“HCL Technologies Limited's Q4 & Annual FY'22 Earnings Conference Call”

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MANAGEMENT: **MR. C. VIJAYAKUMAR – CHIEF EXECUTIVE OFFICER & MANAGING DIRECTOR**
MR. PRATEEK AGGARWAL – CHIEF FINANCIAL OFFICER
MR. APPARAO V V – CHIEF HUMAN RESOURCES OFFICER
MR. SHRIKANTH SHETTY – CHIEF GROWTH OFFICER, AMERICAS, LIFE SCIENCES AND HEALTHCARE INDUSTRIES
MR. ANAND BIRJE – PRESIDENT, DIGITAL BUSINESS SERVICES
MR. ANKIT NAVIN JINDAL – HCL TECHNOLOGIES LIMITED
MR. ASHISH K GUPTA – HCL TECHNOLOGIES LIMITED
MR. JAGDESHWAR GATTU – PRESIDENT, DIGITAL FOUNDATION SERVICES
MR. RAHUL SINGH – PRESIDENT, FINANCIAL SERVICES AND DIGITAL PROCESS OPERATIONS
MS. ROSHNI NADAR MALHOTRA – HCL TECHNOLOGIES LIMITED
MR. VIJAY ANAND GUNTUR – PRESIDENT, ENGINEERING AND R&D SERVICES
MR. SANJAY MENDIRATTA – HEAD, INVESTOR RELATIONS, HCL TECHNOLOGIES LIMITED

Moderator: Ladies and gentlemen, Good day and welcome to the HCL Technologies Q4 and Annual FY'22 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. I now hand the conference over to Mr. Sanjay Mendiratta, Head, Investor Relations. Thank you and over to you, sir.

Sanjay Mendiratta: Thank you, Aman. Good morning and good evening, everyone. A very warm welcome to HCL Tech's Q4 and Annual Fiscal'22 Earnings Call. Trust you all are safe and in good health.

We have with us today, Mr. C. Vijayakumar -- CEO and Managing Director; Prateek Aggarwal -- Chief Financial Officer; Mr. Apparao -- Chief Human Resource Officer along with the senior leadership team to discuss the performance of the company during the quarter followed by the Q&A.

In the course of this call, certain statements that will be made are forward-looking, which involve a number of risks, uncertainties, assumptions and other factors that could cause actual results to differ materially from those in such forward-looking statements. All forward-looking statements made herein are based on information presently available to the management and the company does not undertake to update any forward-looking statements that may be made in the course of this call. In this regard, please do review the Safe Harbor statements in the formal investor release document and all the factors that can cause the difference. Thank you and over to you, CVK.

C. Vijayakumar: Good evening to all of you and I hope all of you are doing well. Thank you for joining us today for this fourth quarter earnings announcement for HCL Technologies. Tomorrow, as all of you know is Earth Day, which really reflects our support for environmental protection. At HCL Technologies, we have pledged to limit our greenhouse gas emissions aligned to a 1.5 deg. pathway by 2030 and to reach net zero by 2040. We've also defined what we call as material dozen commitment, with focus areas aligned to create impact across sustainable development goals. There are many programs underway at HCL Technologies, both to reduce our own environmental footprint and also enable our clients in their sustainability journey.

On a related note, a few weeks ago, we were named Corporate Citizen of the Year 2021 by the Economic Times. This award recognizes and acknowledges companies who are flag bearers of social change, and champions of good governance across ESG goals.

With that important message let me get into our performance. I'm very happy to report that we have delivered yet another stellar quarter in our services business, where the revenue is up 5% quarter-on-quarter and up 17.5% year-on-year in constant currency. If you've been following us over the last three quarters, our services business has been consistently growing organically at more than 5%, delivering one of the highest CQGR in the industry. We posted a strong revenue growth of 12.7% in constant currency for the full year FY'22. Our services business grew 14.9% year-on-year, headlined by our digital application services, engineering services and the cloud transformation services.

I'm also very happy to announce that we've crossed a significant milestone of 200,000 employees, more than 200,000 ideaprenuers across the world, each doing their part and creating value for HCL, for our clients and for the communities we operate in. I want to take a moment and recognize and thank our employees for their unwavering commitment and hard work all through the year.

In Q4, we posted 1.1% sequential and 13.3% year-on-year growth in constant currency, led by a very strong continuing momentum in our services business. Our net income growth 3.7% quarter-on-quarter and 18.3% year-on-year in dollar terms during this quarter. Of course, without the milestone bonus impact of 78.8 million in JFM '21.

Our operating margin performance for this quarter was 17.9% and for full year it was 18.9%, coming in slightly below the low end of our guidance. This dip is largely due to the talent model transformation that we are investing in, which involves large scale fresher hiring, nearshore delivery scale up, and the talent skilling and training investments. We believe that this investment is very timely. What we have been doing over the last three or four quarters, has helped us deliver strong momentum in our services business. And this is also very critical for our medium-term growth. And that is the business rationale, which is driving us to invest in the talent. We're seeing increasing acceptance of offshoring, especially in Europe, due to the secular talent shortage trend and emerging geopolitical risks.

In FY'22, the relevance of our services and very strong client mining has resulted in very impressive client additions; our $100 million clients increased by one, our $50 million clients increased by eight from 35 in the last year to 43 this year. We added 22 $20 million clients, we added 30 $10 million clients, we added 31 $5 million clients and 70 $3 million clients. This addition has been made possible over the focused strategy to work closely with large enterprise IT spenders, specifically in the top rung of a 500 and G2000 Corporations.

We've also done this in a sustainable way, by growing these accounts incrementally with multiple propositions of ours, adding value to client businesses, and not led by a single mega deal. What's most satisfying about the growth last year, is that it's been so secular, and it is it is very strong in the top client category.

On the headcount ramp up, it continues; we made record hiring this fiscal; 39,900 new additions to our family. Our attrition also remains lower than the industry at 21.9% on an LTM basis.

In terms of Segmental and Sectoral performance, our ITBS service delivered an industry-leading growth of 16.2% in constant currency, led by a strong momentum in our application services business, which is very successfully riding the digital wave.

Demand for digital services continues to be very strong, as clients spend on several key transformation initiatives. Some of these include cloud adoption for better resilience, agility and security, modernizing applications for cloud or SaaS for experience and efficiency, data modernization for deep insights from analytics using AI.

And a very important transformation initiative our clients are undergoing is what we call as an "Operating Model Transformation", which is product- led and leverages devops and intelligent automation for increased business agility. We also see investments and initiatives in managing digital risk with continuous security and compliance.

Digital Engineering which is infusing new technologies like 5G, AR, VR, softwarization into every product and services that some of our large product engineering clients are under the transformation path.

And last but not the least, the digital workplace for enhanced employee experience and enabling hybrid workplace.

We are capturing this broad base growth very well. Our growth in this arena is fully organic, which validates the strength and scale of our capabilities in this segment. This is really a result of very thoughtful, organic investments, which we've made over the last few years to enhance our mode 2 capabilities, which is really seeing maximum impact in this buoyant demand environment.

Our Engineering and R&D Services business continues on its steady performance trajectory, with 23.7% year-on-year growth during the quarter, and a 3.9% sequential growth in constant currency. Here, the trends of 5G telecom modernization, industry 4.0, and similar initiatives continue to propel growth in this segment.

Additionally, our recent acquisition of Starschema will strengthen our data engineering capabilities, providing us ability to leverage the solutions and the talent in the European market.

I'm also happy to share we were ranked as Number One Engineering Services Provider for the US in 2021 by Zinnov. We are one of the top global leaders in this space, and that strength is only growing.

On the Products and Platform, it's seasonally a weak quarter for the business. It declined from a quarter-on-quarter perspective as well as from a year-on-year perspective. This business continues to be volatile, and we continue to see good synergies between our services and product business. As we are already seeing clients consuming our products by the strength of all the good innovation and the great support that we've delivered to them over the last couple of years, they're already inviting us to a few of large services opportunities. We're already seeing a 10% contribution to our overall pipeline, which is really emanating from our product client base. We still need to look at this products business as a software startup and hence proactive investments and constant product modernization will continue to remain the driving themes in this business.

In terms of verticals, we saw very strong growth in our telecom vertical, which grew at 6.8% sequentially, and 20.2% year-on-year in constant currency, led by a surge in demand in 5G and telecom modernization programs.

This quarter, we also launched two new 5G applications to help mobile network operators optimize client experience and reduce energy consumption across their 4G and 5G infrastructure.

Our Life Sciences and Healthcare segments grew 18.5% year-on-year and took the second spot in the sectoral growth. Life Sciences and Healthcare industries are experiencing a rapid growth in remote patient monitoring involving devices like DP monitors, sensor patches, pulse oximeters, etc., that are highly regulated.

To meet the rapidly expanding demand for medical device provisioning, HCL Technologies has obtained ISO 13485 certification for our European and US hardware depo operations. This certification on this course our commitment to quality and safe handling of medical devices for our clients, fulfilling one of the critical requirements to provide safe and quality remote patient monitoring and clinical research services.

Our Manufacturing segment grew 16.6% year-on-year in constant currency. This quarter, we launched MVision, a framework to help manufacturing industries transform their traditional business processes into next-generation enterprises by deploying cutting edge solutions that drive innovation and boost cost efficiencies.

We also announced the release of CAMWorks 2022 Software that automates smart manufacturing for CNC programming and is the most advanced CAM Software available in the market.

Our financial services remain steady with a YoY growth of 10.2% in constant currency during this quarter.

Our bookings remain strong cutting across verticals, geographies and service lines. In FY'22, we signed 52 new large deals, including 10 in Q4. Our TCV was at $2.26 billion, which is a growth over the last quarter. On a year-on-year basis, the TCV declined because our Q4 last year was a very, very strong booking quarter.

But what is very heartening is from a year-on-year perspective, our TCV has grown 14%, and given the mix of deals, our ACV has grown 21% year-on-year.

Some of the significant deals I want to highlight that we signed this quarter include a US-based large technology company, who selected us as an end-to-end R&D services partner in recognition of our deep digital engineering capabilities in the domains that our customer wanted us to deliver digital engineering services. As a part of this relationship, we will set up three R&D centers globally outside India.

A Europe-based public sector companies selected us for provisioning and transforming their infrastructure landscape.

A Europe-based manufacturing company signed up with us to accelerate the digital transformation journey underpinned by cloud migration and application modernization.

Also, our European telecom company expanded its partnership with us for managing its cloud operations to accelerate digital transformation and drive meaningful operational efficiencies and achieve cost savings over time.

This quarter, we also expanded our large existing strategic partnerships with Husqvarna and Novo Nordisk, which we had announced recently. Some of these engagements, the growth is a reflection of the strength in our proposition.

And coming to our pipeline, it's very healthy, it got a good mix of large and small deals, while some deals are getting smaller and shorter due to the cloud program, the sizes of deals like ADM deals are up almost 20% over the pre-pandemic deal sizes. The broad market trend for transformation is also noticed in a significant way in our pipeline.

On the pandemic, we continue to monitor COVID-19 pandemic with utmost priority and continue to fully comply with all the government advisories and recommendations. Proactive and continuous monitoring is in place on the new variants and infection trends across geographies in conjunction with medical experts.

Lastly, I also want to call out our HCL Grant Program. This quarter we announced the winning NGOs of the seventh edition of HCL Grant, our flagship CSR program. The winners were Professional Assistance for Development Action (PRADAN) in the Environment and Category. Association for People with Disability in the Health Category, and Language and Learning Foundation in the Education Category.

We remain deeply committed to our goal of nation building and rural transformation through this unique flagship CSR program.

Now coming to outlook for FY'23, we continue to remain confident of the market environment and the relevance of our solutions and services with respect to the emerging needs of our clients. With that confidence, we are guiding for 12% to 14% revenue growth in constant currency. In terms of operating margins, we are guiding 18% to 20% for FY'23 as we see continued need to invest in the talent model transformation to prepare for the next big wave of digital spending in the market.

We are entering FY'23 with optimism and hope to continue to generate significant value to all our stakeholders across the board.

With that, I will request Prateek to dive deeper into some of our financials.

Prateek Aggarwal: Thank you, CVK and hi, everybody. Good evening, good morning. I'll add on some important data points over the commentary that CVK just shared with you. As a first point, you may have noticed that we have moved from US GAAP as the accounting principles that we were reporting so far for the last couple of decades. We have moved to IFRS now and the move has been done such that both the financial year that we see in the publications before you are in the IFRS terms. So both FY'21, the previous year and FY'22, the current year numbers that you see are in IFRS, which by the way is not different from the IND AS statutory numbers that we've been publishing in rupee terms so far. And that has been the starting point right from the beginning of FY'21, which is April 1, 2020, which is the transition date for this move from US GAAP to IFRS. None of the accounting policies has changed. And the past numbers remain substantially the same as IND AS numbers published earlier. So that should not change anything in your historical data base or your models.

The highlight of the quarter obviously is the blistering growth in services business at CQGR of 5.2% in constant currency over the last three consecutive quarters. Services revenue in Q4 grew 17.5%. year-on-year in constant currency, crossing an important milestone of $10 billion in services revenue alone over the last fiscal year. And as you know, most of this has been grown organically over the last two, three years primarily. Within the services business, ITBS has shown strong growth with 5.2% sequentially and 16.2% year-on-year growth, which is a CQGR of five percentage points over the last three consecutive quarters.

ERS or ER&D, as some of you call it, also showed strong momentum with 3.9% sequentially and 23.7% year-on-year growth for the quarter, showing CQGR of 5.9% over the last three consecutive quarters.

P&P on the other hand continue to be volatile. We had an exceptionally good December quarter. But this time P&P revenue degrew 13.9% year-on-year in constant currency. As a result of both these components, the company revenues came in at 2,993, virtually $3 billion for the quarter, which was a growth of 1.1% sequentially and 13.3% on the March quarter last year.

Q4 EBIT came in at 17.9%. EBITDA was higher at 24% for the full year. The 17.9% for the quarter was down 109 basis points, 1.1 percentage point, and on a year-on-year basis was 258 basis points, which as you know, is largely due to the increase in salaries driven by the market factors that we've spoken about earlier as well.

Net income for the quarter was at 15.9% of revenue. And this was higher 48 basis points sequentially, and 97 basis points year-on-year. And as you can see, the components delivering that over and above EBIT was a higher FOREX gain this quarter. And as I talk about that, I would also like to draw your attention to the mark-to-market gains sitting in the balance sheet, which after discounting is at $74 million at the end of March this year. Also, the net income was also helped by the lower effective tax rate for the three months ended March, which is at 16.7%. In Q4, certain, one-time reversals has led to this lower ETR, which helped us improve the net income, profit after tax.

A quick overview of the fiscal year as a total, revenue came in at $11.5 billion, $11,481 million to be precise, and which was a growth of 12.7% in constant currency terms year-on-year. EBIT came in at 18.9%, which was down 258 basis points on a year-on-year basis. Net income again, at a company level for the full year came in at $1.8 billion, which is 15.7% of the revenue base, which is an increase of 3.2% on a year-on-year basis.

The ETR, the effective tax rate for FY'22 finally came in at 20.3%, which was obviously helped by certain favorable judgments and assessments at various points in time at various quarters during the financial year, which has resulted in the lower ETR. When I talk about ETR, going forward, this is an important note for you, as you make your models again. The effective ETR for HCl is going to diverge between what I call the P&L ETR and the cash ETR. One benefit of moving to IFRS is the cash flow shows very clearly in one line item, the cash tax that is paid by the company. And that is the cash ETR that I'm talking about. For us, it is going to be a large difference of four percentage points of PBT and while the P&L is going to show ETR of between 24% to 26%. The cash ETR is going to be four percentage points lower at 20% to 22%.

And the reason for that divergence is because we as a company will continue to pay MAT in India, using up the accumulated MAT that we have in the balance sheet, and you can see it in the balance sheet, it is an amount of $312 million, Rs.2,369 crores. So for the next two to three years, we will see that this divergence between the P&L cost shown in the P&L versus the actual cash payout. And this is a divergence of four percentage points for FY'23. So I do want you to make note of this as this is very important.

The second note that we have given in the accounts and in the investor release is all the year-on-year comparisons that we have done for the March quarter as well as for the full year FY'22. We have taken a higher benchmark in the March quarter last year and in the FY'21 numbers to make the comparisons of this current quarter and this current fiscal year.

There are two specific items. You may remember, we had paid out a special milestone bonus to all our employees in March quarter last year, which was an amount of close to $100 million, $99.8 million to be precise, which is the number that depressed the reported EBITDA and EBIT. And the same number at a net income level, net of tax was $78.8 million, which reduce the net income of March quarter last year and FY'21.

The second item was the one-time deferred tax expense of $165 million, Rs. 1222 crores, which as we had explained last year, which was a completely a non-cash charge, it is a liability sitting in the IND AS and IFRS now, in balance sheet, which is not really payable to anybody, but that is the charge we were forced to take as per whatever accounting guidance that we got.

So we have excluded both these hits in the previous year P&L. And the comparison points that we have taken, whether it is EBITDA, EBIT, or net income of the previous year, we have taken the higher benchmark, the tougher compare, and that is how we have reported these numbers. That's the second important note I wanted to leave behind with you.

Having said all of that, just a quick look also at the margin walk, EBIT walk from the previous quarter to this quarter, from December to March, as you can see, the services margin has improved by 85 basis points. And this is the recovery of the seasonal leave impact that we had in the previous quarter which we talked about in the previous con call and that has been recovered this quarter and that was about 65 basis points and the rest 20 basis points is other operational efficiencies. The gain in the services margin however is offset by the seasonality and the volatility in the P&P part of the business, which has impacted the company EBIT by 178 basis points, resulting into the overall company EBIT margin of 109 basis points reduction on a quarter-to-quarter basis.

Last couple of points. One, on the cash generation. HCL continues to generate solid cash flow. Operating cash flow came in at $735 million for the quarter and free cash flow at $685 million respectively being 155% and 144% of net income. And for the full year FY'22, OCF came in at 2,264 million, $2.26 billion, being 125% of net income and free cash flow came in at $2 billion being 113% of net income. Our balance sheet remains strong with gross cash now at $2.9 billion.

The net income translated to earnings per share for the full year, EPS came in at Rs.49.77, which is 4.4% increase year-on-year. And the board has declared Rs.18 for the quarter, which on top of the Rs.26 per share that had been paid out for the first three quarters, totals up to Rs.44 per share for the full year, and that combine the Rs.44 versus the Rs.49.77, EPS translates to 88.4% of the net income.

Suffice to say that we added net headcount of 11,100 employees this quarter, and there were third-party contractors on top, and during the year, we've added virtually 40,000 people, 10,000 virtually every quarter. That's been a real high for the HR and talent acquisition group

With that, operator, we can go in for Q&A. Thank you very much.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. First question is in the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah: Firstly, thanks for good payout starting with this year and hope this continues going forward. So congratulations. Just the first question in terms of guidance, which is roughly 12% to 14% in constant currency. If I'm not wrong, we may be building a higher growth in the services business versus products and platform. So if you can throw some light in terms of what are we making in terms of different segments?

C. Vijayakumar:: So we've given you a guidance for the whole business and we will stop at that. We are not going to break up services, products, and things like that.

Sandeep Shah: But is it fair to say the growth outlook for products and platform maybe marginally going up or you still believe we do not have too much of visibility entering FY'23 for that segment?

C. Vijayakumar:: As an overall business, we've given you a very clear guidance. It factors in the ups and downs in different parts of the world, different verticals, different segments. So, it's a model based on a number of factors and the pipeline win, the book that we have, all of that. So I cannot add anything more.

Sandeep Shah: Prateek, in terms of the margins, what I'm saying is, last year FY'22, you had 100 bps worth of discretionary spend. Is it fair to assume that may not continue this year plus, generally, we are not making incremental inorganic investment on products and platform, so saving in amortization cost may also continue. So from an exit rate of 18% EBIT margin, is it fair to assume achieving a midpoint of the guidance is not out of reach?

Prateek Aggarwal: I'll kind of repeat what CVK already said. We have given you a range and a range means a range, I'm not going to be more specific within the range. I will add this though that the investments we talked about last year, do continue and there would be probably some incremental spend on that, because we are talking about at least 12 countries- five focus countries and seven new frontiers. So while a lot of what we wanted to do has been done, as that engine matures and starts driving forward, there will be a little bit more. But that is all factored into the guidance that we've given. The discretionary spend you talked about is not going away, it continues. But hopefully, in a few quarters time, it will start delivering the fruit of the investments and start delivering some return on that investment. I leave it there.

Moderator: Our next question is from the line of Kumar Rakesh from BNP Paribas. Please go ahead.

Kumar Rakesh: My first question was in the prepared remarks CVK you talked about that the product and platform segment needs proactive investments. Can you please elaborate what kind of investments we are looking at, it's quantum and by when we are expecting the results of those investments coming around?

C. Vijayakumar:: First of all, whatever investment that we plan to make, that is already part of our margin guidance. The second aspect, I will give you a little more flavor. We have a number of products, there are a few products which we have identified as products where we should invest to create the right acceleration and there are market opportunities. So selectively there will be a few areas. And as we have a large portfolio of products and we invest close to $200 million+ in R&D, we have the flexibility to dial down the investment on some and dial up the investment on others. That's the broad background to that comment.

Kumar Rakesh: This segment over the last couple of years barring FY'22 had seen very strong growth. In the recent quarters, you talked about that this segment is volatile. What essentially is driving that volatility and how do you see you're addressing that from leadership perspective?

C. Vijayakumar:: The software product business is about $1.4 billion in size. The revenue comprises of three components. One, which is the largest components is the subscription and support revenue we get for the products. About 67% of the revenue comes from subscription and support services and about 5% comes from professional services around products, and the remaining comes from product license sales. So our endeavor has been to convert the product license sale which comes in as a lumpy revenue whenever we sell products into a subscription-based service model, and some of the products are also now available as cloud native solutions where customers can deploy these products on the three hyper scaler partnerships that we have. So some of these strategies will play out over a period of time. Our business strategy is to convert more product licenses into more subscription-based revenue models. And this is a transformation most software companies go through when they move from an on-premise to a SaaS model. And we are in the very, very early stages of the journey. And it's a multi-year journey, which will really reduce the volatility in the business and make it more predictable, and it's more subscription-based service model.

Kumar Rakesh: You said that we are in the early part of this journey. So is it fair to say a large part of our revenue in this segment is still coming from the product licensing segment?

C. Vijayakumar:: As I talked about, less than 30% comes from product licenses. 67% or two-thirds comes from subscription and support services and 3% to 5% from professional services.

Moderator: Next question is from the line of Ankur Rudra from JP Morgan. Please go ahead.

Ankur Rudra: Thank you, CVK for the elaborated guidance and also improved payout. Just one quick clarification, was the payout this year one-off, Should investors look any change in your sustainable payout ratios going forward?

C. Vijayakumar:: It's in line with our guidance of minimum of 75% of our net income. We haven't done any acquisitions, we don't intend to do any. So the obvious option was to pay out. As a strategy, capital allocation is a lot more tuned to payout at this point in time. And there is not too much of a CAPEX plan or there isn't any acquisition plan of any reasonable size. So we wanted to make sure we payout as much as we can.

Ankur Rudra: Secondly, if I just look at the overall business especially in the last two years, clearly looks like the case of between products and services. Services seems to be an all-time high and grew on last decade or so. But on products, it's clearly been quite volatile. So given it's been three years since the IBM deal, seems like almost half the period has been surprisingly volatile and the business does not display tangible signs of either sustainable growth or margins. How are you thinking about this now – do you think it's still calling a startup, or are you thinking about rationalizing this going forward?

C. Vijayakumar:: I think it's like any software startup when it has its ups and downs and the fundamental hypothesis of our strategy is to really have market permission to play in the software product space, which is completely established. And the second hypothesis is we are going to get access to a very large client base in especially large clients in different geographies where we don't have presence. Here, in the first three years, we had really not focused on the expansion into the client base. In the last six months, we've definitely turned our attention to what we can do more to the same clients. And we're already seeing good relationships and good delivery of some of the product roadmaps for our clients. We've seen a few RFPs, which we would have never got, because we've been working with these clients, trying to get into their large spend bucket. But we're already seeing us being invited. We've had some wins. But at this point, I see a good pipeline building from the large clients. So, I think this is also going to play out, but that revenue impact will show up in services. And product business itself, we should treat it like a product startup and it will have its ups and downs. The good part of it is two-thirds of the revenue is stable and growing. Less than 30% of this which could be a hugely fluctuating, depending on the quarterly bookings and things like that. As we move forward, we will make this more predictable as we move a lot of on-premises software into a subscription-based model or a SaaS-based model. That journey is in the beginning, like most software companies, this will be a multi-year journey. And we will also start publishing what our subscription revenue is in the coming year, starting from Q1. So your real metric should be how is our subscription revenue growing. I think that's really the baseline for this business.

Ankur Rudra: My broader question also was sounds like it's a very different business than what we thought it was. Given what you've seen over the last three years, should it be within a services organization?

C. Vijayakumar:: Yes, so basically, it's a separate organization that we've set up, we call it as products and platform, we have separate sales channels, the marketing is separated, we have all the corporate functions catering to this in a dedicated way. So, it's really a software startup within a larger services business, which has got enough flexibility and agility that is needed for a software product business. So, at this time we don't see it like something which should be completely a separate entity. I think the current operating model is serving its purpose. We have great collaboration between services and the software, product team, and synergy benefits are at the tip of the iceberg. That's what I would say.

Moderator: Thank you. The next question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: I had two questions. So, one was on the Products business, historically, you have mentioned that 75% of the business is sort of going low-double digit, 25% is sort of declining high-double digit. So, when you sort of overlay that with what you have explained today, how would you visualize this business on a going forward basis, in terms of the pain points that you're trying to tackle? So, just to summarize, do you think that the declining businesses should sort of fizzle away in two years and the growth business really should take over maybe in a year or two? So, that's one. The second is by when do you think the leadership will be in place considering it is a completely different org and the last and final on the services side was typically Q1 has been weaker due to productivity benefits, and so on, so forth. Do you think that trend still continues or there is some change at this point as you see it?

C. Vijayakumar: So, I think the product mix assumptions that we had, and the way we expect it to play out remains the same Nitin. Obviously, there is again, in both the segments, there is a subscription and services revenue, and product license revenue. So, depending on the new product sales, things can fluctuate quite a bit, but as time passes, this should get evened out, as we are really transforming this business model turn from an on-prem, one-time software sale to more of a subscription based and SaaS based solution, that is the response. On the organization structure, we have already implemented a new organization structure, 2-in-a-Box structure, with two HCL senior leaders. One, Rajiv Shesh who's taken over as the Chief Revenue Officer, starting this quarter, and Kalyan Kumar, who has been our CTO has taken over as the Chief Product Officer of this business. So, this is the long-term structure, which we think is going to give the rhythm and the scale of running a large software portfolio, as well as it has the leadership to innovate and to really transform this business from an on-premise to the newer models. So, that structure is already in place and coming to your services, the question on the quarterly trend? Yes, usually there is a certain seasonality in Q1. I think I would expect it to be similar in nature.

Moderator: Thank you. We have our next question from the line of Ravi Menon from Macquarie. Please go ahead.

Ravi Menon: Thank you, gentlemen congratulations on really strong performances on the services side, I have one suggestion, that is, if you could disclose the geography and vertical segments just for services, and maybe separately for products that will help us see the actual impact because when in a quarter like this, where there was revenue decline, it's difficult to make out how this was performed at an individual geography or vertical? You talked about the products being a startup, and just want your sense on, if you were to think about it, all established HCL as you got a license to play. Now, should we think about three to five years of right to win and are we thinking about our own products? Could you talk a little bit about what sort of organic investments are we doing here?

C. Vijayakumar: Yeah, so Ravi, first one good suggestion, we will look at it and come back. Obviously, in a quarter like this, you are not able to figure out which vertical is firing on the services side and which is not. But I think the year-on-year trend should give you a reasonable visibility. In terms of the long term, yes, it is. It is like a startup now. Definitely, we are also bringing together all the software product businesses, which were operating like separate business groups, while HCL Software was the biggest division, we had Actian, we have DRYiCE, we have Industry Software Group. So, in the new structure, all the four business divisions come together under one cohesive 2-in-a-Box structure with the Chief Revenue Officer and Chief Product Officer. We have altogether 60 Plus products in this portfolio. There are 20 products, which we believe have a very strong market momentum, and mindshare, where we will continue to invest and grow that and that will really become the bedrock of our growth moving forward. So, I think that's why I call it as a startup because these 20 products, they have like in AI, machine learning, analytics, like Cloud Data Warehouse, we have Avalanche, which is again a terrific product. We have modernized the commerce product, we have modernized Unica, some of the world's largest companies, fortune 10, three of them use Unica as a marketing automation platform. So, some of this will also migrate to cloud transformed. So, I think it's a transformation journey. For traditional products, we have a very, very defined strategy on how to sustain that we call it as Horizon-1. So, we have a strategy to sustain those products and Horizon-2 is where we see good growth and Horizon-3 are really disruptive ideas, which will get infused into some of the products that we already have. That's how we see it. It's a long term journey and when we've taken a very strategic decision to invest in this, and we have taken some big bets, so we will walk the course. We feel pretty confident of the strategy and the outcomes to mid-to-long term.

Moderator: Thank you. The next question is on the line of Gaurav Rateria from Morgan Stanley, please go ahead.

Gaurav Rateria: Two questions. First, for CVK. On Europe, you're seeing macro to be more volatile than last year. But whereas when we look at your deal flow, a lot of the large deal wins have been announced actually in Europe. So, what are you seeing on the ground in terms of deal pipeline, decision making cycle and conversion trends. Second question is for Prateek in terms of 18% to 20%. ban, what would be the impact of salary hike? Will it be similar to last year and what will be some of the offsets? Will pricing be acting as a tailwind this year? Thank you.

C. Vijayakumar: Yeah, on the deal flows, it seems like it's in proportion to our overall business. Of course, 60% is from North America, or 28%-odd from Europe. I think it's pretty much in proportion. Even my forecast for growth is also fairly secular. Now, maybe it's just coincidental that this quarter we called out four or five deals and three of the four is in Europe but I don't think you should read anything specific. We have pretty strong pipeline in US. We are already looking at a strong booking quarter in AMJ. So, we are really in a good situation from a secular growth.

Prateek Aggarwal: Gaurav just to add on to that one, it could just be a question of which client gives us the permission to announce by name, and which doesn't. So, don't read too much into it. On your other two questions, we have factored in normal kind of increments for now but kept some space. I know question behind your question, which we discussed here in Noida and we met, is related to the higher inflation, which could make it higher than normal kind of increments, but we've kept some space, we'll see what transpires over the space of next one or two quarters. Secondly, on the pricing side, as we have mentioned before, we find customers are receptive to our request for price increases, especially in the Mode-2 kind or Change-the-Business kind of things and which we are reaching out. It does take time to get that down on paper, and then start realizing it in the P&L. So, while those efforts are well and truly underway, it will probably take quite a few quarters to fully come back to us. The wage increments and the costs of hiring and attrition and all of that, obviously come first, whereas the pricing increases when it come later. All of these factors, whether it is increments or pricing are built into the guidance that we've given on the margin side 18% to 20% and that is one reason why it continues to be a wider band.

Moderator: Thank you. Next question is from line of Prashant Kothari from Pictet. Please go ahead.

Prashant Kothari: I just wanted some sense on the margins. I mean, we've seen the margin guidance kind of going up and down in a not a very wide range, but they're still kind of going up and down over years. I just wanted some sense on how you think about that, one in terms of the overall industry in terms of the ability to make margins based on the competitive scenario and secondly, kind of looking internally in terms of our ability to do better than others in terms of our operating efficiencies, how to reflect upon that, where we are today versus where we were like a few years back. Thank you.

C. Vijayakumar: Prashant first of all, our margins have been stable. If you look at the last five years, it's been fairly stable except there has been COVID-induced savings in the last couple of years, which gave us a little bit of spike and in FY22, we made a conscious decision to invest almost 1% of our revenue into some specific areas, which is kind of played out. But FY22 saw a significant talent supply-demand situation, which obviously kind of took the cost structures a little higher.

So, that decline is somewhat in line with the industry, barring that 1% which we consciously invested. Given the current talent supply situation we are already at 17.9%. So, we got it 18% to 20%. We hope to see the margins increase incrementally from here based on all the interventions including rate hikes and whole talent strategy. So, that's really the commentary, and Prateek you want to add anything.

Prateek Aggarwal: Yeah, Prashant. I would also like to bring your attention to the much higher depreciation and amortization charge that we as HCL have, especially if you compare it with some of our larger peers. It is a factor which is 5% plus and if you look at our EBITDA numbers they are not reflective of the EBIT of 18.9%. Our EBITDA is at 24%, which I think is a fairly decent number, it is just that because of the investments that we made in building that products business, that has a significant amortization charge, which you will appreciate is non-cash charge and therefore, the cash flows that I talked about, at the beginning of the call, do reflect the real cash generated by the business of which EBITDA is always a better indicator. So, I would definitely invite your attention to the EBITDA numbers as well.

Prashant Kothari: Sir would you say that our competitiveness or our efficiencies is kind of largely remained the same kind of relative to the peers that we kind of compete against?

C. Vijayakumar: Yes, in fact, our competitiveness has improved because of very stronger application and data modernization and skill sets and the some of the solution accelerators, which are part of that and our digital engineering capability in engineering services, is highly differentiated and we are also the leaders, as we called out earlier, on the Engineering and R&D services. And the biggest proof point for our competitiveness and successes is that in the last three quarters, we delivered 5.2% CQGR in our Services business, which is highest among our peer group. So, which is the real proof point of our success in the market, and the new demand environment.

Moderator: Thank you. Next question is from the line from the Mihir Manohar from Carnelian Asset Management. Please go ahead/

Mihir Manohar: Thanks for taking my question and congratulations on a good set of numbers on the IT services side. My question was specifically on the demand environment. I remember that in last time call there was a greater sense of optimism on the overall demand environment whereas as of now, I am not seeing that sense of optimism. So, just wanted to get into some sensor understanding and how are you seeing the demand environment as of now? Is it still mid-teen kinds of an industry growth being there.

C. Vijayakumar: Yeah, I think from our vantage point, I mean, compared to the commentary in December to now, we feel actually more optimistic, because our pipeline is higher than what it was in December. It's the second highest that we've ever had. Our booking forecast for this quarter is very, very robust. So, demand environment commentary, I would disagree, we are very positive and that really seven or eight big themes which are playing out and if you felt it was less optimistic, let me clarify that we remain more optimistic than what we were in the last quarter.

Moderator: Thank you. Ladies and gentlemen, due to paucity of the time that would be our last question for today. I now hand the conference over to Mr. C. Vijayakumar for closing comments. Thank you and over to you, sir.

C. Vijayakumar: Thank you and we've had a very satisfying year. We started with the double-digit guidance we delivered 12.7% constant currency numbers. Of course, the operating environment from a talent supply perspective was more challenging than what we expected in the beginning of the year. So, we came a little lower on the margins, but as we move forward, as we look at our client relevance, our competitiveness in the market, in the Services business, we feel very positive about the outlook and that's really giving us the confidence and comfort to commit to a guidance of 12% to 14% which is, in our view, a very good outlook based on the demand environment and thank you for your support and I look forward to continuing to interact with all of you. We have an Investor Day coming up in mid-May and we look forward to seeing all of you. We are going to be in person in Mumbai and look forward to seeing as many of you as possible during the Investor Day. And thank you for the time and have a great evening.

Moderator: Thank you. Thank you very much. Ladies and gentlemen on behalf of HCL Technologies Limited that concludes this conference. Thank you all for joining us and you may now disconnect your lines.