"HCL Technologies Limited Q1FY16 Earnings Conference Call"

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MANAGEMENT: **MR. ANANT GUPTA – PRESIDENT & CHIEF EXECUTIVE OFFICER (CEO)**
MR. ANIL CHANANA – CHIEF FINANCIAL OFFICER (CFO)
MR. RAHUL SINGH – PRESIDENT, FINANCIAL SERVICES SALES
MR. C. VIJAYAKUMAR – PRESIDENT, INFRASTRUCTURE SERVICES

Moderator: Good Day, Ladies and Gentlemen, and Welcome to Q1 FY16 Earnings Conference Call for HCL Technologies Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after presentation concludes. Should you need any assistance during the conference, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anant Gupta from HCL Technologies. Thank you and over to you, sir.

Anant Gupta: Thank you. Good day to all of you and welcome to the Q1 Presentation for HCL Technologies.

We started FY16 on a strong footing. Our quarterly YonY revenue grew by 13.5% in constant currency terms and on an LTM basis we delivered 15% growth rate with the three year CAGR now depicting about 12%. EBIT grew by 20% over the three-year period and net income by 28%.

Over the year we continued to have significant client additions, but specifically within the quarter we added 1 client growing up into the $50 million category, 3 clients in the $30 million category, $20 million clients we added 2 and in the $(+10) million we added nine.

Now just digging deep into where this growth came from – from a geography perspective the growth was lead by Europe at 18.2% YonY on a constant currency basis, America has done about 12.3%, Rest of the World a little lower at 5.8% largely on account of India which had a seasonal impact in the H2 of the calendar year which is really the H1 for us.

From a service line perspective – Engineering Services delivered well 23.7% growth YonY, Infrastructure Services 16.3%, Business Services 19.7% and Application Services 6.4% around the industry average over here.

From a vertical standpoint three verticals really delivered significant growth on a YonY basis, Healthcare grew by a little over 40%,. Public Services grew by 22% which includes for us Oil, & Gas, Energy & Utilities, and Travel, Transport, and Logistics besides Government and this is after taking in account the one-off incident that we had given an early warning for a fortnight back. Telecom & Media also grew well by 23.2% largely driven by significant digital product engineering work that we are seeing in that specific segment.

A point to note over here on the Infrastructure really is that if we segregate the Infrastructure Global business from the Infrastructure Overall business, the Global portfolio grew by 22% on a YonY basis and further if we look at the steady state portion which is taking out the one-time projects and transformational work which keep coming in a quarter or getting completed as they go and then something else coming in, grew by a little over 32% on a YonY basis. So extremely strong growth in that business as well.

Let me spend a couple of minutes on how do we see the state of the market? So the first block really is from an IT Services standpoint and this is something I am picking out from Gartner, they had predicted a 3.7% growth but they really never anticipated a significant impact of currency which really pretty much took away most of the growth over there. So at an overall level on a reported basis the growth rate really was flat. From a 2016 perspective they are reporting, given the exchange rates as they are today, a 3.9% to 4% growth rate for the IT Services business at an overall level.

Coming into the Rebid market – given that we participate in that quite significantly both from an IMS perspective as well as an ITO perspective, we continue to see that market extremely large and that whether you look at ISG or Gartner or Everest we see a significant quantum still available in the next three years totaling to about $150 billion worth of renewals in 2016, 2017, and 2018 which is non-Government and non-BPO business.

An important point to note, 58% of that is expected from the EMEA region and 30% from what is the full ITO business which is really looking at Infrastructure Management and Application Operations put together there has been a significant increase in the value proposition of these deals coming together given that the complexity of application management coupled with the (SaaS) Software as a Service becoming more relevant therefore the complexity of Application Operations becoming relatively easier and better aligned to the ITO bucket itself.

Another interesting strength, both Cloud Services which includes Software as a Service as well as Infrastructure Utility as a Service is showing an increase and we have been seeing that and we have been also stating that as part of our overall ITO deals we do see a significant component of those elements and we have been building solutions in partnership with multiple vendors to offer a full solution to our customers.

The churn rate continues to be around 40%, so that is an important element to watch out for which kind of impacts us positively from an addressable standpoint in markets where we were not present, so that number going up from a little over 34% in the last two years to 40% is an interesting data point.

Coming into the lower right quadrant which is around the Application Consulting and Implementation Services – another interesting thing, $20 billion worth of renewals are anticipated in Applications, again non-Government, over the next three years. A significant portion of this which we believe and is being reiterated by the industry analyst community is the emergence of an outcome based model in that space as well. So 25% of application contracts will move to that specific model which will further put different service providers in terms of the delivery model and the alignment of how they see both Automation and the outcomes being aligned to the service delivery over there.

Another interesting trend being that Consulting on a standalone basis is reducing and actually getting clubbed along with execution and therefore elements of where we have been trying to grow that in the digitalization space is an important area as well as other areas like Risk and Compliance and Digital Consulting and the Architecture will be a common theme or an integral threat going forward when we look at some of this and Rahul will talk about that from a Financial Services' perspective as to what he is seeing.

Finally on Engineering Services, we continue to see that, we do not still believe that we are there from an inflection standpoint but I think we are important drivers driving that market and out of the six over here I think four are extremely relevant from our perspective, the first being around Internet of Things, that is an area where we clearly decided to focus on especially around industrial Internet of Things and we see an increasing portion of that. The IR Pack which we released this quarter also do indicate a few wins in that space and how that is shaping up especially when you look at industrial goods and medical devices.

The other being Localization which is as more firms look at low cost countries especially China as a manufacturing, they are looking at extending Engineering Services Outsourcing to be more closer to the manufacturing basis that they have and as part of our response to that we are scaling up our presence in Engineering Services both in China and in Mexico where we already have centers for the traditional IT Services. So I think these are two important areas we will see continuing to drive a significant portion of our growth in Engineering Services.

Moving on, we have talked about how HCL has been positioning these services in the global market and I just thought I will paint a picture as to where we are going as we move ahead. So 2005 to 2010 is where we pretty much classified the market as an effort based service level kind of a contracting model moving more into 2010 to 2015 which was an output based model and a specific market where HCL has driven that quite significantly. If you look at the output based model business that is there within HCL that it is 2 percentage points higher on an LTM basis moving up from a little over 54% to a little over to 56%. But going forward we fundamentally believe that these services will shape more as outcomes and move away from what we call as competency-based plays into outcome-based plays and that is where we have positioned ourselves clearly in three specific areas. One is Digitalization, second is Next-Gen ITO and the third is Internet of Things, essentially each one of these will be full-stack**,** will attack the entire value chain as needed in the marketplace, will drop on the significant expertise of the underlying four strong lines of business which is Engineering, Infrastructure, Applications, and Operations. So we will start seeing a lot more integrated deals as the outcome-based models pan out.

From our perspective the Digitalization stack, earlier in the calendar year we did announce that we are making significant investments in hiring the appropriate leadership, we are at over 70 senior leadership members in that specific area including Next Gen ITO and IoT. But during the quarter the 'Beyond Digital' business took formal shape, it was launched and it is kind of helping win and gain differentiation in the business we pursue in the marketplace. A key deal as part of that really which we announced was the Manchester United engagement which is the 7th co-innovation lab which we have within the globe. This is really focused at large scale internet scale systems and internet scale security given the clump has in excess of 650 million users, so it gives us the opportunity to build systems and applications which will deliver to that scale on one hand, at the same time provide a completely differentiated user experience which could not only be applied to Manchester United but also the various partners and sponsors that they have as part of their association.

So summing up, I think all I would like to say is that our revenue growth profile as been higher than the average of the top three Indian players in the last three fiscals and we feel extremely comfortable and confident that we will repeat the same in this fiscal as well.

A couple of points which kind of add to our confidence over there besides the booking and the pipeline is really our order book, our order book is 10% higher than the highest levels we have previously seen significantly aided by the recurring and annuity nature of our IMS and ITO business as well as the sticky engineering work that we do in product development which kind of contributes to that. And finally on the EBIT, we have previously guided that we will be in the 21% to 22% range and we stick to that guidance as we look at the market going forward.

With that I will hand over the call to Rahul so that he can walk us through Financial Services and also give a little flavor on the alternate application development market as he sees it.

Rahul Singh: Thanks Anant. I am on Slide #8. Financial Services we had grown 7.7% year-on-year over Quarter 1 2016. On the LTM basis which is perhaps the way we look at it would have grown at 13.2% which is an industry-leading growth from Financial Services perspective.

On the overall basis we are seeing a healthy pipeline both across the geos in Europe especially and also in North America. What we are seeing in Financial Services to add to what Anant spoke about there is a lot of focus on cost reduction in Financial Services. Our Financial Services clients are under tremendous margin pressure essentially from regulatory change as well as a lot of non-Financial Service and traditional competition that is affecting them and as a result of that most large Financial Services clients are looking at cost reduction and at the same time reinvesting the money in the digital initiative for the better customer experience and in the new products within customers.

In essence the Financial Services from an outsourcing perspective it is resulting in large clients looking at vendor consolidation. Most Financial Services customers are essentially Gen 2, Gen 3 type of outsourcers so they have been using the offshore model for several years and therefore they are looking at beyond off-shoring what more value can you add, how you can initiate them to move to into better cloud-enabled environment, how can you help them to modernize legacy. So that is a trend in Financial Services, they are definitely moving from first generation outsourcing with the T&M based to more outcome and outsource driven.

We are also seeing few more trends in Financial Services, there is a larger adoption of what we call as 'COTS Products' which are essentially 'Off-the-Shelf' platforms which are faster to market and we just implement from a Financial Services perspective. And we are seeing flattening of the regulatory spend, so regulatory spend which was increasing last couple of years is flattening out, clients are looking for more industrialized compliance and of course the money that is left over is being used for more digital agenda which are more business driven.

In line with the fact, at HCL growth drivers what is our focus and how we are seeing our typical clients? Our large clients are looking at vendor consolidation, we are very happy to mention here that a large European industry bank has done similar consolidation which we have been a recipient of in terms of the award. We have also seen a consolidation happening in Asia-Pacific in large retail bank where HCL has again win award in the consolidation mandate. Now these consolidation mandates are all driven by as I have mentioned earlier by more outcome driven approach, so therefore commercial constructs have to be more outcome driven. We have to use new techniques from an applications perspective, their methodology, modern apps, and perhaps also bundle the service lines as we look at them.

So in terms of our proposition, what we are doing is in order to both retail existing accounts as well as the new accounts we are looking at more integrated proposition so we form a large deal in Europe in the Insurance Banking space with an integrated infrastructure and applications operations deal which was done last quarter. Similarly we are looking at new accounts also from the point of view of digital and new technology, so we are looking at specifically targeted new accounts both in Europe and in North America with the new and what we call as 'Alternative Application Development' where we look at modern applications, we look at Agile methodologies and we try and adjust to the need of the customer.

So all in all two specific growth drivers, one targeted towards the consolidation market where we are already present in, how to change in the commercial context and making more outcome driven. And second, there we are looking at new clients in our existing Europe and North America and Asia market, where we are looking at consolidation of service lines due to the higher value to the customers to be more responsive on outcome and also looking at modern apps, digital where we are looking at delivery clients where we co-innovation so and so forth.

In terms of recognition from the market – the market is recognizing the traction that we are seeing in Financial Services. We have been rated as 'Star Performer' and put into 'Leaders Quadrant' by Everest both for Banking and Capital markets this year which is a big achievement because that moves us into Top 4 or 5 outsourcers from India perspective. Similarly we are being rated high in terms of Thought Leadership by Tower Group and others analysts who are scrutinizing that space.

With that I would like to hand over to CVK to talk about Infrastructure vertical.

C. Vijayakumar: Thank you Rahul. I am on Slide #10, I will take you through the highlights of the Infrastructure Services for the past quarter. In terms of our financial performance in Q1, Infrastructure Services grew 16.3% YoY, this was a quarter with excellent booking performance dominated by US, followed by a good bookings in Europe and Rest of the World as well.

Just to highlight a few wins, we won a deal with the Fortune 10 Oil and Gas Company to provide datacenter operation and end user computing services. We also won a significant deal with the US based defense ASI for IT Infrastructure Transformation where we will deliver end to end IT Infrastructure Services including datacenter, work place, network, and security services. We were also selected by a leading Nordic power products manufacturer for providing Datacenter Hosting, Network Services, and Application Operations Services. We also won a sizable deal from a large South Africa based integrated Energy and Chemicals company on the datacenter and disaster recovery site. So overall this has been a pretty good quarter from a booking perspective.

Just going on to the trends that we are seeing in the environment, the pipeline looks very healthy and our excellent win ratios that we have been used to and our market positioning which is really significantly leading several other players ogres very well for our business growth, we are very-very positive about the pipeline and our ability to win and grow in the coming quarters. Number of companies are placing digital bets and significantly allocating budgets for digital technologies and this really comes with a platform build out capability which is really the core of infrastructure build proposition that we have. We are also seeing a healthy demand in multi-service integration which is also called as SIAM for both platform and services. We see continued traction in rebid market as Anant pointed out earlier. We are also seeing first time outsourcing opportunities in US and Europe.

In terms of growth drivers and market shares, specifically I want to point out that increased deal sizes are seen due to end to end multi-geography requirements with clients interesting the entire infrastructure portfolio with one provider and having ability to execute across the globe and really deliver an end-to-end stack, positions us very well to win these opportunities and execute.

In terms of program execution, as the complexity of deals and the technical scale increases, the change management complexity, and the technical complexity associated with these deals takes time to execute the programs. Change management in terms of getting all these stakeholders and client organization across geographies align to the overall program ramp ups and things like that, that is taking a little time. We continue to see good growth in Gen 2.0 outsourcing deals with an evolved and mature value proposition for Gen 2 outsourcers like us.

In terms of value props and recognition, we continue to retain leadership position in key Gartner Magic Quadrants specifically on Datacenter Outsourcing, Infrastructure Utility Services, and End User Computing Services. Recently the Everest Group's peak metric report gave us a leadership status in the End User Computing Services.

In terms of value proposition we announced a service orchestration and IT process automation platform called 'Dry Ice'. 'Dry Ice' is a breakthrough thinking that focuses on work elimination through predictive Analytics and self healing solutions. We believe our focus on automation and orchestration over the years has truly culminated into a great offering in terms of 'Dry Ice' which is really a breakthrough proposition and we are already executing this in several clients, it adds on to already existing automation capabilities that we have.

This quarter we also launched 'Digital Service Exchange Platform' enabled on the SaaS platform of service now, this is primarily to enable our ability to execute service integration, and management deals in a multi-vendor environment. In addition, we have also developed a significant capability in terms of digital run expanding on our Run-the-Business capability and this was launched under Beyond Digital business launch which Anant spoke earlier.

To sum it up – overall the outlook looks very positive and our leadership position, analyst recognition, all of them continue to be in good shape and we continue to be very-very positive about the outlook for the business moving forward.

With that I will hand it over to Anil.

Anil Chanana: Thanks Vijay. Good Day everyone. Looking at the financials, what I have done is I have shown 30th September, '15 two columns, one is excluding the adjustment or before the adjustment which is that one-time provision for a project and second is what we have reported. You can see clearly which head that particular loss or provision has been taken, it has been taken under the direct cost which is 18.2 million and when it comes to the net income it is 14.8 million which is left. So the net income impact is 14.8 million while before tax impact is 18.2 million.

We started the year with a quarterly YonY growth rate of 13.5% in constant currency, very healthy YonY growth rate. The order book as Anant mentioned is 10% higher than the highest ever we achieved and our revenue profile for the last three consecutive financial years has been better than the average of the top three India offshore providers and we do believe that in FY16 it will continue to beat it.

If you look at an EBIT level, our EBIT level excluding the adjustment increased by 40 basis points, this is in spite of the wage increase which had impacted the margins by 85 basis points this quarter, and we also got a benefit of 70 basis points from currency on our EBIT margins. The rest of the gain was on account of efficiencies in the business which we could get.

I will move on to the next slide. In terms of cash conversion, if you look at this quarter is the operating cash flow to net income has been better than what it was same period last year at 77% while on free cash flow to EBITDA basis it is 50%, again better than what we were last year, but typically in the first quarter these ratios are lower and they catch up in the course of the year.

Moving on, the hedge book has been close to 1.3 billion, 300 million on account of balance sheet and cash flow being close to $1 billion and the various mix etc is indicated being the booked rate being 65.73 for less than one year and 68.30 for more than one year and most of the time we have been using options, the range options.

If you look at this quarter we reported FOREX gain of 3.4 million, the cash flow has given us a very marginal loss of 1.6 million while on the currency the balance sheet side we got a gain of

4.9 million. Our OCI is positioned as of 30th September is negative at 7.92 million and so far as October to December quarter basis, the September end exchange rate is (-0.2) million. The tax provision came to be 21.5% this quarter and this has been the stated range of 21% to 22% for this year and 22% to 23% for next year.

With this I hand over to the Operator.

Moderator: Thank you very much sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Sandeep Agarwal from Edelweiss Securities. Please go ahead.

Sandeep Agarwal: Sir I have a couple of questions. First on the quarterly revenue numbers, I understand the reversal part and also the currency impact, in spite of that I think the sequential growth is not strong so can you throw some light on that what is happening there. And secondly, you spoke at length on the renewal market and the size and all those things, but we have been seeing very strong wins from you for last several quarters but probably it is not converting that strongly in to the execution side and in our numbers. So if you can please throw some light on what is causing the delay?

Anil Chanana: Well, if you look at the numbers the quarter growth which has been reported I would say was impacted by two reasons, couple of reasons, one of course you said is the currency which impacted it by 70 basis points. In addition to that the information contract, the contracts which we are taking up are complex in nature, they involve doing the execution for Fortune 10, Fortune 50, Fortune 100 companies and which have global operations and the skill at which this task has to be taken up is huge and so these programs take a longer period of time and therefore the time it takes to convert into a steady state revenue stream has become longer, it does not mean that the revenue does not come, it is only getting shifted in a way. So that is another one. Other thing if you look at our Infrastructure Services, it is the element of domestic business, about 95% of the business is global and 5% now is left to these becoming smaller and smaller which is the domestic side of the business and that is sort of year-on-year we are focusing on pure areas and this year particularly there was a significant fall year-on-year, even on quarter-on-quarter basis year-on-year fall was in excess of 25%. So these are couple of reasons why the quarter numbers are not being to the extent one would like to look at, but the growth if you look at on a YonY basis has been very strong at 13.5%.

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

Ananta Narayan: So Anant, my first question as you rightly pointed out your LTM growth numbers have been fairly strong. But when we compare your quarterly flow of numbers with your peers that seems to be a bit more choppiness for HCL Tech compared to the others. Would you agree with that and can you ascribe any reason for that?

Anant Gupta: Yes, I think the only two reasons I can think of in addition to Anil mentioned, one is because of the scale of the program and they took components that go into large scale transformational outsourcing, there are really two components. One is the transformational work of rebuilding the datacenter technologies which are there, consolidating, migrating, and transforming them. Now that typically is a program which takes a significant amount of time and that is lumpy in nature because if you pick up a large global contract and you would need to migrate them out from an incumbent provider there is significant activity which is timed with respect to conditions in the market, in terms of different peak periods which are there, so there will be choppiness in that portion of the revenue. Now there is the balance portion which is the steady state operations which continuously grows as the operational work is taken over. Now that is done in a time bound manner because you take on the existing environment depending on whether it is a day one contract and that continues to grow. So therefore I mentioned that if we look at purely infrastructure global services, firstly it grew by 22% YonY and secondly, we just take out the steady state portion of that, it grew by 32%. So there will be a difference when you look at the nature of the contract which contributes to that specific choppiness. But you are right, there will be choppiness in large deals because they are fundamentally of that nature. On the other hand if the engagements are largely outsourcing of the operations whether it is a network, whether it is the end user or just the datacenter alone, then they would normally get done in a lot more shorter period and in a lot more stable QonQ growth trajectory.

Ananta Narayan: And my final question was to Anil, so Anil as we get towards that 21% to 22% margin range for the full year, is it possible at all to quantify some of the factors that get us there?

Anil Chanana: Sure. So if you look at how the investment trajectory has taken place, we started investing from early 2015, calendar 2015 and there were three prime areas of investment, one was setting up of global delivery centers, research labs for our customers and co-innovation labs. Second area of investment was in terms of taking on these engineering, large engineering engagements as also Next Gen ITO contracts. And third element of the investment was hiring something like close to 100 senior resources to fuel our growth and to digitalization, into IoT as well as invest into areas like risk and compliance. So these investments have started paying off in the sense that the facilities, the global facilities, the GVCs we have set up, we are now using those facilities, in fact we are seeing such a good demand that somehow those facilities are going in for a next sort of level of increment addition is going on there. So the way forward is going to happen is that these investments are going to be or we will be able to fund out of whatever we are generating, the profits we are generating and we do not need incremental margin out for that purpose. So I would say that similarly in terms of the deals we had done where we had lot of rebadging and the business model became more onsite centric and as the jobs are getting moving into offshore and the work has started getting executed from offshore that is also aiding to the margins. So these are the factors which are leading to the margin expansion and will continue to margin expansion and therefore we are certain that we will be able to achieve 21% to 20% EBIT range for the full year.

Ananta Narayan: And just a quick follow-up, is it at all possible to predict when you will need the next round of investments in these three areas?

Anil Chanana: I believe that the scale of the operations is such and the profit the business generates will itself be able to fund those sort of investments.

Moderator: Thank you. Our next question is from the line of Pankaj Kapoor from JM Financial. Please go ahead.

Pankaj Kapoor: My question again is on the margin outlook, just carrying forward that discussion. So this 21%, 22% band that we are maintaining despite the rupee trajectory, so where are we actually probably calibrating our investment more specific in which areas? And does this now changes the timeline in terms of what you had initially for these investments to be made, are we now looking at maybe these investments reaching a kind of a maturity over the next few quarters or this thing is something which we can continue for maybe a couple of more years?

Anil Chanana: So in terms of the investment as I said the program of investment has been there and that scale of investment which we did basically covering three different area I think we have significantly covered and we have reached that level. It is investment basically which is in the operating expenditure level which has increased and some of that expenditure can be claimed, can be clawed back which is like rebadging through the offshoring of the work. So we are on that path of getting efficiencies out of our projects and doing offshoring and so no and so forth, as well as utilizing the facilities which we have set up. So I think it is going on that path and we do believe that margin range which we have given is achievable for the full year.

Anant Gupta: Just to add on, I think the first two really are recurring in nature so they will continue, I mean it is not that they will be pulled back unless we see, I mean we do not see any reason from a market outlook or from the funnel or the pipeline we have that there is any reason to pull those recurring expenditure items. But yes on the rebadging ones, as the programs get into steady state and there is obviously room for optimizing the ride shoring and different elements of that engagement.

Pankaj Kapoor: And my question was like, when can we expect some visible impact of this either in terms of our order wins going up significantly, is this quarter an indication of that? And second, in terms of for example if you are setting up more near-shore center than our subcontracting for example should be coming down, so when should we expect this to get more visible?

Anant Gupta: So I think from a booking standpoint we already started seeing that, so again in this quarter we booked a quantum of roughly about $1 billion in 10 engagements broadly spread across most verticals lead by largely infrastructure and engineering. So we are seeing some of that from the Next Gen ITO coming in as well as digital product engineering work from the ERS organization. Specifically in terms of leveraging, translating into wins we have seen that in engineering as well, I mean we scaled up our centers in China like I mentioned and in Mexico for being more nearer to the Manufacturing basis of specific industries. So we are seeing that already there in the engineering side. I think from a revenue standpoint if I look at full fiscal you will see a lot more in where our confidence is in terms of saying that yes we will lead the growth, outperform the average with the top three, it is really going to be edge too for us which is the January to June time frame from a significant revenue growth perspective.

Pankaj Kapoor: And just final question, we have been talking about the growing complexity of specially the IMS deal, so does this mean that the margin profile of these deals also will be much different from what we have done in the past? Essentially I mean can we expect a better margin profile in these deals?

Anant Gupta: So the margin profile is no different from let's say some of the complex deals we picked up, every year since 2008, 2009 we have been picking up some level of complex deals ever since we started participating in the end to end full service outsourcing arena. I think what has happened in the previous six odd quarters or thereabouts is that the number of such engagements have been significantly larger and we have historically shown that yes it is very clearly possible to improve the margin trajectory and we have delivered that. I think what is also driving and aiding, so yes in the short-term there will be from deals of similar type if they are complex and large there is a sudden impact on specific quarters but over the period they really pan out. So it comes back to the question of balancing how many deals are coming in the quarter and how many are really going out. But from what we have already transitioning on and what we have seen in the pipeline, we have kind of looked at that and been able to give you a range that yes we will be in a 21% to 22% range that we have guided.

Moderator: Thank you. Our next question is from the line of Nitin Mohta from Macquarie. Please go ahead.

Nitin Mohta: I wanted to understand a little deeper more on the quarter gone by, anything except this queue that we saw in infra that caught you by negative surprise?

Anant Gupta: Which negative one are you referring to?

Nitin Mohta: Sir the constant currency growth of 1.2% I believe was a tad below what most of us were expecting, and even if I try to slice it on application services of North American market, so just trying to understand if there was something that you would want to share more.

Anant Gupta: No, I do not think there was anything towards, I mean it is the first quarter like I said, we believe from a YonY perspective it has been a good growth. I think the way to look at most of our business is that they should be evaluated on a year-on-year basis and from that perspective a 13.5% YonY and you look at engineering on the other hand very significant 23.7%. I think we believe that that is the way to evaluate that business on a full year basis, there will be lumpiness in quarters or sometimes short falls in quarters.

Nitin Mohta: And the second question for Anil, on the 21% to 22% margin just want to understand at what level would you need to pull back investments if the external demand environment is not really conducive, what has kind of gone into making that 21% to 22%?

Anant Gupta: So let me just comment on the demand environment and then we will leave it to Anil as to when he wants to pull it back. But I think from the market perspective whether you look at the rebid market, whether you look at the first time outsourcing market we see no signs of slowdown over there, fundamental slowdowns. So the market is only enhancing, in fact if we dig deeper into Europe, we have said this before we see a significant momentum gathering in both Germany, in markets around Germany, the DARK region as well as the Benelux region including France. So therefore making short-term decisions based on that does not make sense, we still fundamentally see a very robust demand for that, point number one. Point number two, likewise on digitalization, digitalization is here to be, it is going to be here for the next whatever perceivable future and that is really a fundamental way in which services will be brought, whether it is Infrastructure Application or Engineering components of each will be tied in together to deliver an entire integrated stack so that one can impact the full value chain. So for us digitalization is a mid-term to long-term story, it will provide us the differentiation in the short-term but really is a blue ocean investment for the future, similarly is the Internet of Things. So at this point we do not anticipate making any changes around that, I think the question really is do we need to scale that investment up and whether that will get fueled from internal accrual of the growth itself is really what we need to watch out for.

Anil Chanana: Yes correct, I mean there is no need to pull any investments in order to fund any of the growth initiatives, I think we believe that the cash or the cash accruals or the profit accrual which we get will help us to fund our growth as well.

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

Sandeep Baisal: The first question is on the Application Services, I wanted to get some more color into the growth that is being going in this space because if I look at the commentary it seems as if the market is playing to your strategy for the past couple of quarters either integrated deals or some fraction increasing but the growth has not really improved. So if you could give me some color on what is happening over there, is it the pricing pressure or is it some other change that I have to look out for?

Anant Gupta: I think Rahul you want to take a stab at what you say on FIIs and then maybe I can paint it for the overall, I will give a view on the overall. Okay, Rahul is not there. So the way this, there were two paths to the Application Services Business, one is the Traditional Application Management Business we continue to see that grow well. I think some of that is driven in some sectors and specially in large Fortune 500 clients is driven by consolidation and we therefore see ourselves being able to propose an alternate way to do that, the flexibility to staff and size and put the appropriate level of automation or any other element in there or other productivity tools so that we can ultimately deliver the outcome. So that portion of our business we continue to see doing fairly well. I think it is really the industrial shift partly around the packaged products where we continue to see a challenge, so what used to be large scale transformational ERP or cots related implementation services we continue to see that market to be less buoyant. Some of that is kind of getting in into smaller deals more and getting clubbed a lot more with the digitalization journey which customers are looking at. So I think it is more of incremental growth rather than big blocks of large deals that is how we at least see most of the application business for the short-term. I think the only other thing is on the run side of the business, yes there is an element of application operation, so if you take the complex portion of the application, I mean there are two components of application management, if you take out the less complex piece we see that getting bundled a lot more with infrastructure which is where the ITO market is growing and that is the number I was referring to in the Gartner chart which is showing an uptick of about 30% which used to be anywhere between 15%, 18% maybe just three or four quarters back. I think that is largely being driven by the fact that some of the BAU applications continue to be commoditized and therefore complexity in managing them is obviously becoming easier. Again, digital estate whether it is application or infrastructure need a single organization to manage because the handoffs are too very if you split them. So those two trends will kind of drive what we see in ITO I think and you should see some of that in our numbers in the few quarters as we move ahead.

Sandeep Baisal: Right. And because you have referred to the ITO, on the Infrastructure Services side you have clearly mentioned that these projects seem to be more complex. Is it also fair to assume that these are also much larger projects and whenever they accelerate or whenever they ramp up the acceleration will be pretty material? And if so, what is the kind of visibility we have when the growth rates in the service line will improve?

Anant Gupta: So like I said earlier, maybe I missed it, but as we speak this quarter we are transitioning 10 large engagements in the infrastructure space, they are again in different stages. We do believe some of them will definitely convert into steady state operations in the second half, so I would say that second half for us is when you should be looking at on both IMS and ITO to show significant growth.

Moderator: Thank you. Our next question is from the line of Ankur Rudra from CLSA. Please go ahead.

Ankur Rudra: The first question is, just want to understand it a bit better Anant when you said that you are confident that you will be growing at the upper end of your peer group. Not growth this quarter was descent on a year-over-year basis but momentum has softened a bit compared to at least how you ended in FY15 which was significantly stronger. Are you confident that we can retrace to those levels or you are comfortable with the current growth rate in the momentum given the order book you have?

Anant Gupta: See, like I said we will continue to outperform the average which we mentioned, so I think the order book is strong, the transitioning and movement of engagements to its steady state is also continuing to be strong. So I would say H2 will be strong full fiscal, yes we would be again looking at strong numbers. Again what I said earlier, we should be able to outperform the top three average.

Ankur Rudra: And in terms of you need to transition many more large deals, as your business has become larger and perhaps more complex is there a need to ramp up the delivery engine, is there any part of the business where perhaps you were surprised in terms of how long it has taken given you are getting into more complex contracts. If you can throw any light in terms of how that delivery engine is changing?

Anant Gupta: Maybe I will just ask Vijay to jump in because as to what you are saying, Vijay?

C. Vijayakumar: Sure Anant. Ankur, definitely as the scale and size of our business increases and the complexity increases we continue to strengthen the delivery organization. However, it should not be interpreted that some of the delays or some of the transition ramp ups is not really attributed to delivery capability, we continue to do very well, we have strong leadership across geographies, we continue to strengthen the leadership. And this is really a chicken and egg, as we see more momentum we are building the delivery organization. So at this point I remain very confident of our ability to execute all the existing transitions and also the ability to build and implement al the pipeline that we see.

Ankur Rudra: And just lastly, CVK while you mentioned investment into platforms such as 'Dry Ice', will that be cannibalistic to parts of your existing business mainly on your steady state maintenance side?

C. Vijayakumar: Yes, see some of these aspects related to productivity and automation they come backed in when we sign the deals because the clients expect a significant level of automation and productivity benefits to be baked in year-on-year, so that's part of our deal. So it is a matter of how do we really execute to the commitments that we have made and platforms like 'Dry Ice' is an evolution of multiple technology solutions that we have had over a period of time but it has brought in a much sharper focus around proactive Analytics and self healing solutions focused on work elimination, that is really the true benefit of 'Dry Ice'. And we have already implemented that, implemented perversion of 'Dry Ice' in at least 100 plus engagements and we see this helping as significantly live up to the commitments that we are making on the productivity front.

Ankur Rudra: Just last question for Anil, there was a change in headcount and built up seeds fell quarter-on-quarter, is there any reason for caution or is there some workforce planning?

Anil Chanana: We would have sort of exited some of the rental seeds, so that can be the only reason otherwise incrementally there is only addition which is happening, so we are building our own campuses that addition is happening and we are exiting the rental phase.

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

Ashwin Mehta: I had a question regarding the push back in terms of IMS revenues, so you had in September warned that revenues would get pushed back in IMS, now you seem to be suggesting that this would significantly pick up only in H2. So there appears to be almost two quarters of push back here, so wanted to understand reasons other than, so you are indicating delivery is not one of the issues so other than that what could be the reasons in terms of the miscalculation here?

C. Vijayakumar: So as we pointed out earlier, one component which is cost, is the reduction in India business. As Anil pointed out there was almost 25% reduction in the India component of this business which we expect to continue in the near future as well. However, you have to just see this growth on the back of almost 5.2% growth in the last quarter so we are pretty confident of healthy growth rates in the coming quarters and that is not necessarily H2 next quarter as well.

Ashwin Mehta: And there are no issues in terms of client dependencies here in terms of some of these larger engagements which have possibly caused this delay?

C. Vijayakumar: So there are, as I pointed out earlier some of the large complex engagements they come with significant change management complexity because any Fortune 100, Fortune 50 global enterprise has significant stakeholders at different geographies and to do a transformation lead engagement it requires buy-in and change management across multiple stakeholders and client organization and that does cost some delays in some decision making and that is one of the reasons why some of the transformation programs are taking a little longer.

Ashwin Mehta: Just one more question, just a clarification. When you say order booking is 10% higher than the historical high, is it basically your unexecuted order book that is 10% higher than what you have ever had historically?

Anil Chanana: That is correct, so it is unexecuted order book, not the bookings.

Ashwin Mehta: And lastly in terms of this margin guidance, is this ex of the one-offs this quarter or including the one-offs?

Anil Chanana: I mean I believe we should be able to achieve that 21% to 22% margin range, I mean it is not a very big hedge, it is a 0.3% or whatever.

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

Ashish Chopra: My first question actually Anant was around the rebid opportunity that you mentioned of around $150 billion, just wanted to understand that when clients come out with these rebid deals I am sure that there is a tendency or a propensity to actually cut down on these costs very significantly thanks to automation or cloud or the competitive intensity at large. So in your experience and based on what you are seeing in the market what is the kind of savings that as a result this $150 billion really comes down to or culminates to whether it is 10%, 40% or whatever you may be looking at?

Anant Gupta: So I think it is firstly the former two reasons you mentioned, maybe I will add a third to that. I do not think it is competitive pressure which dictates that because ultimately at the end of the day customer looks at the end picture. So if I were just to add and put your two levers which is firstly automation itself, second around a component of cloud and flexibility therefore of that specific stack, I think there is also a third element because not everything is moving to cloud especially in all these large clients there is a significant portion of a private cloud which is built if you may like. So there is a reduction in technology cost itself, I mean if you were just to take storage as an example or take compute or even take Mainframe MIPS and compare the price points of what they would have been in a bid which would have been done let's say in the previous version and what it is today there would be a stark difference. So I think all these three elements put together impact what the new business case would be for such a customer. I would say that if you are looking at all these three components put together in a specific engagement then you are looking at about 20% savings potential in there. If it is only labor then obviously it is going to be a lot more because then it will get hit, I mean you have a much higher advantage with that. But broadly I would say it will be in the 20% to 30% range, actually maybe more like 15% to 30% range because there is also a component of third party element which is there like hosting and so on which actually has gone up on price point basis. So Vijay anything you want to add there if missed on that one?

C. Vijayakumar: No Anant, it is really the nature of deals which will drive the cost savings. I think you have covered all the points.

Anant Gupta: This will be around 15% to 30% depending on the mix of portfolio in there.

Ashish Chopra: And secondly to Rahul or if he is not there then Anant you could answer this, but on the FSI side while the LTM growth looks healthy I think the loss of momentum in this quarter was fairly sharp down to around 7.5% to 8%. Any particular reasons over there or would you expect the momentum to come back in the immediate quarter itself, just what is the outlook?

Rahul Singh: So we have seen an LTM growth as you rightly mentioned 13.2% and we had a muted growth this quarter but we have got adequate deals in the pipeline. I did mention earlier that we had closed and booked a larger Infrastructure deal as well as Infra and App-Ops deal in this quarter, so the momentum should come back in the next couple of quarters.

Ashish Chopra: And just lastly from my side, just wanted to clarify one vertical reported in the last which is the others over where over the last 3.5 years or so the quarterly run rate of revenues has come down from $(75-odd) million to $9 million, so just what is happening around there and whether it is a reclassification and how would that have been adjusted? If you could help me that will be great.

Anil Chanana: So these are basically which cannot fit in any of the other defined verticals which sort of comes in there and it could also be over a period of time getting allocated to a particular…

Anant Gupta: In the last couple of years we have done some re-class and we have put them as footnotes, but largely what remains in others is really elements or things which truly do not fit into a very specific momentum or an emerging momentum vertical, there is nothing else I would say in that.

Ashish Chopra: And if I could just squeeze one more in, sir you mentioned that India has been one of the reasons for weak IMS and it is already down to probably less than 2% of your business but you still mention that it would continue to play out on that trajectory for some more time. So how far forward are we looking here before the impact from this really starts becoming insignificant?

Anant Gupta: So I think from an India story we continue to play very selectively in the markets. I think what w have started seeing is an emergence of the enterprise wanting to outsource much like the global but the quantum's are very small. But as that pans out our focus on that business continues to be there as enterprise look at outsourcing their operations. I think the areas where we have kind of defocused not just this quarter but maybe more than four to six quarters now has been around certain SI programs which are large Government programs. For some reason we believe that there is so much in the global markets to focus on that, you try and dilute and spread ourselves to thin on those markets it does not make sense unless the environment significantly changed. So we play selectively in that in specific programs we believe which are repeatable in nature where we can reuse the learning's form previous SI engagements. So to us that will be the way we play out the India market.

Ashish Chopra: Sure. But my question there just was the down the pressure on revenues from India, should we expect that to last another quarter or for the rest of the year or how should we be looking at it?

Anant Gupta: Unfortunately both positive and negative, I mean H1 I mean July to December time frame from an India business standpoint is always weaker and the Jan to June cycle if always better. So although we maybe de-emphasizing on certain markets in the next quarter or even in H1 this year we should see some further decrease, but again we will see some pickup in H2 because we would have certain programs which we have already participated in the past. So that is the way I would say, I would look at maybe a more negative element in H1 from India contributing but then there will be some uptick in H2 although it may be marginal

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

Mukul Garg: Anant, first just wanted to get small clarification on the order cancellation in the Public Services space, so is there a possibility of any further impact coming in from in the next quarter or is this now completely out of the company? And also what was the lost revenues in the current quarter and lost impact on the cost side? And finally, did this impact the relationship with the client?

Anant Gupta: I think let me answer the last one, I do not think there is any positive or negative from a relationship standpoint. I think the certain fundamental objectives about the program was to achieve in this Public Services engagement, there is a shift in mindset and therefore the customer decided that it made more sense to pause and relook at whether they want to continue investing on that transformation element. So there is no positive or there is no negative, I think it is obviously a situation where we have a certain objective for which we were contracted that obviously no longer holds true and therefore in the best interest of both parties it makes sense to not continue with that. Coming on to specifics on whether it could give a further hit, I would say the answer is absolutely no.

Anil Chanana: Correct. So that's why this provision has been done so that it is out of the way.

Mukul Garg: And any impact during this quarter on lost revenues which would have come otherwise coming in from last quarter?

Anil Chanana: That is correct, about 4 million to 5 million has been the range which has been there so that is the impact, but it is a thing of the past now.

Mukul Garg: And Anant now moving to the digital side, you are talking a lot about IoT and digital, so are you guys in a position to give how much of you revenue now is coming in from deals which are being impacted from digital and how are you positioning yourself compared to your larger peers, is there a different target market which you are aiming at?

Anant Gupta: So on the first one, I think fundamentally like I started with I think what we have done is digitalization is not one specific area which delivers at, I mean we have capability which comes from each of our four businesses and that is something we have been doing, it is not something new, we have been doing it for a while. So every line of business you have heard CVK mentioned about the Digital Run component and so on and likewise others, so I think the digitalization work has been going on in each of our lines of business. What has changed? What has changed is really way we are trying to address the market, what is our value proposition and what do we want to get out of that. So our focus really is how do we impact the entire value chain for our customers which is end to end in nature and not just focus at the front end of it which is related to the UI and UX of the user experience alone. So Beyond Digital business unit which is now being put together is chartered and is going after the market place and trying to build and deliver the end to end solution which will help customers go on their digital journey. What they will draw on is competencies from stellar fundamentally our four business units, of course they will produce some differentiation on top of that but they will largely use that. So at this point we do not believe that it makes sense to separately cover the number and say the digital business is x or y because it is embedded in infrastructure, it is embedded in engineering, it is embedded in application and likewise operations. I think these subject of where we are targeting and how we are going is a broad subject, I mean go on and on that but I think the focus right now is on customers who have taken a decision to digitalize beyond just their front office and therefore are willing to walk the path to kind of digitalize the whole value chain. Last quarter also we have announced and this one is another one, now take an example of a Telecom company where they want to look at the whole value chain right from the time a customer buys a service to the time it is provisioned on the network. So it is not about just looking at the user experience and how it is easy for the customer to buy the service but it is also about how to improve the efficiency productivity of the operating environment and deliver the service much quicker. So it will mean reworking the workflows, the middle office and finally in the back office as well. So I think we are going after certain customers in few segments where there is a propensity to look at a few organizational wide end to end processes and we will digitalize them. From a priority perspective we have focused on few markets largely within the US, a couple in Europe and Australia and New Zealand. And from a vertical standpoint our focus for digitalization is around the Financial Services sector, Rahul did mention about that, the Telecom sector, media and entertainment as well as retail and consumer goods. So that is where we are focused on initially from a digitalization standpoint.

Mukul Garg: If I can squeeze one last question, on the others business which we just discussed, how should we just look at this going forward, it came down from a 20 million last quarter to 9 million this quarter, should we expect this to go out altogether going forward while numbers are coming down quite sharply?

Anil Chanana: These are segments like let us say something in the construction industry on the global side or maybe hospitality side, I mean these sectors which are not within those defined sectors we have put in so sometimes they are defocused. As we are growing we are may be having a more sharper focus so we that's why these numbers is coming down.

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

Divya Nagarajan: Based on what you have described it looks like you are actually expecting a meaningful acceleration in medium term growth in Infrastructure Services, is that how we should look at it?

Anant Gupta: Absolutely, I think whatever is already there in the order book plus also what we see in the pipeline I think both reflect that the win rates have never been small so yes absolutely.

Divya Nagarajan: I am just tying that with the kind of numbers that we have seen from HCL in the last eight quarter or so, eight quarters it was going at almost (+40%) YoY, now we are looking at constant currency growth of about 16%, 17%. So when we talk about mainly for acceleration do you think that the market is big enough that we go back to this 40% plus growth rates?

C. Vijayakumar: Yes, I mean Divya as you know that we do not give specific projections, all that I can say is that the opportunity looks very-very interesting, very big and we continue to be selective, we are doing well. So beyond that I won't be able to give you more specific numbers.

Divya Nagarajan: And Anant going back to your opening remarks on how the world is moving to outcome based models, could you run us through the economics of a simple outcome based tale, how it would be different versus traditional contract today, specifically would the revenue inflate, deflate, what would happen to margins through a simple example please. Thank you.

Anant Gupta: Okay, let me try to put some color on that Divya. So I think there are couple of things, in an outcome base firstly relevance to what capability and competence will not be there, so let's take an example in digitalization space and may be let's take an example of a customer who is looking at the KYC process in there. Now here first the capability that is required to build a digitalized KYC solution will span across infrastructure to build an appropriate stack which is financially viable which means it will be both secure as well as cloud enabled. It will involve a lot of digital platform reengineering which will come from engineering capability because you customers will evaluate whether it makes most to migrate legacy or build platforms ground up and finally the core modern app which will really build the application. So first is the complexity in the solution capability itself, so you will see that increasing in some solutions the customer will not be able to dictate, I need 10 people for x capability, y for something else and z for something else. They will look at the full program end to end as to how this service provider can build and deliver that solution. I think from an outcome based perspective therefore how many people we have put, whether they are onshore, offshore, etc., is also therefore not really a question in there. And really trying it from an outcome perspective it really links back to some of the earlier R&R deals we had done in engineering services you would recall where we were willing to put our some portion of our revenue or let's say proceeds from the solution based on the success of that specific product in that marketplace and we have done very well in that market space in the last five years over there where it makes it easier for customers to then buy and therefore put greater skin in the game to deliver the outcome. In such scenarios it could be tied in into let's say what is the average time to do a KYC process, whether it comes down by half or third or a 10th, so outcomes like that would then get linked into the framework itself. Just tried to put it in a very simplified way in the short-term that we have.

Divya Nagarajan: Yes. Going back to my original question, could you also give us some color on how the economics has worked, what happens to revenue side so if you have $100 million deal on a traditional model what happens when it moves to the outcome base, does the revenue get staggered, could you give us some numerical or example on it as well?

Anant Gupta: I think it is a little earlier for me to give you a number there but I think in the early phase of the program as different offerings in that space mature the ability to quickly execute and make a higher margin profile in my view is there. So let's say Next Gen ITO where we are already doing a lot more work than IoT will obviously because of the scale we will be able to deliver a lot more margin trajectory in there but which is also being driven by the business case that customers want to be able to move from one to the other. I think Digitalization and Internet of Things we do not have a hurdle, we will have to wait till some of those mature to see what the real impact could be.

Anil Chanana: So if you look at the engineering deals I think it has been I would say margin positive over a period of time because you are just investing some portion of it which is your cost and then you will derive the benefit over a period of time. So I think on the whole they have been beneficial and similarly I think same things should hold good for the digitalization program as well.

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

Sandeep Shah: Just one question about this client specific issue, as we have said that the revenue got impacted is $4.5 million to $5 million in this quarter while the provision which has been taken is close to around $18 million to $20 million. So it looks like the whole year's revenue is being provisioned and been expensed in this quarter. So the question is why this has not been provided earlier, why this has been provided now because it looks like it has been outstanding for more than three quarters.

Anil Chanana: So it is a program which has been going on for about two years as with any other Government program the efforts are more in the front load, the efforts are front loaded while the payments are back loaded and it has certain hold backs as well which are associated with the project. We had from this customer the milestones getting approved very regularly and the payments coming in, the last milestones we got approved were as late as like June month. So as far as we are concerned we were going in absolutely fine with the project execution but as I said as is normal with the Government's large programs it sort of had a back ended payment terms and front loaded efforts which were there from our side.

Sandeep Shah: Is it possible to mention is it Asia Pacific client or is it…?

Anil Chanana: It is absolutely not possible if you can understand the sensitivity of this matter.

Sandeep Shah: Anant just second question, if you look at the results of some of the large logos in the BFSI and retail both in US and Europe are coming off late weak lower than the consensus expectation, some of these have been the clients of HCL Tech as well. So is there any kind of lead indicators where clients may become cautious in terms of IT spend going forward?

Anant Gupta: So I think it could only further drive the consolidation program, the optimization program in my view. I think as Rahul was mentioning in the Financial Services sectors the large Tier-I players have been operating with a number of suppliers, a large number of large players as well as a very-very large number of small and medium players. So I think what the firms will look at is obviously a significant amount of cost start and cost drive and I guess it is really dependent up on the maturity of the model to be able to be able to pick up whatever is part of the consolidation drive. So from our perspective we are look at it as an opportunity and therefore it leads in the markets where we operate and where we are in, we would like to see ourselves as gainers from such an accessible…..

Moderator: Thank you. Our next question is from the line of Georgios Kertsos from Berenberg. Please go ahead.

Georgios Kertsos: I have two questions if I may. So the first one is around the concept of silicon systems acquisition that you announced, I was just hoping if you could give us a bit more color around expected run rate, top-line contribution, when do you expect the other company to be firstly consolidated and total consolidation bid? And then I will come back with the second question.

Anant Gupta: So I think your reference is to the concept to Silicon Systems, right?

Georgios Kertsos: Correct, yes.

Anant Gupta: Yes. So I think this is a very small acquisition, sub-$10 million. It is largely a competency based acquisition, they specialize in semiconductor design and we ourselves are a fairly large as part of the engineering services business very strong in semiconductor industry and as we see Internet of Things span out we needed to add specific capability which we could then scale for our global client, so the acquisition is really all about that.

Georgios Kertsos: And in terms of run rate, top-line contribution is not a significant number to consider for a modeling?

Anant Gupta: Yes, absolutely. Like I said it is a sub-$10 million entity.

Georgios Kertsos: And the second question I have is more type of again partly number driven and partly business model driven, I am trying to get a feel around the gross margin evolution, so it is not the EBIT margin but the gross margin evolution and essentially adjusting for this quarter's one-off provision of around 18 million regarding to the specific client issue. I am sort of looking at the gross margin evolution in sort of a bell shaped type of curve which means essentially it has started going up and slightly ditching down slightly but I am just trying to get a feel around what are the underlying business dynamics that are basically causing this, is it mainly attributed to the IMS service line and essentially it is just because of a greater proportion of Phase-I contracts and what essentially is the outlook for as far as you guys are concerned, as far as GM is concerned?

Anil Chanana: So let me answer this, so there are a couple of elements here. If you look at like the deals which are like engineering deals and next gen ITO deals hey will have element of rebadging which means more work will be getting done, executed onshore as the margin particularly in the initial phases will come down and as offshore the work the margin will start improving. So that is one. A lot of that happened in fiscal 2015 and we rebadged something like close to 3,000 resources in that year which was one of the highest. Second element which will also lead to like we are setting up global delivery centers and in the initial phases when you are setting it up you are bidding the cost but those centers will take time to start getting utilized, will adopt for that value proposition to our customers and so all that investment is sort of getting into direct cost. So the gross margin is a function of the business model which moved, which tilted more towards onsite centric and the spend which is the investment spend which happened in terms of delivery centers, co-innovation labs, research labs etc.

Georgios Kertsos: So just to continue to playing this back to continue to understand it, so essentially we are saying that there are two main elements, one is the increased on-shoring activity which mainly started kicking into FY15 and the other bid is if I read it correctly the second part is essentially timing pretty much element around global delivery sort of centers which once getting rolled out you have enough for keeping the margins but that you will expect to recoup going forward. Am I accurate so far?

Anil Chanana: That’s correct.

Georgios Kertsos: So as far as on-shoring is concerned it sounds to me that it is more like a structural sort of industry wide trend and I am thinking is this in particular to a fixed service line, that you are seeing an increased demand from on-shoring?

Anant Gupta: Well, it depends on each of the business models. Let's say you pick up a large IMS deal and you have a lot of datacenter operations work as part of that, there will be therefore increased component of onsite hands and feet apart, so that will impact it. So yes it will depend on certain types of businesses which are there. If you look at digitalization as a business I think in the initial phase a lot of the ideation, innovation and collaboration work is done onshore closer to the customer. So during that phase it will be hired but once it moves on into the larger production then it will shift. So it will be a function of each business and the kind of engagements which come in in a specific quarter and move out into the steady state which will define that.

Georgios Kertsos: And a final one on this front, just for me to complete my understanding. I know that you guys do not give any guidance on gross margin but I was just trying to get a feel of essentially how the gross margins that you are currently seeing sort of approaching the steady state type of gross margin profile of the business. And to answer that question I guess the way that things have already is essentially the on-shoring trend that you pretty much described reached a steady state level or do you essentially expect a much further uptick offshoring activity which will cause gross margins to further dip down?

Anant Gupta: I mean it is a difficult question to answer, from our perspective if we look at what the opportunity is available to us and let's say for a minute we just look at the renewal market from an ITO standpoint, if we see a $50 billion market in renewal available in 2016 and we are likely to participate in a portion of that we are not going after everything, it depends upon our wins in there and therefore in a specific quarter if we do get in a few large number of onsite centric deals, yes to that extent that quarter could be impacted but when you look at it from an overall fiscal year perspective we hope that will remain largely in the line that we would like to be in which is governed by the EBIT range that we are guiding.

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

Deepesh Mehta: Yes sir, just two things. You suggested about infrastructure business there is steady state portion which is growing roughly 32% YoY, is it possible to share contribution from that pie of the business? Second is about, just to get some sense about complex project or program which we implement, what would be the implication on the margin during that tenure, so how the margin would stay? So if you help us understand because this time H1 we are expecting relatively more project to be into that kind of stage and H2 we tend to reach steady state, so whether it has any implication in margin? And last thing is about the project cancellation, or program cancellation what we witnessed, you suggested last approval we received in month of June so whether till that time we used to receive cash from the client or revenue we used to book, so whether any cash implication would also have in this quarter's number? Thank you.

Anil Chanana: So let me answer the last question first, there is no implication so far as cash is concerned. Whatever implication is there in terms of that project cancellation has already been factored into the accounts, so there is nothing as it is there.

Anant Gupta: So coming on to the second question where the large deals are necessarily less margin in nature, I do not think we can generalize over there. I think large deals definitely are more complex and longer in term to play but I do not see there is a specific trend, some engagements are larger in the margin profile, some are smaller that depends upon the deals that are there and then the business case and the incumbents which are there. So I would say that all put together whenever we look at whatever the portfolio we have, what are the deals which are coming in, what will go into steady state it is basis on that is what we are trying to guide the range that we have given to you which our comfort is in 21% to 22%. It does not mean that necessarily that all the large deals which will come into H2 will be either dilutive or they do not follow a specific trend.

Deepesh Mehta: And the last part about what percentage of overall infra would be steady state portion for us in this quarter or any color around it?

Anant Gupta: Actually we do not disclose that number.

Anil Chanana: So we do not distinguish it, I mean we just wanted to sort of give you a comfort that as the transition and transformation happens it gets into the bucket of steady state operations and that side is really increasing and increasing fast enough and that becomes the base for the business going forward and we are not seeing any let up in growth rates there.

Deepesh Mehta: And one last clarification, India domestic infrastructure business is what percentage of revenue, you suggested 5 or it is 2 because I am a bit confused about that?

Anil Chanana: At one time it used to be 5, it came down to last quarter it was about 3, this quarter it has come down to about 2. Just very broadly I am telling you the numbers.

Moderator: Thank you. Our next question is from the line of Rishi Jhunjhunwala from Goldman Sachs. Please go ahead.

Rishi Jhunjhunwala: Couple of questions. One is that we have seen a pretty strong hiring from your side in the past full year but this quarter we have seen a headcount decline on a net basis even though our attrition and utilization level still remains high. So just wondering how to read that?

Anant Gupta: Could you just repeat the question, I missed the first part of it.

Rishi Jhunjhunwala: Sure. So I was asking about the headcount, so for the past one year we had seen pretty strong addition to headcount but this quarter we see a net decline and utilization as well as attrition still remain high. So just wanted to understand how do we read that?

Anil Chanana: Sure. I think it is a reflection partly of our efforts to ensure we improve our forecasting to fulfillment cycles, so last quarter we had people in training who have now currently been deployed this quarter so I think that met our needs as far as growth and attrition was required. I also think the utilization numbers have remained strong for that reason, our attrition has been actually voluntary attrition has been constant over the last many quarters so I think it is maybe a reflection of our maturity in the work force operations that we have right from planning through to recruiting.

Rishi Jhunjhunwala: And secondly, just wanted to understand the nature of the treatment of the contract termination. So please correct me if I am wrong, so for the past few quarters we have been recognizing revenues from this contract and cost appropriately accordingly. But now we have provided a provision for that, so it is kind of in the nature of bad debts. We thought that it would have otherwise been a revenue reversal, at least that's what even the pre-earnings briefing suggested.

Anil Chanana: Yes, actually you are right, that's the presumption on which we were also going and when we discussed with our auditors for the US GAAP they suggested that we will have to take it into the cost line only and not in the revenue line.

Rishi Jhunjhunwala: So in the nature of bad debts, right?

Anil Chanana: It is partially bad debt and partially, Bansal do you want to answer this?

Management: I think it is the nature of bad debts, the amount we lost on the project which did not became fruitful.

Anil Chanana: Yes, it is sort of a loss from the project.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to the management for their closing comment.

Anant Gupta: So thank you very much for joining us in our Q1 Results Presentation. As I started mentioning I just wanted to quickly summarize. We started FY16 our first quarter on a strong footing, our YonY growth is 13.5% around constant currency, our revenue profile for the last three fiscals we have been able to outperform the top three average and we are confident that we will continue to deliver that even in this fiscal and a lot of that is really based on comfort and both the quality and the quantity of our order book in there. And finally on the EBIT, we continue to be in the range that we guided which is 21% to 22%. With that look forward speaking to again in the next quarter. Thank you and take care.

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