there really out of the money that you know dilution may not really happen?

Rusi Brij: No, I do not think so. I mean, I do not have that data with me today, but no, I do not believe the number will increase beyond 144 million.

Prateesh Krishnan: Okay fine. Thanks a lot.

Moderator: Thank you very much sir. Participants who wish to ask questions, may kindly press *1 on the telephone keypad. Next in line, we have Mr. Dipesh Mehta of Khandawala Securities. Over to you sir.

Dipesh Mehta: My question has been answered.

Moderator: Thank you very much sir. Next in line, we have Mr. Gaurav Jain. Over to you sir.

Gaurav Jain: Hello. Thank you for taking my question. My question was in regards to the guidance. If we look at your first two quarter guidance, then the full year guidance implies almost like a 13% quarter on quarter growth for the last two quarters. So, based on the order book and the visibility you have, am I correct in assuming that you are comfortable with the guidance?

Rusi Brij: Yeah, your arithmetic is right. It is assumed that we will probably do about…we will need to do about 14% in quarter three and about 8% to 9% in quarter four.

Gaurav Jain: Okay.

Rusi Brij: Yeah.

Gaurav Jain: Okay, the second question is on margins. So, when you say that there will be a 400 basis point impact in quarter two, it is with respect to what base. Is it with respect to the Q1 –'08 margins or Q2 – '07 margins that you are saying you will have an impact on……

Rusi Brij: No, it is Q1 –'08. Q1 –'08 margins will show a full 400 basis point impact ………..

Gaurav Jain: Okay.

Rusi Brij: ………because of the visa fees and the salary impact.

Gaurav Jain: Okay, but that would be offset to some extent by the pricing that you are getting……..better pricing that you are getting on the new contracts.

Rusi Brij: Well, the other cost will probably remain flat, but the revenue will go up, okay.

Gaurav Jain: Okay.

Rusi Brij: So, again, I cannot give you a number for them…

Gaurav Jain: My understanding is that, you know, the analysis that you had given you had mentioned that you can expect a flat margin year-on-year, and last year margins were, on the EBITDA level, they were 9.3%.

Rusi Brij: Actually, what I had said, if I remember right was that we will improve our operating margin for the year….

Gaurav Jain: Okay.

Rusi Brij: …if we meet the revenue guidance because I said the high revenue will give us a leverage to improve margins.

Gaurav Jain: Okay. So, even though Q1 and Q2 might be below that number, Q3 and Q4 might really…

Rusi Brij: Yes.

Gaurav Jain: ...because the revenue would be high.

Rusi Brij: Yeah, and I said before that, for us, historically quarter three has been the strongest…

Gaurav Jain: Sure.

Rusi Brij: ...going forward.

Gaurav Jain: One other question, like was there any specific trends that you saw in the months of March and April, like did demand really slow down in the last two months?

Rusi Brij: Actually, you know, the way to look at demand is that lot of deferrals or decisions is what has been started happening.

Gaurav Jain: Okay.

Rusi Brij: So, we probably believe that is because of the demand. It could be basically this is different things for different clients……

Gaurav Jain: Okay.

Rusi Brij: …….but I would imagine that while IT budgets are actually up year-on-year compared to last year, spending is not commensurate with the Q4 or Q3 of last year.

Gaurav Jain: Okay.

Rusi Brij: And the money is there, but the spending is not so. So, the deferral on decisions indicate that the customers are hesitant to sign up not knowing the future.

Gaurav Jain: Okay. Okay, that was very helpful. Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Hitesh Shah of Citi Group. Over to you sir.

Hitesh Shah: Rusi, from last three quarterly results you have been speaking about this proposal given to Hewitt. Is it the same proposal or it is a different or a new proposal that we had been giving them?

Rusi Brij: It is the same proposal Hitesh. I wish I could really answer that, but Hewitt is still not been able to take a decision about their HR business. So, as soon as they do that, and there is something I think because they are pretty large bids okay, and I would say that even about three years back and they still have said it will take another two to three months, but again, it does not impact my plan. In fact, any decision on this bid will be better. For my guidance for the year, I have assumed that Hewitt has not improved its business.

Hitesh Shah: Sure, secondly you said, that we have a forex cover of 196 million dollar at 40.38, and also at the same time, we had mark-to-market, so is not there a dichotomy because if we mark-it-to-market, then the forex cover has to be at the end of quarter-end rate.

Rusi Brij: I am not sure whether I have understood it well, but can you just repeat it Hitesh…

Hitesh Shah: Whenever we mark on forex cover to market at the end of every quarter, so all our forex cover is at the quarter end rate, which was 40.1 or 40.11 somewhere around that. So, at the same time, we have said that forex cover is at 40.38. So, I just thought there was a dichotomy. So, I thought I will get it clarified.

Rusi Brij: Yeah, you want to take this one?

Sreenivas: Yeah, Hitesh, you are right in saying that when we mark-to-market, it is at the quarterly ending rate. So, for all practical purposes, the contracts are at the quarter ending rate of 40.12 as of March 31st, but the intent of giving the forward rate is when the contracts were entered into, this is the amount that we had purchased it at. This is the spot plus the premium that we had paid to get into the contract. So, we are still trying to see that in terms of this contracts, as long as the current rupee-dollar rate is south of 40.38, we are going to make money on those transactions.

Hitesh Shah: Okay. So, in that case we should have an mark-to-market forex gain because the spot rate was lower than the contracted rate, is that right?

Sreenivas: You are right. That is not mark-to-market forex gain. That is the forex gain that we would anyway incur on the contract that we cancelled during the quarter. For the contract, that we do not cancel in the quarter, we cannot recognize unrealized gains.

Hitesh Shah: Okay, so there is some unrealized gains sitting in the forex contracts, is that right?

Sreenivas: You are right.

Atul Nishar: See, what you said is 40.12 is the spot rate. Now, once the mark-to-market policy is introduced means whatever is the former rate entered into is the real rate, that includes spot plus premium, and when we do mark-to-market, we have to also take into account spot plus premium. Currently, the premium ruling is quite high. So, therefore, that is the main reason for this mark-to-market loss.

Hitesh Shah: Yeah, I got it.

Atul Nishar: So, we are not sitting on gains at all.

Hitesh Shah: Sure, got it. The third question that I had ………..

Atul Nishar: And also to add that the reason for reducing our forex hedge substantially compared to last quarter also, we started seeing volatility, earlier it was just one way that rupee was appreciating, now we saw rupee was going up and down, so we reduced this considerably. It is possible over next one or two quarters that rupee may depreciate a little more also, but the current hedges which have all got underlined will not as long as the underlying contracts remain valid will not create any additional P&L hit because of that.

Hitesh Shah: Sure, and this 196 million cover for next four quarters is that right?

Atul Nishar: Ten quarters.

Hitesh Shah: Next ten quarters. Okay, my third and the last question is to Rusi. We had a PeopleSoft new version which came out about January of 2008 and for almost first 12 months we did not see an off-take of that version. Have you seen any change in the business dynamics there or do you think that kind of PeopleSoft version would die out over the next couple of years. Your view on that?

Rusi Brij: See, the PeopleSoft version IX has not taken off as well as earlier it was supposed to have done. So, clearly, the customers who have PeopleSoft are unclear on direction of PeopleSoft support from Oracle. When the new version, and actually, it has a new version. So, they have spent money to procure, and they also have not heard anything about ongoing support in the future. So, there is a bit of uncertainty about the future of PeopleSoft. That may be the reason, but I cannot say there is a die out because Oracle has clearly stated and it is in their website. They have got support, okay, but given that, and I have indicated earlier, we have earlier started at looking at building our SAP HR, this is much faster, and the reason we have started progressing in HRO business is because it will help us grow the SAP business. We will continue to doing couple of very large HR rollouts on SAP. So, whatever slowdown may happen in PeopleSoft should be picked up by SAP, but overall, we are winning 2 to 3 or 4 customers every quarter on PeopleSoft, but the sizes of deals are smaller, and two, the segments, I believe, is also not as large for upgrades as it was earlier.

Female Speaker: Is it right to say that this SAP growth is much lower than whatever decline we are seeing in PeopleSoft because our revenue, PeopleSoft TRP revenue as a percentage of overall revenue, has been steadily declining from about 35% couple of quarters back to may be closer to 28% now or is it some reclassification out there.

Rusi Brij: No…you are right in assuming that SAP is not replacing the fall in the PeopleSoft. I would imagine that we would probably stabilize ERP around 27 to 28% or thereabouts.

Female Speaker: Sure, thanks and all the best.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Prateesh Krishnan of DSP Merrill Lynch.

Prateesh Krishnan: Yeah, hi, this is just on the PeopleSoft revenue. Is it possible to get, you know, some spread, how much of your revenues will be from implementation of license versus, you know, maintenance of PeopleSoft packages?

Rusi Brij: Yeah, on PeopleSoft, I would imagine that about 60% to 70% should be on maintenance. The remain would probably be upgrades.

Prateesh Krishnan: Are there any revenue also from new license sales or ?

Rusi Brij: Yes, there is, but not a very large amount. There is, when I say, you know, this actually includes both the implementation of individual modules and in fact one another thing is that there is hardly any kind that we have seen or possibly we have seen, which is rolling out the entire PeopleSoft suite for the first time. So, there is great lot of implementation largely for specific modules rather than large ERP implementation. So, people may purchase 5 modules, but they only implement 3. The two implementations were left, with the following modules are there, and if you look at the Oracle results of last quarter, the ERP sales of Oracle was only 7.7% quarter on quarter, probably half of what the market expected. So, Oracle itself has seen decline in the growth of licenses but they do not announce if there is decline between PeopleSoft or Oracle and Siebel, but generally the ERP sale seems to be slowing down, maybe because of the economic slowdown in North America, the reasons are not very clear as yet.

Prateesh Krishnan: Sure, and in your guidance, you assumed slowdown in PeopleSoft business for you.

Rusi Brij: Yeah, of course, as I said, I believe our ERP revenues for 08 will probably stabilize around 27 to 28%.

Prateesh Krishnan: Okay, and just to clarify in terms of margins Sir, what you said 400 basis points impact on the gross margins or maybe just the salary hike is there?

Rusi Brij: Gross margins.

Prateesh Krishnan: Gross margins, and any change should be, you know, expected at least recurrence or reversal of this forex loss which has happened.

Rusi Brij: Reversal? No, the reversal will not happen. Further, the rupee has really become stronger, and you probably know more about the rupee than I do, so I…..unless that happens, the reversal…..there will be no reversal per se.

Prateesh Krishnan: It would remain at 25% around, that kind of levels.

Rusi Brij: 25%?

Prateesh Krishnan: Yeah, G&A as a percentage of sales.

Sreenivas: No, no. I think Prateesh what Rusi was trying to say was if we exclude the mark-to-market impact that we had in this quarter, the SG&A will probably be at that level. Reversal basically I think what Prateesh is asking is mark-to-market we don't expect as a recurring number though we will only know when the rates are known on the June quarter end, but we don't expect it will be a recurring number.

Prateesh Krishnan: Sure, no, my question was based on current rates. What can be expected the SG&A for next quarter, I mean, you know, if anything.

Rusi Brij: So, I think, currently, there will not be any MTM loss in quarter 2.

Prateesh Krishnan: Okay, fine, thanks Rusi.

Moderator: Thank you very much sir. Next in line, we have Ms. Mythili Balakrishnan from JP Morgan. Over to you ma'am.

Mythili Balakrishnan: Hi, I was just wondering if there is any update on your share buyback.

Rusi Brij: You know, again the board has not taken up this issue on board meeting agenda. I think the issue is still alive, but our belief is that when the opportunity is right, we will take the issue up. We are not saying no, but I don't believe that now is the time to look at buy back, especially the board has not taken it up, so I cannot say when it will take it up for decision, but all I will say that the issue is still alive.

Mythili Balakrishnan: Okay, and in terms of CAPEX, what is your outlook for this particular year?

Rusi Brij: Our projected CAPEX spent for the year is about 40 million. We have done about 13 million in the first quarter.

Mythili Balakrishnan: Okay, and this is broadly, most of it would be two of your SEZs, which is…..

Rusi Brij: Yeah, yeah, last quarter will be SEZ, and we have also purchased land in the Nagpur SEZ in the first quarter, where we have started building small operations earlier for the BPO part, which will probably get into operations by Q4 of this year.

Mythili Balakrishnan: Okay, and in terms of your effective tax rate what is the number that you are looking for?

Sreenivas: For the current year 2008, our effective tax rates will likely be in the 13% to 15% range, and this is not likely to change till March 31, 2009.

Mythili Balakrishnan: And post that, it will take a spike upwards to say around 18 to 20?

Rusi Brij: There will be about 22-24%, but see, what we have seen is maybe 6 to 8% higher than our average rate.

Mythili Balakrishnan: Okay, thanks, thanks a lot, that is.

Moderator: Thank you very much ma'am. Participants who wish to ask questions, may kindly press *1 on the telephone keypad. I repeat, participants who wish to ask questions, may kindly press *1 on the telephone keypad.

Atul Nishar: I would just like to thank all of you for joining the call, and all your support from time to time. Thank you very much.

Rusi Brij: Thank you.

Moderator: 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.