

## *Hexaware profitability metrics improve in Q3'08*

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- Revenue at Rs 2946.2 mn, an increase of 3.6% q-o-q; Revenue in USD at \$66.3M, 2.0% decrease q-o-q, -0.4% in constant currency
  - Operating Profit (EBIT) at Rs 325.6 mn, operating margin increase from underlying 7.8% in Q2 to 11.1% in Q3
  - Profit after Tax at Rs 115.1 mn, an increase of 21.0% q-o-q
  - New orders worth \$ 51 mn booked in Q3 '08
  - 25% interim dividend paid out in August 2008
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Mumbai – October 24, 2008: Hexaware Technologies Ltd, a leading global provider of IT & BPO services and Consulting, today reported financial results for the third quarter ended September 30, 2008.

### Highlights of Q3 ended September 30, 2008

- Revenue from operations stood at Rs 2946.2 mn (\$66.3 mn)
  - Q-o-Q increase of 3.6% in INR terms, -2.0% in USD terms, -0.4% in constant currency
- Operating Profit (EBIT) stood at Rs 325.6 mn (\$7.2 mn)
  - Operating Margin increased from underlying 7.8% in Q2 to 11.1% in Q3
- Profit after Tax stood at Rs 115.1 mn (\$2.65mn)
  - Q-o-Q increase of 21.0% in INR terms, 20.2% in USD terms
  - In view of the new SEBI format incorporating "Operating Income", we have revised the accounting treatment of foreign exchange gains & losses to show under "Other Income" rather than as operating expenses.
    - § Losses worth Rs 38.25mn in Q3 were hence reclassified, as was the gain in Q2
    - § Further, MTM loss amounting to Rs. 204.7 mn related to future hedges has been booked in the Other Income line
- 4 new clients added during the quarter
- 177 active clients of which 66 are Fortune / Global 500 corporations
- New order book added in Q3 '08 was \$51 mn
- Global headcount stood at 5,924 as of September 30, 2008

"We have improved all our operational metrics inspite of the volatile market environment. Though the situation is likely to remain challenging till mid '09, we continue to be optimistic about the future" commented Atul Nishar, Executive Chairman, Hexaware Technologies Ltd.

"As our improved double-digit EBIT margin demonstrates, in this demanding environment we are focusing our efforts to improve our overall efficiencies, while at the same time, taking steps to further strengthen our ability to add value to our customers. Our newly launched vertical structure, the plans to strengthen our horizontal competencies as well as the steps to leverage our subsidiaries better will position us to capitalize on opportunities as the market environment improves," said P. R. Chandrasekar, CEO and Vice Chairman, Hexaware Technologies Ltd.

### Guidance

The Company has indicated that Q4 '08 revenue is likely to be in the range of \$61.5 mn – \$64.0 mn (exchange rates taken at 1 GBP = 1.65 USD and 1 EUR = 1.25 USD). In constant



currency terms (average Q3 2008 rates), the revenues would have been in the range of \$63.0 mn - \$64.5 mn.

#### Interim Dividend

The Board of Directors declared an interim dividend @ 25% on equity shares of the Company. The record date for determining the shareholders entitled for this interim dividend was August 16, 2008. The dividend was paid out on August 27, 2008.

#### Financial Review

The financial ratios for the quarter are:

EBIT margin increased by 10.6% to 11.1% vs. 0.5% in the previous quarter.

Profit after Tax margin was up by 60 bps at 3.9% vs. 3.3% in the previous quarter.

The blended utilisation for the quarter improved to 65.9% vs. 63.7% in the previous quarter.

#### Client Updates

The quarter witnessed an addition of 4 new clients. In terms of verticals, 1 client was in BFSI, 2 clients were in the TTHL domain and 1 client was in Emerging Verticals. 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 4 clients added, 3 customers are based in North America and 1 in APAC. 64.1 % of revenues came from North America, with the European share at 30.2% and the balance 5.7% coming from the rest of the world.

#### Significant Wins

During the quarter, Hexaware emerged as a strategic partner to a leading maintenance, repair and overhaul (MRO) solutions provider in North America. Hexaware will provide product customization and implementation support on their cutting-edge product developed on a new generation technology platform. The scope of the engagement also includes extending implementation support for this widely popular product in the aviation industry.

In Q3 '08, Hexaware won a deal to implement a mission critical Basel II risk data warehousing solution with a leading US Investment Bank. This is a multi-million deal commencing with a comprehensive consulting study of the risk architecture review and encompasses the roll out of the entire customized solution. This engagement will be jointly executed with RiskTech, the joint venture specializing in the enterprise risk management domain, in which Hexaware holds the majority stake.

In the past quarter, Hexaware emerged stronger after a recent vendor consolidation exercise at one of its significant customers. For this customer, Hexaware provides multiple services including maintaining the entire ERP application and carrying out enterprise intelligence services. In addition, Hexaware conducts quality assurance services for several custom built applications.

Following the successful deployment of test accelerators at a leading multi-specialty integrated healthcare provider, FocusFrame stands poised to deliver end to end quality



assurance services for several divisions of this provider. This multi-year, multi-million \$ opportunity may see work getting off-shored to locations such as Mexico and India.

#### Forex Cover

The company currently has forward cover of \$213 mn spread over the next eight quarters. The average rate of USD, GBP and EUR hedges in INR are 40.68, 81.81 and 65.16 respectively.

#### Pricing

The average billing rate per hour for the quarter stood at \$68.73 onsite and at \$23.36 offshore, slightly lower due to depreciation of GBP & EUR vs USD. In constant currency terms, the billing rates increased marginally q-o-q

#### Human Resources

Global headcount at the end of Q3 '08 stood at 5924, a net reduction of 674 over Q2 2008. Technical personnel comprised 87.3% of the total work force. Attrition was at 28.3% on an annualized basis.

#### Awards and Recognition

Hexaware ranked among the Top 20 Best IT employers in India by DQ-IDC for four years in a row now. Hexaware was ranked 11<sup>th</sup> and was rated highly on different parameters in the survey.

#### About Hexaware

Hexaware is a leading global provider of IT, BPO and consulting 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](http://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				
	Q3 FY08	Q2 FY08	Sequential Change (%)	Q3 FY07	Y-o-Y Change (%)
Gross Revenues	2,946.16	2,844.91	3.6%	2,546.18	15.7%
Direct Costs	1,711.98	1,882.76	-9.1%	1,640.05	4.4%
Gross Profit	1,234.18	962.15	28.3%	906.13	36.2%
Selling / General And Administration	841.32	879.11	-4.3%	669.11	25.7%
EBIDTA	392.86	83.05	373.0%	237.02	65.8%
Depreciation and Amortization	67.22	69.73	-3.6%	57.18	17.6%
Operating Profit	325.64	13.32	2345.5%	179.84	81.1%
Other Income (net)#	(199.75)	115.82	-272.5%	141.75	-240.9%
Profit Before Tax	125.89	129.14	-2.5%	321.59	-60.9%
Provision for Tax	10.75	33.99	-68.4%	52.43	-79.5%
Profit After Tax	115.14	95.15	21.0%	269.16	-57.2%

Key Ratios	Q3 FY08	Q2 FY08	Variance	Q3 FY07	Variance
Gross Margin	41.9%	33.8%	8.1%	35.6%	6.3%
SGnA to Revenue	28.6%	30.9%	2.3%	26.3%	-2.3%
EBIDTA	13.3%	2.9%	10.4%	9.3%	4.0%
Operating Margin	11.1%	0.5%	10.6%	7.1%	4.0%
Profit before tax	4.3%	4.5%	-0.3%	12.6%	-8.4%
Profit after Tax	3.9%	3.3%	0.6%	10.6%	-6.7%
EPS-INR					
Basic	0.80	0.66		1.99	
Diluted	0.80	0.66		1.96	

# OI includes (a) Losses worth Rs 38.25mn in Q3 reclassified from SG&A to other income, as was the gain in Q2

(b) MTM loss amounting to Rs. 204.7 mn related to future hedges have also been booked in the Other Income line

## Consolidated Income Statement (as per Indian GAAP)

INR Mn

Head	Yearly Data			FY 07
	YTD 08	YTD 07	Growth in %	
Gross Revenues	8,460.58	7,806.24	8.4%	10,398.06
Direct Costs	5,322.31	4,906.41	8.5%	6,673.03
Gross Profit	3,138.27	2,899.83	8.2%	3,725.03
Selling / General And Administration	2,458.66	1,971.35	24.7%	2,821.93
EBIDTA	679.61	928.48	-26.8%	903.10
Depreciation and Amortization	200.14	171.24	16.9%	232.12
Operating Margin	479.47	757.24	-36.7%	670.99
Other Income (net)	18.91	284.65	-93.4%	562.39
Profit Before Tax	498.38	1,041.89	-52.2%	1,233.38
Provision for Tax	79.54	159.57	-50.2%	132.65
Profit After Tax	418.84	882.32	-52.5%	1,100.73
Minority Interest				1.50
Exceptional Items				1,029.95
PAT after Minority Interest & Exceptional Items	418.84	882.32		72.28

Key Ratios	YTD 08	YTD 07	Variance	FY 07
Gross Margin	37.1%	37.1%	-0.1%	35.8%
SGnA to Revenue	29.1%	25.3%	-3.8%	27.1%
EBIDTA	8.0%	11.9%	-3.9%	8.7%
Operating Margin	5.7%	9.7%	-4.0%	6.5%
Profit before tax	5.9%	13.3%	-7.5%	11.9%
Profit after Tax	5.0%	11.3%	-6.4%	10.6%
PAT after Minority Interest & Extraordinary items	5.0%	11.3%	-6.4%	0.7%
EPS-INR (Excluding Exceptional Items)				
Basic	2.92	6.42		7.92
Diluted	2.89	6.33		7.87
EPS-INR				
Basic	2.92	6.42		0.34
Diluted	2.89	6.33		0.34

## Consolidated Balance Sheet (as per Indian GAAP)

INR Mn

Head	As at Sept 30 2008	As at June 30 2008	As at Sept 30 2007
<b>Liabilities</b>			
Share Capital			
Equity	288.01	287.64	277.69
Preference	-	-	-
Share Application Money	0.79	1.02	1.21
Reserves	6,396.32	6,376.16	7,694.14
Borrowings	187.86	172.12	-
<b>Total</b>	<b>6,872.98</b>	<b>6,836.94</b>	<b>7,973.04</b>
<b>Assets</b>			
Gross Fixed Assets	5,408.12	5,036.12	3,916.68
Less: Depreciation	1,164.42	1,093.45	947.33
Net Fixed Assets	4,243.70	3,942.67	2,969.35
Current Assets			
Cash and cash equivalent	2,439.89	2,310.74	3,238.81
Debtors	2,260.17	2,169.60	2,252.25
Others	1,277.96	1,336.21	1,472.76
Total Current assets	5,978.02	5,816.55	6,963.82
Total Current Liabilities	3,421.61	2,985.83	2,010.40
Working Capital	2,556.41	2,830.72	4,953.42
Deferred Tax	72.88	63.55	50.27
<b>Total</b>	<b>6,872.98</b>	<b>6,836.94</b>	<b>7,973.04</b>

METRICS

Performance Review

Revenue Growth

INR, Mn	Q3 FY 08	Q2 FY 08	Q1 FY 08	Q4 FY 07	Q3 FY 07	FY 07
Revenue from Operations	2,946.2	2,844.9	2,669.5	2,591.8	2,546.2	10,398.0
%, q-o-q	3.6	6.6	3.0	1.8	(2.7)	22.6
Other Income	(199.7)	115.8	102.8	277.7	141.8	562.4

Vertical Split

%	Q3 FY 08	Q2 FY 08	Q1 FY 08	Q4 FY 07	Q3 FY 07	FY 07
BFSI	38.8	40.1	44.8	45.4	45.2	44.8
TTHL	15.1	17.3	17.9	18.6	18.5	18.8
Emerging Segments	31.4	27.4	24.6	23.3	20.5	22.0
Others	14.7	15.2	12.7	12.7	15.8	14.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

Service Lines Split

%	Q3 FY 08	Q2 FY 08	Q1 FY 08	Q4 FY 07	Q3 FY 07	FY 07
Application Devt & Maint (ADM)	38.8	40.4	37.1	37.0	35.8	35.8
Enterprise Application Services (EAS)	33.6	31.2	35.1	36.1	38.5	38.7
Testing / BTO (Business Technology Optimisation)	13.6	16.1	17.6	17.0	16.3	16.9
Business Intelligence & Analytics	7.3	5.8	3.5	3.6	3.0	2.6
BPO	5.3	5.0	5.2	4.8	4.6	4.2
Others	1.4	1.5	1.5	1.5	1.8	1.8
Total	100.0	100.0	100.0	100.0	100.0	100.0

Geography

%	Q3 FY 08	Q2 FY 08	Q1 FY 08	Q4 FY 07	Q3 FY 07	FY 07
Americas	64.1	61.9	66.1	66.3	66.7	66.7
Europe	30.2	31.8	27.6	26.0	26.1	26.7
RoW	5.7	6.3	6.3	7.7	7.2	6.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

Onsite: Offshore Mix

%	Q3 FY 08	Q2 FY 08	Q1 FY 08	Q4 FY 07	Q3 FY 07	FY 07
Onsite	62.6	64.5	63.6	64.3	64.7	64.0
Offshore	37.4	35.5	36.4	35.7	35.3	36.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Client data

Repeat Business

%	Q3 FY 08	Q2 FY 08	Q1 FY 08	Q4 FY 07	Q3 FY 07
	89.8	91.8	90.4	87.4	86.3

Clients billed

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

Clients added

No	Q3 FY 08	Q2 FY 08	Q1 FY 08	Q4 FY 07	Q3 FY 07
	4	10	11	16	15

DSO	Days	Q3 FY 08	Q2 FY 08	Q1 FY 08	Q4 FY 07	Q3 FY 07
		67	68	74	78	82

Billing Rates	USD/Hour*	Q3 FY 08	Q2 FY 08	Q1 FY 08	Q4 FY 07	Q3 FY 07	FY 07
	Onsite	68.73	69.70	68.55	68.16	67.18	67.09
	Offshore	23.36	23.66	23.78	23.60	23.40	23.41

Revenue Concentration	%*	Q3 FY 08	Q2 FY 08	Q1 FY 08	Q4 FY 07	Q3 FY 07	FY 07
	Top 1	13.6	12.1	10.0	9.8	9.0	9.1
	Top 5	30.6	32.6	33.2	32.5	32.6	32.5
	Top 10	46.9	48.4	47.2	46.3	46.8	46.9

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

People Numbers	%***	Q3 FY 08	Q2 FY 08	Q1 FY 08	Q4 FY 07	Q3 FY 07
	Billable Personnel					
	Onsite	18.7%	17.9%	17.0%	17.5%	18.9%
	Offshore	68.6%	69.9%	73.6%	73.4%	71.8%
	Total	87.3%	87.8%	90.6%	90.9%	90.7%
	Marketing (Incl. Sales Support)	2.3%	2.1%	1.9%	1.8%	1.8%
	Others (Incl. Tech. Support)	10.4%	10.1%	7.5%	7.3%	7.5%
Grand Total	100.0%	100.0%	100.0%	100.0%	100.0%	

Utilization	%*	Q3 FY 08	Q2 FY 08	Q1 FY 08	Q4 FY 07	Q3 FY 07	FY 07
		65.9	63.7	66.2	64.0	71.0	68.4

Attrition Rate	%*	Q3 FY 08	Q2 FY 08	Q1 FY 08	Q4 FY 07	Q3 FY 07	FY 07
		28.3	24.3	19.5	19.5	18.0	17.5

\* These metrics do not include Focus Frame and Caliber Point

\*\* Computed on a trailing 12 months

\*\*\* Excludes head count of Caliber Point