"HCL Technologies Limited Q1 & Annual FY2018 Results Conference Call"

July 27, 2017

MANAGEMENT: **MR. C. VIJAYAKUMAR – PRESIDENT & CHIEF EXECUTIVE OFFICER**
MR. ANIL CHANANA – CHIEF FINANCIAL OFFICER
MR. ANAND BIRJE – CORPORATE VP (DIGITAL ANALYTICS)
MR. RAHUL SINGH – PRESIDENT (FINANCIAL SERVICES)
MR. KARAN PURI – SENIOR CORPORATE VICE PRESIDENT (CONSUMER & COMMERCIAL SERVICES, AMERICAS)
MR. GH RAO – PRESIDENT (ENGINEERING AND R&D SERVICES)

Moderator: Ladies and Gentlemen, Good Day, and Welcome to the HCL Technologies Limited Q1 & Annual FY2018 Results Conference Call. As a reminder, all participant lines will be in the 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 '*' and '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. C. Vijayakumar –President and CEO of HCL Technologies Limited. Thank you and over to you, sir.

C. Vijayakumar: Thank you. Good Evening and Good Morning to all of you. Welcome to HCL Tech's Earnings Call for the First Quarter Fiscal 2018.

This quarter, we have yet again posted good numbers, that will put us in the Top Quadrant of industry performance. And it will be making it our fifth consecutive quarter of industry-leading performance.

As I said last quarter, HCL Tech is emerging as one of the most reliable performers in the IT sector quarter-after-quarter with a very clear and consistent focus driven by our Mode-1-2-3 strategy.

Recently, Phil Fersht – the CEO of a leading industry analyst firm Horses for Sources, wrote an interesting description of our reputation which he said, "consisted of a rolled the sleeves up attitude' and a no-nonsense approach to business, determined, humbled, focused, quite but aggressive" is how Phil described us. And this served as a great reminder of the ethos that HCL has always stood for and the values that will keep us ahead of the pack in the changing industry dynamics in the current environment.

I hope I have not digressed too much, with this context let me begin by giving a rundown of our "Numbers" and "Key Performance Highlights" for the quarter:

Overall, we started the new fiscal on a good note with several prestigious company level recognitions. We were ranked the "Number One IT Services Company" and "Sixth Overall" in LinkedIn "India's Most Sought After Companies List". We were included in the "Most Honored Companies List" for Asia by Institutional Investors. And we emerged as "#2 in Nikkei Asia's 300 Companies List", which is a compilation of high-performing listed companies in Asia. We were #1 among the India listed companies.

So, it is no surprise then that we have posted industry leading financial results also for this quarter. In Q1 FY18, we had a healthy sequential constant currency revenue growth of 2.6% and a dollar revenue growth of 3.7% at an EBIT margin of 20.1%. Our EBIT enhancement, in-spite of currency headwinds is due to accelerate execution of our business, on plan integration of our acquired entities and assimilation of the IP investments that we have made in the last few quarters.

This quarter we bought home 13 transformational deals which represented a well-balanced mix across service lines, industry verticals and geographies. We also delivered an industry-leading revenue per employee of $63.5K, which is a 6% increase YoY. This again is a reflection of our moving up the value chain in terms of service offerings.

From Industry Sector Perspective, Q1 saw four of our key verticals deliver greater than 3% sequential growth. And these four verticals which has delivered greater than 3% sequential growth are Financial Services, Manufacturing, Life Sciences and Retail-CPG. Some of these industries is where significant transformation is happening and our presence in the segment and our success in the segment is reflected in the superior quarter-on-quarter growth.

Our Client Partner Program is taking good shape to deliver “One HCL” to our top clients and is driving increased revenues from our Top 150 accounts.

Let me give you a quite update on our Mode-1 Services and how it fared during the last quarter:

A large percentage of our large deal wins comes with a significant component of Mode-1 Services, which as you know are focused on gaining market share in our existing offerings. This quarter we continue to maintain our lead in the market, we brought home many top brands' new logos and many of the details are presented in our investor release.

DryICE platform has become an essential and highly differentiating part of our solution in both Infrastructure and Application Services. We are also glad to update that we renewed and enhanced all of the deals that came up for renewal in the past quarter. In the Infrastructure Services, we continue to pioneer comprehensive next generation software defined Infrastructure Solutions. Our 360 Degree SDI solution called “Velocity” achieved VMware Validated Design Product Zero Certification globally, and this is a first in our peer set.

We are positioned as leaders and “Number One IoT” in Everest Peak Matrix for IT Infra Automation in 2017 and as a “Star Performer of the Year” for cloud native and Infrastructure Services by Everest, while Gartner sighted us as a leader in “Gartner Magic Quadrant” for data center outsourcing and Infrastructure, Utility Services in North America.

In Engineering Services, we had several recognitions, but the focus was on for the acquired entities portfolio rationalization initiatives which are in progress to drive better margins and synergies from Butler and Geometric acquisitions that reinforced our Engineering Services position in Aero and Defense Manufacturing and PLM respectively.

In Application Services at Sapphire 2017, we launched SAP S/4HANA solutions tailored specifically for the aerospace and defense industry. HCL's “Base90 Aerospace Company Solution” is based on parameter effectively enhanced within HCL's value added pre-configured business processes in the area of Supply Chain, Manufacturing, Production Planning, Procurement, sales and Distribution and Project Systems. This solution has been validated by

SAP's A&D business unit. So, overall, across all Mode-1 services we continue to enhance and increase our capability and solution offerings which helps us to remain ahead of the curve.

A quick update on Mode-2 services:

These are high growth opportunities which we are focused on, Digital and Analytics, IoT Works, Cloud Native Services and Cyber Security. We took great forward strides in this quarter. In Digital we won several deals, some notable engagements are in the "Investor Release". We were also featured in IDC's report on Design Thinking in European Digital transformation where our collaborative and ecosystem based approach to Digitalization was recognized as a strong differentiator for us.

In IoT works proposition, we were positioned in the "Winner Circle" and "Number 1 IOP" in HFS Blueprint Guide on industry 4.0 Services. We also marked our entry into IoT operations space by signing a deal to operationalize and run a dedicated remote operations center for a global 2000 European consumer electronics major.

In Cloud Native Services, we made significant progress in terms of capability and solution offerings in the last quarter. We achieved Amazon Web Services Storage Competency status, this recognizes that HCL provides design implementation and managed services to help successfully clients achieve their storage goals on the AWS platform.

In cloud SaaS domain, our acquired company HCL PowerObjects crossed some impressive milestones like being placed in the "Winner Circle" of HFS' FIRST BLUEPRINT GUIDE on MS dynamics. HCL PowerObjects also won "2017 Microsoft Worldwide Partner of the Year Award" for Dynamics365, Consulting and System Integration Services.

We also launched what we call as Next Generation Research platform, which will reimagine the new drug discovery process in the pharma industry. For Cyber Security, we launched GDPR services to enable organizations to comply with EU GDPR regulations. This solution involves monitoring and operations of compliance, which includes system operations and data privacy surveillance, enabling detection and response without delay when data infringement occurs.

Moving on to provide an update on Mode-3:

Under Mode-3 Products & Platform business we continue to concentrate our efforts on both in-house IPs and strategic IP partnerships. This quarter we filed 35 patents in next generation Engineering, Products & Platform in various domains like IoT, Machine Learning, Analytics, Automobile Engineering, Wireless Devices and machine to machine communications.

We have also announced new solutions on our DryICE Autonomics platform, and one of the solutions is called "DryICE Cognitive Orchestrated Process Autonomics" (COPA Platform), which applies smart AI powered elements to the front, middle and backend, driving in end-to-end operation of business processes. This is extending the said technology and capability that we had in IT operations to provide an end-to-end AI powered automation work flow for the business processes.

Over the last year, the IP partnership with IBM we continue to strengthen, we built HCL's expertise through solutions, innovation labs and Centers of Excellence across multiple product segments such as DevOps, Automation, Legacy Modernization and Data Transformation solutions.

This quarter we are happy to report that we extended the IP partnership with IBM, marking our expansion into the business solutions which is specifically in the marketing automation space. This will be the first time we are getting into a business solutions space in the IP partnerships and we believe the marketing automation solution that we are going to build the partnership on will significantly enhance our Digital offerings in Mode-2. As you would have noted, we have invested $140 million in this extended partnership.

Moving on to a little bit commentary on our employees:

On the employee front our focus remains on training HCLites on Next Gen Technologies, through what we call as a **"**Skill Lease Academy" for competency enhancement. Several trainings were launched and they are fully under way. We have also build a Proprietary Automated Assessment Platform for next gen full stack technology skills to ensure rapid and upscale, employee upskilling and employee acquisition processes.

In terms of our women advancement initiatives, over the last one year we have hired more than 10 senior women leaders, including our New Risk and Compliance Lead and the top leader for our Digital workplace SI business.

In terms of Community, under the "Power of One program", 2400 HCL employees volunteered in community activities, contributing 14000 hours, reaching out to 32,000 beneficiaries.

From the standpoint of our Global Communities, our focus remained on two key programs – one in UK and another one in the US. In US in one of the significant locations where we have a large GDC, which we call as "Global Development or Delivery Centers" in North Carolina, we are working very closely with "Women Connect Groups" along with United Way. And in Frisco, Texas HCL was recognized as a "Trustee Partner" in the "Frisco Chamber of Commerce". It is really a recognition of our scale up in our delivery centers in Frisco, with a scale of above 500 people in less than two years. And really the center is truly a showcase of our next generation offerings and it is really serving as a very powerful showcase for positioning and convincing our customers on our onshore presence and solution that need onshore collaboration.

Broadly, that kind of completes the overall commentary.

In closing, I would like to reiterate that we are confident of remaining within our guided range of revenue growth as well as our committed range or guided range of margin profile. Our deal pipeline is healthy, we are building both skills and service competencies that are well-aligned to our future growth aspirations.

With that, I will hand it over to Anil to provide a little more analysis on the financials. Over to you, Anil.

Anil Chanana: Thanks, Vijay. Good Evening, Good Morning, everyone. So, this quarter, in dollar terms we did 3.7% quarter-on-quarter and 11.4% on year-on-year, if we look from a constant currency terms it is 2.6% and about 12% for the year-on-year.

As you know, last quarter we had the benefit of some of the tax reversal which came of $45.5 million, which is not available this quarter. So, if you look at the absolute number of net income, it has come down from $349.9 million to $336.7 million. However, as I said, this is more because of the reversal which took place last quarter. And if you look from a YonY basis, the net income has grown 10.3% against revenue growth in dollar terms of 11.4%.

In revenue terms, I just wanted to clarify that when we had given the guidance which was 10.5% to 12.5% in constant currency terms, we had factored in the revenue which will flow from the company which is Urban Fulfillment Services (UFA), whose revenue for the calendar year 2016 was $48 million. This acquisition is getting delayed, is not closed as yet, so there is no that has flown from this particular acquisition this quarter.

In terms of EBIT margin, there is an expansion of 10 bps from 20% to 20.1%. However, there was a negative impact of 40 bps primarily on account of rupee depreciation, without which this would have been 50 bps increase in margins this quarter. And as Vijay explained it has been because of the superior execution as well as you can see from the numbers, there is also SG&A benefit which has flown in with this acquisition coming in and marginally in terms of the utilization going up. So, a combination of factors have played a role there.

In terms of the net income to operating cash flows has been at 104% while EBITDA to free cash flow has been healthy at 76%. We did complete the buyback of Rs. 3,500 crores in July, so this has been paid and the investors have got their money. This quarter we have declared a quarterly dividend of Rs. 2 per share, so we continue with our quarterly dividend.

In terms of hedges, our hedge book is at $13.51 million, primarily consisting of cash flow hedges and to some extent balance sheet hedges. There is a hedge gain of $16.5 million recorded this quarter which we reflect below the EBIT line, so that is the addition this quarter. In terms of DSO, it continues to be 82 days, both billed and unbilled put together, same level as it was last quarter.

So, with this I will hand over to the operator.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Ankur Rudra from CLSA. Please go ahead.

Ankur Rudra: CVK on Infrastructure Services, clearly very strong growth last year, partially helped by the large deal, it seems to have begun to slow down somewhat. So, how do we think about the growth momentum here this year and moving on to the next couple of years? Is there any kind of potential headwind because of loss of deals, maybe because of US protectionism and something else?

C. Vijayakumar: I think last year was an exceptional year, as all of you would know we had several mega deals and a large contribution from one of the acquisitions. Obviously, we do not have visibility of that now. And as I mentioned in the last quarter, especially in the US market I do see a slowdown in decision-making. I would say the magnitude of concern has slightly reduced but it is still there. So, from that perspective there will be some softness but structurally I do not see a change in trend, the traditional headwinds around smaller deal sizes due to automation, new consumption models, I think they were all well-known and that is really part of the slower growth compared to the previous years. I do not see anything new except there is element of decision-making in some of the large deals are delayed, and while we saw some change in the last three months but I think still it is really not out of our way. So, to that extent you will have to factor in some softness in Infrastructure business.

Ankur Rudra: Understand. And if I look at the business mix this time you had relatively strong growth sequentially in US Banking & Retail, which appears different actually from larger sector trends from all of your peers, which I think you alluded initially also. So, what are you doing differently in the parts of the market where you are gaining share?

C. Vijayakumar: Basically, this two verticals, Financial Services and Retail CPG. So, I will request Rahul to give a quick update on what are we doing different in Financial Services, followed by may be Karan, who is also on the call, on the Retail CPG.

Rahul Singh: Sure, CVK. Yes, so what you are seeing in our numbers really reflects some of the story lines we have been giving for the last couple of quarters. We have had significant new account wins in North America and in Europe, especially in the Fortune500 set of financial firms, both Banking and Insurance sector. Now, the reasons why those wins have come is because we have repositioned our offering almost a year back, more towards meeting Digital scale requirements of customers. If you look at the Financial sector, obviously we all know that it is hugely impacted by the millennial and there is a lot of buying behavior from banks and insurance companies is intended towards the need of more mobile, more always connected kind of customers. So, we have changed our propositions which are more engineering-oriented, which are more technology at core and repositioned our offerings to the Financial Sector, which enable us to get those accounts and now we are seeing the scale of that happen. So, I think that is a key and as CVK described Mode-2, these are our Mode-2 service lines which are there.

Now, in addition to that we continue to see growth happening on Mode-1. Our Mode-1 is primarily driven through DryICE which focuses on automation, Artificial Intelligence, etc., to help customers reduce cost. So that traditional line of business is seeing a more secular trajectory so I think the basic growth is coming from there and incremental growth coming from Digital.

Ankur Rudra: And just before you move on, have you seen the impact of in-sourcing, etc., which impacted you a year ago perhaps over and the headwinds are not there anymore?

Rahul Singh: No, we have seen in-sourcing. So, if you look at our numbers, about 12 months back three to four quarters were muted where we had our share of in-sourcing happened. So, in-sourcing is happening but I would say the larger impact happened about three-four quarters back. So, now of course they continue to happen but they are happening now more on the margin rather than impacting the revenue. So, growth is kind of compensating for that at this point of time.

Ankur Rudra: And just if you could add some color on the Retail side as well?

Karan Puri: So, Ankur, there are two elements – in CPG we have seen two shifts beginning to play out, I think the bigger SAP customers are beginning to now recognize the fact that there is fair amount of bolt-on work where our Mode-2 services kick in and we are doing a fair amount of additional work on top of their SAP platforms, largely on Supply Chain side, partially also on the way merchandizing was being done, trade promotion in few areas. So that is one area that we see a lot of Mode-2 was kicking in. On the Retail side and Digital marketing, which is clearly one driver, it was more a rolling effect for the last several quarters, now that is something very new here. But what is becoming very strong as a driver for change of projects is the integration of these four and online process, so that integration is where a fair amount of additional work has started kicking in in almost individually at each Retail shops. So, we are seeing a fair amount of additional work kicking in there as well. These are the two big drivers that we see in CPG and Retail.

Ankur Rudra: And just lastly, perhaps CVK, any updates on how are you thinking about the further investments on the IP strategy, is there appetite for doing a lot more?

C. Vijayakumar: Ankur, as we have indicated, it is our desire to continue to build our Mode-2 and Mode-3 capabilities. So, the exact investment will be more dependent on the opportunities that are presented to us. So, I would say we are open, this is a very important direction where we want to expand our business, both around key services in Mode-2 and the Mode-3 services. So, you should expect more.

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

Divya Nagrajan: Two questions here, CVK. One is a follow-up to the IP strategy that we were discussing, could you just give us a sense of how much revenue contribution the strategy contributes right now? And margin wide business, how accretive is it to correct margins?

My second question is again on the longer-term trend in Infrastructure, while there is a little bit of decision-making slowdown that we have pointed out, what should we look at as long-term growth trends in Infrastructure going forward? Thank you.

Anil Chanana: Divya, we currently are not calling out this number from IP deal separately. We, as part of Mode-3 services at the end of the year will indicate a number as to the revenue which is going in from there. In terms of margins, it is better margin what we have seen from our experience so far from the company level margins. So, these are the two headlines here.

C. Vijayakumar: And Divya, just responding to your question on Infrastructure Services, I think in the near-term there is little bit of sluggishness, but long-term trend I think it is still significantly underpenetrated market segment, like Infrastructure Services from a global delivery model and let's say India Heritage Provider addressable opportunity perspective, I think the penetration is probably in single-digit, that is what I would say. However, this will mean that we do have to expand into markets beyond our comfort zone. Right now, we are very strongly focused in US, UK, Nordics, Australia are our core markets, but definitely we need to venture and be successful in several other markets where our presence is small. So, as long as we continue to expand, I think this is going to be a good growth story. The current may be couple of quarters or may be this year could be an aberration due to some specific situation which has just developed in the US.

Moderator: Thank you. Our next question is from the line of Anantha Narayan from Credit Suisse. Please go ahead.

Anantha Narayan: CVK, had one more follow-up question on the IP revenue. So, can you give us a bit more clarity on what HCL Tech's go-to-market strategy there is? And does IBM get involved extensively in that and is there some sort of revenue share agreement with IBM?

C. Vijayakumar: The answer is yes, while we continue to have a revenue share relationship with IBM from the existing install base and the new product sales, HCL also has the permission to renovate these products based on the IP license. So, there are several products which we intent to launch on top of some of the IPs that we have acquired. And there is an independent go-to-market team which is getting built within our Mode-3 organizations to reach out to clients and build a HCL generated pipeline and sales for the Mode-3 services.

Anantha Narayan: Just to clarify, would it be reasonable to assume that a significant proportion of the revenue from this stream is right now actually in conjunction with IBM?

C. Vijayakumar: Yes.

Anantha Narayan: And just one final question on this front, when you look at future IP partnerships, would it largely be with IBM or would you be open to companies like IBM as well?

C. Vijayakumar: Absolutely. I think this is not a one-sided strategy, we are looking at this much more broadly. But I think each relationship needs certain amount of time to nurture, build confidence, especially in IP kind of transactions. And we do believe over a period of next couple of years we will really build a good portfolio across multiple technology providers.

Moderator: Thank you. Our next question is from the line of Mukul Garg from Haitong Securities. Please go ahead.

Mukul Garg: First a clarification on the current IBM deal, I heard on TV you mentioned about $30 million to $35 million impact from this for the full year, so is that included in the guidance?

Anil Chanana: The $30 million to $35 million is annual and it will take time to transition and also I said that in Urban deal we are getting delayed in terms of execution. So it is a very small impact, even if it is slightly there. So therefore, I just ignored it.

Mukul Garg: Okay. And CVK, just a follow-up on the IBM. So, for the deals which you undertook at the start of FY17, have you started seeing any incremental benefit on the growth or they are still in the development stage for next gen capabilities? And when should we expect that as a scenario, the benefit of the investment to flow in the growth?

C. Vijayakumar: See, when we took each of these decisions there was a certain business case and the revenue expectations. So, while, not many of them have done multiple quarters, the very first investment that we did has finished four quarters and we are above plan on that program. So, I think I would not be able to share anything more on this dimension, Mukul.

Mukul Garg: Okay. And the second question was on the growth in the quarter. If we take out the impact from Geometric and the IBM deals and from the currency side, then growth was quite tepid. So, was it primarily due to the weakness in the US market or was there any other factor which also impacted the growth in Q1?

C. Vijayakumar: I think in this quarter we had a pretty healthy mix of contribution from organic and inorganic, and so I would say somewhat equal contribution from both. And each of the geographies the contribution is already there, US was quite strong, Europe was a little soft and Europe's softness was again kind of correlated to the negative growth in the BPO business and probably a structured reduction in one of the Infrastructure large deals that we signed last year in Europe. So, I think this should give you a good view of where we grew organically and inorganically.

Mukul Garg: Sorry to push on it, if you look at the organic growth, I think it was somewhere 1.5% type range and then you also had a 110-basis points impact from cross currency. Is that number fair or am I really not looking at the organic growth excluding IBM and Geometric correctly?

C. Vijayakumar: No, I think we should just compare it with constant currency growth which was 2.6% sequential growth. And as I had indicated, it would be roughly equal, between organic and inorganic. And as a practice, I find it very difficult to call out very precisely on how much is organic and inorganic, because there is some portfolio optimization which is there, there is some cross-sell, there are many elements which come in. So, I think we want to just leave this at an approximate level.

Moderator: Thank you. Our next question is from the line of Ashwin Mehta from Nomura Securities. Please go ahead.

Ashwin Mehta: CVK, I had one question on Europe. This has been a strong market for us in IMS historically, if you look at ISG data on ITO or traditional deal flow, that remains strong, your competitors seem to have seen strength in this market. So, is it just the BPO business or the one deal that is causing the weakness or you have something in IMS in Europe as well?

C. Vijayakumar: Well, if you ask me from this quarter perspective, Europe weakness has been contributed by two factors, which we described – one was a Financial Services customer whose BPO scope of work was insourced due to regulatory reasons, that contributed to their reduction in BPO as well as in Europe. And the second is the large Infrastructure deal, which all of you are aware, entered in to the second year. As we enter into the second year there is a structural reduction in revenues and obviously we have done our bit to make sure our costs are also reducing in line with the committed productivity benefits that we were passing on. So, these were the two components and both of them are significant. And outside this Europe did very well in terms of generating growth.

Ashwin Mehta: And just one question on our Engineering Services business, if x out the Geometric acquisition and the IP deals, the Engineering Services growth was a tad soft. So, when you see the organic Engineering Services business starting to pick up?

C. Vijayakumar: Maybe I will request GH Rao, maybe GH, would you want to just comment on this?

GH Rao: This quarter we do have organic growth as well, in Engineering Services. However, the growth obviously is dominated by the inorganic component which is primarily from Geometric.

Ashwin Mehta: GH, wanted to know when do you see a pickup in terms of the organic growth in Engineering Services?

GH Rao: So, as I said, there is growth. If you are going back to the large deals, when we have large deals in Engineering Services compared to the rest of the IT services the occurrence of large deals in Engineering Services is not as frequent. Nevertheless, now we do have the traditional organic growth, some of it could have been subdued in the last quarter because of the ramp downs in the previous large deals. So, if you separate out the growth of Engineering Services into two, one is traditional organic growth which is there, which has been there. The large deal related growth is not there in the last probably few quarters. However, the previous large deals are ramping down, because of that you would probably see everything adds up to not actually a great new growth. However, today if you see, our strategy has been to add more Mode-1 services to our Engineering Services in terms of acquisition, so the add different service lines like PLM that adds strength into verticals like automotive, industrial and heavy engineering. So, once now we complete the rationalization we will be able to leverage the additional capabilities in Mode-1 services.

Moderator: Thank you. Our next question is from the line of Sandeep Agarwal from Edelweiss. Please go ahead.

Sandeep Agarwal: So, on the Mode-1-2-3, I am sorry but I am not able to find out if any proportion you are disclosing this time, how is the movement there. So, some clarification on that side would be of great help. And secondly, CVK, IMS has been a great engine of growth for us till now and we are seeing some kind of aberration in IMS. Is there a risk to our upper end of guidance or the range of guidance provided and are you seeing lot of compensation coming in from Mode-3 growth? That is all from my side.

C. Vijayakumar: Thank you, Sandeep. Many questions, so let me answer them one by one. Mode-1-2-3 segregation, we will give it on an annual basis. So, we do not want to do it every quarter. I think it is also not meaningful to look at this every quarter, so we will be providing this in the last quarter of this year. IMS, yes, I think it was a big growth driver. I do feel very confident that our well-balanced portfolio, our Application Services has started doing significantly higher growth than what we have seen in the past and in a very, very consistent manner. And of course, our Mode-2 and Mode-3 strategies as well will help drive our overall growth. At this point, based on all that we know I do believe we will be in the guided range. I mean, of course, any point in time there will be large number of dependencies for us to meet the guided range, including closure of deals, execution, many elements. But we feel confident about meeting the guided range.

And your last question was will you see more growth in Mode-3? It still a similar answer that I gave, as a strategy we are looking for Mode-3 building and IP and Products & Platform business. As and when we see good opportunities we will definitely look at them and kind of encash on it. And we are also focusing on in-house development of IPs which is really an offshoot of our DryICE proposition and that should also help us to get some more momentum on the Mode-3 services.

Moderator: Thank you. Our next question is from the line of Shashi Bhushan from IDFC Securities. Please go ahead.

Shashi Bhushan: We have invested nearly $780 million, which is 10% of our revenue in our IBM partnership and we might we expecting, given our earlier statement, something like $200 million value from that. How much investments the partnership seeks more before it will stabilize and what would be our cash war chest that we are planning to invest in Mode-3 of business?

C. Vijayakumar: So, I do not think there is sort of a defined level of investment which will be needed to kind of stabilize this. Because this is a new area which we believe is strategic, it is very futuristic from our own overall long-term strategy perspective. So, I think we will look at each opportunity based on the merit of the opportunity, how relevant it is from our capability to really make those IPs into modern capabilities which are relevant for the 21st century enterprise, and then we will take a call. So, it is difficult for me to call out a specific number as to what will be the limit of the investments here. From an overall investments or acquisitions perspective, we continue to look for right opportunities in all areas, IP is one, all the Mode-2 services and a little bit of focus on expanding the geographic footprint in Mode -1.

Shashi Bhushan: Sure. And in Engineering Services do you see any impact on the existing portfolio that existed before say Geometric, IBM or Butler? And few of the technology companies also in their product might have got disrupted because of cloud and Digital technologies.

C. Vijayakumar: Maybe GH, if you want to take that question?

GH Rao: See, I think for Engineering Services the technology disruption is, I would say, more positive, because we end up in participating in making those technologies so that they can be applied in rest of the IT. So there is, I would say, a newer opportunities and some of the traditional opportunities obviously in terms of, let us say, software product engineering they will become more platform engineering today rather than traditional software engineering. So, some services in online an ISP space have marked to new services, but in traditional space which are more hardware engineering and mechanical engineering oriented, that disruption is not as high as what it is in the rest of the IT services.

Shashi Bhushan: And two bookkeeping questions, one is, our margin guidance is at 65.5, what would be the margin guidance at the current currency level which is around 64.5 or so?

C. Vijayakumar: So, have not adjusted that as yet because there are multiple currencies which are operating. So, at the moment you can go by 65.5 and I think we are well within the range, probably we are at the upper end of the range, so may be exceeding it.

Shashi Bhushan: And last one, share count has gone up by nearly 1%, did we account for share buyback that we completed in the quarter, because including that the jump would be 4% which is pretty high.

C. Vijayakumar: The buyback was just 2.5%. Can we come back to you offline on this?

Shashi Bhushan: Okay sir, thanks.

C. Vijayakumar: Because this year were intact as of 30th of June and they got extinguished only in early July. So, I do not see this discussion taking place with the auditors on that, but I do not believe this should have changed. But we will be happy to connect with you off line on this.

Moderator: Thank you. Our next question is from the line of Viju George from JP Morgan. Please go ahead.

Viju George: I just had one question on your expensing policy on IP. How has it been done right now, how much of it is going through the P&L, how much of it is through the balance sheet?

Anil Chanana: So, Viju, so far as IP is concerned, whenever we acquire an IP it is amortized over the likely benefit which is going to flow from that particular IP. So, we estimate the revenue and basis the revenue we do the amortization. And a significant portion of that gets reduced from the revenues directly and other portion is getting shown in the line of amortization. So, both get expensed, so it is getting expensed out fully. So, whatever information we have, so in this quarter for example close to 12 million got amortized against the revenue, total is 17 million which got amortized and the balance got written-off in the line of amortization.

Viju George: And CVK you did mention that IMS is probably going through a bit of a soft patch now, maybe over a next few quarters as well. Is it something that concerns you from the most structural perspective, maybe we have got to look at this as a sub-10% growth business for HCL Tech which is obviously clearly a growth driver. So we will have to look for this business outside of IMS to keep driving the current growth momentum.

C. Vijayakumar: Viju, certainly we should be looking for businesses outside IMS to grow, because there are lot of opportunities and the technology intensity is improving in a number of industries. Over IMS, I think we should just look at the next couple of quarters and probably the last two quarters as well, but differently. I think structurally I do believe it is still a under penetrated market and we need to focus and ensure that we maintain good growth rates. But obviously it will be significantly lower than the growth rates that we saw last year.

Viju George: So, your outlook on IMS is limited to only near-term, that is the clarification I am seeking?

C. Vijayakumar: That is right.

Moderator: Thank you. Our next question is from the line of Deepesh Mehta from SBICAP Securities. Please go ahead.

Deepesh Mehta: Sir, just one question. I was just going through about new client, typically we are reading significantly revenue from new client at the beginning, this time it appears to be significantly lower than historical level. Is there anything much to read into it or you expect it to be a more US related softness which you are witnessing?

C. Vijayakumar: You are talking about revenue from new clients, you will be comparing the percentage of revenue from existing and new clients, is that your data point?

Deepesh Mehta: That is right sir. 2.4% if I look last year this is the lowest number we have had at the beginning of year.

C. Vijayakumar: I think it will probably be related to when the transitions get completed, that is what I would say. I do not think there is anything different from a new client acquisition or growth from existing clients. I cannot kind of put a finger on what is different in the last quarter. So, may be in terms of revenue translation new accounts would have taken a little bit more time while the quarter two materializes into revenues.

Anil Chanana: So, Deepesh, a couple of points here. One of course is that our renewal, as Vijay mentioned earlier has been 100% this quarter, that is one, so a very strong renewal. Second is that what we put here as a number is a last 12-month number, we do not take just for the quarter, we just always take LTM. So, it is basically in some quarters a large deal would have come which would have sort of impacted the number in the movement. Otherwise, it is nothing which I would call out, nothing which is very specifically we can call out here.

Deepesh Mehta: Anil, I was under impression at the beginning of the year we reset it and new client shows reset number every year beginning.

Anil Chanana: No, we don’t, we continue with it on LTM basis.

Deepesh Mehta: And last thing is about the IP related accounting you said, whether there would be any difference between IndAS and US GAAP in revenue accounting?

Anil Chanana: I do not believe there is any difference, actually we just checked, I mean because the question you asked, we sort of verified again, there is no difference between the two. Just a line item and Sanjay can separately send you this.

Moderator: Thank you. Our next question is from the line of Ashish Chopra from Motilal Oswal Securities Ltd. Please go ahead.

Ashish Chopra: CVK, on the large IMS deal last year which had to be reset lower as a part of the structured program, so this should be the way every year in the first quarter, would that be the right assumption?

C. Vijayakumar: Yes, the magnitude may be varying, Ashish, but most deals have an annual structured kind of productivity improvements and things like that. But sometimes it gets offset by some growth an things like that. So you have to really see the situation that is specific to that quarter.

Ashish Chopra: And secondly, just on the weakness or these delays in decisions around IMS, could you just throw some light on how much of that is really because of the macro? And is there a role also being played by the fact that there are multiple dynamics of cloud, software defined networks and automation also playing into how do you really go about structuring the IMS deals from a clients' perspective? And that could be leading to may be slightly slower or slightly longer sales cycles.

C. Vijayakumar: I mean, as I mentioned in my Mode-1 commentary, most of the Mode-1 deals come with some significant component from a solution perspective with cloud or little bit of security and all of that, at least especially the Infrastructure deals. So, I think that has been a part of our solution, either it is software defined Infrastructure or little bit of public cloud is there. I do not believe the change in solution or some new solution is causing any kind of delay, I think it is primarily due to decision and basically lot of clients are taking a very deep look at what they are trying to do from a large-scale outsourcing perspective. And I mean, I do believe they will fundamentally decide based on the business case and that would stay intact. And that is the reason I have feel structurally the business and the momentum will be intact. However, their causing, taking some time, more discussions, more reviews before they take those decision. But this is especially true for large run the business kind of opportunities. But change the business, I do not think these dynamics is really applicable.

Ashish Chopra: And just lastly a bookkeeping for Anil, so out of your total close to $800 million odd, I think around $570 million odd is already in the cash flow. So, I just wanted to understand the schedule for the remaining $200 million - $220 million?

Anil Chanana: It will be get paid in the next four quarters.

Moderator: Thank you. Our next question is from the line of Sandeep Shah from CIMB. Please go ahead.

Sandeep Shah: Just CVK on the IMS, there is a good explanation, but just a question on the deal pipeline. Is the slowdown also in terms of number of deals or is it just slowdown in terms of decision-making?

C. Vijayakumar: I think our pipeline is somewhat comparable to what it was in the earlier years. A number of deals, I think maybe it is a little bit more because the deal sizes are generally slightly getting smaller, due to the same reason that I mentioned earlier, automation and change in consumption models, etc. So, if you assume, the pipeline is more or less same and deal sizes are smaller, so the number of deals could be slightly higher.

Sandeep Shah: Okay. So, is it fair to say that if the decision-making improves then this growth could be better, which you have highlighted that the trend which you are talking is largely for the short-term rather than medium-term to long-term.

C. Vijayakumar: Yes, I mean I do expect some directional change towards the last quarter may be, it is still just a guess but I think you should just look at our overall guidance and not really worry about which quarter you want to have a challenge or anything like that. I think we are quite positive about meeting our guidance range overall.

Sandeep Shah: Just two questions, I think there was a comment for Retail and CPG where there are deals merging for system integration where you are actually integrating the frontend Digital or online with the backend core. Is that trend emerging across vertical and do you believe this could be the next phase of Digital where the deal size is going up because of this reason? And the second question is in terms of the segmental margin, if you look at for the software services the margins for the last two quarters are coming down, while we believe that there is a margin accretion coming through IP acquired from the IBM, so why the segmental margins like overall terms the margins are better but for the software service despite the IP related business coming into play the margins are not improving or remaining flattish.

C. Vijayakumar: Maybe we will take this in two parts, may be Anand who heads our Digital and Analytics practice, do you want to comment on deal sizes and Digital and what are the dynamics that is playing in integrating front end and back end? And then one of us, me or Anil will come back on the segmental question.

Anand Birje: So, yes, actually this is bit of a cross industry trend. What has really happened, of course, in these three years is that a lot of the Digital transformation focus was in the frontend transformation, so customers and enterprise we are focusing on the engagement platforms, their front facing platforms, their customer facing platforms. And they are really putting all the energy and investments in transforming the front. But what is really now happening is what we call the scale variable which is they are now engaging in those platforms and looking at their entire backend Application technologies whether in DRPs and supply chain and Retail and CPG or even what Rahul referred to in banking and Financial Services, a lot of the backend Application legacy technologies are getting relooked at, refactored, modernized or in fact brand new platforms are getting created in the back end. And that is where we have invested. So, a lot of our Digital transformation capabilities have been focused around modernization of the back end, using APIs and micro services technologies. And that is kind of helping us play in that skill Digital market. In fact, it also correlates to Rahul's point earlier that we have been able to replace some of its traditional apps vendors because they tend to protect legacy back ends and we are able to come in as a disruptive vendor looking at backend instead of new modern apps and transforming those. So, it is a cross industry phenomena that is happening in Digital executions.

C. Vijayakumar: Anil, would you want to explain the Application segmental earnings?

Anil Chanana: So, I think there could be a couple of factors, I think we are focusing more on the margin as a whole of the business. This differentiation is becoming more and more tougher to keep. But I think as I understand, the way the exchange impact is also different for Infrastructure business versus the Application business, that could have led to and there could be utilization which could have moved differently in different business, so these would have been the factors. But in general, so far as IPDs are concerned, I know for very sure that they are not negatively impacting the margins, if at all they are positively only impacting the margins.

Moderator: Thank you. Our next question is from the line of Ravi Menon from Elara Securities. Please go ahead.

Ravi Menon: Just wanted some clarity on the segmental margins for IMS, I know Anil just said about Application, but I thought that IMS margins have improved significantly quarter-on-quarter, about 130 basis points. So, is it due to an offshore shift CVK talked about and how there has been some cost take out in correspondence to large deal that you had last year? And overall employee cost as well seem to be very well managed, you have added 1.6% QoQ to that cost has gone up only 0.9%, this is because hiring was mostly fresh graduates or was it because hiring was back-ended for the quarter?

C. Vijayakumar: Yes, I think I will explain this. I think IMS is a very large component of managed services or fixed price kind of revenue construct. And this over a period of time that has landed itself to some level of improvement in margins. So, it really depends, I mean we have been continuously reiterating that DryICE cost take out is a part of a lot of our operations. So, I think that is what is primarily contributing to improvements.

Ravi Menon: And employee cost overall, that is also you can say is related to the IMS cost take out with automation?

C. Vijayakumar: Maybe I do not have a very specific answer, this could be, I have to just analyze this. Just on this line item I do not have a IMS specific view, Ravi.

Ravi Menon: If you can give some color on your overall hiring for the quarter, was there lot of fresh graduates or you did your ramp-up more offshore?

C. Vijayakumar: Yes, I think we did hire freshers. I think overall, I think we had a net additional of 1800 people. So, a lot of it is offshore.

Moderator: Thank you. Our next question is from the line of Rahul Jain from Emkay Global. Please go ahead.

Rahul Jain: Just one question on the productivity gain of 6% that you spoke about. Can you share more input and how we are computing this and how it stands on a YoY basis?

C. Vijayakumar: Okay. So, you are talking about revenue per employee, right?

Rahul Jain: Yes.

C. Vijayakumar: I think it is contributed by multiple factors, the revenue profile and managed services contracts, fixed price contracts and some of the high-end offerings that we have, all of that is contributing. So, I think there is contribution for multiple angles which is driving a slight growth on a year-on-year basis from a revenue per employee perspective.

Rahul Jain: So, you said this is 6% for the quarter on a YoY basis or LTM basis?

C. Vijayakumar: LTM basis.

Rahul Jain: And we are seeing that some of the scope of the projects are getting smaller in terms of the volume because of the automation and all. So, all these gains that we are seeing on the pricing front, how much of it are able to compensate for the reduction in this scope?

C. Vijayakumar: I mean, it really varies from deal to deal. I mean, it depends on the lifecycle where we are on our automation roadmap and automation journey. So it is very difficult to call out specific trend, either way, for this point on this.

Moderator: Thank you. Ladies and Gentlemen, this was the last question for today. I would now like to hand over the conference over to Mr. Vijayakumar for his closing comments. Over to you, sir.

C. Vijayakumar: Thank you all of you for continued support. And from an overall company perspective we remain very positive about our evolution into the next generation services firm. We continue to put lot of leadership and attention in bandwidth in trying to make ourselves very successful in our Mode-2 and Mode-3 services, while also trying to continue to strengthen our sweet spot in our Mode-1 services. I think this strategy is playing out very well and I do believe we are best positioned in the industry to really emerge as the next generation services firm. With that I would conclude this call and look forward to talking to all of you during the next quarter and some of the meetings that may happen in between. Thank you all of you.

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