

Revenues grow 41% y-o-y to \$64 mn; Utilization improves significantly; healthy order book addition

- **Y-o-Y revenue growth of 26.5 % to Rs. 2616.40 mn (41.7 % to \$ 64.05 mn)**
 - **New business won in the quarter stood at \$ 40.5 mn**
 - **15 new clients added in Q2 2007**
 - **51 clients in the \$1m + revenue range**
 - **Added a new sub-vertical in Enterprise Risk Management**
 - **Declared 40% interim dividend**
-

Mumbai – July 18, 2007: Hexaware Technologies Ltd, a leading global provider of IT & BPO services, today reported financial results for the second Quarter ended June 30, 2007.

While the Rupee has appreciated across all major currencies, 7.1% against the US Dollar, 4.8% against the Euro, 5.8% against the GB Pound, it has had an obvious impact on profitability ratios, the performance during this Quarter saw the highest ever level of utilization, impressive new client additions, higher billing rates, healthy addition of order book and the addition of a new sub-vertical to the company's focus areas in Enterprise Risk Management. During the second quarter of 2007, consolidated Revenue from Operations stood at Rs. 2616.40 mn (\$64.05 mn) and Profit after Tax was Rs. 261.21 mn (\$6.36 mn).

Highlights of Q2 ended June 30, 2007

- Q2 2007 Revenue –
 - Q-o-Q up 6.6% in USD terms (down 1.1% in INR terms)
 - Y-o-Y growth of 41.7% in USD terms (up 26.5% in INR terms)
- Q2 2007 Profit After Tax –
 - Q-o-Q down 20.7% in USD terms (down 25.8% in INR terms)
 - Y-o-Y down 2.1% in USD terms (down 12.3% in INR terms)
- Gross Margins were down by 3.0% to 36.4% on account of annual salary increments and impact of the Foreign Exchange
- Operating Margins fell in-line with the gross margin drop by 2.8% to 10.0%
- Effective annual salary increment was about 17.5% for offshore and approximately 5% for onsite employees. The drop at the **Operating Margin (OPM) level** on account of **salary increment is 3.8%**
- The combined Rupee appreciation against the US Dollar, Pound and Euro had **an adverse impact of 3.2% at the OPM level**
- Blended Utilization (including trainees) level surged to 73.7% in Q2 2007 compared to 70.7% in Q1 2007 – resulting in **1.1% improvement at OPM level**
- Both onsite and offshore billing rates **raised the OPM by 0.6%**
- Volume gains on account of higher revenues provide **another 2.5% improvement in OPM**
- Number of clients registering a **\$1m+ revenue** over the trailing twelve months increase from 46 to **51** in Q2 2007
- Global headcount stood at 5,726. Gross employee addition during Q3 2007 is forecast at over 650, including the latest batch of graduate engineer trainees

"This has been a challenging quarter solely on account of the highest ever Rupee appreciation in a single quarter – our revenues would have been higher by Rs 21.5 crores and PAT by Rs 8.4 crores otherwise. This ongoing volatility in the currency markets had placed a premium on delivering faster efficiency gains and tighter execution. The sharp improvement in utilization levels and significant enhancement in employee productivity bear a testimony to our ability to rise to this challenge," remarked **Atul Nishar**, Executive Chairman, Hexaware Technologies Ltd.

He added," Given the continuing unpredictability of the currency markets, it is becoming difficult to provide a meaningful guidance. Consequently, **we have decided not to provide further guidance**. Once the Rupee reaches a relatively stable level, we may restart issuing quarterly guidance. However, we reiterate our earlier-mentioned intent of doubling our revenues within 8-10 quarters beginning Jan 07."

"But for the unforeseen impact of \$800K due to strengthening of the Rupee beyond the initial expectation 1 USD = INR 42 for Q2 2007, we would have met our guidance for the Quarter. An interesting highlight has been that OPM would have improved by over 1.75% on account of higher utilization and rates – but for the strengthening Rupee. This is despite providing amongst the highest salary increment announced in the industry to-date." said **Rusi Brij**, Vice Chairman and CEO.

Interim Dividend

The Board of Directors declared an interim dividend on Preference Shares Series "A" for the period ended June 30, 2007 @ 2.95 % per annum and @ 40% on equity shares of the company respectively. The record date is fixed on Friday, August 3, 2007 for determining the shareholders entitled for this interim dividend.

Operational Review

The Quarter witnessed an addition of 15 new clients. Of these, 7 were from North America, 2 were in Europe and 3 in APAC. Moreover, the newly launched JV Risk Tech brought in 2 clients and 1 client was added through Caliber Point, the wholly owned BPO subsidiary.

In terms of the business competencies, 3 belonged to the Asset Management vertical, 3 in Testing, 3 in ERP space, 1 in BPO, 1 in Business Analytics/ Business Intelligence, 2 in the Application Development space and 2 in the Enterprise Risk Management sub-vertical.

With the addition of 15 new clients, the total number of active clients stood at 164[♦], 52 of which belonged to Fortune 500 / Global 500 segment.

Hexaware's focus on mining existing accounts and cross-selling its suite of service offerings has resulted in a sharp increase of million-dollar clients. The number of clients registering \$1m+ in revenues has registered a robust increase from 46 to 51 while 4 were in the \$5 - \$10 mn range and a further 5 clients billed more than \$10 mn each (all on a trailing 12 month basis).

FocusFrame is in the midst of re-orienting its business strategy to focus on growing offshore volumes and reduce dependence on channel sales and non-project based onsite revenues.

[♦] For the first time, the active client list includes RiskTech's clients.

This is likely to impact its overall revenue growth during the current fiscal year. With a renewed Unified Service Offering, the sales team of both the entities are offering a comprehensive suite of services in the Testing Competency – incorporating the unique strengths and tapping the value proposition offered by both the organizations. During this Quarter, Hexaware and Focus Frame have further **commenced joint delivery for two clients.**

Significant Engagements

Hexaware won a prestigious engagement in production development of an investment data management solution for a leading financial services application provider. This product caters to a large number of asset management firms and investment banks. This win is likely to enhance Hexaware's ability to offer services utilizing this application in the Capital Markets sub-vertical of the BFSI space.

One of the initial client additions through Risk Tech saw Hexaware assist the largest bank in the Middle East region in developing a comprehensive operational risk monitoring, measurement and risk-management system. This project will enable this client to become one of the earliest Middle-East banks to have such an in-depth operational risk management system, comprising of Risk and Control Self Assessments, Key Risk Indicator Framework, Risk Issue and Action Plans, Loss Data Modelling and economic capital framework for operational risk in addition to being compliant with Basel II AMA. Hexaware expects the JV to add at least 6 new clients in the first 6 months of operation.

Forex Cover

The company currently has forward cover in excess of \$90 mn at an average rate of Rs 42.29.

Human Resources

Hexaware closed the Quarter ending June 30, 2007 with a total headcount of 5726, a net reduction of 25 over Q1 2007. The technical manpower comprised 89.7% of the total work force in comparison to 89.6 % over the last Quarter. Attrition rate stood at 16.8% on an annualized basis. By the end of Q3 2007 Hexaware expects to at least add 650 more gross employees, including new graduate engineer trainees.

In Q2 2007, Hexaware has offered an average annual increment of 17.5% to the India-based employees and an average of under 5% for overseas based employees.

Infrastructure

This Quarter evidenced Hexaware ramping up head count at its sixth/ latest state of the art Global Delivery Centre at Gurgaon. The centre is being ramped up to accommodate in excess of 1,000 people over multiple phases in the near term.

The land acquired in Airoli, Navi Mumbai and Hinjewadi Phase III, Pune have recently been accorded SEZ status. The Company is currently working on plans to start construction at these sites by early next year.

Hexaware will inaugurate its Green campus at Siruseri in Chennai by the end of the year 2007. The one-of-its-kind Chennai campus will house 4000 people in the first phase of its completion.

Awards and Recognition

Hexaware has improved its ranking to 11th in the NASSCOM (2006- 2007) top 20 IT Software and Service Exporters from India, a notch higher than its previous ranking in 2005 – 2006.

Hexaware has been identified as one of India's best mid-sized companies and has been labelled as one of "Tomorrow's Giants" by Businessworld, one of the leading business magazines in India. Businessworld ranked Hexaware as the 10th biggest wealth creator among mid size companies across all industry verticals. Additionally, Hexaware is also the only Indian IT company that has been defined by Businessworld as one among the five companies that have leveraged global competitiveness to capture the local market.

Hexaware-Caliber Point was also ranked among the Top 50 Best Managed Global Outsourcing Vendors in World in the 2007 edition of The Black Book of Outsourcing. The company moved from being at No. 43 in 2006 to No. 21 in 2007. Hexaware-Caliber Point has been featured in the top 10 companies with the highest sustained survey improvements over the past four years. Additionally, the survey ranked Hexaware-Caliber Point 4th in the 2007 top ten global full service finance & accounting services outsourcing vendors.

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 17 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 release 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, 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.

For more information contact:

Swapna Bhandarkar/ Effie Coutinho
Hexaware Technologies Limited

Tel: +91 (22) 66542682 / 83

Fax: +91 (22) 22872939

e-mail: swapnab@hexaware.com/effiec@hexaware.com

Issued on behalf of Hexaware
Technologies Limited by:

Piya Roy
Adfactors PR Pvt Ltd.

Tel: +91 9820740379

e-mail: piya.roy@adfactorspr.com

Hexaware Technologies Consolidated

INR Mn

Head	INR Mn				
	Q2 FY07	Q1 FY 07	Sequential Change (%)	Q2 FY06	Y-o-Y Change (%)
Gross Revenues	2,616.40	2,643.69	-1.0%	2,068.77	26.5%
Direct Costs	1,663.06	1,603.33	3.7%	1,324.00	25.6%
Gross Profit	953.34	1,040.36	-8.4%	744.77	28.0%
Selling / General And Administration	632.81	645.03	-1.9%	434.12	45.8%
EBIDTA	320.53	395.33	-18.9%	310.65	3.2%
Depreciation and Amortization	57.68	56.38	2.3%	45.91	25.6%
Operating Profit	262.85	338.95	-22.5%	264.74	-0.7%
Other Income (net)	50.46	68.04	-25.8%	46.47	8.6%
Profit Before Tax	313.31	406.99	-23.0%	311.21	0.7%
Provision for Tax	52.10	55.04	-5.3%	13.49	286.2%
Profit After Tax	261.21	351.95	-25.8%	297.72	-12.3%

INR Mn

Head	Yearly Data			FY 06
	H1 07	H1 06	Growth in %	
Gross Revenues	5,260.09	3,830.27	37.3%	8,482.14
Direct Costs	3,266.39	2,404.13	35.9%	5,317.77
Gross Profit	1,993.70	1,426.14	39.8%	3,164.37
Selling / General And Administration	1,277.84	821.79	55.5%	1,842.10
EBIDTA	715.86	604.35	18.5%	1,322.27
Depreciation and Amortization	114.06	91.89	24.1%	200.16
Operating Margin	601.80	512.46	17.4%	1,122.11
Other Income (net)	118.50	81.10	46.1%	240.68
Profit Before Tax	720.30	593.56	21.4%	1,362.79
Provision for Tax	107.14	35.61	200.9%	120.46
Profit After Tax	613.16	557.95	9.9%	1,242.33

Key Ratios	Q2 FY07	Q1 FY 07	Q2 FY06	H1 07	H1 06	FY 06
Gross Margin	36.4%	39.4%	36.0%	37.9%	37.2%	37.3%
SGnA to Revenue	24.2%	24.4%	21.0%	24.3%	21.5%	21.7%
EBIDTA	12.3%	15.0%	15.0%	13.6%	15.8%	15.6%
Operating Margin	10.0%	12.8%	12.8%	11.4%	13.4%	13.2%
Profit before tax	12.0%	15.4%	15.0%	13.7%	15.5%	16.1%
Profit after Tax	10.0%	13.3%	14.4%	11.7%	14.6%	14.6%
EPS (INR)						
Basic	1.87	2.57	2.26	4.43	4.44	9.46
Diluted	1.84	2.43	2.19	4.36	4.32	8.99

Head	INR Mn		
	As at June 30 2007	As at Mar 31 2007	As at June 30 2006
Liabilities			
Share Capital			
Equity	266.46	266.47	1,761.71
Preference	1,499.96	1,499.96	
Share Application Money	2.23	0.39	2.77
Reserves	6,007.35	5,799.16	5,244.36
Borrowings	-	0.00	5.07
Total	7,776.00	7,565.98	7,013.90
Assets			
Gross Fixed Assets	3,705.92	3,448.88	1,847.09
Less: Depreciation	889.22	847.48	711.59
Net Fixed Assets	2,816.70	2,601.40	1,135.50
Current Assets			
Cash and cash equivalent	3,337.29	3,429.56	4,398.23
Debtors	2,171.62	2,313.85	1,717.26
Others	1,350.20	1,262.41	1,006.29
Total Current assets	6,859.11	7,005.82	7,121.78
Total Current Liabilities	1,897.31	2,086.60	1,274.84
Working Capital	4,961.80	4,919.22	5,846.94
Deferred Tax	(2.50)	45.36	31.46
Total	7,776.00	7,565.98	7,013.90

METRICS

Performance Review

Revenue Growth

INR, Mn	Q2 FY 07	Q1 FY 07	Q4 FY 06	Q3 FY 06	Q2 FY 06	FY 06
Revenue from Operations	2,616.40	2,643.69	2,402.18	2,249.69	2,068.77	8,482.14
%, q-o-q	-1.0	10.1	6.8	8.7	17.4	25.0
Other Income	50.46	68.04	79.29	80.29	46.47	240.69

Vertical Split

%	Q2 FY 07	Q1 FY 07	Q4 FY 06	Q3 FY 06	Q2 FY 06	FY 06
BFSI	37.6	39.5	40.6	41.0	41.6	41.1
Travel & Transportation	20.3	18.0	16.5	17.5	19.3	18.1
Cap Mkt / Asst Mgt	5.3	6.3	6.5	6.1	5.9	6.1
Others (largely ERP)	36.8	36.2	36.4	35.4	33.2	34.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

Technology Split

%	Q2 FY 07	Q1 FY 07	Q4 FY 06	Q3 FY 06	Q2 FY 06	FY 06
E-Commerce/ Appl. Mgt.	35.6	34.9	43.1	48.0	48.8	46.9
Enterprise Application (ERP)	32.7	33.5	33.1	33.8	32.6	33.4
Testing Services	17.0	17.5	9.1	4.4	3.8	5.3
HR IT	6.9	7.1	7.0	7.1	7.0	7.0
Business Intelligence & Analytics	1.7	2.0	1.9	2.1	2.0	2.1
Others	6.1	5.0	5.8	4.6	5.8	5.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

Geography

%	Q2 FY 07	Q1 FY 07	Q4 FY 06	Q3 FY 06	Q2 FY 06	FY 06
Americas	66.9	67.1	69.1	68.5	69.4	69.3
Europe	27.1	27.6	25.5	25.7	26.5	25.8
RoW	6.0	5.3	5.4	5.8	4.1	4.9
Total	100.0	100.0	100.0	100.0	100.0	100.0

Onsite: Offshore Mix

%	Q2 FY 07	Q1 FY 07	Q4 FY 06	Q3 FY 06	Q2 FY 06	FY 06
Onsite	64.7	62.1	61.6	61.1	60.4	61.2
Offshore	35.3	37.9	38.4	38.9	39.6	38.8
Total	100.0	100.0	100.0	100.0	100.0	100.0

Client data

Repeat Business

%	Q2 FY 07	Q1 FY 07	Q4 FY 06	Q3 FY 06	Q2 FY 06
	86.9	88.7	88.4	88.2	85.9

Clients billed

No	Q2 FY 07	Q1 FY 07	Q4 FY 06	Q3 FY 06	Q2 FY 06
	164	151	129	119	141

Clients added

No	Q2 FY 07	Q1 FY 07	Q4 FY 06	Q3 FY 06	Q2 FY 06
	15	20	12	11	15

DSO	Days	Q2 FY 07	Q1 FY 07	Q4 FY 06	Q3 FY 06	Q2 FY 06
		76	80	79	76	75

Billing Rates	USD/Hour*	Q2 FY 07	Q1 FY 07	Q4 FY 06	Q3 FY 06	Q2 FY 06	FY 06
	Onsite	66.91	66.50	66.10	66.00	65.80	65.91
	Offshore	23.40	23.26	22.92	22.95	22.80	22.86

Revenue Concentration	%	Q2 FY 07	Q1 FY 07	Q4 FY 06	Q3 FY 06	Q2 FY 06	FY 06
	Top 1	9.1	8.5	8.3	8.0	9.1	8.1
	Top 5	33.5	33.6	32.7	32.5	31.1	32.3
	Top 10	47.0	48.1	47.7	47.1	45.8	47.1

Client Size	Nos.**	Q2 FY 07	Q1 FY 07	Q4 FY 06	Q3 FY 06	Q2 FY 06
	More than USD 1 Mn +	51	46	41	40	36
	Less than USD 5 Mn	42	37	32	31	28
	Between USD 5 to 10 Mn	4	4	5	5	5
	Over USD 10 Mn	5	5	4	4	3

People Numbers	%age***	Q2 FY 07	Q1 FY 07	Q4 FY 06	Q3 FY 06	Q2 FY 06
	Billable Personnel					
	Onsite	22.5%	21.2%	17.2%	17.1%	19.5%
	Offshore	67.2%	68.4%	72.4%	72.5%	69.1%
	Total	89.7%	89.6%	89.6%	89.6%	88.6%
	Marketing (Incl. Sales Support)	2.1%	2.1%	2.2%	2.2%	2.3%
	Others (Incl. Tech. Support)	8.2%	8.3%	8.2%	8.2%	9.1%
	Grand Total	100.0%	100.0%	100.0%	100.0%	100.0%

Utilization	%*	Q2 FY 07	Q1 FY 07	Q4 FY 06	Q3 FY 06	Q2 FY 06	FY 06
		73.7	70.7	68.2	72.0	71.5	70.5

Attrition Rate	%*	Q2 FY 07	Q1 FY 07	Q4 FY 06	Q3 FY 06	Q2 FY 06	FY 06
		16.8	16.1	15.0	14.2	14.0	14.9

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