"HCL Technologies Limited Q2 FY17 Earnings Conference Call"

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Moderator: Good Day, Ladies and Gentlemen, and Welcome to the HCL Technologies Limited Q2 FY17 Earnings 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 this conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. C. Vijayakumar – President & CEO of HCL Technologies Limited. Thank you and over to you, sir.

C. Vijayakumar: Thank you. Good morning, good afternoon, and good evening to all of you and welcome to our earnings call for the second quarter for fiscal FY17. I will get started to kind of overall provide the performance trends. We normally share with you the four-year performance trends. On LTM basis, revenues CAGR growth has been 11% and headcount growth has been 8%, this is a significant aspect to note here. Our non-linear growth continues and that is a very salient aspect of our growth trajectory. Our EBIT growth over the last three years has been at a CAGR of 10% and net income at 14%. This is really to just give some context as we move into the details of the last quarter.

As we announced earlier in the day, overall in this quarter we had a 2.8% Quarter-on-Quarter on a constant currency basis, this translates to 10.6% LTM YoY on a 12 months' basis. This 2.8% growth has been contributed by a broad based growth and looking at geographies Americas grew 5.5% Quarter-on-Quarter, close to 15% on an LTM YoY basis. Europe was a little soft, (-2.1%) de-growth. Again, to set some context, this is on back of high double-digit growth in the last quarter. ROW grew at 2%, on an LTM basis it is a little bit soft to negative and that is primarily due to our defocus in the India business.

In terms of service lines, we had a fairly uniform performance across service lines. Infrastructure of course continues to grow well, 4.4% Quarter-on-Quarter, a good 21% Year-on-Year on an LTM basis. Engineering Services grew 2.3%, Business Services grew 2.1%, Applications Services grew 1.4%. Engineering Services also has some revenues related to the IP partnership which Anil will share with you a little bit later. For Application Services, a significant part of this growth has been due to our Digital Services. As we have shared earlier, we continue to face headwinds in the large ERP programs, so it is really a counter balancing of our ERP growth. ERP de-growth is being balanced by the growth in digital and some of the modern application services. There is also a growth on the traditional ASM business. Overall with some ups and downs this contributes 1.4% Quarter-on-Quarter growth.

The real highlight is really the vertical growths. There are three verticals which have done very well in the last quarter, Financial Services grew 5.6% Quarter-on-Quarter, Life Sciences and Healthcare grew 8.2% and Retail & CPG grew 7.7%. As you would have noticed from some of the industry trends, Financial Services and Retail & CPG, it was reported to be a little bit soft, but in reality our growth has been fueled by good amount of our Mode 2 services which we call as outcome based in the experience centric services around BEYONDigital, Modern Apps, a little bit of IoT Works. And also the Financial Services growth is being fueled by some good wins in the fintech segment which continues to do very well. And it has also contributed, because we have a very broad based kind of portfolio within the Financial Services which encompasses capital markets, investment banks, insurance and fintech industry.

If you look at Manufacturing, it was a little bit soft, about 1% de-growth. But that is really on the back of a very high growth in the last quarter which was probably about 17% - 18% in the last quarter. When we had such a high growth in the last quarter in Europe and in Manufacturing, it obviously included some one-time components, some project work which concluded, so that is why you find it a little bit soft. The same is true with Public Services, but however Public Services grew 25% LTM YoY basis. So it is really a broad based growth across geos, across service lines and across verticals.

Just talking a little bit about our overall growth strategy for rest of this year and beyond. During our meetings in August with the investors' community in Mumbai, we shared our growth strategy and really articulated our Mode 1-2-3 Strategy where Mode 1 was of core services - Application Services, Infrastructure, Engineering and R&D Services and Business Process Services. We do believe that these markets are still underserviced, there is a significant amount of Global 2000 companies who have not outsourced any of the infrastructure, application or business process services. And there is also a significant momentum due to rebid market. We do believe our highly differentiated and very powerful autonomics platform is delivering great value and this is also helping us improve win rates and increasing participation, expanding market share and things like that. So Mode 1 services are services which we currently have as a significant part of our portfolio where we believe there is good growth momentum.

And Mode 2, a good part of it is all about capturing discretionary spend through BEYONDigital, IoT Works and Cloud and Cyber Security Services. Our approach here is a little bit different from the traditional call outs from our peers. Here our strategy is to really look at an end-to-end strategy in terms of digitalization. We are trying to look at how can we have the conversations with the clients, business leaders and through our design thinking workshop and then look at how can we identify the problems and then really provide technology solutions. We have shared some very good examples of how this is panning out. And these are high growth businesses with fragmented markets, with no clear leadership. We continue to look at organic and inorganic with mechanisms to build our capabilities here.

And Mode 3 is really future proofing our existing business which is the products and platform business. Here we are driving innovative IP partnerships through strategic relationships. And this is primarily in creating market permissions for products and platform business. We have modest goals driven around strategic opportunities.

So Mode 1-2-3 ideally run a very, very clear focus across the three areas and distinct focus, distinct leadership, management bandwidth, all of that is driving execution of our growth strategy.

Now, I will go over to the next slide, trying to capture the performances snapshot. This slide is all about our Mode 1 services. As I said, Application Services grew 1.4%, a couple of good wins last quarter, Fortune 100 specialty retailer where we are implementing a standardized SAP template across UK and multiple European countries. We also won a deal with a US based electric supplier for transformational application services, this is powered by our Microsoft Dynamics platform which, as you would know, was a part of our acquisition called PowerObjects a few quarters back, this was a good win.

On the Infrastructure Services we have a UK based bank for transforming its end user landscape. We also won a G2000 specialty chemical manufacturer in Germany for our next generation managed services, next generation data centers services and enabling the client with their cloud and automation journey. We also won a deal, a greenfield solution for a carve out of an American diabetic care, medical devices and solution provider where we are building the infrastructure and are going to run migrating all the applications from the parent company.

Engineering and R&D Services, as I said we grew 2.3%. This is again where we had a good program for digital platform engineering from a Global 500 financial services company. They are already an existing customer, they expanded the relationship here. We also created one strategic partnership deal within an automotive manufacturer, we also won a deal with an aerospace in-flight entertainment player who chose HCL to deliver some new product development and integrated engineering services. This broadly captures our wins in the last quarter on our Mode 1 services.

Just going through the next group which is experience centric and outcome based services which is BEYONDigital, IoT Works, Cloud and Cyber Security. Starting off with BEYONDigital, last quarter we launched the Design Studio as a state of the art facility in Dallas which is where we are anchoring a lot of our client conversations to help them re-imagine and transform their businesses. We have taken our client teams, we have design thinking teams working with them and modeling solutions and things like that which is the design studio at Dallas. We already have a couple of them in the other parts of the globe.

Life Sciences and Healthcare, a couple of wins this quarter leading Europe healthcare company, a specialty healthcare company chose HCL for digital consulting, implementing digital channels and predictive intelligence analytics. We also were selected by a global payment services leader to provide payment, engineering and product development services for European and US markets. IoT Works, which is really our strategy to leverage the connected devices to deliver business outcomes, here we launched an end-to-end IoT solution in offering this quarter with a joint GTM and business development with some of our strategic partners like IBM and an incubation center in Redmond focusing on Azure Suit from Microsoft. We were selected by a UK based global 200 medical devices company for next generation global patient health management platform, again based on Azure platform. A couple of other good wins in IoT Works this quarter. In Cloud, we continue to embed cloud as a key component in our Mode 1 services and it is also a key component in engaging with our existing customers and really partnering with them to be a partner of choice in their cloud journey, there were a couple of good wins there.

Security, again we had some good recognitions in the market. We won a security solutions deal from a Global 100 healthcare and pharmaceutical major based in Germany. Also, our leading US based provider of toll-free related communications solutions chose us for datacenter services with emphasis on all the security components. So all the Mode 2 services with a distinct focus we continue to win existing clients as well as some new client share.

Moving on to our Mode 3 services, it is really the ecosystem driven products and platform strategy lead by IP partnerships. Here we had announced last quarter an investment and a 15-year strategic partnership, we subsequently had a press release highlighting that this partnership was between HCL and IBM. This went live last quarter; we have already clocked in revenues in the July-August-September quarter which Anil will cover subsequently. This quarter we also expanded on our IBM relationship to cover a couple of more products which was focused on API and web service enablement for mainframes. We will be investing $55 million in this partnership; Anil will also talk about how the revenues will pan out from this additional investment in this partnership.

This overall covers a very high level view of financial performance last quarter and also the traction and momentum that we are seeing in our differentiated Mode 1-2-3 growth strategy. With that, I will request Rahul Singh to give you a performance overview of the Financial Services in the last quarter.

Rahul Singh: Thanks, Vijay. I will simply talk about Financial Services performance for this quarter. So we had a good quarter, we closed QoQ at 5.6% and kind of to some extent reverses the trend that we have seen for the last couple of quarters in Financial Services. There are multiple reasons for that. To begin with, I would like to talk to you about the disruptions happening in the Financial Services market and how HCL has aligned our services to service that disruption.

So very quickly, Financial Services business can be really broken up between retail and capital market firms. Retail as you know includes retail banks as well as insurance companies, essentially retail in terms of their clients. They are facing a lot of demographic and behavioral change happening from their customer base and therefore there is a huge influx of new technology which we will be going into their client base in terms of being able to provide better services which are omni-channel based to their customers. So there is a huge disruption happening on the retail side which has got technology at its core for enabling the disruption to be met with.

Similarly, if you look at the capital markets industry, the capital markets industry has been impacted by the low interest rates, or in fact an almost negligible interest rates over the last couple of quarters. And while on one hand the retail industry is seeing disruption on the customer side, the capital market is seeing disruption happening largely lead by the macroeconomic environment where there is no interest rate. And therefore, capital market firms are under tremendous stress in terms of revenues and they are seeing huge amount of price compression and therefore margin issues. And therefore, from a technology perspective we are looking at massive ways in which they can reduce the cost. At the same time, there are some fintech disruptions which are also happening which all of you are aware of in the industry. So the industry landscape is being remodeled or rechanged by the changes happening there.

Now in addition to the business changes in the industry, there are some digital changes which are also impacting the industry. To begin with, the customer experience that customer today wants is very Google like, Facebook like, etc., in the financial services sector. So the financial services sector has really upped its game to be able to provide similar services to the customer. They are sitting in most banks and financial firms with huge technology debt, most technology systems in banks were written 35, 40 years ago and therefore there is a huge legacy modernization issue that they are grappling with. At the same time there is automation happening, there is robotics and the process automation happening in a big way in Financial Services which is technology disruption which is impacting the Financial Services segment.

Cloud has become mainstay, till about three or four quarters back financial services firms were shy of the public cloud, but that is not true anymore. We are definitely seen trends where public cloud has now become a more than a talking point in financial services firms with large level of interest. And on a long-term basis there are new technologies such as blockchain, etc., which are changing the technology landscape of financial services firm. So all in all this is a change in the behavior of the buyer, the client buyer behavior is completely changing, to some extent there is some internalization happening, clients are getting more localized in a way from sensitivity from the local perspective so we are seeing, a growth of some internalization of businesses. At the same time we are seeing that the way they have been dealing with vendors is substantially changing as well. So large financial services firms are looking now for large vendor consolidation opportunities, they are looking at windows which can perhaps lure them to change two, three outsourcing which is more about outcome driven and output based outsourcing.

So within this framework of Financial Services, the way HCL has been kind of identifying our markets and the reason for some of our performance is as follows. Number one is that we have gone after focused new account strategy, in the sense that we already had certain accounts but in terms of number of accounts we were under penetrated in the North America and the Europe geographies specifically. So over the last 12 to 18 months we have focused on generating new accounts so that you get entry into the account and you can start growing it from there. I am very pleased to mention here that we have signed deals with top five global banks this quarter which allows us to do business with them. In addition to that, multiple smaller mid-tier banks and insurance companies over the last 12 to 18 months have also been brought into the fold. So that now gives us an access into the accounts and we can do a lot of, new services to them.

At the same time, we have also redesigned our propositions, this is obviously identical to what Vijay spoke about the Mode 1-2-3. Essentially Mode 1 is very relevant for financial services specifically as I mentioned earlier that cost is a big issue in the capital markets and which are going for gen 2, 3 outsourcing. So there we are focusing in terms of Mode 1 Services, I will talk a little bit about that as we go along. But more importantly, we have refocused our top persons around digital so Financial Service clients are investing, so while the story line is that they are cutting cost in the run and the traditional change, they are investing in the disruption-oriented technologies, so we have refocused our thoughts around customer experience, user experience, data base, analytics and also new delivery models whether it is Agile, DevOps or containerization and so on so forth.

Also we have strategically leveraged some of our best connects and started partnering with fintech companies. And also helping our existing banks to become more fintech like because banks will survive if they can become more fintech like in terms of the way they are looking at the customers. So that is how we have reorganized our business, look at growth drivers. We have also built differentiators, we have done strategic investments. In last couple of quarters we have invested in labs, we started a lab in London, then one in Amsterdam, then we put one in Cannery and we also started developing center in Mexico. So, a combination of that gives us near-shore capabilities which we were perhaps not having earlier which enables us to perhaps better align ourselves with the growing needs of customers from a change perspective.

Going on further, all our Run businesses are under the DryICE framework which enables us to bring in automation, autonomics and Artificial Intelligence in to our Run businesses. So, as a company we have a large portfolio and within FS also we have a large portion of the RTB spend of our customers. In that spend I would say that a defensive strategy in order to retain that spend with us has been use of tools such as the DryICE, etc., which give us access to automation and artificial intelligence which enables us to get renewal deals from our contracts from the customers because we believe they can do a better productivity in terms of long-term with us.

We have also started leveraging ecosystems within HCL better. HCL has a very large engineering base. A lot of Financial Services firms which are stuck with technology debt and they need legacy modernization to happen, we are able to now leverage the engineering capabilities of HCL in Financial Services accounts and offer services which enable hardcore engineering activities to be done to modernize legacy which is sitting in our Financial Services firms. And all this has also helped us in terms of our analyst rankings and ratings, we moved up to Leaders Quadrant in both capital markets and banking and we have rated also as a Star Performer in terms of the capital markets which is an area of lot of focus for us. So I think a combination of all this, investments that we are making, the changed service line focus that we have, the access now that we have to new accounts which enabling us with the growth that we are seeing.

With that, I would like to hand over to Karan.

Karan Puri: Thank you, Rahul. Yes, I would want to walk you through the vertical performance for the last quarter, all the verticals barring the Financial Services that Rahul just touched upon. Actually the first thing to start this would be to focus on the growth that we have seen in the last quarter as you have seen Vijay mentioned, barring Manufacturing which was softer in the last quarter and it was coming out of high-teen growth in the last quarter, we are running almost 18% growth there. Barring that every other vertical has done extremely well which is sizable. Public Services has also shrunk a bit with some projects finishing off in the last quarter but overall on a Year-on-Year basis it has grown 25% on the last 12 months' basis. So there has been overall growth, I think Retail, CPG, Telecom, and Life Sciences all have done extremely well which does mean that the initiatives that we have put in about three quarters earlier in terms of focusing on redesigning the approach we were taking to manage the kind of change we were anticipating with customers both in the business facing teams which were the go-to-market business teams and enabling teams which were obviously helping the go-to-market happen. I think both of those investments have paid off. Just to manage the deal velocity that we have seen, we continue to sustain that kind of deal velocity.

I think the big change that we have seen are largely coming from markets which are enabling business change, I think Telecom is a big enabler for this change for all our categories. We have seen substantial investments coming in from the telcos in technology that enable the backend, digital connectivity, paper solutions are being delivered over the top from their consumer base. They have also fueled the substantial shift we are looking at now on the Internet of Things initiators which are again driven using the telecom backbone that these large corporations have put in play. Cloud Computing, Mobile, Mobile both on the front end which is the consumer side of this and also on the backend which is enabling the fueling of predictive propositions, enabling retailers, CPG companies, healthcare companies to reach out to customers, advertising as well as obviously providing content over the networks. I think these are the fundamental shift that we are looking at because without this the complete centricity we have or we need to have of customers would not be feasible, I think that is a big shift that we have seen telecom going through. Enabling that shift has been a very, very substantial part of our strategy.

On the components that have enabled the business for visibility, means all supply chains which is all the transportation, travel, logistic companies, that market place, the shift that is happening to enable consumer interaction which is using devices, obviously augmented reality is now coming back into more mainstream. And most importantly on the backend side for both CPG companies and for manufacturing companies on the network supply chain as we see that to be is being enabled both by digital capabilities as well as IoT or Internet of Things that we are now enabling. So these are the big trends that we are enabling ourselves.

On the Manufacturing Side, smart manufacturing, flexible manufacturing, connected and on-time manufacturing clearly has become a big enabler as well for our business.

On the Oil & Gas, we have obviously found a very big investment happening on how production, which obviously has been a big concern for that industry and more importantly how the connectivity for that is to be enabled, I think that investments have started showing up and we are now beginning to ride that curve as well.

And finally most importantly where I think substantial investments, especially in North have happened in how the holistic medical care has to be delivered. I think the connectivity required for the consumers, the way of monitoring of health is required to be done and is essentially now being mandated by law, how devices that are now going including devices that are going inside the body are to be managed and the efficiency of the drug delivery that is happening. I think all these components are also getting substantial focus and investments in the businesses that we are targeting. And it is showing up in the results that we have just finished this quarter, we do not see that waning, we expect the same kind of trend to go forward as well in the following quarters.

In terms of achievement:

the big investment that we have paid on, performance driver that have yielded this success also are coming in largely leveraging the change that we are bringing. So the big shift that we are looking at which Vijay mentioned in the first part of our presentation today is the fact that we are almost looking at a process redesign, I think the Design Thinking capability that we have brought in six quarters ago has now begin to become mainstream in the projects that we are now doing in these industries. So BEYONDigital has been able to really make big shift in the way customer processes are being redesigned, because before you do the instrumentation and the application and you do any development it has been a big requirement to look at the process that change underpinning the business process.

From a telecom standpoint, I touched upon it earlier, I think there will be large substantial wins right going from enabling smart cities which is very large investment area for the telcos to providing content management to providing the metering required to run their operations for facilitating all this change that I talked about as well. I think those are wins that we are seeing.

On Healthcare, pharmaceutical industries have also substantial innovation just to look at how remote monitoring is happening for the customers, more importantly how drug delivery is being effectively managed and that connected health ecosystem is becoming center stage. So the way the pharma companies have provided the data pack to the healthcare providers and that time back to the actual efficacy of the drug that has been delivered I think has been a big shift as well on the healthcare side. And we have had several large more two deals in these spaces, both on the provider side as well as on the pharma side.

Coming to the bigger shift that we are now looking at on the enabling businesses such as Manufacturing we found IoT being deployed in mainstream and we have won some recent deals in very exciting areas, areas which were earlier not even known. So on the Manufacturing side the smart network has become a very critical component on how manufacturers are now looking at feasibility through their supply chain. Then there are devices being managed for manufacturing themselves both from a maintenance standpoint and more importantly now a days we are looking at your operations for large companies putting equipment's in the market. We have won a large transaction where we won an irrigation company has been able to actually sectoraly manage their complete irrigation system in large part of Americas using IoT embedded devices which run through their complete network to manage their pumps and other components in the business.

Utilities is also reinventing themselves, because while they have been focused on what we call the customer information on the frontend having a single view of customers, the bigger shift that is now happening is how are we enabling the backend. And SAP being obviously a mainstream, that business we have seen very large shifts beginning to happening there will be a positive trend as well to enable some of the performance that we have seen recently.

So we have covered the growth that we have seen largely because of disruptions, we have also covered what HCL has done in the last few quarters to facilitate this kind of change. Last quarter obviously we have seen all of this getting into evidencing into good growth as well. Obviously the big requirement we have had is to invest. The differentiator that we bought on the table is focusing on digitalization, I think the way we have seen this happening is through innovation, so we have got acknowledged by multiple industry leaders, Gartner has recently acknowledged in the last quarter HCL will be one of the more focused on innovation on the front end, I think we have got some awards recently as innovation partner. We have been able to actually get acknowledged for services itself, I think the big shift that Vijay mentioned on automation, on metering, using our DryICE platform clearly has showcased us to be leading the business in application services. The third big acknowledgement that we have got in multiple instances, we have mentioned some of these here is on the digital side of the house, I think the investment we made six quarters ago on the frontend and BEYONDigital clearly are panning out. Today we have got rated by Everest in several instances, we have now focused on awards in multiple instances on customer experience management, human center design. And last but not the least, I think the change that we are now beginning to see in all these industries including some of the older utilities based industries also got acknowledged recently by HFS which again is a very large industry leading thought leader, and how they are measuring change for this industry. So the way we are looking at this business, I think there is growth, it is sustained, it should continue going forward as well and clearly investment we have put in over the last few quarters in the way the market is being addressed and how the entities that support that growth within HCL just to facilitate velocity of change in the Mode 2 business has paid off.

With that I would like to hand over to Anil, our CFO.

Anil Chanana: Thank you, Karan. Good morning, Good evening to everyone. So, if you look at slide number 14, I mean this is snapshot of this quarter. So we did 1.722 million which is up 2.8% in constant currency term. We lost 90 basis points because of the currency, majorly 70 basis points out of which came because of the British Pound and 20 basis points on account of multiple currencies including Swedish Krona.

If you look at the table below, you will also find that this quarter which is September '16, the gross margins, the EBITDA margins, EBIT margin as well as net margin, all have expanded as compared to the same period last year. Also, at the same time our investments continue to be sort of made so far as sales and marketing is concerned. The SG&A which is a combined sales marketing as well as administrative overheads has gone up from 193 million to 203 million in the last 12 months which is 5% in reported terms and about 7.5% in constant currency terms, so significant investments, particularly in the sales and marketing. G&A continues to be optimized and some part of G&A is falling under depreciation because we are moving to our own facilities increasingly from rented facilities. So, this will be forming part of the depreciation charge.

If you go further in terms of the guidance, so we are retaining our guidance from 12% to 14% in constant currency which is FY16 currency, basis September 30th exchange rate, it translates to 11% to 13%. Just to clarify, it does not include any revenues from Geometric. The proposed acquisition of Butler America Aerospace, the transaction we announced today. And third is a new IP partnership with IBM which Vijay talked about. So these three are not counted.

Just to give you an update on Geometric, the shareholders approval is through, the creditors approval from both the companies is through, it is now pending before the court for their final approval and we hope this process should get over in the January to March quarter. Butler again will go through an approval process, including a process called CFUIS approval and we expect this approval to be through by December 31st this year. The IP partnership, the partnership is effective immediately. There is a very small number of people who are involved here which will get rebadge within this month and from there on the revenues will start flowing. I think we are anticipating about 15-odd million of revenues on a full annual basis from this deal. But, however, so far as this financial year concerned, we may get about $5 million to $6 million.

The operating margin – we retain that range of 19.5% to 20.5%. In the next Slide, which is purchase of property and equipment, I just thought of highlighting that deal which we have announced of 55 million. Part of this payment has already been made. About 22 million is already included in the software IP line. There are two tables – one is the table on the upper side and the table below. In the upper side, you will find software IP as separately called out, it is 138 million which was in the three months period ended June quarter, AMJ quarter and July - September quarter it is 77 million. So 77 million includes part of that element of 55 million, so it is already included here in 22 million. The total 136 million you will find in the investors release. I have also highlighted that our software assets which were 460 million as of 30th of June, 2016 has gone up by 70 million which includes 55 million of this particular IP deal and balance being the other softwares which we have acquired for our business use which I am not relating to any IP arrangement. This is basically an extract from the accounts, so I just thought it would be more clearer here.

Moving on, in terms of cash flow conversion, the cash flow conversion has been extremely good, 103% with respect to operating cash flow and 56% being on the free cash flow basis.

Moving on, on the hedge details. The hedges were $1,157 million. The cash flow hedges were $1 billion and balancing the balance sheet hedges and the book rate is Rs. 68.38.

Moving on, on the FOREX side, we had again a 4.6 again this quarter and our OCI position is positive at $26.4 million basis the September 2016 exchange rate. And if this exchange rate continues on an average basis, we will be recording a gain of $6.6 million for December 2016 quarter.

Moving on, for tax provision, this quarter it was 21.1%. We still anticipate the effective tax rate to be about 21% for the full year.

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 Sandeep Agarwal from Edelweiss. Please go ahead.

Sandeep Agarwal: When you mention that you will focus on new account strategy, so can you please elaborate a little bit on that side, what is the primary reason, is it the geographic expansion or it is more depth into particular services what you are aiming at? That is question number one. Question number two is on the cloudification part, so is this disruption someway cutting across some interception is happening due to cloudification or it is nothing related to cloudification, rather it is just the IoT disruption which you are seeing across? Thirdly, are you seeing increasing amount of cautiousness among the clients to take decisions to spend? Thanks.

C. Vijayakumar: Thank you, Sandeep. I will take your questions one by one. First one you talked about new account structure, I do not recall mentioning anything in this conversation, but however we have a strategy of dedicated teams to go after net new logos across the globe, it was very well established in Europe, it was also established in large parts of our infrastructure services. So we continue to expand on the strategy, so lot of the portfolio that Karan handles which is the diversified industries or what we call as commercial and consumer industries now, we have created a new strategy to segregate our go-to-market teams to handle new logos and existing customers. This is primarily to increase traction in our application side business to get new logos which we believe is a very critical component to drive our growth. That is on the account structure.

On the cloudification, I really did not get your question, but let me first answer your third question and then come back to see if I can understand your second question better. Our cautiousness in terms of spend, I think I would agree on some of the discretionary spend aspects, some of the clients are cautious, it may be pertaining to certain verticals. However, if you look at our strategy, if you look at our Mode 1 it is all around non-discretionary spend and it is driven through lean and automation and cost out and efficiency. Customers want to reduce their spend in the non-discretionary components and see if they can be reinvested into discretionary components. In the discretionary spend there are two categories, the way I would look at the discretionary spend is incremental programs or incremental transformation where our customers are looking at maybe consolidating a couple of applications or improving application performance or some amount of software development kind of work. That is what I would call as discretionary spend which is really incremental in nature. However, there is a component of spend which is really going behind disruptive transformation which is also in the discretionary category, Rahul talked about it a little bit, Karan also kind of highlighted a couple of programs around that. I think this is sort of spend where we see a lot of traction and lot of forward looking customers who want to fundamentally transform their business, transform a certain aspect of their business or certain big processes end-to-end. It is not even a CIO level conversation, it is the business leaders and the CEO driven conversation where there is a significant amount of discretionary spend which is driving disruption in the business. So this is what we are focused on in our Mode 2 service line. While in Mode 2 there can be lot of things, but the way we are focusing is an end-to-end digitalization strategy. Some of the examples that Rahul gave and Karan gave as our Mode 2 wins they are just not about implementing a little bit of smart technologies, a lot of them are like connected digital health and similarly respective processing kind of thing in some of the Financial Services segment. All of this is really end-to-end and this is where business re-imagination is happening, we re-imagine and re-wire businesses. Here we use design thinking as the fundamental start point and really do a brainstorming workshop with our clients, identifying big problems and then we will delivery end-to-end solutions to drive it. This part of the spend I do not think the customers are being cautious, they do believe this is very, very fundamental and very important for them to invest in to kind of reinvent their businesses. I think that is where we are seeing good traction and that is what we will be driving, that's what has driven some of the growth.

On your second question, I did not get it, maybe if you could either explain it a little bit more.

Sandeep Agarwal: Yes, so thanks for the details on first and third question. So, basically what I am trying to understand is that in the application services on the traditional side, is it some kind of cloudification impact which is pulling down the growth or is it just holding back which is also a question in part three which I asked. So, are you seeing cloudification impacting this part of the business? And second, the growth which we are talking on the disruption which we are talking, is it an extension of cloudification in a way that IoT or the connected wave itself is linked to an agile data system which probably cloud would provide?

C. Vijayakumar: I got your question. On the application front, I mean, as we had explained earlier also a lot of ERP or lot of back office applications or applications where you really do not significantly differentiate yourself on moving to cloud. However, that is not necessarily a headwind for us, it is really an opportunities and we have, like recently we invested in power objects which is a Microsoft dynamics solution provider that is now part of our portfolio, we are seeing good traction there. Similarly, like I said the S/4 HANA, some of the HANA cloud kind of opportunities, we have highlighted a few wins in the last quarter. So I think that part of cloudification is good, however the general decline in standalone or on-premise ERP implementation, that is continuing, it is really on the decline.

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

Ankur Rudhra: Just one simple question, you have given a lot of detail about your strategy about Mode 1, 2, 3. But if you want to summarize into one simple process, in the last 10 years we have seen HCL either focus significantly on growth or on margins and profitability perhaps in the last four years. What is the direction that you would want to take from here, do you want to accelerate growth or would you want to protect margins and increase profitability? That is my first question.

C. Vijayakumar: It is a great question, it is a great food for thought for me for the next several days, thank you for setting the context. But the pace at which we are in, Ankur, I do believe I would want to drive revenues but it does not mean that we will drive revenues, I mean we will really drive revenues with profitable growth, I think our strategy around Mode 1 which is a bulk of our business I do see significant opportunities to drive growth which will continue to be profitable at the current levels. Maybe next quarter I will come back to you with a little bit more granular thought process around this, Ankur.

Ankur Rudhra: Just one quick follow-up only from Rahul perhaps, Rahul the Financial Services headwinds you were seeing earlier on in-sourcing from some of your clients and impact of RPA, is that over and do you think the business turned the corner from that perspective or do you think this will stay volatile for now?

Rahul Singh: So, we did speak about headwinds in the past, so the headwinds are industry headwinds which we are all facing. But I would like to mention here that for substantial number of our clients, some of that is in the past. But there could be macroeconomic issues that can come up from time-to-time. But in our current portfolio I would say, that is the reason why we had low growth for multiple quarters. So, I think most of it is behind us for our current clients, as we take new clients on we will have to see how it goes.

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

Anantha Narayan: Sir, my first question was on the Infra business. So we have had a couple of good quarters but we have seen a fair amount of choppiness before that, so can we say that now we are in a position where it is likely to be a bit more uniform going forward?

C. Vijayakumar: It is a good question. We are glad that we had a couple of good quarters but the nature of the business, if you win a large program there could be transitions which could happen over a period of time. Fundamentally, the nature of the business has not changed, so sometimes you may find a little bit choppiness from a Quarter-on-Quarter perspective. I continue to request all of you to look at our business from a Year-on-Year basis, I think that would be the right metric. So quarterly choppiness is quite possible.

Anantha Narayan: And my second question was on the Engineering business, so there again if you would just forgive the quarterly numbers and look at from an LTM perspective. This was a business that used to grow at 20% - 25% and now it has come down to single-digit numbers despite some pretty positive comments around this business. So can you just give us a color on what has changed there and maybe just some view on what to expect over the next few quarters?

C. Vijayakumar: Two key things on the Engineering business, Anantha. One is, last quarter and this quarter as we had explained in the previous quarter, one of the large deals there is structured off-shoring program which is a part of the overall deal, so that is obviously creating some reduction in revenus. And you mentioned about the LTM growth as well which is not in line with the commentary that we had on the potential opportunity of the Engineering Services. What we are seeing is Engineering Services trying to really, there is no structured sourcing process, unlike in IT where we have probably hundreds of sourcing advisors creating RFP, going and selling it to the clients and then working with service providers to kind of get the solutions done. There is not a very strong structured sourcing process. So because of that the whole lifecycle of engagement, trying to construct a business case, trying to really work through a solution is taking much longer than what we expected. So that is why you see that the growth is a little bit muted. However, knowing this trend deals are taking longer and understanding that the market opportunity is big and we have a strong positioning in the market. We strongly believe there is a consolidation opportunity in industry in some of our chosen horizontal and vertical segments within the Engineering and R&D Services. And that is why we are looking at acquisitions as a potential opportunity. As Anil mentioned, one of the acquisitions that we announced this quarter is Butler Aerospace which is really doing engineering work in aerospace and defense segment. So we got to kind of do a dual strategy of trying to pursue organic growth as well as continuously looking at pointed mid-sized acquisitions to drive growth. This way we will ensure that it continues to grow at the pace at which it was growing earlier.

Moderator: Thank you. Our next question is from the line of Sandeep Muthangi from India Infoline. Please go ahead.

Sandeep Muthangi: I have a question on the guidance, especially at the top end it is quite strong, it implies about 3% to 3.5% growth for the next two quarters which again means a significant acceleration. I just want to get your thoughts behind the business scenarios you are building for such a significant growth in the next two quarters?

C. Vijayakumar: Thank you, Sandeep, I will refer it to Anil.

Anil Chanana: So, Sandeep I think that is why there is a range from 12% to 14%, so I think it has really demonstrated good growth. And even on a YoY basis if you look at this quarter has been 12.8% as compared to the same quarter last year. So we believe that we stand by that guidance which is there, 12% to 14%. And the new elements like acquisition will be spanning out…

C. Vijayakumar: And the asking rate for the next two quarters is quite reasonable, it is probably between 2% an 3% to get to the 1.5%.

Sandeep Muthangi: No, I was particularly interest in whether there are any large deals in the pipeline that could tip the scales in favor of the 3% plus growth?

C. Vijayakumar: We won as we reported 12 transformational deals, so we have to really map out the execution cycles. I mean at this point looking at all variables on which we can get a handle on, I think we will be within the guided range.

Sandeep Muthangi: And on the Engineering Services piece, I think somebody also asked about this growing very fast in the past and growth sort of moderating in the past one or two years. Now, you made significant acquisitions in this space, if I just add it all up it is about $700 million over the past one year. Now these have happened in different, different areas, I just want to get your thoughts on what is the plan over here, is the plan to go and put a full services portfolio to the client and convince him to do a more structured sourcing kind of a model? Or is it that you are seeing growth accelerating in these areas and these are the exact areas where you have invested?

C. Vijayakumar: First of all, we have not invested $700 million in Engineering Services. I mean, obviously we have had many acquisitions, a couple of them are very, very small and I think the real notable one is Geometric, of course there were significant synergies in some areas where we want to focus. Also, in areas where we had fairly good client access there could be further PLM kind of services that could be sold and that was a big driver for Geometric. And aerospace and defense, again in Engineering Services we have good penetration and we believe this is a good way to consolidate and grow there. These were the two and both of them the revenues have not kicked in and it is expected only when these deals really formally close. Anil, you want to add anything?

Anil Chanana: Sandeep, your question is around whether we intent to present like a integrated offering. I mean, it is integrated could be with reference to the customer set, so for example if I go to a customer saying that I have an embedded offering, so embedded offering can be sold to a mechanical customer and mechanical offerings can be sold to a embedded customer, so vice-versa this sort of thing can be done. So to that extent it could be integrated, but there is also a sort of specialization in terms of the vertical, so they are very specific to each vertical as well. So, both these factors we take.

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

Divya Nagrajan: My question has kind of been asked slightly differently, but will attempt again. Some of your peers have cited cyclical issues in the market where we are suddenly seeing volumes drop of and decisions are getting deferred. Is that something that worries you in the next six to nine months, and specially in parts of Europe where we could see decision making deferments because of the UK response?

C. Vijayakumar: Yes, Divya at this point I know there is a lot of cautious commentary that we have heard from some of the industry peers, we try to dig deep to see is there is anything that is being seen in our customer portfolio, I have really nothing to report. So, we really are optimistic about how the business will pan out in the next couple of quarters. Our pipeline continues to be strong, it is higher than what it was when we closed the previous quarter. And I think it is also to do with maybe we have a fairly balanced presence across different vertical segments, for example Financial Services adds to only a quarter for portfolio and rest of the service verticals contribute the rest of the portfolio. And even in heaps of this segments we have a fairly diversified portfolio across multiple verticals. So maybe that is acting like a natural hedge across both balanced service portfolio, balanced verticals and fairly balanced geographic presence. So I have not seen anything which is where decisions are getting delayed or decisions are getting pushed out, in fact it is maybe still early days but because of Brexit I do see customers proactively looking at how can they really take cost out and be prepared for maybe some potential situations that may come out of Brexit. So we actually are seeing a slightly increased level of conversation on cost out and off-shoring and globalization and things like that. I hope I was able to address, at least provide our perspective of the scenario.

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

Ashish Chopra: Just one question from my side was on the manufacturing front, I think the LTM growth over there currently is at 7% and assuming that you integrated the Volvo external IT as well in the last quarter, so that would have a lot of contribution to that vertical in particular. So just wanted to know, as to excluding that it seems to be quite soft, so what would really be driving that and what is the outlook going forward?

C. Vijayakumar: So, Ashish one thing is manufacturing is the way we define it is manufacturing and high-tech, so there are a lot of high-tech companies as a part of this. So if you really want to explain the LTM growth which probably is not inline with what you were expecting, I think there again one of the large high-tech companies because of their own business situation they had kind of reduced some of the spend which is very, very unique to them as a client in bay area in North America. So I think that was a very significant kind of a customer. Other than that, I am not able to call out anything which is specific.

Ashish Chopra: The engineering client…

C. Vijayakumar: Sorry, the engineering client where we are seeing the structured off-shoring which is also in the same part of the manufacturing as well.

Ashish Chopra: So, with these two specific instances, would the pressures be behind or would you expect that to continue over the next quarter or two?

C. Vijayakumar: I think we are seeing a lot of deals in the manufacturing space in our pipeline. I mean, this is also a segment where lot of on-premise ERP is there, so with the reduction of the on-premise ERP also had an impact on this particular revenue from the sector. So, I think it should accelerate.

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

Ashiwn Mehta: I had one question on Europe. So, in terms of the decline in Europe from a verticals perspective and from a service line perspective, is it largely manufacturing and engineering services lead?

C. Vijayakumar: So, first is the ERS commentary that Anil shared is about Europe. In terms of the decline I think it is again due to, last quarter was a very, very high growth in Europe and I think it was largely lead by infrastructure services which also had certain onetime projects, so that kind of closed, so that also has an impact. These are the two aspects.

Ashiwn Mehta: And I had a follow-up in terms of Europe, some of the banks which have issues right now are our large clients, so anything to call out in terms of demand or any interaction that you have had with those banks which makes you worried?

Rahul Singh: So we do have a couple of banks in Europe, but there are multiple things that you should look at. Number one is that at this point of time we do not have any impact, so that is important point to note. The other thing to note here is that we have a balance portfolio within these accounts, in other words we do a lot of RTB business which tends to be sticky. So banks do undergo certain stress in terms of top-line and they have to look at discretionary spends etc, because we have to run the business portfolio that tends to still be stable in situations. So that is a quick summary, I mean there is nothing at this point of time which we have to report. At the same time, the composition of our business tends to be something which is to some extent more stable than you will find in other IOPs.

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

Sandeep Shah: Just 1st question is more strategic, just extension to what Ankur has asked. So in the earlier leadership I think HCL has been early mover in IMS and successfully brought a leadership of HCL in the IMS. Under your leadership do you believe that you would try to focus more holistically and build growth across most of these service towers? And to do that do you believe that there would be some change required, A) in terms of sales organization, B) in terms of more flexibility or in terms of the M&A being more recurring feature going forward?

C. Vijayakumar: Good question, Sandeep. Definitely it is my intent to make the growth more broad based and that is what we as a leadership team will strive to achieve. Sorry, can you repeat the second part of the question, I missed it.

Sandeep Shah: I just want to know if you are looking at a holistic approach in terms of growth across services, what all key changes you would like to do, A) in terms of sales organization, B) in terms of adding capabilities more frequently going forward, either organically or inorganically?

C. Vijayakumar: So in terms of sales organization, one of the points that I mentioned is a large part of our Application Services did not have a segregated hunting and farming teams, but that was one of the first things that we had put in place in the last quarter to have dedicated hunting and the client mining teams. That is number one. We also see an opportunity to expand on our client partner program, we are currently focused on senior client partners for only a top 30 or 40 accounts. We believe there is an opportunity to expand it to 150 accounts. And if you really analyze our portfolio, there are number of large infrastructure clients where our application penetration is nominal and it is also the vice versa in large application customers, penetration for infrastructure services is marginal. I see that as a potential opportunity and one of the ways to address that potential opportunity is to really have a stronger client partner program and enable the client partner to sell all services to clients and mine the accounts. And also the client partner strategy is also going to help us strongly position our Mode 2 service in our existing clients, so we are really in the process of creating a significant enablement mechanism for our client partners to really position whether it is Cloud, Security, BEYONDigital, IoT Works as potential areas where we can mine our clients. These are early days, Sandeep, we will have to see how this pans out and obviously to execute a change at this scale is going to take some time, but we have started taking some babysteps there.

Sandeep Shah: Second, I think CVK just on M&A, because if we look at last three to four quarters I think each quarter there is some tuck-in acquisitions which we have done and maybe this could be a new trend in terms of actually developing a strength inorganically rather than organically, which is nothing wrong. But do you believe that the M&A team is now geared up in terms of successfully integrating there and what all changes we are doing in our M&A team or initiatives?

C. Vijayakumar: So, the real proof point of our ability to integrate is really Volvo, it is one of the most, from a scale perspective, the largest deal and it is pretty complex across geographies, across various cultures, not only Volvo as a client but all their Volvo IT customers. I think this integration has really happened flawlessly, we have managed to retain all customers, the employees we have onboarded are happy, they are delivering very good services to the clients. And we are also able to start seeing the synergies, if you recall one of the big synergies that we talked about as a part of Volvo IT acquisition was mainframe services. We already won two mainframe deals in the US on the basis of the capability that we have in the Volvo IT deal. And we are seeing a very significant pipeline for mainframe services within the Infrastructure business which would not have happened without the Volvo capability. So in a structured way we are focused on integration and realizing the synergies.

And you also asked about whether it is going to be a big part of the strategy? I do believe we are going to, I mean, even in this year we will have an industry leading growth even from an organic perspective. And that is really our intent, inorganic is really required to where we can see good consolidation opportunities where we believe there is capability tuck-in that is required. But primary growth strategy will be organic, that is the way I look at it.

Sandeep Shah: Just last question, Anil I think on the IP deal, both the deals with IBM, I believe from the second half we will see most of the revenues which we are guiding, close to around 45 million - 50 million.

Anil Chanana: That is correct. So we guided from the deal-1 which was announced last quarter, we set revenues between 30 million and 40 million, so we are all set to meet that number. And the second one will be not for complete six months, we will be part of that. So about 5-odd million I think we should be able to recognize in this financial year.

Sandeep Shah: So from the deal-1, I think in the television interview you said it is 4 million which got recognized.

Anil Chanana: That is correct, just started in September month.

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

Mukul Garg: My question is regarding the approach you are taking for IP, you have partnered with IBM, CSC, Amazon etc in the last one to two years. So, A) just to take the example of IBM, how do the partnership account for competition between partners because I believe IBM will also go and pitch it individually and you will also try to put something on top of what you have acquired and try to sell it to your clients. So first, how are you accounting for the competition between the partners? And second, your approach for IP is quite different from what the rest of the industry is taking, so why do you think this is a winning strategy compared to others who are doing it in-house who are creating their own IP?

C. Vijayakumar: So, let me answer the first question, how are we partnering and competing with some of the larger technology players. I think the competition is really in the services space, especially ITO services and this partnership is all around products, that is where I think there is a very clear segregation between where we are competing and where we are partnering. As partners we have very healthy respect for each other and we have fairly good executive relationships to manage if there is any conflict from a field perspective. That is one. Sorry, I missed your second question, can you repeat it?

Mukul Garg: Sure. So the second point was, when I see if you look at the IP deals which we have been doing when you started with CSC and you have done some partnerships with IBM.

C. Vijayakumar: I understood the question. See, there are two ways to look at it, one is, you can really build IP grounds up or you can accelerate the whole process by partnering. If you look at even our automation strategy instead of trying to build a cognitive platform or AI platform, we are really focused on creating the right partnership or what we call as an open innovation through ecosystem, that is one area we are really strongly focused on. So, I think we can accelerate our products and platform business by creating the right level of partnerships rather than creating things grounds up. However, there are areas where we have already made some good progress in creating IPs which is really a part of our existing portfolio, like in infrastructure services we already have things like service exchange which we launched this quarter, we have MyCloud as one more good product in our staple. So for those we will probably use the in-house builds to products to kind of pursue and further the business, but in a lot of areas I do believe strategic partnerships and creative IP partnerships would be better strategy to scale this business.

Mukul Garg: And the second question was, when do you think you will be able to break out your revenues by new technologies like security and analytics or at least from Mode 1-2-3 either growth or revenue and when do you think you will have sufficient information to break it out for us?

C. Vijayakumar: I think we shared some information during the analyst meet in Mumbai in August and I think there are two or three areas where we shared information. So those metrics we believe it is not feasible to report on a quarterly basis, but definitely on an annual basis we will give you an indicative number. Again, the number that we shared in analyst meet is indicative because as you know to segregate this revenues is a very tedious effort. However, at the end of the year we will give you an update on where we stand with respect to those numbers that we had indicated in August.

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

Ravi Menon: I have a question on the BFSI, first wanted to just understand going into this year you were a lot more optimistic about BFSI, we are considering that in mid-year there was supposed to be Fed rate hike and your expectations of other revenue from this vertical changed over the course of the year.

Rahul Singh: So Ravi, can you just repeat your question because I did not get the essence of it. So you spoke about the Fed rate hike, can you just repeat your question.

Ravi Menon: So, we had talked about a Fed rate hike and expected bank profitability be a lot better, so some IT programs might have been cut as a result of the Fed rate hike not happening. So did you think that, have you seen some cut backs in discretionary spending over the course of the year because of that?

Rahul Singh: So let me respond to that question. So, our business tends to come significantly from capital markets and to some extent retail banks as well. Now, as I explained earlier we have been focusing more of our business on either disruptive technologies which is taking place in financial services institutions or on the run with business which is essentially on the cost side. So, typically the change budgets of financial services companies, their relative importance in our portfolio has been less as compared to some of the other competitors that we have got in the market. So directly, let's say Fed rate hike does not happen and there is a slowdown on discretionary spend, the element of discretionary spend that comes into our portfolio tends to be less impactful because we are not in the direct CTB business, we are in the disruptive CTB business**.** So what I am trying to say is we are in to things like client facing omni-channel investments that are happening for further growth of the business model versus pure CTB which is stage-related so therefore our portfolio tends to have that component of discretionary and our portfolio tends to have run the business which is basically essentially production service, production support which tends to be less suspect market related changes. I hope that answers your question?

Ravi Menon: That does, thank you. And second question is about your overall approach to how you see the different part of portfolio, you were talking about increasing the cross selling, CVK, would you have any idea of roughly across the whole firm what is the kind of cross sell number? So if you take all ranking of four for a client, where would you be, would you be at like 1 point something or would be at 2 point something, where would you rank?

C. Vijayakumar: I have not really quantified that, Ravi. I think our cross multiple service lines is minimal, but within service lines we definitely keep up-selling, so I do not have a quantified view to this at this point.

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

C. Vijayakumar: Thank you, everyone. We really appreciated the number of questions and a lot of interest in our strategy and in the approach that we are taking. And overall I think I want to summarize saying it has been a good quarter, we were very happy with what we have achieved this quarter and we are positive to be within our guided range in terms of revenues and EBIT percentages and look forward to talking to all of you during the next quarter. Thank you.

Moderator: Thank you very much, Members of the Management. 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.