

Hexaware's Q1 '08 revenue in line with guidance; Gross Margins up 350 basis points q-o-q

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- Q1 '08 Revenue at \$ 67.0 mn, in line with quarterly guidance of \$ 66.5-67.5 mn
 - Operating Profit up 66.3% q-o-q to Rs. 199.6 mn in Q1 '08
 - Profit after Tax at Rs 208.6 mn after the forex MTM loss of Rs. 56.0 mn on account of adoption of the Accounting Standard 30
 - New orders worth \$ 42 mn booked; 11 new clients added in Q1 '08
 - 650 graduate engineers expected to join in H2 '08
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Mumbai – April 28, 2008: Hexaware Technologies Ltd, a leading global provider of IT & BPO services and consulting, today reported financial results for the first quarter ended March 31, 2008.

The Quarter was marked by substantial improvements in the financial performance despite the slowing US economy. The Company achieved its revenue guidance and showed a marked improvement in its financial metrics excluding the impact of mark to market loss of Rs. 56.0 mn, in view of the changed accounting policy.

Highlights of Q1 ended March 31, 2008

- Revenue from operations at Rs. 2,669.5 mn – a 3.0% growth over preceding quarter
- Net Profit after Tax at Rs. 208.6 mn
- Gross Margins were 35.3% against 31.8% last quarter
- Adoption of the newly introduced Accounting Standard 30 resulted in Mark to Market losses of Rs. 56.0 mn
- Income from Investments reduced by Rs. 27.7 mn in Q1 '08 compared to Q4 '07
- Operating Margins excluding MTM loss were 9.6% vs. 4.6% last quarter; Operating Margins stood at 7.5% after incorporating mark to market losses
- 11 new clients added during the Quarter
- 177 active clients; 63 are Fortune / Global 500 corporations
- New order book added in Q1 '08 was \$ 42 mn
- Global headcount stood at 6,927

“At Hexaware, we have always given priority to both, enhancing the quality of clients and the depth of our relationship with them. This is reflected in the increase in the number of Fortune / Global 500 clients to 63 from 50, a year back. The number of million-dollar clients has also gone up to 56, up from 46 in Q1 '07,” commented Atul Nishar, Executive Chairman, Hexaware Technologies Ltd.

“Q1 '08 witnessed significant improvements in operational performance reflecting gains in all financial metrics over the preceding quarter. While the US slowdown had some impact on the order book addition, the current pipeline continues to grow and we are actively chasing 4 deals in the \$ 25 - 100 mn range each. Our investments in a larger sales team with better focused go-to-market strategies have started paying dividends.” said Rusi Brij, Vice Chairman and CEO.

Guidance for Q2 '08

The Company has guided that Q2 '08 revenue is likely to be in the range of \$ 71 mn – \$ 72.5 mn, a growth of approximately 6-8% higher over Q1 '08.

Operational Review

Of the 11 new clients acquired during the Quarter, 2 banking clients were added in the enterprise risk management space by RiskTech, while CaliberPoint added 1 client in the BPO segment. FocusFrame won 3 new clients in the Test Consulting and Business Technology Optimisation (BTO) space.

In the IT services business, 3 new clients were added in ERP and 2 in Application Management services.

The total number of active clients stood at 177, of which 63 belong to the Fortune 500 / Global 500 list.

The number of clients registering \$1m+ in revenues recorded an increase from 54 in Q4 '07 to 56, with 43 clients in the \$1 - \$5 mn category. The number of the clients in the \$5 - \$10 mn range has increased from 7 in the last quarter to 9 in this quarter, with another 4 clients billed over \$10 mn each – on a trailing 12 months basis.

The financial ratios for the Quarter, before accounting for MTM loss are

- Gross margin at 35.3% vs. 31.8% in the previous quarter
- EBITDA margin at 11.9% vs. 7.0% in the last quarter
- Operating margin at 9.6% vs. 4.6% in Q4 '07
- Net Profit after Tax margin was 9.9% compared to 8.4% in the prior quarter

The blended utilisation for the Quarter improved to 66.2%. 748 graduate trainees recruited during late H2 '07 were added to the billable resource pool in Dec '07.

Geography

Of the 11 new clients added this Quarter, 5 were from North America, 4 from APAC and 2 from Europe. 66.1% of revenues came from North America, with the European share improving further to 27.6%, and the balance 6.3% coming from the rest of the world.

While FocusFrame continues to grow in both NA and European markets, RiskTech has seen greater addition to its multi-million dollar pipeline from the APAC markets. The newly launched entity is rapidly emerging as the leading IT solutions provider in the Enterprise Risk Management micro-vertical in the APAC region.

The Mexico Delivery Center has grown to seat over 200 professionals serving both Hexaware and FocusFrame clients in the North American and Latin-American regions. The extensive presence of local operations of several US Fortune 500 corporations creates a new market opportunity for Hexaware's ERP, Independent Testing and ADM solutions.

Significant Engagements

Hexaware has signed a large Peoplesoft Upgrade deal with a leading global telecom service provider. This engagement encompasses strategic consulting culminating in the implementation of multiple modules.



During the recently concluded quarter, RiskTech added a large bulge-bracket investment bank to its impressive client roster. Over the next 12 months, RiskTech would provide risk consulting and software services in Operational Risk domain to this client.

In Q1 '08, Hexaware added a recognized leader in logistics with global transportation and warehousing capacities for integrated IT-BPO services. There are 8 clients now, to whom Hexaware is currently providing both IT and BPO services.

FocusFrame Inc. won an important Test strategy consulting and automated testing engagement with a multi-specialty integrated healthcare delivery provider in North America. In the first phase, FocusFrame is providing test governance strategy based on its internally developed IT Governance (ITG) framework.

Forex Cover

The Company currently has forward cover of \$196 mn at an average rate of Rs. 40.38 per dollar spread over the next ten quarters. These forward covers are in line with Company approved hedge policy.

The Company has adopted the newly introduced Accounting Standard 30 in Q1 '08. The mark to market loss provided therefore is Rs. 56.0 mn.

Pricing

The average billing rate per hour for the Quarter improved marginally to \$68.55 for onsite services and to \$23.78 for offshore projects. Pricing environment appears stable, with new deals signed at higher rates.

Human Resources

Global headcount at the end of Q1 '08 stood at 6,927. The Company has also extended offers to 650 graduate engineers to join in the second half of this year. The recruitment campaign for graduate engineers expected to join in 2009 has commenced.

Technical personnel comprised 90.6% of the total work force. Attrition remained stable at 19.5% on an annualized basis.

The Company intends to provide an annual salary increase of 11-13% for offshore and 3-4% for onsite technical employees.

Infrastructure

The first phase of the Chennai Green Campus, an SEZ, is now partially operational and the company has a few hundred professionals working from the state-of-the-art facility since March '08.

The Company has commenced construction work on its Nagpur SEZ land, and the campus is expected to be available for occupation by the end of '08.

Awards and Recognition

Forrester rated Hexaware as one the IT providers in India with an impressive client list in Belgium and Germany.



Gartner listed Hexaware as one of the service providers in the Gartner Business Intelligence (BI), Performance Management (PM) and Information Management (IM) Service Vendor Guide.

Hexaware was also included in Gartner's list of consulting and system integration (CSI) service providers in North America with focus in Customer Relationship Management (CRM) and Enterprise Resource Planning (ERP) segments. In addition, Gartner listed Hexaware as one of the major North American application-outsourcing service providers.

About Hexaware

Hexaware is a leading global provider of IT and BPO services. The Company has achieved leadership position in domains such as Banking, Financial Services, Insurance, Transportation, Logistics and HR-IT solutions. Hexaware focuses on delivering business results leveraging technology solutions and specializes in Business Intelligence & Analytics, Enterprise Applications, Independent Testing and Legacy Modernization. Hexaware has been providing technology solutions for business for 18 years and offers world class service delivery, technology leadership and skilled human capital. For additional information logon to www.hexaware.com

Safe Harbor Statement

Certain statements on this press note concerning our future growth prospects are forward-looking statements, which involve a number of risks, and uncertainties that could cause actual results to differ 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 in India, our ability to attract and retain highly skilled professionals, time and cost overruns on fixed-price, fixed-time frame contracts, client concentration, restrictions on immigration, our ability to manage our international operations, reduced demand for technology in our key focus areas, disruptions in telecommunication networks, our ability to successfully complete and integrate potential acquisitions, liability for damages on our service contracts, 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.

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INR Mn

Head	Quarterly Data					
	Q1 FY 08	Q4 FY07	Sequential Change (%)	Q1 FY 07	Y-o-Y Change (%)	FY 07
Gross Revenues	2,669.51	2,591.79	3.0%	2,643.69	1.0%	10,398.03
Direct Costs	1,727.58	1,766.59	-2.2%	1,603.33	7.7%	6,673.00
Gross Profit	941.93	825.20	14.1%	1,040.36	-9.5%	3,725.03
Selling / General And Administration	679.15	644.29	5.4%	645.03	5.3%	2,524.45
EBIDTA	262.78	180.91	45.3%	395.33	-33.5%	1,200.58
Depreciation and Amortization	63.18	60.87	3.8%	56.38	12.1%	232.11
Operating Profit	199.60	120.04	66.3%	338.95	-41.1%	968.47
Other Income (net)	43.76	71.46	-38.8%	68.04	-35.7%	264.92
Profit Before Tax	243.36	191.50	27.1%	406.99	-40.2%	1,233.39
Provision for Tax	34.79	(26.92)	-229.2%	55.04	-36.8%	132.65
Profit After Tax	208.57	218.42	-4.5%	351.95	-40.7%	1,100.74
Minority Interest		1.50	-100.0%			1.50
Exceptional Items		1,029.95	-100.0%			1,029.95
PAT after Minority Interest & Exceptional Items	208.57	(810.03)	-125.7%	351.95	-40.7%	72.29

Key Ratios	Q1 FY 08	Q4 FY07		Q1 FY 07		YTD 07
Gross Margin	35.3%	31.8%		39.4%		35.8%
SGnA to Revenue	25.4%	24.9%		24.4%		24.3%
EBIDTA	9.8%	7.0%		15.0%		11.5%
Operating Margin	7.5%	4.6%		12.8%		9.3%
Profit before tax	9.1%	7.4%		15.4%		11.9%
Profit after Tax	7.8%	8.4%		13.3%		10.6%
EPS-INR (Excluding Exceptional Items)						
Basic	1.45	1.52		2.57		7.92
Diluted	1.45	1.52		2.43		7.87
EPS-INR						
Basic	1.45	-5.6		2.57		0.34
Diluted	1.45	-5.6		2.43		0.34

Head	INR Mn		
	As at Mar 31 2008	As at Dec 31 2007	As at Mar 31 2007
Liabilities			
Share Capital			
Equity	287.61	287.61	266.47
Preference	-	-	1,499.96
Share Application Money	1.02	1.02	0.39
Reserves	6,902.06	6,770.87	5,799.16
Borrowings	-	-	-
Total	7,190.69	7,059.50	7,565.98
Assets			
Gross Fixed Assets	4,792.48	4,274.43	3,448.88
Less: Depreciation	1,035.40	997.32	847.48
Net Fixed Assets	3,757.08	3,277.11	2,601.40
Current Assets			
Cash and cash equivalent	1,898.92	3,211.78	3,429.56
Debtors	2,139.99	2,134.68	2,313.85
Others	1,452.69	1,219.07	1,262.41
Total Current assets	5,491.60	6,565.53	7,005.82
Total Current Liabilities	2,111.38	2,827.88	2,086.60
Working Capital	3,380.22	3,737.65	4,919.22
Deferred Tax	53.39	44.74	45.36
Total	7,190.69	7,059.50	7,565.98

QUARTERLY METRICS

Performance Review

Revenue Growth

INR, Mn	Q1 FY 08	Q4 FY 07	Q3 FY 07	Q2 FY 07	Q1 FY 07	FY 07
Revenue from Operations	2,669.5	2,591.8	2,546.2	2,616.4	2,643.7	10,398.0
%, q-o-q	3.0	1.8	(2.7)	(1.0)	10.1	
Other Income	43.8	71.5	75.0	50.5	68.0	264.9

Vertical Split

%	Q1 FY 08	Q4 FY 07	Q3 FY 07	Q2 FY 07	Q1 FY 07	FY 07
BFSI	39.1	39.6	39.6	37.6	39.5	39.1
Travel & Transportation	17.9	18.6	18.5	20.3	18.0	18.8
Cap Mkt / Asset Mgmt	5.7	5.8	5.6	5.3	6.3	5.7
Others (largely ERP)						
	37.3	36.0	36.3	36.8	36.2	36.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

Technology Split

%	Q1 FY 08	Q4 FY 07	Q3 FY 07	Q2 FY 07	Q1 FY 07	FY 07
E-Commerce/ ADM	37.1	37.0	35.8	35.6	34.9	35.8
Enterprise Application (ERP)	28.2	29.5	31.5	32.7	33.5	31.8
Testing Services	17.6	17.0	16.3	17.0	17.5	16.9
HR IT	6.9	6.6	7.0	6.9	7.1	6.9
Business Intelligence & Analytics	3.5	3.6	3.0	1.7	2.0	2.6
Others	6.8	6.3	6.5	6.1	5.0	6.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Geography

%	Q1 FY 08	Q4 FY 07	Q3 FY 07	Q2 FY 07	Q1 FY 07	FY 07
Americas	66.1	66.3	66.7	66.9	67.1	66.7
Europe	27.6	26.0	26.1	27.1	27.6	26.7
RoW	6.3	7.7	7.2	6.0	5.3	6.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

Onsite: Offshore Mix

%	Q1 FY 08	Q4 FY 07	Q3 FY 07	Q2 FY 07	Q1 FY 07	FY 07
Onsite	63.6	64.3	64.7	64.7	62.1	64.0
Offshore	36.4	35.7	35.3	35.3	37.9	36.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Client data

Repeat Business

%	Q1 FY 08	Q4 FY 07	Q3 FY 07	Q2 FY 07	Q1 FY 07
	90.4	87.4	86.3	86.9	88.7

Clients billed

No	Q1 FY 08	Q4 FY 07	Q3 FY 07	Q2 FY 07	Q1 FY 07
	177	175	166	164	151

Clients added

No	Q1 FY 08	Q4 FY 07	Q3 FY 07	Q2 FY 07	Q1 FY 07
	11	16	15	15	20

DSO	Days	Q1 FY 08	Q4 FY 07	Q3 FY 07	Q2 FY 07	Q1 FY 07
		74	78	82	76	80

Billing Rates	USD/Hour*	Q1 FY 08	Q4 FY 07	Q3 FY 07	Q2 FY 07	Q1 FY 07	FY 07
	Onsite	68.55	68.16	67.18	66.91	66.50	67.09
	Offshore	23.78	23.60	23.40	23.40	23.26	23.41

Revenue Concentration	%	Q1 FY 08	Q4 FY 07	Q3 FY 07	Q2 FY 07	Q1 FY 07	FY 07
	Top 1	10.0	9.8	9.0	9.1	8.5	9.1
	Top 5	33.2	32.5	32.6	33.5	33.6	32.5
	Top 10	47.2	46.3	46.8	47.0	48.1	46.9

Client Size	Nos.**	Q1 FY 08	Q4 FY 07	Q3 FY 07	Q2 FY 07	Q1 FY 07
	More than USD 1 Mn +	56	54	54	51	46
	Less than USD 5 Mn	43	43	45	42	37
	Between USD 5 to 10 Mn	9	7	5	4	4
	Over USD 10 Mn	4	4	4	5	5

People Numbers	%***	Q1 FY 08	Q4 FY 07	Q3 FY 07	Q2 FY 07	Q1 FY 07
	Billable Personnel					
	Onsite	17.0%	17.5%	18.9%	22.5%	21.2%
	Offshore	73.6%	73.4%	71.8%	67.2%	68.4%
	Total	90.6%	90.9%	90.7%	89.7%	89.6%
	Marketing (Incl. Sales Support)	1.9%	1.8%	1.8%	2.1%	2.1%
	Others (Incl. Technical Support)	7.5%	7.3%	7.5%	8.2%	8.3%
	Grand Total	100.0%	100.0%	100.0%	100.0%	100.0%

Utilization	%*	Q1 FY 08	Q4 FY 07	Q3 FY 07	Q2 FY 07	Q1 FY 07	FY 07
		66.2	64.0	71.0	73.7	70.7	68.4

Annualised Attrition Rate	%*	Q1 FY 08	Q4 FY 07	Q3 FY 07	Q2 FY 07	Q1 FY 07	FY 07
		19.5	19.5	18.0	16.8	16.1	17.5

* These metrics do not include Focus Frame
 ** Computed on a trailing 12 months
 *** Excludes head count of Caliber Point