HCL TECHNOLOGIES

THIRD QUARTER - FY 2019 RESULTS

Press Conference Transcript

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C Vijayakumar, President and Chief Executive Officer:

Good evening to all of you and welcome to our Q3 Fiscal'19 results announcement. Let me start with a quick update of our last quarter's performance. I am very happy to share that HCLites delivered an outstanding performance with a strong growth of 5.6% quarter on quarter constant currency growth, and a 13% year on year constant currency growth.

The growth last quarter was across our entire suite of product and services. The industry-leading performance is a great reflection of excellent execution from 132,000 HCLites, with a very strong entrepreneurship DNA, operating from 43 countries. We had strong performance across our Mode 1-2-3 offerings. Mode 1 grew by 3.9% quarter on quarter – of course all of these are constant currency numbers. Mode 2 grew by 13.1% quarter on quarter, and Mode 3 grew 6.2% quarter on quarter.

Our EBIT margins remained in the guided range of 19.6%, 30 basis points below the last quarter. Coming to our segmental performance in terms of our service lines, our Mode 2 business crossed an important milestone of 1.5 billion dollars annual run rate. We continue to see strong acceleration in our digital business, which is really reflected in a double-digit QoQ growth in our Mode 2 segment. Our combined Mode 2 and Mode 3 revenues stands at 29% of our overall revenues. Our Mode 1 business continued show steady growth led by a robust double-digit quarter on quarter growth from our infrastructure services, which is 10.4% sequential quarter on quarter growth and a 16.5% year on year in the Infrastructure Services, followed by our Engineering and R&D Services, which grew 5.1% quarter on quarter, and 17.4% year on year.

The growth momentum was possible due to flawless execution of some of our large transformational deals which have moved into significant execution phase. From the vertical perspective, four of the large verticals delivered more than 20% on a YoY constant currency basis. These are Telecom, Technology & Services, Retail, CPG, and Life Sciences and healthcare –
all of these grow more than 20% year on year. Energy, utility and public services posted a decent 8.1% year on year constant currency growth. Financial services and manufacturing had a muted performance on a year on year basis, which is expected to pick up in 2019. In terms of geographies, all the three geographies delivered double digit year on year growth. Our US business grew 12.9% year on year. Our Europe business has picked up momentum – it has grown 14.5% year on year, and the rest of the world grew 12.1% year on year, excluding our India business.

Most of our growth in the US was from life sciences, retail, CPG, technology and services segment, and telecom, media & entertainment verticals. Moving on to the deal trends this quarter, we once had the highest bookings this quarter, driven by Financial Services, Technology and Services vertical, and Manufacturing vertical. As you would know this is the second quarter in this fiscal where we are recording highest bookings. We brought home 17 transformational deals across service lines, geographies, and verticals, which helped in achieving a record-high booking for the second time in this fiscal. The deal wins augurs very well, and we are confident it will deliver good contribution to our organic growth in the future. Also, as we look at the healthy demand environment for technology offerings in the market today, I believe our investments for the last 10 years in building global delivery centers outside India and nearer clients is really putting us in a very strong position to address the accelerating demand for technology services in some of our largest markets. We today have 134 delivery centers outside India, and 61 of them with capacities of 100+ to some of them over 1000+ people capacity. Of the 61, 23 centers are in US, positioning as very well to service the increasing demand in one of our largest markets. We have also had one of the highest localization rates across the industry and this again helps us to deal with the fluctuating supply and demand scenarios that arise due to economic, geo-political, and other constraints.

Before I close my commentary, I want to update you on the theme of HCL 2030, which we unveiled at World Economic Forum in Davos, last week. HCL 2030 is a platform to really bring the thought leaders, industry experts, clients, and partners together to debate about what is the future of technology, how will it impact businesses in the next 10 years, and really creating an enabling platform to discuss what we call as technology for the next decade, today. It was a roaring success, we had several thought leaders coming into the HCL pavilion at World Economic Forum, very stimulating conversations across artificial intelligence, machine learning, how human and machine-intelligence can come together to create the next wave of growth and differentiated business outcomes and better quality of life that will be enabled. It was really a very encouraging and very stimulating platform where HCL brought together several thought leaders to debate on this point.

In summary, we've executed our Mode 1-2-3 strategy very successfully to create the best mix of products and services, which is quite viable and growing in any economic condition, be it deceleration in economic growth or uptake in economic growth.

I think we have a great mix! Among the tier 1 service providers globally, we believe we have a great mix of products and services to weather the storm. All this is being made possible by unrelenting commitment by our employees whom we call ideapreneurs. They have delivered best in the industry outcomes for us.

With the confidence in the bookings that we have and the demand environment, we feel confident of delivering towards the higher end of our guidance. We had guided for 9.5 % to 11.5% percent. Last quarter, we said we will come around the mid-point of the guided range, but given the outstanding performance this quarter, we are guiding towards the higher end of the guided range.

With this, I will hand will handover to Prateek to take you through the next level of details.

Prateek Aggarwal, Chief Financial Officer:

We have a quarter which is outstanding by all respects, I think. Like CVK already talked about, we have a 13% year on year constant currency growth, which is, you know at a stable 19.6% margin. I would like to draw your attention to a few metrics that I have quoted in my quote, which I want to keep talking about because that is very important metrics which we track. The first one is cash EPS, which is nothing but EPS, but adding back all the non-cash items that are there in the P&L, and that stands at Rs. 82 on an annualized basis for this quarter – Rs. 82 per equity share. And that is a good 11.4% growth year on year on a last 12 months basis. So, calendar year'18 versus calendar year 17, that's a 11.4% increase and standing at Rs. 82 for the last 12 months. Couple of other things, which we want to highlight is the return on equity, which continues to be at 25% plus. And a third metric I want to draw the attention to is return on invested capital, capital that is invested in the business. We are delivering 28.7% return on invested capital.

With that, I'll throw it to Darren.

Darren Oberst, Executive Vice President and Global Head of Corporate Development:

Thank you, Prateek!

So, from Mode 3 point of view, it was a solid quarter, we continued to make good progress, executing on the strategy that we've outlined on the course of the last several quarters. In terms of the product portfolio, our playbook is really underpinned by few common elements. The first is focusing on customer success, the second is sustained focus around modernization and innovation, investing in that in our product portfolio. It's working with a set of IP partners, continuing to partner successfully with them, enabling them to be successful, and enabling their customers to be successful. And, then on the back of these IP partnerships, continuing to make progress in terms of the roll-out of new derivative works that are rolling out across the HCL channels.

This quarter, we are very proud, we rolled out nine new products available to HCL customers. These are new solutions primarily across the DevSecOps area, in testing, in application security, around DevOps. And these are some of the areas that we see tremendous resonance and opportunity to bring new solutions and new value proposition into our customer base, both through selling as individual products, but also combined with services to really bring new solutions and new innovations in an integrated package.

And, finally in terms of the highlight for the quarter that most of you are aware – in December, we announced the definitive signing of 1.8 billion dollar acquisition of seven products from the IBM portfolio. We believe that, this will be a very good foundation if we continue to build upon the strategy in the quarters to come.

Apparao V V, Chief Human Resources Officer:

Welcome and good evening to all of you.

A bit of a narrative on the people front. So, this quarter our net head count has increased by 4,453 people and our attrition on a last 12 months basis has increased by 70 basis point but on a quarter on quarter basis – which is the real metric – we dropped the attrition by 120 basis point. We are continuing our trajectory of coming down on the attrition. So, we hope to end up at the same level as what we were last year by end of this quarter. Our focus on gender diversity has yielded very good results and we will continue to focus on that.

	In the last nine months, we have improved our gender diversity wave of 1% and especially at the leadership level, we have almost doubled our leadership layer in gender, which is a metric we are really proud of and going forward we continue to focus on that. And, coming to the training part, so much growth happening, so many opportunities on the table, we are not going to get skill-set scale at an affordable price, unless otherwise our training engine kicks in. So, this year, this quarter, the quarter that has gone by, we have had 31,000 FTEs trained on generic skills, and 36,000 people are trained on digital skills. And we are not only training them, we are also focusing on how we are able to convert these people into positions and that has shown a dramatic improvement of 20-25%. A 5% improvement over the last quarter. So, we are looking at what is the demand that's on the table, looking at what demand is anticipated, and we are training our people so that we don't have to run into the market for every position that is required. Coming to localization, Vijay briefly mentioned about it. We continue to improve on our localization. We were at 64.7% in US last quarter and this quarter we are at 65.6 %. By far we are the highest in terms of localization among any of our global peers. So, that journey continues and with so many delivery centers that we have started over the last two to three years and our focus on fresh talent and fresh graduate hires, we are trying to hire around two thousand people in the next financial year outside India and around 10 thousand fresh graduates in India. So, there's a huge amount of focus we are putting in terms of localization efforts. And, as briefly mentioned, the team HCL 2030 – a lot of our artificial intelligence, machine learning, and NLP are coming into play, and HR is no exception. In fact we are the first port of call in terms of implementing these technologies. Today, we have automated our talent acquisition pipeline. So, from matching the CV to interviewing or throwing up the offer letter, we have integrated the whole thing in an automated manner. We are going to roll it out globally by March, and finish it by next year in India. So, our focus on automation is one of the highest in terms of how do we reduce the touch points so that people have a good experience. Thank you. I pass it on to Vijay.
C Vijayakumar:	Yes, with that we can take questions from the audience, followed by questions from participants on the phone.
Audience 1:	Hi, Leroy from Cogensys Rest of the world growth rate is around 8.4. You're saying that by excluding India it is 12.1. So, I'm expecting that it's probably negative. So, will this trend become bigger? How do you see the India business from here?
C Vijayakumar:	We have pretty much articulated this over the last couple of years. In India our focus is on only selective areas where we want to do business in. We are not participating in large SI projects. That's really part of our strategy and the numbers reflect our strategy.
Audience 1 (Leroy):	So, what's the decline in Indian business?
C Vijayakumar:	I don't have the exact number. But whatever 8% includes India also and without India it's 12.1. You can calculate the numbers. It's pretty straightforward.
Audience 1 (Leroy):	Okay.
Audience 2:	Hello, Sir! Varun Sood, Mint. Three questions, please. Firstly, can you just share what you see on the demand outlook front? Especially in the US – is the continued shutdown in the US really impacting any of your client budgets? Or any macro-economic slowdown playing down in your client conversations? Any kind of demand commentary for Q4 and for FY20, please? That's the first question, Sir.
C Vijayakumar:	Specifically, we haven't seen any impact of the government shutdown on our business. Couple of areas where we are dependent on the government would be on the visas. We have not seen any delays at all. It's pretty much on track. We have not seen any shutdown impact as such.

	In terms of the overall demand environment, it continues to look very positive, because of two reasons. One is some of the spend which the customers were doing, which may be a couple of years back you could term them as 'discretionary areas of spent' around digital and some new projects. Today it is no longer discretionary. Every CEO whom we meet is emphasizing more and more on the need for them to accelerate their investments in their digital transformation. So, even if there's a slowdown or even if there's a little bit of a downward curve, I do believe a lot of the forward-looking companies will continue to invest in digital transformation and see how new technologies can be used to leverage differentiated business impact and create differentiated business models. However, we keep our eyes open, I mean, of course, because of trade and things like that, in some geographies there could be decline which may impact our customers, but so far I haven't heard anything specific.
Audience 2 (Varun):	The second question being at the start of the year you had guided for at best 11.5 constant currency. Two quarters, like you're saying, you've had excellent order bookings. Can you please quantify what is this kind of order bookings you've had? And (b), if you've really had two quarters of excellent order bookings and what looks like to be a fantastic growth, why are you not really improving upon your guidance? Why after the third quarter also you're retaining that guidance of at best 11.5%?
C Vijayakumar:	So our guidance had a range of nine and a half to 11 and a half. So, that was what was visible at the beginning of the year. Two quarters into the year we said we'll be at the midpoint which was demonstrating the increased booking, reflection of that getting into execution. And today, we are saying that we are moving towards the higher end of our guided range. So, I think all the good booking all of that are getting reflected in this. And we've had two quarters of highest booking in the fiscal. So, which augurs very well for FY20. So, we remain pretty optimist of what we can do in the next year as well as the next quarter.
Prateek Aggarwal:	If I can add, Varun when the June quarter we announced that at that point of time that was the highest ever booking. It does take a quarter or two to flow into the numbers. So, June quarter booking has really flown into the numbers now or at least most of those deals. And therefore, what we are announcing today in terms of bookings and deal wins would probably not come in March quarter, it'd come into the next fiscal.
Audience 2 (Varun):	Thank you, Sir. Can you quantify what's your TCV wins if I have to ask you in a quarter. Because many of your peers do that. So it just helps understand, Sir.
C Vijayakumar:	So, we also used to do that, but we no longer do TCV wins as an overall number. And something more definitive is the guidance. Because all your wins and TCVs all of that should get really translated to execute double action plan which goes into your revenue projections. So, that is why we've been giving guidance for the last three years. And we had only stopped giving specific numbers on booking. However, on a qualitative perspective this is the highest booking which again should be a good reflection of how we are doing in the market.
Audience 2 (Varun):	Sir, last question on infrastructure services. For the longest time, infra was a little wobbly. You've done a double-digit growth. Is the worst behind you, especially with the impact of cloud and the migration from in-house data centers work? Is the worst behind HCL and can we now see a sustained double-digit growth in infra services for the coming quarter?
C Vijayakumar:	I think our overall confidence or optimism on infrastructure services was always there. We had some specific reasons why there was a little bit dip over the last few quarters. And we said towards the first half of this year which was last quarter we said we will have a decent growth, which happened. Now this quarter has been a double-digit quarter-on-quarter growth, year on year 16.5 %. I do believe our growth momentum will continue. Whether it's going to be double digit or single digit, I don't want to comment, I also don't want to comment on a quarter-on-quarter perspective for infrastructure business. Due to the nature of deals it would be lumpy. So the right metric to look at is year-on-year performance and I'd say we're continuing to feel optimistic about the infrastructure business without giving you a number. And when we give the guidance for next year, we will try and give it some dimension. Not now. If there are no questions in the audience, we can take from the participants on the phone.

	Over to you operator.
Operator:	Thank you very much Sir. Ladies and gentlemen, we would now begin with the Question Answer Session on the Audio Bridge. If you would like to ask a question, you may please press * and 1 on your telephone, if you wish to remove yourself from the question queue, you may please press * and 2. Participants are requested to use handsets while asking a question. Participants on the Audio Bridge may please press * and 1 at this time. The First question is from the line Shreeram from Mint, please go ahead.
Caller (Shreeram):	A couple of questions. First one operating profit margin is often debated on a sequential basis. Can you give some cover on that.
Prateek Aggarwal:	Yes, Shreeram. So, operating margin is down about 30 basis points versus last quarter. While there are a number of moving factors, I'd say this is largely driven by some of the wage increments during the quarter. That's the largest impact during this quarter.
Caller (Shreeram):	Okay! Second question even though you don't want to give out specifics. Can you give some color on how has been the deal pipeline and booking compared Y-o-Y basis. Like how same quarter of FY'18 fared and how it fared with Q3 of this quarter.
Prateek Aggarwal:	So, I think that's an excellent question Shreeram. So, one year back in December'17 quarter, we called that quarter out as the highest ever booking quarter, the highest ever quarter of deal wins until we sort of came and reverted two quarters later in June 2018, which then became the next highest quarter. The highest quarter ever! We are happy to announce two quarters again later. So, what I'm painting for you is a period of five quarters with three peaks and you can see where the graph is going. I'll leave it at that.
Caller (Shreeram):	So, would it be like let's say significantly higher than the year-over-year period? Like how do you term it?
C Vijayakumar:	Yeah, that's obvious. If we had two quarters of highest booking, and three out of the last five quarters, even on a YTD basis, the booking would be significantly higher than the prior period.
Caller (Shreeram):	One last question, if you strip out the benefits from the acquisition, how has the organic revenue moved in constant currency term?
Prateek Aggarwal:	So, Shreeram again I'll go back to the guidance we gave at the beginning of the year, when we talked about the midpoint being comprised of roughly 50-50. When we talked to you last quarter, we said slightly less than the 50% of that 10.5. So, let's say a number something like 5% is where the inorganic was coming in because some of the things got delayed, something we anticipated did not happen, etc. So, now when we are saying that we are going to be towards the higher end of the range, say somewhere around 11 and 11.5, inorganic continues to be around that 5%. You can count the balance which is close to 6.5 actually is coming from the organic.
Caller (Shreeram):	Okay Sir. Thank you, very much.
Operator:	Thank you. Reminding the participants on the Audio Bridge if you would like to ask a question, you may please press * and 1 on your touch tone telephone.
C Vijayakumar:	So, thank you operator, and thank you all of you for joining us today. I look forward to interacting with you during the next quarter, which will be the end of the year. We will also talk about the new year.
The Panel:	Thank you very much.

ABOUT HCL TECHNOLOGIES

HCL Technologies (HCL) is a leading global technology company that helps global enterprises re–imagine and transform their businesses through Digital technology transformation. HCL operates out of 44 countries and has consolidated revenues of US$ 8.4 billion, for 12 Months ended 31st December, 2018. HCL focuses on providing an integrated portfolio of services underlined by its Mode 1–2–3 growth strategy. Mode 1 encompasses the core services in the areas of Applications, Infrastructure, BPO and Engineering & R&D services, leveraging DRYiCE™ Autonomics to transform clients' business and IT landscape, making them 'lean' and 'agile'. Mode 2 focuses on experience–centric and outcome–oriented integrated offerings of Digital & Analytics, IoT WoRKS™, Cloud Native Services and Cybersecurity & GRC services to drive business outcomes and enable enterprise digitalization. Mode 3 strategy is ecosystem–driven, creating innovative IP–partnerships to build products and platforms business.

HCL leverages its global network of integrated co-innovation labs and global delivery capabilities to provide holistic multi–service delivery in key industry verticals including Financial Services, Manufacturing, Telecommunications, Media, Publishing, Entertainment, Retail & CPG, Life Sciences & Healthcare, Oil & Gas, Energy & Utilities, Travel, Transportation & Logistics and Government. With 132,328 professionals from diverse nationalities, HCL focuses on creating real value for customers by taking 'Relationships Beyond the Contract'. For more information, please visit www.hcltech.com

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TALK
TO ME

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