

Hexaware revenues at Rs 2844.91 mn, up by 6.6% q-o-q

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- ***Q2 '08 Revenue at Rs 2844.91 mn; an increase of 6.6% q-o-q***
 - ***Q2 '08 Profit after Tax is Rs 95.15 mn after one-time charges of Rs 138.12 mn***
 - ***New orders worth \$40 mn booked in Q2 '08***
 - ***10 new clients added in Q2 '08***
 - ***66 Fortune/Global 500 clients in our active client roster***
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Mumbai – July 29, 2008: Hexaware Technologies Ltd, a leading global provider of IT & BPO services and consulting, today reported financial results for the second quarter ended June 30, 2008.

Highlights of Q2 ended June 30, 2008

- Revenue from operations stood at Rs 2844.91 mn - a 6.6% sequential growth over preceding quarter
- After incorporating the one-time charges, the profitability metrics are:
 - Profit after Tax stood at Rs 95.15 mn (Rs 233.27 mn before one-time charges)
 - Gross margin was at 33.8% vs. 35.3% in the previous quarter
 - Operating margin was at 3.3% (7.8% before one-time charges) vs. 7.5% in Q1 '08
 - Profit after Tax margin was 3.3% (7.9% before one-time charges) compared to 7.8 % in the prior quarter
- 10 new clients added during the quarter
- 177 active clients of which 66 are Fortune / Global 500 corporations
- New order book added in Q2 '08 was \$40 mn
- Global headcount stood at 6,598

“With the smooth induction of seasoned professionals as CEO, CFO and President – North America, our leadership team has been considerably strengthened. This management team is now poised to face the external challenges and retrace the Company to its growth trajectory. The numerous steps initiated by the team will reflect in the superior performance in times to come,” commented **Atul Nishar**, Executive Chairman, Hexaware Technologies Ltd.

“The outlook for our underlying business remains stable though the macro-economic conditions globally have been challenging. We have a healthy pipeline in all our geographies and competencies. Over the next few quarters, while we continue to pursue our multi niche strategy, we intend to add new domains to our existing verticals. We will also invest in strengthening our horizontal competencies such as Business Technology Optimization (BTO) & Enterprise Solutions to provide a broader-set of service offerings. In addition, we will continue to actively collaborate with our subsidiaries to leverage our laudable client roster,” said **P. R. Chandrasekar**, CEO and Vice Chairman, Hexaware Technologies Ltd.

Guidance

The new management team is focused on consolidating the business in the next quarter and therefore, the expected revenue for Q3 '08 is likely to be same as Q2 '08 or thereabout. The full year guidance has accordingly been revised to \$270 mn - \$275 mn.

Interim Dividend

The Board will meet to consider an interim dividend within the next fortnight.

Financial Review

The reported Q2 '08 Operating Margin is 3.3%. However, there were some one-off developments this quarter including the one-time joining expenses of the senior management team, adjusting for which the underlying business operating margin is about 30 basis points better than last quarter, despite the impact of salary increases and visa expenses.

The financial ratios for the quarter after including the one-time charges are,

- Gross margin at 33.8% vs. 35.3% in the previous quarter
- Operating margin at 3.3% (7.8% before one-time charges) vs. 7.5% in Q1 '08
- Profit after Tax margin was 3.3% (7.9% before one-time charges) compared to 7.8 % in the prior quarter

The blended utilisation for the quarter stood at 63.7%.

Client Updates

The quarter witnessed an addition of 10 new clients. 3 clients were added by FocusFrame in the testing domain, 2 clients were added by RiskTech in the Enterprise Risk Management space and 1 client was added by Caliber Point in the BPO segment.

In terms of business competencies in the IT services business, 1 client was added in Application Development and Maintenance (ADM) and 3 in Enterprise Application Services (EAS).

The total number of active clients stood at 177; of which 66 belong to the Fortune 500 / Global 500 list.

The number of clients registering \$1m+ in revenues stood at 56, with 43 clients in the \$1 - \$5 mn category. 9 clients are in the \$5 - \$10 mn range, with another 4 clients billed over \$10 mn each – on a trailing 12 months basis.

Of the 10 clients added, 5 were from North America, 3 were in Europe and 2 in APAC. 61.9 % of revenues came from North America, with the European share improving further to 31.8%, and the balance 6.3% coming from the rest of the world.

Significant Wins

In the previous quarter, Hexaware emerged as the strategic partner to the IT service provider of a European national railway company as its client. Hexaware has been engaged



to offer its domain expertise in the TTHL vertical. In the first phase, Hexaware is offering enterprise solutions to this Global 200 client.

FocusFrame won an important test governance and automated ERP testing engagement with a leading telecom service provider in the United Kingdom.

Caliber Point, the wholly owned BPO subsidiary, has registered a significant win by acquiring an innovative Human Resource Outsourcing (HRO) client. Caliber Point will extend its entire suite of HRO services to this prestigious customer.

During the past quarter, RiskTech acquired an engagement with a Tier – I bank in United Kingdom in the area of credit risk management and Basel II technology.

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 nine quarters.

Pricing

The average billing rate per hour for the quarter improved marginally to \$69.70 for onsite services and stood at \$23.66 for offshore projects. Pricing environment appears stable, with new deals signed at better rates.

Human Resources

Global headcount at the end of Q2 '08 stood at 6,598, a net reduction of 329 over Q1 2008.

Technical personnel comprised 87.8% of the total work force. Attrition was at 24.3% on an annualized basis.

In Q2 2008, Hexaware offered an average annual increment of 11 – 13 % to the offshore employees.

Infrastructure

The first phase of the Chennai Green Campus is operational now and about 400 professionals are working from the state-of-the-art facility. The entire first phase will be completed by the end of the year.

At the SEZ campus in Nagpur, a Tier 2 city, a 1000 seat facility is currently under construction. It is likely to be ready by the end of the year.

Awards and Recognition

Hexaware was ranked 15th in the NASSCOM Top 20 IT Software and Services Exporters from India (2007-2008).

In their independent report, "North American Applications Outsourcing Market Overview for 2008", Forrester has listed Hexaware as being one of the mid-tier providers who has made good inroads in both midsize enterprises and larger accounts.



- Financial Release June 30, 2008

Hexaware was listed in the Gartner CRM Vendor guide as one of the providers in North America.

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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Consolidated Income Statement (as per Indian GAAP)

INR Mn

Head	Quarterly Data				
	Q2 FY08	Q1 FY 08	Sequential Change (%)	Q2 FY07	Y-o-Y Change (%)
Gross Revenues	2,844.91	2,669.51	6.6%	2,616.40	8.7%
Direct Costs	1,882.76	1,727.58	9.0%	1,663.06	13.2%
Gross Profit	962.15	941.93	2.1%	953.34	0.9%
Selling / General And Administration	785.42	679.15	15.6%	632.81	24.1%
EBITDA	176.73	262.78	-32.7%	320.53	-44.9%
Depreciation and Amortization	83.75	63.18	32.6%	57.68	45.2%
Operating Profit	92.98	199.60	-53.4%	262.85	-64.6%
Other Income (net)	36.18	43.76	-17.3%	50.46	-28.3%
Profit Before Tax	129.16	243.36	-46.9%	313.31	-58.8%
Provision for Tax	34.01	34.79	-2.2%	52.10	-34.7%
Profit After Tax	95.15	208.57	-54.4%	261.21	-63.6%

Key Ratios	Q2 FY08	Q1 FY 08		Q2 FY07
Gross Margin	33.8%	35.3%		36.4%
SGnA to Revenue	27.6%	25.4%		24.2%
EBITDA	6.2%	9.8%		12.3%
Operating Margin	3.3%	7.5%		10.0%
Profit before tax	4.5%	9.1%		12.0%
Profit after Tax	3.3%	7.8%		10.0%
EPS-INR				
Basic	0.66	1.45		1.87
Diluted	0.66	1.45		1.84

Consolidated Income Statement (as per Indian GAAP)

INR Mn

Head	Yearly Data			FY 07
	H1 08	H1 07	Growth in %	
Gross Revenues	5,514.42	5,260.09	4.8%	10,398.03
Direct Costs	3,610.34	3,266.39	10.5%	6,673.00
Gross Profit	1,904.08	1,993.70	-4.5%	3,725.03
Selling / General And Administration	1,464.57	1,277.84	14.6%	2,524.45
EBITDA	439.51	715.86	-38.6%	1,200.58
Depreciation and Amortization	146.93	114.06	28.8%	232.11
Operating Margin	292.58	601.80	-51.4%	968.47
Other Income (net)	79.94	118.50	-32.5%	264.92
Profit Before Tax	372.52	720.30	-48.3%	1,233.39
Provision for Tax	68.80	107.14	-35.8%	132.65
Profit After Tax	303.72	613.16	-50.5%	1,100.74
Minority Interest				1.50
Exceptional Items				1,029.95
PAT after Minority Interest & Exceptional Items	303.72	613.16		72.29

Key Ratios	H1 08	H1 07	FY 07
Gross Margin	34.5%	37.9%	35.8%
SGnA to Revenue	26.6%	24.3%	24.3%
EBITDA	8.0%	13.6%	11.5%
Operating Margin	5.3%	11.4%	9.3%
Profit before tax	6.8%	13.7%	11.9%
Profit after Tax	5.5%	11.7%	10.6%
EPS-INR (Excluding Exceptional Items)			
Basic	2.11	4.43	7.92
Diluted	2.10	4.36	7.87
EPS-INR			
Basic	2.11	4.43	0.34
Diluted	2.10	4.36	0.34

Head	INR Mn		
	As at June 30 2008	As at Mar 31 2007	As at June 30 2007
Liabilities			
Share Capital			
Equity	287.64	287.61	266.46
Preference	-	-	1,499.96
Share Application Money	1.02	1.02	2.23
Reserves	6,376.16	6,902.06	6,007.35
Borrowings	172.12	-	-
Total	6,836.94	7,190.69	7,776.00
Assets			
Gross Fixed Assets	5,036.12	4,792.48	3,705.92
Less: Depreciation	1,093.45	1,035.40	889.22
Net Fixed Assets	3,942.67	3,757.08	2,816.70
Current Assets			
Cash and cash equivalent	2,310.74	1,898.92	3,337.29
Debtors	2,169.60	2,139.99	2,171.62
Others	1,336.21	1,452.69	1,350.20
Total Current assets	5,816.55	5,491.60	6,859.11
Total Current Liabilities	2,985.83	2,111.38	1,897.31
Working Capital	2,830.72	3,380.22	4,961.80
Deferred Tax	63.55	53.39	(2.50)
Total	6,836.94	7,190.69	7,776.00

METRICS
Performance Review
Revenue Growth

INR, Mn	Q2 FY 08	Q1 FY 08	Q4 FY 07	Q3 FY 07	Q2 FY 07	Q1 FY 07	FY 07
Revenue from Operations	2,844.9	2,669.5	2,591.8	2,546.2	2,616.4	2,643.7	10,398.0
%, q-o-q	6.6	3.0	1.8	(2.7)	(1.0)	10.1	22.6
Other Income	36.1	43.8	71.5	75.0	50.5	68.0	264.9

Vertical Split

%	Q2 FY 08	Q1 FY 08	Q4 FY 07	Q3 FY 07	Q2 FY 07	Q1 FY 07	FY 07
BFSI	40.1	44.8	45.4	45.2	42.9	45.8	44.8
TTHL	17.3	17.9	18.6	18.5	20.3	18.0	18.8
Emerging Segments	27.4	24.6	23.3	20.5	22.2	22.1	22.0
Others	15.2	12.7	12.7	15.8	14.6	14.1	14.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Service Lines Split

%	Q2 FY 08	Q1 FY 08	Q4 FY 07	Q3 FY 07	Q2 FY 07	Q1 FY 07	FY 07
Application Devt & Maint (ADM)	40.4	37.1	37.0	35.8	35.6	34.9	35.8
Enterprise Application Services (EAS)	31.2	35.1	36.1	38.5	39.6	40.6	38.7
Testing / BTO (Business Technology Optimisation)	16.1	17.6	17.0	16.3	17.0	17.5	16.9
Business Intelligence & Analytics	5.8	3.5	3.6	3.0	1.7	2.0	2.6
BPO	5.0	5.2	4.8	4.6	3.8	3.5	4.2
Others	1.5	1.5	1.5	1.8	2.3	1.5	1.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Geography

%	Q2 FY 08	Q1 FY 08	Q4 FY 07	Q3 FY 07	Q2 FY 07	Q1 FY 07	FY 07
Americas	61.9	66.1	66.3	66.7	66.9	67.1	66.7
Europe	31.8	27.6	26.0	26.1	27.1	27.6	26.7
RoW	6.3	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	100.0

Onsite: Offshore Mix

%	Q2 FY 08	Q1 FY 08	Q4 FY 07	Q3 FY 07	Q2 FY 07	Q1 FY 07	FY 07
Onsite	64.5	63.6	64.3	64.7	64.7	62.1	64.0
Offshore	35.5	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	100.0

Client data
Repeat Business

%	Q2 FY 08	Q1 FY 08	Q4 FY 07	Q3 FY 07	Q2 FY 07	Q1 FY 07
	91.8	90.4	87.4	86.3	86.9	88.7

Clients billed

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

Clients added

No	Q2 FY 08	Q1 FY 08	Q4 FY 07	Q3 FY 07	Q2 FY 07	Q1 FY 07
	10	11	16	15	15	20

D SO	Days	Q2 FY 08	Q1 FY 08	Q4 FY 07	Q3 FY 07	Q2 FY 07	Q1 FY 07
		68	74	78	82	76	80

Billing Rates	USD/Hour*	Q2 FY 08	Q1 FY 08	Q4 FY 07	Q3 FY 07	Q2 FY 07	Q1 FY 07	FY 07
	Onsite	69.70	68.55	68.16	67.18	66.91	66.50	67.09
	Offshore	23.66	23.78	23.60	23.40	23.40	23.26	23.41

Revenue Concentration	%*	Q2 FY 08	Q1 FY 08	Q4 FY 07	Q3 FY 07	Q2 FY 07	Q1 FY 07	FY 07
	Top 1	12.1	10.0	9.8	9.0	9.1	8.5	9.1
	Top 5	32.6	33.2	32.5	32.6	33.5	33.6	32.5
	Top 10	48.4	47.2	46.3	46.8	47.0	48.1	46.9

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

People Numbers	%***	Q2 FY 08	Q1 FY 08	Q4 FY 07	Q3 FY 07	Q2 FY 07	Q1 FY 07
	Billable Personnel						
	Onsite	17.9%	17.0%	17.5%	18.9%	22.5%	21.2%
	Offshore	69.9%	73.6%	73.4%	71.8%	67.2%	68.4%
	Total	87.8%	90.6%	90.9%	90.7%	89.7%	89.6%
	Marketing (Incl. Sales Support)	2.1%	1.9%	1.8%	1.8%	2.1%	2.1%
	Others (Incl. Tech. Support)	10.1%	7.5%	7.3%	7.5%	8.2%	8.3%
Grand Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	

Utilization	%*	Q2 FY 08	Q1 FY 08	Q4 FY 07	Q3 FY 07	Q2 FY 07	Q1 FY 07	FY 07
		63.7	66.2	64.0	71.0	73.7	70.7	68.4

Attrition Rate	%*	Q2 FY 08	Q1 FY 08	Q4 FY 07	Q3 FY 07	Q2 FY 07	Q1 FY 07	FY 07
		24.3	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