"HCL Technologies Limited Q1 2011 Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the HCL Earnings Conference Call. This is Michelle, the moderator for your conference. Please note that for the duration of this presentation all participants' lines will be in the listen-only mode. And this conference is being recorded. After the presentation there will be an opportunity for you to ask questions. Should any need assistance during this conference call, they may signal an operator by entering '*' and then'0' on their touchtone telephone. I now hand the conference over to Mr. Vineet Nayar. Thank you and over to you Mr. Nayar.

Vineet Nayar: Good morning, good afternoon and good evening, ladies and gentlemen. Thank you so much for joining our Q1 call. I am joined with some colleagues of mine. Anant Gupta is the President of Infrastructure, Steve Cardell, President of EAS, Rahul Singh, President of BPO, GH Rao, who heads our Engineering Services, Anil Chanana, our CFO; he is out of town, so he is dialing in, Sandeep Gupta, Deputy CFO.

This quarter has been a fantastic quarter from our point of view. We are exactly where we wanted to be both on revenue and on margins and on cash flows and on hiring and on attrition. From all points to view at HCL, we are extremely happy that we are in this position today. Our revenues are up 9% our margins are down per what we had projected by 300 basis points less exchange about 240 basis points. And the reason for that we will walk through in the detail. But one of the things which I wanted to point out in the current P&L is the increase in SG&A. When I explain how we look at the market you would understand that the 240 bps reduction in margin has come despite 100 bps increase in SG&A and when you correlate them you will understand how HCL is moving and what you can expect form HCL. But overall, we are extremely happy to be in the position we are in from a **P&L** point of view.

The most important factor in any company is growth. Unless there is growth, there are no opportunities to be relevant in mind share and market share and even talent share. The fact that HCL delivered all cylinders firing across all sectors of growth is quite unique in the industry. And I am sure it has not gone unnoticed by most of you. This is the first time after almost ten quarters that we are seeing every single vertical, every single horizontal and every single geography register growth. What you would see is the fact that engineering and enterprise application given the fact that they have grown well in the last two, three quarters, have continued to register growth which is good news for us. The fact that changed the business is coming back with applications registering a 15% sequential growth which is good news. Infrastructure has registered continuous consistent growth and good news is that BPO has also registered growth. The 5.7% which Rahul will explain to you, growth has come from business services, of these services which he is attempting to do.

Across the verticals, we have three verticals which have a double-digit growth and demonstrating consistency and it is good to see financial services coming back to the party. Also on the geography, although the Americas of 2.8% sequential growth may look low, but it is coming on the back of two fantastic quarters by HCL, which is almost 10% and 11%

sequential growth, now it has come down to 2.8% which is not a cause of worry. And I would explain what I am seeing in America in the Q&A session.

It is heartening to see that Europe has come in with a big bang which has led largely back to the continental Europe, RTB spend reduction and the rest of the world has also joined the party with significant amount of wins in Singapore, in Australia, New Zealand and in Japan which is 19.8% sequential growth. So, the point I wanted to make on this is that the growth is broad spectrum growth and all cylinders in HCL are firing and therefore, we find ourselves to be in a fairly good position. When you combine this with the revenue mix across the service lines, you would see that we have an equal distribution across at least the four service lines which are infrastructure custom, engineering, and enterprise applications. And the fact with all cylinders firing on that count with no over dependence on one, we would grow in recession and we would grow out of recession. Same is true with verticals with broad spectrum distribution across multiple verticals with no one single vertical dominating our trajectory; the risks are fairly well-spread in recession and out of recession. And our geographic distribution also with now Europe coming back, our America, Europe and rest of the world is also equally distributed, so that we would see a growth across the line. So, one is across the board growth. The second is the fact that we are increasingly being recognized as market leaders by the leading analysts. The North America Forrester Applications Wave for the first time recognizes HCL as a key application player, which was not done so far. So it is not just growth out of sheer sales brilliance, it is also that the service offering we are offering to customers has now become way superior to most other players in the market space so says Forrester. You will see IBM, Accenture, Infosys and HCL in the leadership quadrant which says a lot about HCL, because this was the weakest services we were offering. Steve Cardell will speak more about the fact that on the SAP market space, IDC has projected us to be the only Indian player along with IBM and Accenture to be in the leadership quadrant. And HCL on the testing and engineering space, and that is one of the reasons I called GH Rao for this conference again is only one of the two vendors who is considered amongst the leader quadrant. So, growth plus independent expert based on customers' surveys are also talking about increasing dominance of HCL in all lines of services. And last quarter we already gave you the results of the Magic Quadrant from Gartner Infrastructure Services, which clearly indicates that we are leaders on all service lines. The way we see the market space and this is very important for me to explain to you is the fact that we went through a slowdown and then we went through robust demand. And I would believe that in the robust demand the companies which grew were largely momentum companies, same line of services, same line of customers, doing the same thing again and again and the momentum made them grow. However, when the delinquent demand came in, thanks to recession, the leadership, the management model, the service model, everything was tested. In this model, HCL demonstrated with 18% growth in FY '09 and 24% growth in FY'10, which brings out the fact that we know our business and would continue growing. And that is what we did because in recession it was very important to increase the share of wallet with existing customers, to defend our existing customers and relationships and to win new business. And if you remember the first part of the recession, which came in the quarter July-August-September'08 and October-November-December'08 was where the maximum demand came in. And I will share those slides in a bit. Now, we are moving into a dynamic demand environment. The reason I call it dynamic demand is because we see North America buying on hope, hope is that they are making strategic investment with higher, hard RoI returns expected then using their cash flow on the balance sheet, but it has got no linkage with the macroeconomic environment we are seeing on the ground. Europe is making investment based on fear, predominantly, because they did not rationalize their costs on RTB as much as US did in the first cycle of recession which is the reason we are seeing a huge uplift of demand coming from Europe now. And Asia, because there is a huge amount of growth coming in Asia, is investing for globalization, because Asian companies want to be in the Fortune list and are investing significantly in Asia and we are seeing significant turnkey deals like the Singapore Stock Exchange. Turnkey deals orininating out of Singapore and Malaysia and the Middle East and the rest of Asia which is very important. The reason I call it dynamic demand is because this is going to continue changing.

If you look at the slide maybe this is what I would want to use this is the pipeline of HCL on the left quadrant you see. The pipeline in HCL hits the maximum in H2 of FY'08. This is the time the recession came in and as soon as the recession came in, as I shared with you, the global companies started outsourcing the RTB spend in a big way. And we suddenly saw the pipeline go dramatically up. If you remember October-November-December '08, was also the biggest quarter HCL registered which was the billion dollar transaction. And that is the reason despite some analysts predicting that HCL will get marginalized, HCL actually grew from strength to strength during recession, predominantly because of the bookings we did in the H2 of FY'08 when the deals were happening. After that the deal flow went down. And we started seeing an increase in deal flow in H1 and the H2 of FY'10 the deal flow is at its peak. We have never seen this level of deal flow in October-November-December, as we see ever before. So, one of the things if you look at the right side the SG&A percentage, we increased our SG&A percentage to get the maximum demand in H2 FY'08 and that is the reason by spending on solutions, by hiring the client partners and spending on aggressive sales, we were able to increase our market share in the H2 FY'08 when the deals were happening. We did exactly the same in H2 of FY'10. As we saw H1, H2 and we could predict that the funnel in H2 is increasing, we upped our SG&A spend and that is how we saw 100 bps increase in SG&A. (**11.17**) because we believe that if there is an opportunity, the opportunity presents itself in the four months of September to December and maybe Jan, Feb where these deals will close and therefore it is very important for us to instead of cutting SG&A and releasing them into margins to close deal flows so that it can protect us just in case the deal flows vanish, as they vanished, after October-November of '08. I am not saying it will vanish, I am saying if they vanish, it is very important for us to focus on bookings in H2 rather than billing in H2.

One of the other factors which is going to be very important and therefore not only did you see us on the SG&A front at 15.4% in July, the September, you will see a further uptake on SG&A and we will take it to about 16% in October-November-December, before it starts moving down.

On the people strategy, we anticipated that the demand is going to come back. And we predicted that the growth which we are going to see in FY'11 and FY'12 is going to be far more than what we saw in FY'09 & FY'10. And therefore, talent availability was a critical success factor especially because not much has been invested and not many freshers have been recruited which will be ready to come into middle management band. And therefore as a defensive strategy, we proactively increased our compensation on 1st of July and I think that was the right decision because others followed later and also we were able to lower our rate of attrition compared to some of the other companies who suffered a higher attrition. We aggressively also launched an outreach program called 'Directions' and met all the employees which I initiate and I try and meet 100% of the 70,000 employees across the world.

We also saw an opportunity of doing lateral hires, because there was a salary difference between what we had anticipated we would hire in April, we offered in July and we still had a competitive advantage till September and now everybody is offering about the similar salary. And we took that opportunity to hire 6,400 net laterals in six months despite the fact we did not need them. And that reduced our utilization by 600 basis points while I truly believe that it is a strategic asset we have of 6,400 net laterals inside the company and we can now push the utilization up rather than outside the company where we would have to pay a higher amount to hire them.

On the business acquisition side, there is 13% Q-on-Q growth between **JAS &AMJ** on sales headcount. And therefore, most of the SG&A increase is coming out of investments in sales. 52% of the sales are going into emerging geographies in emerging verticals. Continental Europe, South Africa, Middle East. And the return on this 52% is not going to come immediately, although continental Europe there is a very large chunk of deals coming in and so same is true in South Africa, but it is the return on investment on this is a longer-term but we are still making this investment because it is again of a very strategic nature.

We have also formed a new business incubator unit called EBI. EBI is an incubation unit which is going to incubate five new ideas exactly the way we incubated in Comnet and we are making investments in that area so that we are ahead of the curve on cloud computing, on mobility and Anant is going to talk more about that. So with that understood I would now ask Anant to talk you through the infrastructure services.

Anant Gupta: Good day to everybody. With respect to infrastructure services as you all know we grew about 60% last fiscal and this quarter's performance was really roughly about 9% Q-o-Q and about 46% Y-o-Y. Net additions for the business were about 980 people, which takes the head count to the 13,200 and largely the focus has been to the kind of be ready for the demand and I will touch upon why we are doing that. So, if you look at the demand environment, we really have two different kinds of markets. One, which is leading on technology integration and outsourcing because of the growth that the business are seeing in these market and the second bucket where they are looking at optimization of their RTB spend as Vineet mentioned and using the dollars in there, the savings from there to invest back into CTB programs. So, the technology integration services, we have seen significant traction in all the markets where we have invested west Asia, South Africa, Hong Kong, India, Singapore, in the APAC region and Brazil and the Latin America region. Europe and US continues to show traction for transformational outsourcing something which we have been leaders for and this is actually largely being fuelled by the churn in the contract renewals, as we know there is a very large market for the outsourcing contracts to be renewed and really the businesses actually moving from Vendor A to HCL and excluding which is fuelling the growth rather than the market itself increasing. The second point about the deals getting more complex and therefore the shorter windows for delivering quick wins to the business actually means that the transition times are becoming shorter, readiness of people to take over, the exit transition from incumbent vendors means that we have to have senior resources who are ready on the tap available in different geographies to take over these contracts.

If you look at some of the growth drivers it really comes back to what we are trying to do is having a balanced growth trajectory between both CTB business within infrastructure which is around the system integration life cycle management and the matured models around the transformational outsourcing. So we are kind of balancing both these so that we are able to cater to the different dynamic market demand which is the way we are seeing the futures open up. If you look at our cloud assessment services, in the previous quarter, we had shared that we are engaged in about 12 programs. We continue to see this as a very strong driver, which is in the phase of consolidation, virtualization and capacity on demand, which is really driving large global 500 companies to create private cloud infrastructure and the platforms within their organizations. The other key driver which is fueling our growth is in the managed services model for large companies having offshore and near shore capitals; this again we are seeing is a very big driver which is actually fueling growth for some of the large firms.

If we look at some of the value proposition and really the testimony in the value proposition is when an external environment awards to our customers. The InformationWeek actually awarded six of our customers with 'ValueHonors' award, this is amongst the 15 awards given globally, four of them being Cummins, Skandia, Teradyne and Xerox and the basic genesis of the award really is the value the internal IT organization has delivered to the business within the companies, so we are very proud to be supporting the IT organizations of these companies and actually delivering value to their business.

The other key point is we actually launched two new propositions which are around some key disruptions. One is around the smart grid space and the second around mobility. And both these are really new service lines we believe will be a good growth strategy going forward.

Coming to the point which Vineet mentioned about the ecosystem and business incubation, just trying to lay down – it is a recently formed organization and really the objective over here is to be able to identify disruptive ideas ahead of time and therefore invest in building those propositions and solutions. And obviously, some of the characteristics of these propositions are where multiple horizontals, verticals and technology stacks provide and create an entire solutions stack. That's where we see the market shaping up as we go into the next five years at least and therefore instead of looking at services purely on the horizontal, vertical basis, we believe it will be propositions around a full stack. And some of this will obviously need deep partnership management because these stacks will not be purely service-oriented stacks but will involve technology solutions from OEM vendors globally.

Some points on the operating model. It is really a corporate funded initiative which provides the investment, the oversight and the end to end incubation before we believe that the specific opportunity is right for a mass ramp up. So till such time the EBI would be nurturing the specific proposition and we believe that the proposition is showing trend for massive ramp up, we would then obviously align it to one of the horizontal, vertical or the geography strategy which we already have. The objective also is to focus on only a few ideas which have the characteristics of blue ocean proposition and which have a size and scale which we believe is reasonable to justify the scale advantage.

Some of the focus areas really are around the global delivery model is around disruptive technologies and strategic partnerships like I mentioned. We have created a pool of $50 million to invest in these initiatives. And I guess some of the key enabling success factors we believe for this organization would be is if you look at some of the experiences we have in creating the line in the infrastructure services or Comnet or the enterprise transformational services that we have which would have witnessed a significant growth in the last three years.

The other key aspect is really that the challenge one really sees in creating new business ideas is how do we get business ideas which are big and impactful not to get bogged down by the Q-o-Q objectives, but really focusing on getting them incubated which has a strong value proposition And then once we believe that the market is ripe for that we then move it into a more disciplined scale up operating model.

Vineet Nayar: Okay. We move over to Steve on the enterprise application side. Steve over to you

Steve Cardell:: Thanks, Vineet. Just to run through enterprise application. So we were pleased again with our financial performance this quarter. We posted a 6.3% quarter-on-quarter growth coming of the back of a very strong quarter last quarter, giving us around 20% growth over the past six months. What has been interesting for us is to observe some quiet distinct trends in the market about where that growth is coming from and where we see future growth in our pipeline. If I just talk about the quarter that has gone from a technology perspective, we saw the strongest growth coming out of our SAP practice followed by Oracle and followed by Microsoft that is the trend that we see changes going on and I will talk about that in a moment. So, we saw particular differences across our markets. Though, revenue growth in the Americas was very focused in particular areas in particular industries. So, we saw demand for maintenance and asset management in the oil and gas space. We saw demand for smart grid and **merger & acquisition in the** utilities market. We saw a lot of customer in CRM demand in healthcare life sciences and we saw a lot of global supply chain demand in manufacturing consumer. So, within the Americas market, while we saw overall, demand environment there we would particularly focused around certain propositions and certain markets. If we then turn our attention to Europe, what we found was, as Vineet has already mentioned, was a strong demand quarter is almost exclusively in enterprise applications that related to cost and consolidation projects. So, I think many companies in Europe were behind the American firms that earlier in the downturn in putting in consolidation and cost platform initiatives and we are seeing a demand in that. And we are now also starting to see the first signals of what European customers are actually going to do around their austerity program. And that is starting to filter through into both some threats and some opportunities for us. But we are starting to see demand materialize in that area. We were very active from marketplace point of view as Vineet mentioned in his introduction. IDC has just released for the first time for them, their assessment of SAP market and HCL was ranked number three behind only IBM and Accenture and good way clear of all of our traditional competitors in that market. So that we thought it was a good point for us to pause and recognize the progresses we made from the marketplace perspective of the capabilities, which HCL has within the SAP market. And a very important for us moving forward, we took a platinum position at Oracle world, which took place last month. That is the key note position in the year for us to lay out our strategy and our plans in the Oracle marketplace. And we picked very strong traction through that event and the interactions we had. And we have seen a very good building of the Oracle pipelines that we have and we believe that we will see a very strong growth coming out of that segment and also the Oracle has bought some strong products in to the market over the last six months which is starting to filter through I think into the benefit for the **SI** market. We continue to make moves in the market with SAP and our product division. We have released the latest version of **IMRO now and** we have nine customers signed up to the MRO product set and two, development sitting closely behind that by line for linear asset management and iCrew which is scheduling of airlines and rail road's. Both of them have signed their first customer and we have a good pipeline of customers sitting in the high map. Again, as we mentioned, Asia Pacific is what we see and we call true demand so, very much focus on the larger companies across the Asia Pacific market, looking to put in place platforms that will make them competitive on the global stage and we see almost an equal business between SAP and Oracle in the Asia Pacific markets. Some good deals signed in this quarter, but also some strong pipeline moving forward.

So, a good demand environment, but very mixed in where the demand is coming from and for us moving forward to this next quarter and beyond focus and focusing ourselves of our marketing effort and product development project in the right sectors will be very important for us.

Vineet Nayar: Thank you, Steve. We will go to Rahul to talk about the Business Services.

Rahul Singh: Yeah. Thanks, Vineet. Good day to everybody. I think after many quarters, I think four quarters there the BPO division was showing negative growth. We registered a growth of 5.7% this quarter and I think to a large extent that reflects a turn around which we had spoken about last quarter which we want to see in our business services BPO growth and I think that has been reflected now in the revenue growth that we are seeing in this quarter. The good part about the revenue growth is that it is coming off deals which we are entering into and winning which are more transformational in nature, I think we are also seeing deal wins in verticals which the earlier BPO was not so strong in; for example, the earlier BPO was largely evolving around telecom and insurance services. We have now seen wins in BPO coming in areas such as financial services, banks, -- in the MPE area and logistics area, we have seen increase in verticals from where the BPO deals are coming through. Plus the deals are more transformational in nature. So I think we have focused specifically in the BPO to convert the model from pure listening-ship, voice-based model to more transformational led model where we look at higher levels of productivity, where we look at bundling technology into offerings to the customer, where we are looking at being able to offer services across geographies so we do multi geography deals with customers and also the size of deals significantly larger than what we were doing in the past. The combination of the change of the business profile has resulted in a growth of this quarter revenue. And more importantly, it also has come at a time where we were continuously investing for people and also focusing at the same time on improving the operating effeciency. For example, we were focusing on improving attrition rate of the company. As you can see in the IR Release, the attrition levels have come down from 11% a quarter to 6.4% a quarter over the last six months, which itself reflects that we are now hiring the right kind of people, focusing on the right kind of models for customers and that is being seen by the employees who are in turn are reciprocating by increased tenures with our organization. I think so the growth coming along with improvements in attrition, improvements in utilization has resulted in gross margin improvement as well. This quarter saw a leap of 550 basis points as the gross margin for BPO business. We are continuously investing for the future. We do see the same kind of improvements in the business environment; Vineet spoke about on an overall basis. And in line with our transformational lead BPO the business services environment that we want to create more value for the customers, we are investing in **SG&A**, we are looking at higher levels of competency in our solutions people in the **practices** that we have and in capabilities. We have invested specifically in SG&A this quarter as a result of which we had a larger amount **of** SG&A spent in this quarter. But I am confident that as the business momentum picks up and as some of the revenues from the deal wins kick in I think our SG&A spends can go back to regular levels, with a normalcy in the industry. So, all in all, it has been a good quarter. It has been a transformational quarter for BPO division at HCL as the early signs of that have been seen by us. However, I must mention here that we are on a transformational agenda. The agenda will continue to last for another five quarters. We have seen overall negative EBIT, although we did see growth of the overall EBIT is negative all though the margins are improving but still negative. That trend will continue as we continue to invest in the business but at the same time, the top line growth is reflective of change and improvement as a strategy. And as I said, more importantly, its improvement in the quality of the revenues that is coming through, it is coming across multiple verticals, it is coming across multiple service lines, it is more business services based which means that it is more transactional base rather than voice-based work done earlier and also the models are very more collaborative from customers perspective. So we are getting into pricing models which are more aggressive which are more led by productivity, more led by transformational **pricing.** So, all in all, I think this quarter does reflect a turn around on the BPO side for HCL. I like to hand over to GH Rao.

GH Rao: Good day everybody. Today, engineering and R&D services constitute 19% of the overall HCL Techs revenue. In the last quarter we grew about 28% which is consistent with overall companies' growth. And on quarter-on-quarter basis, we grew 4% on the backdrop of preceding two quarters where we grew double-digit over 10%. I will spend some time on the growth divers where the growth is coming from. There are two aspects of growth. One is which geographies are giving us growth and the second is which market segments.

So, if I were to zoom on to geographies, I think we have started seeing good traction from Japan compared to our earlier quarters, now the growth in Japan has been higher this quarter. We continue to see growth from US where we are seeing the growth mostly from a discretionary spend on new technology areas. There are two major areas where we see growth. One is led by the churn in consumer electronics where things like mobility, SAAS or android are driving the growth, which in turn is driving the growth in semiconductor industry both in design as well as manufacturing. The second growth is coming from the enterprise GAAP which is again going through a lot of re-engineering because of the inflexions in that space because of cloud enablement, so which requires the enterprise grade to be redesigned. Overall, we do see good trend in demand environment, engineering and R&D services has shown good growth and there is a potential to grow to much higher levels in the next ten years. The long-term growth outlook is pretty good. And last quarter, we did get good recognitions from our customers, some of the customers have given us leading suppliers awards and also we did release a few solutions to the markets especially in the cloud enablement area, we have pursued this release with SaaS enablement in the form of a product called AGORA now we are following that with a product called **NIMBO.** So, overall, we continue to invest in solutions to the market and this has been recognized by the industry analysts like IDC who have rated us as leaders in the product engineering testing.

Vineet Nayar: So I hope by that you have got good sense of what is happening in the business lines. So, over to you, Anil on walking us through the financials please.

Anil Chanana: Sure. Good evening, good day, everybody. So, first I am going to walk you through the quarter-on-quarter **BPS movement**.

Revenue:

There was a 9% increase which was led by volume increase of 7.4%, this is coming on top of a double-digit growth which we have recorded last quarter. The exchange rates primarily the European currencies gave us a push of 1.6%.

EBIT BPS Analysis:

We saw a negative 244 bps impact on the EIT margins which includes positive 52 bps of exchange impact. Outside the exchange there was a negative impact of 292 basis points, largely on account of increase in salaries.. As we had guided there was close to 300 bps negative impact on account of salaries. As Vineet & my other colleagues mentioned there has been a surge in the SG&A driven by investments in new service offerings, new and solutioning. This contributed to 33 bps of the decline. **Overall** utilization has come down over the last two quarters by 600 basis points, impacting the EBIT margins by 20 bps QoQ. In fact, in the last two quarters we have added 12,000 people net-net which **is almost** 20% of our workforce.

Coming to the Year on Year BPS basis, I have broken it up in a couple of parts. So let me first explain the revenue and then come to the EBIT side.

Revenue

The revenue increase in volume terms is 28.5% year-on-year and the exchange **marginally took away** 1% primarily the European currency.

EBIT BPS Analysis

Dropped from 18% to 12.9% i.e. 510 basis points. IT services contributed 383 bps and BPO contributed 132 bps to the drop.

Out of 383 bps from IT services, exchange accounted for almost half of it by 184 bps. Outside the exchange it decline was to the tune of 199 bps contributed by 370 bps due to salary increase, 131 bps due to lower utilization, with positive tailwinds from operating efficiencies of 205 bps, change in amortization of 62 bps and decrease in SG&A of 37 bps..

Now I will talk about the picture how it looks like on the net income basis where we are. The Net Income margin for JAS'09 was at 10.6% which was at 10.0% in AMJ'10 and at 8.9% this quarter., Primarily if you look at the quarter-on-quarter movement the drop is driven by increase in tax rate which is about 150 basis points. We have reduced our finance charge, it is zero rather, which has given us a benefit of 62 basis points The hedge losses has significantly reduced and this was quarter it gave a benefit of close to 223 bps at a net level. So net-net we lost only 100 basis points. And I gave you the reasons why we lost more because of the salary increase which took place this quarter and the investments which are taking place on the sales and solutions side.

If you look at year-on-year basis, again, it is 170 basis points impact, contributed by positive tailwind of 320 bps from lower hedge losses and increase in other income. Thus the decline in the Net Margin from a YoY perspective was primariliy flowing from the reasons already discussed at the EBIT level.

Let us go to the next slide. So, how our top 5, 10 and 20 customers are are doing. In all the three buckets the growth has been same or in line with the growth of the company.

One of the interesting picture is the cash flow from operations. We took an analysis since 2003 to 2010 and looked at the proportion of Net Income that got converted to Cash Flow from operations. The analysis shows that the proportion ranges from a minimum of 72% and a maximum of 155%. And if you look at on a two-year rolling basis, it is close to 100%. Basically, this explains we had been converting the whole of the net income we generate into cash into operational cash for us. There could be quarterly variations and I am going to explain what happened this quarter and that is why the figure looks very low. It is nothing unreal and we have see this phenomenon in the past as well.

I am taking you to the next slide, so we will start with the net income of US$ 71.7 million and when we look at the cash generated by operations, it is at US$ 9.9 million. So, what has taken away this 50 million from here? If you look at one of the adjustments which is there which is 21.3 million impact, it has two elements. One is the unrealized exchange gain and FOREX borrowings. We are going to come to the exchange gain/loss slide in sometime from now. There was steep movement in dollar/rupee exchange rate during this quarter. Since we had foreign currency loan, it provided as the cushion in terms of losses on restatement of assets. So we had a natural hedge here.

Let me explain the Other Assets line item totaling USD 21.3 mn. There has been an increase in the deferred tax, which got created in this quarter and this varies from each quarter-to-quarter. The deferred tax assets reason was because of payment of MAT, which is in excess of the normal provisions.

Looking at the accounts receivable and unbilled receivable, you would see that we have reduced our receivable number of days this quarter. The unbilled receivables have gone up which is nothing unusual, which is a typical range we have in operation within 16 to 19 days. This quarter was 19 days so it is nothing unusual. The growth is in line with the growth in the revenue which has taken place this quarter.

Now let me move to Other assets of 43.8 million. This has couple of element; like we have taken some more premises on lease, since we are expanding, and the advances incidental to that. Additionally there are prepaid expenses in respect of software annual license fee payment. So you make these payments in the first quarter of the year and typically they run down over the quarters as they get charged off to P&L over the year. The third component is a very interesting element. We are in the process of executing some turnkey projects in smart grid for power industry and here we are partly making payment. We are incurring those expenditures for the project, and we are yet to bill to the customer and the customer is making payment in terms of the contract. There are corresponding liabilities matching these on the balance sheet.

I need not explain the other line item relating to the purchase of property equipment which is $37 million and is in line with what you would have seen between 26 million to 36 million which were to get incurred. Sale of investments is nothing but a treasury activity where we sort of a book in and take out money from mutual fund units, monies have gone into other term deposits and body corporate. Essentially if you look at the way we anticipate our working capital cycle and if you look at our Net conversion to Operating Cash Flow for the last seven years on a two-year rolling basis ,we had been in the range of about 100% and we believe we will continue to be in the range of 100%. So we will be converting 100% of our net income into operating cash flows on a two-year rolling basis.

I talked about bills receivables and the significant improvement in bill receivables so DSO has come down from 66 days to 61 days. I also talked about the unbilled receivables which is typically in the range of 16 to 19 days, it has come down significantly in June 2010 quarter. This quarter it has again increased, essentially because a couple of elements, one is the fixed price project where the revenue accounting is based on the efforts plus the milestone and two is when the customer sign-off is yet awaited. So it is more of a timing issue which is associated with our billing process. So the kind of growth which infrastructure services **posted** this quarter and growth that the application development is registering, this is very natural. For DSO where we have billed our customers, we have accelerated the invoicing cycle and hence, the DSO number has come down, We believe this is a very good and we are satisfied with a lower DSO.

I now go to the funds position, which is almost constant except for the exchange rate. If you look on the left hand side we were at $537 million as of 30th of June **2010.** We are $537 million as of end of September 2010, we had $574 million of loans and most of those are long-term in nature except something like $100 million, so USD 477 million are long term loans and there is a repayment schedule there as well. In terms of income and finance cost, we are neck to neck. So the cash position is fairly comfortable at $537 million and there is no urgency to pay off the loan because the business is generating lot of cash and on top of it we are seeing the foreign currency loan is also providing a natural hedge .This is important in terms of currency movement, dollar/rupee movement which has **happened this** quarter.

Coming to the hedge details so, we have about $300 million of hedges. I have given the books rates as well .We have started booking hedges and this $300 Mn includes $150 Mn of past hedges which were taken for something like three years and the $150 million of new hedges which have been taken in this quarter . So we are increasing the hedging. Our hedges currently cover us as far as for two quarter of inflows which is within the hedge for receivables and mandated by the board . In terms of hedge mix, we have taken $250 Mn mostly for dollar/rupee hedges and then there are cross currency hedges which are there as well. We increasingly use the range options , less of put options because of the very high cost involved. We are judiciously using this mix between these three.

Now let me talk about the Forex loss. We projected at this level so it is almost the same this quarter because it was only towards at the end of the quarter that the rupee appreciated significantly particularly in the last month. If you look at mark-to-market accounting, we have got an impact of $2 million, we had benefit here. In terms of restatement of foreign currency assets and liabilities, we lost on the foreign currency asset that have gained, so net-net impact was half of what it used to be in that May-June quarter .So we are at $14.2 million. So what is left of now for future? If you look at the schedule, there is $3 million which is to come in the next two quarters, $2.4 million in October to December quarter but this is done at the quarter end rate which is 45.70 as on 30th of September. And then there is a small gain which is estimated in April to June and July to September. So in terms of hedge period we hedged up to one year and what we do not hedge beyond one quarter of our net inflows

I now take you to the next slide, for tax provisioning. It is in line with what we guided that we will be at 20% and this is likely to be the range, this is likely to be the percentage till March 2011 beyond which it will go to 25%. In fiscal 2011 things will be so fiscal 2011 will be a 22%. And going forward we will be at 24%. So we have factored in the draft tax code clauses.

This is the 31st consecutive quarterly dividend distribution and we have, if you look at the slide we have distributed close to 60% of our net income in the past. However in the last for about six quarters we reduced the dividend to Rs. 1 per share. This was after we took the loan to finance the Axon acquisition and we had the hedge losses, but now with the hedge losses behind us and we are in a very comfortable cash position and we decided to again step up the dividend from Rs. 1.00 per share to Rs. 1.50 paisa per share for the July to September 2010 quarter.

In terms of Deferred revenues and deferred cost, there is not a significant movement this quarter. There is a very marginal movement which has taken place in terms of fixed contract or transition, or multiple deliveries element so the items come in and go out of it very regularly.

If you look at stock options this quarter, we granted $1.25 million stock options which constitute 0.7% of the share capital. And the stock options outstanding today are 5% of total equity capital. Of these, 3% are at par and 2% of them are at market price and we have given the charge quarter-on-quarter . We have also given the break-up thereof at the direct cost level and at SG&A level. So this is all I had to say. Thank you.

Vineet Nayar Thank you. Please open this to Q&A. I just wanted to make a quick comment before Anil says that our guidance continues to be the same that in October, November, December on constant currency basis, our margins will be the same as the July, August, September margins so there would be no further dilution of margins in October, November, December, even despite a 60 bps increase in SG&A. Our guidance for April, May, June of the fact that we would be on constant currency basis same as April, May, June ’10 remains intact. Our guidance on constant currency basis of 250 basis points overall reduction in FY’11 remains intact. So all the guidance we had given in the past on constant currency basis remains intact. Thank you operator. Please open this for Q&A.

Moderator: Thank you very much. Ladies and gentleman we will now begin the Q&A session. Our first question is from the line of Vihang Naik of MF Global. Please go ahead.

Vihang Naik: Hi, congrats on a great quarter. My first question is we have talked about the utilization dip over the last two quarters of about 610 basis points. What is the outlook hereon and I do not want a specific number in terms of employee additions, but how are we looking at? We had said that we had hired employees before despite not needing them earlier so that we could have them when growth comes in, so what is the outlook on those two counts?

Vineet Nayar I think what would happen is that we would believe that in OND the hiring of laterals would be lesser than the hiring of laterals in the previous quarter. And therefore we will use the laterals on hand. The only two levers that we have to get the utilization up for April, May, June quarter is as follows: One is expansion in utilization,, and two reduction in the SG&A as a percentage of revenues.. So we will use both levers to get the April, May, June neutrality, which we have talked about.

Vihang Naik: Okay, great and secondly we have seen some of your peers as well as you showing unexpectedly good growth in Europe. I know you have been speaking that the continental discretionary spend is quite good. Can you just elaborate on what is happening in Europe and your outlook from hereon?

Anant Gupta: From a RTB perspective, as Vineet had also mentioned earlier, the trend we are seeing is they were late in optimization of their spend while most firms in Americas they actually took the recession as an opportunityto optimize their RTB spend. We are actually seeing Europe now following that trend. So that's one specific thing. And the second point is I think Steve alluded to, which is really around the consolidation and simplification exercise, which lot of large European manufacturing firms are doing now, which is on the CTB side.

Vihang Naik: Okay, great, that is it from me, thanks.

Moderator: Thank you Mr. Naik. Our next question is from the line of Yogesh Aggarwal of HSBC. Please go ahead.

Yogesh Aggarwal: Yeah, hi, good evening. I have just a couple of questions if I may. Anant, you talked about some cloud assessment services and an investment of $50 million for incubation so can you just elaborate a little bit on that, how big are these cloud assessment services project? And if the $50 million over what time period you are looking to invest that? (59:57)

Anand Gupta: So the first point is, that these two points are different. The investment aspect of the amount is on the eco-system and business incubation that is very different from the cloud assessment services which is realigned now and what we have already been doing for the last couple of years. So, focusing on the could assessment services and if you really see what really that is, our target market is really the enterprise customers and you know we really do not believe that the public cloud would be of significant importance for a while and the firms are large enough to be able to optimize their internal investments in to a model which is based on a cloud model which is what we call a private cloud. So, obviously we have been on that journey and that is a four step journey and it starts with standardization, consolidation, virtualization and then capacity on demand to the internal business and that is what we have seen significant amount of scope. From a size perspective, these are largely assessment services and then they are followed through with implementation and then a new operating model to operate the new environment. So, it will follow in different stages.

Vineet Nayar: On the $50 million, I would answer that, so EBI has already been formed and it has been funded out of our SG&A right now and I believe it will continue to be funded out of our SG&A and there is no need for us to advice you on any margin dilution because of EBI. The $50 million is that they we would need to invest in acquisitions, in case they see technology companies or need to invest in some licenses or whatever it is and whenever that happens, it will be funded out of their business growth. I do not see any opportunities of margin dilution because of the EBI. I only see a significant opportunity of margin increase because of new services of EBI, but that will kick in only in the later years.

Yogesh Aggarwal: A quick one for Steve this iMRO platform is it just the software licensing part or there are services and business process services around it?

Vineet Nayar: Let me answer on the iMRO question. So iMRO is a product which we have developed which is for the airline industry and what it does is that the 12 projects, which we have done which helps them manage the inventory of the airline industry, so we sell it as a product, we sell it as a license and we sell it as an implementation. So it is a product on top of SAP, it is on the SAP price list also and either SAP sells it or we sell it and we also get the implementation revenue for the same. So it is a higher margin business than a typical SAP business and that is what we are also developing iLine and iCrew which is crew management business and I think train and vehicle management business, again a solution on top of SAP which goes into an SAP price list and we get the implementation revenue and the license revenue for our product.

Moderator: Our next question is from the line of Ashwin Mehta of Nomura.

Ashwin Mehta: I just wanted to get a sense in terms of the 14 large deals that we have signed what would be the TCB of these deals?

Vineet Nayar: We have stopped releasing the TCB of deals some quarters back because we were winning the disproportionate share of the deals and that is what we will continue as a practice.

Ashwin Mehta: Secondly, in terms of our SG&A investments we have seen almost a 27 million incremental investment over the last 2 quarters and given that we are further wanting to increase that, that would translate to somewhere around a 40 million incremental investment over the last three quarters, so where exactly is this investment being made?

Vineet Nayar: I think I gave the details to you that 52% of this investment is going into emerging verticals and emerging geographies and there is a sequential growth of 13% on onsite headcount, so it is largely going into those and it is going to fund the EBI units, the SG&A to fund the EBI unit. There are the three areas where the SG&A is going up plus there is salary increase in SG&A also.

Ashwin Mehta: Okay, thanks a lot.

Moderator: Thank you. Our next question is from the line of Anthony Miller of TechMarketView. Please go ahead.

Anthony Miller: A couple of questions please, one on the Liberata financial services and other one on BPO. Firstly on Liberata, can you just give bring us up to date please with the status there in particular whether you won any new logos, whether you have lost any clients and what the outlook is for that business?

Rahul Singh: As we mentioned, I think in the last quarter as well that Liberata is the platform play that we may have insurance vertical. You know at this point of time Liberata is in the investment mode. We are looking at servicing current customers and improving the profitability on the current customers through better leverage offshoring and other initiatives that we are launching. So, we are at this point of time, working on improving the margins in Liberata and that will be continued with us for another 4 to 5 quarters at which point of time, we will look at business enhancements in the same model once we are able to get our cost correct in that particular vehicle.

Anthony Miller: The question on BPO I just wanted to understand you said that you are going to be in an investment mode for the next 4 to 5 quarters, does that mean that you will be making losses at the EBIT level for the next 4 to 5 quarters and secondly when all that investment is complete and BPO is well again, what will it look like, what proportion of the business would you like it to be and what sort of margins would you like to see?

Rahul Singh: Let me answer that again. I think when we are saying that it will be in the investment mode for the next 4 to 5 quarters, you know obviously we are running last two quarters at -$7 million of EBIT so I think that will gradually improve over the last 6 quarters but the negative will continue for that period of time and then it will become positive after that. Now your question was as to what percentage of business and what models do you think that the BPO will operate at the long-term. Long-term we will operate BPO at similar margins as the BPO industry normally operates at. So, our targets are to take it back to normal industry level margins, post the investment phase getting over.

Anthony Miller: Does that mean voice margins or data margins?

Rahul Singh: We are defocusing on voice, I think we did mention in the last call that we have strategically decided to focus more on transaction based BPO more transformational elements, more deals which require bundling of technology and BPO together. So, we will be moving towards transaction based margins for incremental businesses as they come in and at the same time we have ring fenced our existing pure voice businesses so that they do not further dilute the margins.

Anthony Miller: Thank you very much indeed.

Moderator: Thank you Mr. Miller. Our next question is from the line of Anurag Purohit, Alchemy. Please go ahead.

Anurag Purohit: My question was regarding the employee recruitment in the last three quarters, essentially because throughout the recession we had a recruitment strategy of just-in-time, so what exactly has changed in terms of outlook on recruitment and which has led to so strong recruitment both on lateral as well as freshers front?

Vineet Nayar: The first is that we have demonstrated from a volume growth point of view, a huge volume growth in the last 2 quarters and that has led to a significant hiring of people because the utilization has only dropped by 600 basis point so that all the people who have been recruited have been deployed, most of them other than the 600 basis point utilization drop. The second is we saw a great opportunity in the market space where a lot of people were unhappy for whatever reasons with their current companies and we saw a significant amount of talent coming into the market which we saw as an opportunity of hiring and keeping with us rather than hiring at a later time when we would need it because we could see the deal pipeline as I showed you on that slide to be significantly increasing and we couldsee easily that we would need those people, but it will be difficult to hire them and they were quite high quality and whatever was their reason of dissatisfaction with the company we saw that there is an opportunity and instead of being just in time, we said we will take a hit on the utilization and hire them.

Anurag Purohit: Thanks and all the best.

Moderator: Thank you Mr. Purohit. Our next question is from the line Nitin Padmanabhan of Indiabulls Securities. Please go ahead.

Nitin Padmanabhan: Hi, thanks for taking my question and congratulations on a great quarter. If you look at the deals funnel going forward you said it is better than ever going forward, could you give us a sense in terms of what it could be in TCV?

Vineet Nayar: No I would not like to do that, I will just give you the indicative graphs to give you an indication of the trend-line but I would not like to venture into what are the TCV we are addressing right now?

Nitin Padmanabhan: Would it be indicatively higher than what you saw in OND 2008?

Vineet Nayar: Yes I think if you see the graph it is about 25% higher than OND 2008.

Nitin Padmanabhan: Just one question with regard to the head count additions in this quarter, was it towards the end of the quarter or most of them came in the beginning.

Vineet Nayar: Sorry, I do not have the data.. It was spread out. I do not think it was towards the end of the quarter. I am sorry, I do not have the data points for you.

Nitin Padmanabhan: With regard to the US$ 43.8 million on the cash flow, which we were talking was some sort of asset and things we were to buy out was that anything specific to any specific deal?

Vineet Nayar: There is a smart grid deal which we have done which is one of its kind and I think if we execute that well it will open the entire smart grid market for us. We would be pioneers in implementing that deal. The smart grid system integration deal which is in excess of I think between $100 and $150 million that I do not remember what was the right number, has a component where we are going to integrate smart meters with our software and solutions and services, so to do that we have to get the smart meters into our labs, develop the management software around them and because of which we have paid advance got those inventories with us integrating that and I think it will not get build in OND’10. The billing will start happening somewhere in JFM’10 and will go right up to July-August-September’2010.

Nitin Padmanabhan: And is it an India based deal?

Vineet Nayar: It is an Asia based deal.

Moderator: Thank you Mr. Padmanabhan. Our next question is from the line of Sandeep Shah of ICICI Securities. Please go ahead

Sandeep Shah: This is just a broader question, if you look at the margin levers which are available, I believe there are many like the offshoring in the software services, employee pyramid, the BPO losses, and the scale benefit on the SG&A. Are we accepting these as the margin levers in the medium-to-long term and if yes when do we expect to get this pull off?

Vineet Nayar: I think it is a very important question that you are asking and I have said this before. I first accept all these margin levers are in our hands and we can exercise them anytime we wish to exercise them. Our pyramid is worse than everybody else, our fresher hiring is lower than everybody else and I do not think offshore is a lever because that is largely driven by the customer requirements of the projects, but SG&A is a lever, utilization is a lever and there are couple of others. I think our enabling functions cost is also higher than the enabling function cost of our competitors. So these are the levers which we really have in hand. The question is what should the management focus on and that is something that I have been always saying, you know right now we as a management team are focused on becoming relevant in mind share, market share, and talent share. I build a brand, build market share and build talent share. So these are three important, because margin shares you can build anytime, as we demonstrated during recession, we put our head down and started expanding our margins despite marginal increase in the revenues. The reason I am saying that is because anytime you drive your company either towards growth or you drive towards operating efficiency. I think the time for operating efficiency as you rightly said is a medium term, not even in long-term. We have to demonstrate efficiency improvement in medium term but in the short term, as the market is moving in a dynamic demand as and when deals happen, you have to crack them, as and when opportunities are there in the customer location you have to crack them, that is the reason you are saying we got 30% of the incremental revenues which got transacted by the top 4 companies in the last 8 quarters and you also saw quarter-on-quarter growth in our existing customers and I am also happy to report there are 5 fortune 500 companies which have entered as new customers in this quarter alone. So we are you must remember where did we start. We started with low quality of customers, low revenue per customer, low bill rates into the customer, poor services in terms of application services, that entire gamut of things have radically changed. So if you see our position which was there, in let us FY 2006 or 2007 and you see our position in FY10. There has been a radical transformation on where we stand today in our terms of service portfolio in depth of relationship with our customers. We are actually printing a book today which will be out in October and some of you are going to see it which has been written by our customers. Our customers have come together and have written a book about their experiences about HCL and their outlook to the industry, outlook to technology which is coming out and this is the first time this is happening and some of you have been invited in Global Customer Meet. The kind of relationship which we build with our customers, the kind of multiple services we have built with our customers, the kind of win engine we have built on new services are the competitive edge. Once we are able to fix the BPO engine, which you have heard Rahul and we got the right management and I think that is what is occupying our mind in the short term. In the medium term, we will have to use those levers and demonstrate margin improvement as you have rightly said.

Sandeep Shah: So if this strategy continues, the outperforming growth on the revenue which we have witnessed in the recent quarters I believe it should continue going forward?

Vineet Nayar: We do not give projections and therefore the only projections we give is we would be in the top quartile of revenue growth amongst our colleagues in the industry.

Sandeep Shah: And Anil the new hedging cover which is being taken, $150 million what is the exact strike rate for the same?

Anil Channa: These are various rates that is very difficult to sort of average them out, I can may be provide it to you offline.

Vineet Nayar: And plus there are multiple currencies Anil.

Anil Channa: Yeah.

Sandeep Shah: Thanks.

Moderator: Thank you Mr. Shah. Our next question is from the line of Divya Nagarajan of UBS. Please go ahead.

Divya Nagarajan: Just a couple of questions on your SG&A focus. You spoke about how you are seeing deals in the market place and essentially the SG&A increases the effort to go after those deals more aggressively. My first question is how many of these deals are Greenfield deals for you that there are clients that you do not have presence in and therefore the SG&A effort has to be probably relatively higher that is one and the second thing is that you also spoke about the deals outlook for the market as a whole being a kind of unpredictable, how does that tie in with your own strategy of spending more on SG&A. If you see the deal pipelines slackening will you bring this back down to the levels that we had a few quarters back.

Vineet Nayar: First is I did not say that the deal flow is uncertain. The deal flow in OND’10 is very high. I said in JFM’11 and AMJ’11 we will have to see how the deal flow is and if you go back to 2008 we demonstrated when the deal flow vanished, that is the graph that I showed, we were able to bring the SG&A down from 17% to 14.5%. So we have already demonstrated our capability of increasing SG&A as the deal flow increases and reducing SG&A as the deal flow reduces, that is the reason I showed the chart, that we have already demonstrated that and you should have confidence and we will do that.

Divya Nagarajan: How much of your deal flow opportunity is Greenfield for you?

Vineet Nayar: The second question I will answer in terms of that why the SG&A is needed for existing customers. Let me give you an example. There is a deal which we are chasing right now, this is a company which wants to outsource let us say its R&D department and if it wants to outsource its R&D department even if it is a customer, even if it is single source deal, there is a huge team which has to go in and spend huge amount of time in doing due diligence. What do they do, how much do they do it for and what are the activities they do and hence construct a proposal which says that this is what we will do for you and this is the price in which we will do for you and this is the business case you would have and that requires due diligence across 18 countries, that records we build around about what people we would retain and what people we would not retain. So it is not the sales headcount , but to build a business case and reach the contracting stage takes the humungous amount of presales effort which goes into making that happen. So win ratios is something which we track very-very hard. You know, we have to keep our win ratios in a particular band; otherwise the cost of doing deals dramatically goes up. So the reason SG&A goes up as more bookings are chased is because of what I shared with you and not because whether it is existing customer or Greenfield.

Divya Nagarajan: Just one last question on BPO, I heard you talk about how you want margins to come back to the industry averages so that the business gets restructured. Any timeframe that you are looking at in terms of the restructuring getting completed, would it be two years, three years anything that you can share with us please?

Vineet Nayar: Right now, I do not think I can share anything with you. We have a challenge on hand right now. Rahul’s challenge is that he has to fund the transformation from gross margin savings and therefore he is going to pace his transformation initiative to the extent that he can fund it out of gross margin savings which is what he has done in this quarter and that is the reason that he has taken 5 quarters to be able to fund it because the rest of the company is not funding it, so that is the reason what I call as an extended period rather than a one shot transformation because we have drawn a line at the level of loss which BPO will suffer. So, I would want to make a comment on that only once we come with an annual announcement in July, August, and September 2011. We would have put three more quarters behind us and only two more quarters will be ahead of us and I think we will be able to give specific guidelines of where we would we see BPO and by the time we would have won some orders and we would have a good margin profile of those orders and we will have good return on investment for these orders. Please allow us to give you guidance in July, August, and September 2011.

Divya Nagarajan: Thank you and all the best for the full year.

Moderator: Thank you Ms. Nagrajan, Our next question is from the line of Kunal Sangoi of Edelweiss. Please go ahead.

Kunal Sangoi: Hi, my question is with regards to the margin. You did mention about investing in S&M. However, if you look at some of the levers that the earlier participant did mention and you did say that as and when you would want you can pull down and pull up those levers to increase the margins. How do you look at the next 3 or 4 quarters in terms of particular margin at gross levels?

Vineet Nayar: We are not giving guidance at gross levels. The guidance that we have given are at the EBIT levels and we will stay with that guidance because we want to flexibily use what we generate in gross into SG&A and or what we generate in SG&A into gross, so that flexibility we want to keep for ourselves.

Kunal Sangoi: May be if you could help in terms of employee because the lateral addition forms the substantial portion of your net hiring if you could give what is the proportion of employees three year plus experience band and how has that changed over the last two-three quarters it would be helpful.?

Vineet Nayar: I am sorry. We are not comfortable with giving any more data. The kind of data we give from HCL and the format in which we give I think we are one of the most transparent companies and I want to give data only where we will consistently be able to continue giving data. So, we are happy to give the data we are giving and not more.

Kunal Sangoi: Okay, thank you.

Moderator: Thank you Mr. Sangoi. Our next question is from the line of Saranya Vaidyanathan of BNP Paribas. Please go ahead.

Saranya Vaidyanathan: Good evening. I have a question on your net debt position. You had mentioned in the previous call that you are probably a quarter away to square off you net loan funds. Could you please give us an update on this position please?

Anil Channa: Sure, if we look at the position, we have stayed where we were as of 30th of June, however, I walked you through the cash flow position. Presently we are executing a huge project where the billing has to happen from next calendar year, so we have deployed funds there. Net-Net $40 to $30 million in terms of a net debt position is not a cause of worry. On top of it, most of the debt, which is there on the balance sheet about $570 million, $100 million is only short term, the rest all is long term. We are very comfortable in terms of cash generation and I also explained that in terms of net income, if you look on a rolling two year basis we are able to convert 100% of Net Income into operating cash.

Saranya Vaidyanathan: Thank you, I have another question Sir. Could you throw some color on the kind of deal flows that you are seeing?

Vineet Nayar: I think that I have talked about that. The deal flows we see are largely transformational in nature from Americas which is either product development deal flows or new SAP implementation or new digitization, initiative for an insurance company or for a retail company or a new CRM/SCM implementation. Those are the kind of projects that we are largely seeing from US. Most of the European deals we are seeing is Instance consolidation reducing cost either by outsourcing RTB or by instance consolidation or rationalization of IT applications because they are too many, those kind of things. In Asia we are seeing Greenfield in new built or expansion of their existing IT infrastructure to globalize them or to enhance those whatever they are doing to make them more ready for globalization the kind of deals we have announced in Asia are around that areas. These are the three flavors of the deals we are getting from three different geographies.

Saranya Vaidyanathan: Thank you Sir, that is it from me. All the best.

Moderator: Thank you Ms. Vaidyanathan. Our next question is from the line of Rahul Jain of Dolat Capital. Please go ahead.

Rahul Jain: Congrats for the good set of numbers. Most of the questions are answered. The thing is that the retail vertical where we are seeing a good constant growth from the last couple of quarter and this is the case with some of the others peers as well. I just want to understand is it basically because some of the vendors are shifting or is it pertaining to incremental focus by these companies for the IT spends?

Vineet Nayar: I think A) this is largely happening in CPG, consumer product groups, B) it is a churn amongst vendors. I think that is a vendor consolidation activity, which did not take place in recession, which is taking place. I do not see new investments coming in other than which would not have a material revenue impact other than CRM/SCM data warehousing and business intelligence implementation.

Rahul Jain: That means there is a lot of international players who are losing out to Indian vendors?

Vineet Nayar: I don’t think you should make that assumption; it could also be some Indian vendors who are loosing to some other Indian vendors.

Rahul Jain: Okay, but as far as top players are concerned that is the trend of winning and just to add up on that is it like more number of companies who were not earlier were using some **captive** sort of a system are now going for the third parties is that the kind of trend that you are seeing?

Vineet Nayar: Yeah, that is also not captive, but yes in terms of a main house to outsource yes we are seeing those deals also.

Rahul Jain: Okay. That is it from my side. Thanks a lot.

Moderator: Thank you Mr. Rahul. Our next question is from the line of Mr. Srinivas Seshadri of RBS Equities. Please go ahead.

Srinivas Seshadri: Hi. Congrats on a good top-line performance. I have a couple of questions; the first one pertains to the BPO. We have seen a quarter-on-quarter drop in the direct cost despite adding a bit to the head count and particularly on the onsite front. So just wanted to understand how we have achieved this quarter-on-quarter reduction in the cost base or was there some non-employee related cause, which is gone down or some other things there?

Rahul Singh: Let me answer that. I think you must have also noticed that that we have seen the reduction of the attrition levels in the last two quarters. So I think, that is also caused improvements to happen on the direct cost line and also, you know we are re-modeling a lot of our BPO work. We are taking our people who are kind of process people, putting them more into a senior kind of roles so that they become more solution-oriented, etc., so that is also marginally resulting in the move from direct cost into some SG&A lines. But by and large the basic reason why the improvement is seen is because of the improvement in attrition that we are seeing.

Srinivas Seshadri: Alright that is helpful. The second question is again on the infrastructure business. There again, we have seen a fairly decent drop in terms of SG&A cost quarter-on-quarter, so if you can just provide some color on the same?

Anant Gupta: I think some of this is basically optimization of the growth that we are having. So if you really see the whole last fiscal we grew quite heavily so some of these are really the advantage of the scale which is very significant.

Srinivas Seshadri: Do you expect this kind of the SG&A cost leverage here in infrastructure to persist?

Anant Gupta: Unfortunately, I cannot give any guidance on that. I think we will be basically in line with the model which we had. Previously, what we also said, would be to look at some of the third party services which is changing the business mix. We will try to do it in such a way that it does not impact the SG&A and therefore retains the EBIT levels that we have so that is how we will build the mix of business that we are competing in the market.

Srinivas Seshadri: Thanks. That is all from my side.

Moderator: Thank you Mr. Seshadri. We take our last questions for the day from the line of Mridul Gupta of the Everest Group. Please go ahead.

Mridul Gupta: Hi, thanks. I have a couple of questions actually. First I wanted to know about the BFSI segment. If you could talk a bit about the growth drivers with in this in terms of sub-segments and service offerings and geographies, where do you see this growth coming from?

Vineet Nayar: I think we have largely seen insurance in Europe, banking in Asia and Europe, capital markets in US, thats the contours of big growth and India of course. We are largely seeing growth coming from existing customers in US and Europe. There are few deals, which are new deals, but not many unlike other segments and we are seeing Asia-India to be largely new customers. US, Europe to be largely existing customers, new deals in existing customers and Asia to be new deals new customers.

Mridul Gupta: Alright, in terms of new deals, I believe we have added 24 new clients during the quarter so if you could give us a sense of their distribution across industry verticals?

Vineet Nayar: Five of them are Fortune 500 customers. I don't have this split as of now, but we have given the split in terms of what are the verticals they are on page #6 of our IR release i.e. Travel, Transportation, Logistics and Healthcare.

Moderator: Thank you Mr. Gupta. That concludes the question and answer section and I now hand the conference over to Mr. Vineet Nayar to add closing comments.

Vineet Nayar: Thank you everybody for staying up so late. I know that conference has stretched, but I hope that the transparency of information sharing and the details to which we go has gone down well with you and makes your task easier. Because it is important that you understand our business model and we are very happy to address your concern. Please reach out to anybody in our investor relations team for any further questions and we will be very happy to provide the answer. Look forward to talking to you next quarter or somewhere in between. Thank you so much. Good bye.

Moderator: Thank you Mr. Nayar and members of the management team. Ladies and gentlemen that concludes this conference call. Thank you for joining us on the chorus call conferencing service and you may now disconnect your lines. Thank you.