"HCL Technologies Limited Q2 & H1 FY'18 Earnings Conference Call"

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MANAGEMENT: **MR. C. VIJAYAKUMAR – PRESIDENT & CHIEF EXECUTIVE OFFICER, HCL TECHNOLOGIES LIMITED**
MR. ANIL CHANANA – CHIEF FINANCIAL OFFICER, HCL TECHNOLOGIES LIMITED
MR. RAHUL SINGH – PRESIDENT – FINANCIAL SERVICES
MR. KARAN PURI – SENIOR CORPORATE VICE PRESIDENT, HEAD – DIVERSIFIED INDUSTRIES
MR. ANOOP TIWARI – CORPORATE VICE PRESIDENT
MR. ANAND BIRJE – HEAD, DIGITAL AND ANALYTICS PRACTICE
MR. DARREN OBERST – HEAD, PRODUCTS AND PLATFORMS

Moderator: Ladies and gentlemen, good day and welcome to the HCL Technologies Limited Q2 & Annual FY2018 Results Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. C. Vijayakumar – President and CEO, HCL Technologies Limited. Thank you and over to you, sir.

C. Vijayakumar: Thank you. Good evening and good morning to all of you. Welcome to HCL Tech's Earnings Call for the Second Quarter Fiscal 2018. Today, I am joined by Anil and several of my colleagues in different parts of the world.

Let me begin with an overview of our Financial Performance for H1 Fiscal '18 followed by commentary on Q2 Fiscal '18. Our H1 revenues grew 11.7% and net income grew by 11.5% when compared to the same period last year. This is industry-leading performance and we are quite happy with the broad-based nature of the growth. We have also witnessed a very robust and broad-based booking performance in H1 of fiscal '18 which is significantly higher than the same period last year.

If you look at our Q2 numbers, our revenues grew by 2.3% in US dollar terms and 0.9% in constant currency terms. Our Q2 EBIT stood at 19.7%. I want to call out that in Q2 our revenues from India SI business declined by approximately $20 million due to completion of implementation of few large SI programs. Last quarter we also rolled out salary increases for our employees as per our regular appraisal cycle which cost 50 basis points impact to our margins. Through the quarter, we won 15 transformational deals, it represented a well-balanced Mode-1, 2, 3 services mix, the deal wins were across US, UK, Germany and Australia among other countries.

Let me underline a few wider positive trends which is emerging from our H1 performance. One, you will see that our growth is becoming more and more broad-based across all our service lines and we have reduced a dependence on any single service line.

Secondly, our Mode-2 services have started delivering a strong growth. Each one of them, Digital and Analytics, IoT Works, Cloud-Native Services, Cyber Security and GRC are bringing in significant number of deals. They all have a robust pipeline and more importantly, all the services are establishing very strong thought leadership in their respective businesses.

The third wider trend positive message is IP Partnerships and Acquisitions will continue to be a key element of our growth strategy. Over the last five quarters, we have perfected the art of integrating IP Partnerships. We continue to perform largely on plan on our acquisitions as well. We have been able to streamline the portfolio of the acquired entities wherever required to improve the margin profile as per our expectations. So we feel very confident of the strategy and we continue to look for acquisition opportunities across our Mode-1, 2 and 3 portfolios.

Overall, we continue to be bullish about the market opportunity, especially from our vantage point of a well balanced service mix and also our increasing client relevance enabled by our Mode-1, 2, 3 offerings. Given this outlook, we retain our FY'18 revenue guidance of 10.5% to 12.5% growth in constant currency. This would translate to 12.1% to 14.1% in US dollar terms based on September end rates. As per our current visibility, we expect to close the year towards a lower end of the guided range. Our revenue guidance builds in the impact of reductions in India business in H2 as well as the reductions in H2 revenues due to conversion of DXC Joint Venture arrangement into an IP partnership. Anil will later share some more specifics of the revenue impact in H2 due to conversion of the joint venture to an IP partnership. However, that impact is already baked into our guidance.

In terms of FY'18 EBIT guidance, we retain 19.5% to 20.5%. The EBIT guidance assumes dollar at Rs.65.5 and other currencies at the FY'17 average rates.

I will also provide you a "Quick Update on our Various Services:" Let me start with our Mode-1 services where we deliver core services of Applications, Infrastructure, Engineering and BPO, leveraging our DryICE autonomics platform. Our Engineering Services grew 4.4% QoQ in constant currency supported by growth in existing clients and IP partnerships. The IP partnerships while it has given us a growth momentum for our Mode-3 products and platforms offerings, it is also creating new opportunities for a traditional Engineering and R&D Services. Our BPO Services grew at 2.9% QoQ on constant currency. BPO market is undergoing repositioning as traditional business process engagements is giving way to Digital-led initiatives embedded with (RPA) Robotic Process Automation solutions. Our Infrastructure Services degrew by 0.2% QoQ and Applications Services remain flat QoQ in constant currency terms. As I pointed out earlier, both Infrastructure and Applications Services together had approximately 20 million revenue decline from India projects. So if you look at the Infrastructure and Applications Services constant currency growth excluding the India business, Infrastructure would have grown by 1.8% QoQ and Applications Services would have grown by 1% QoQ in constant currency terms.

A Quick Update on our Mode-2 Services: We continue to see good traction across our existing clients as well as several new logo wins driven by the differentiation that we have created and the mind share that we have created for our Mode-2 offerings. In several of our renewals, we also earned an extended scope for the Mode-2 services. In Digital and Analytics, our deals are expanding from small to medium size to more significant scope aligned to the very core of our clients business.

This quarter we signed several strategic engagements like Modern Applications Services engagement with the Fortune 100 technology major. Digital Applications, customer experience in Analytical Services for a global 100 European financial services organization. Big Data, Data Science and Predictive Analytics engagements with the leading Fortune 100 Courier Services and Shipping Provider. Digital Applications Services and support for a UK-based multinational semiconductor and technology company amongst others. If you see the trend, we are really making good inroads into very large clients with our Digital and Analytics offerings. In IoT Works, we signed several deals. But I want to particularly spotlight one which could be harbinger of a large market opening for us. We went live with the program for a European lighting major wherein we will be managing the company's global smart lighting installations on a build, operate, transfer basis. We announced the opening of the Global Customer Remote Operations Center in Bangalore for this client. Now, the remote operations center at its very core, has many similarities with the remote infrastructure model that we pioneered 1.5-decades back and we believe that this remote operations center will be a key value proposition for our IoT Services in the coming quarters and this can really open up a very huge market opportunity for us. IoT team also announce industry-leading solutions like Cold Chain Logistics Monitoring Solutions, Remote Service Platform Solutions for medical devices. We also entered into a strategic partnership with Siemens for Industry 4.0 solutions on MindSphere, a Cloud-based Open IoT operating system.

Other interesting IoT Works deal signed this quarter include a deal for creating next-generation IoT-enabled platform for a Fortune 100 Courier Services and Shipping Provider and IoT Ecosystem for Nordics-based Global 2000 Manufacturing giant, a Predictive Maintenance Solution for a Fortune 500 Global Life Sciences Technology Provider and an end-to-end IoT Solution for US-based Global Paper and Packaging Company. In Cloud-Native Services, we see this is a very interesting market and we are approaching it from both ends of the spectrum, that is helping our existing customers transition to Cloud as well as open net new accounts with the service portfolio.

We have signed (+30) deals, small, medium and large combined in this segment in the last quarter. We are also signing milestone deals in this business like the recent engagement being which is one of the first Cloud programs in the utility industry in UK where we will be responsible for full end-to-end Infrastructure and Application Migration to AWS Cloud. This is example where 100% of the infrastructure landscape will migrate to AWS. The Cloud-Native Services team has also built unique solutions along with partners like a solution called Containerized IT solution which helps them legacy to Azure Migration, built in partnership with Microsoft and Mesosphere. PowerObjects, the company that we acquired two years back is also punching in with opening new deals and building IPs on Microsoft dynamics 365 stack.

In Cyber Security and GRC, we are talking about dynamic security which is based on a philosophy of constant governance. It is built on a framework of governance and continuous assessment and uses best-of-breed technologies supported by Artificial Intelligence. With the roll-out of GDPR in Europe region, global enterprises are rushing to assess their compliance posture and work towards aligning their policies and controls.

We are also entering into total outsourcing deals with managed security services as a component as well as standalone consulting-led security deals. This quarter we won an engagement with the leading North American producer of Coated Paper and Specialty products to manage their end-to-end security landscape.

We are also working with a leading UK-based insurance company to deliver GDPR program and other security services for a leading global vehicle leasing company and also a North American bank as well as an Energy Services provider in Germany.

A Quick Update on our Mode-3 Services: We continue to take solid steps forward. We expanded our IBM Partnership by signing a five-year IP Partnership deal which adds the IBM collaboration solutions to our growing portfolio of products and platforms offerings. Encouraged by the success of our unique IP Partnership approach, we also restructured our joint venture with DXC. We changed the JV format into an IP Partnership arrangement.

We are also pursuing similar IP Partnership opportunities with other technology partners and are very confident of expanding this portfolio.

From an internal IP creation perspective, we filed 12 patents in various next-generation technologies and platforms while our DryICE COPA which is Cognitive Orchestrated Process Autonomics Platform registered some excellent wins.

Moving on to provide you a view of the Geographies, Americas continued its strong growth with 1.5% QoQ. This is on back of strong Q1 where Americas grew 3.8% QoQ. Europe put up a strong performance with a growth of 4.4% QoQ and a major share of this growth came from Financial Services; ROW degrew 12% QoQ and a decline is largely due to India business as I explained earlier.

From industry perspective, Q2 saw Manufacturing and Financial Services delivering sound growth of 2.4% and 1.2% QoQ and 21.9% and 14.2% respectively on YoY constant currency basis.

In Client Metrics, we did extremely well with our top-20 clients growing faster than the company average, reflecting the strong performance of the client partner program which is being put in place four quarters back. We saw strong client additions on YoY basis across all revenue categories. It is really an impressive uptick in client addition across all categories.

Coming to our Employees and CSR Initiatives: Our employees continue to be upskilled at a feverish pace. YTD we trained about 57,000 employees, 5,600 of which are on four Mode-2 skills. Our employees also continue to generate direct value for our customers through our flagship Deep Platform Value portal, $500 million of impact was delivered in H1 alone while our Women Leadership Development Program made industry headline this quarter by winning gold at Brandon Hall Awards 2017. We are lazar-focused on our client partners who are successfully driving our top revenue generating clients increasing sales and expanding footprint for our services within the accounts. Similarly, our HCL Foundation, the CSR arm of HCL

Technologies continue to drive sustained social impact both across India and our global communities.

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

Anil Chanana: Thanks, Vijay. As Vijay mentioned, I think very strong performance in revenue terms and margin terms. If you look at excluding the India aspect, the growth was 3.4% in reported currency terms and 2% in constant currency terms …just to repeat, I am excluding India for the purpose. The revenue per employee is on a consistently increasing trajectory; it is now close to $64,500 and the non-linear momentum continue. So revenues have grown in the last 5-years at 12% CAGR while the headcount increase is 7%. EBIT has grown by 15% CAGR and net income has grown by 20% CAGR, much higher than the growth in the revenue.

The India business declined by 20 million this quarter and even if I assume the same sort of a level going forward it will be like 60 million, 20 million multiplied by 3 and there will be some more decline. So about 70-75 million will be I would say impact this financial year on account of India business going down. In addition, Vijay talked about the DXC partnership where we have converted that partnership into an IP-based partnership which currently has revenue run rate of about $22 million. If I assume that the revenues will be halved, so it will have about $22 million of impact in the remaining two quarters which is OND and JFM. So both these put together will have closer to about 100 million-odd impact for the financial year.

In terms of EBIT, the margin is at 19.7% who are within the guided range. This guidance of 19.5% to 20.5% was given with the exchange rate of US dollar to Indian rupees being 65.50 while the rest of the currencies is the average rate for last year. If I sort of try to true it up, it will be 19.7% will convert into 19.9% or 20%. So we are well within the middle of the guided range.

This quarter also has the impact of wage hikes which is about 40 bps. We did gain because of these currencies which had a positive benefit on the margins by 20 bps. The salary increase has been about 5% offshore and 1.5% onsite.

If you look at the earnings per share, the earnings per share on quarterly and YoY basis has gone up by 10%. It is at Rs.62.70 the annualized earnings per share. We started our investment program particularly VIP-led investment program more than one year back. You will see our return on capital employed has been very consistent; it would have only increased marginally at 23%, being one of the best in the industry. The dividend this quarter is at Rs.2 per share. So our dividend payout ratio which was last year close to 50%, we intend to maintain that to be above 50% this year. The DSO which was at 63-days is marginally up at 64-days this quarter. Our layered hedging program continues to deliver results. So this quarter we had exchange gain of 22.3 million which is below the EBIT line. The conversion of net income to operating cash flow or the EBITDA to free cash flow has been very good. So the net income conversion to operating cash flow last sequence is at 99.9% and EBITDA to free cash flow if I take the IP deals is inorganic is at 68% which is also pretty good. In terms of working capital management, we continue to be the best in the industry with net current assets as a percentage of revenue is at 10.6%.

I think these were the highlights. With this, I will give it back to the operator. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Ashwin Mehta from Nomura Securities. Please go ahead.

Ashwin Mehta: I had a few questions on the IP deals. CVK, we possibly would be looking to spend almost a billion dollars on these IP deals till now. Is there a base IRR ex of any synergies or new business that we have in mind when we enter these deals? Secondly, with synergies and incremental functionality being developed, what is the kind of IRRs that we are looking at in these deals?

C. Vijayakumar: I will request Anil to respond on the IRR. I think this is a standard question that we have been facing in the previous quarters as well.

Anil Chanana: It is a double-digit sort of IRR we are looking at, much higher than the returns we get out of our funds and in the last one year one of the deals have completed one full year and we have seen that performance to be in line with what we had projected, in some of the products it is even better. I think we are set to achieve double-digit sort of IRR from our investment.

Ashwin Mehta: Given that you have seen possibly four to five quarters of performance of the first few deals, what confidence have you got post doing these deals which has given us the confidence to go ahead to do six of these and also convert the DXC Partnership to an IP deal?

C. Vijayakumar: Primarily, the success of what we have done and the visibility of all the results that has come to us, I think that is what is giving us more and more confidence. Anil, when he said double-digit growth, I think he was being a little conservative. So our evaluation metrics are in the middle, maybe at 15% levels and across the board we are doing better. At least one of the deals which is the largest of the deals that we have done which was the very first deal, five quarters since we have finished the deal and we are performing above plan. I have Darren Oberst on the call who runs the products and platforms offerings. He can provide some more insights into what kind of synergies that we are building on top of the products and platforms and how is that interlocking with our existing service line. Darren, if you want to comment on it, go ahead.

Darren Oberst: As both CVK and Anil noted, we have seen good results over the course of the last year. I think when you look in particular at the partnerships that we put in place that now have the most tenure where we have a track record from an operational point of view, we see a lot of reasons for optimism both on the top line as well as in terms of productivity and leveraging a lot of our underlying engineering capabilities. So one of the reasons that we continue to do these partnerships is that we feel that it plays on a lot of HCL underlying strengths and we are seeing good results, particularly if you look at some of these really battle tested, hardened products with very large installed basis, injecting energy, new features and capabilities in the roadmap and really allays our focus on the users and the communities around these products. We are seeing really good return in terms of the response from these customers. We also see of course additional opportunities in terms of building service capability around these products as well.

Ashwin Mehta: Broadly from an analyst perspective, how should we kind of assess the performance of these deals because there is some level of opacity?

C. Vijayakumar: Ashwin, we continue to provide visibility into the investments. From this quarter, we are not providing deal-specific investments but all of that gets accumulated in our license IPR line item due to client confidentiality reasons which we had overlooked in the past. But this number is very visible as an overall number. The second thing is while we have done large investments, our EBIT continues to be stable, our return on capital employed continues to improve. So I think you should really look at the overall metrics that should help you kind of determine how this business is performing. Some of this growth is also visible as you can see these are reported under our Engineering and R&D Services which has had an impressive growth in addition to the regular organic growth that is possible on the ERS business. Frankly, we are not sharing more specifics on this portfolio because we do believe we have a competitive edge and we have the first mover advantage and we want to capitalize on it. The success of the strategy is what is compelling which is motivating us to do more. That is why we converted the joint venture with DXC which was also working quite well but we felt the opportunity to create more value is significantly higher in the IP Partnership construct, and we are also working and are in the final stages of concluding similar partnerships with other technology players with whom we work for a long time. So this is really now a core part of our strategy in the last few quarters and given us confidence to kind of pursue this further.

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

Sandip Agarwal: I have two questions. CVK, you made a very interesting point in the commentary that the digital and other deals we are seeing some uptick in the sizes. So if I can ask the question in more detail that are you seeing that the customers are getting the confidence to move back from mid cap companies again to large cap companies for digital deals where probably they are almost satisfied with the testing phase and now for the larger deals they will again go back to the large size vendors**.** That is question #1. Question #2, although I know that you people would like to give quantitative details on Mode-1-2-3 on annual basis but it is very difficult for us to get any kind of sense only on quantitative basis. So either if you can give some more light on those Mode-1, Mode-2 part it will be very helpful?

C. Vijayakumar: Good question, Sandip. Maybe I will ask Anand Birje who heads our Digital and Analytics practice based in Bay Area to answer the question on the deal sizes and what we are seeing on the Digital space and I will come back to you on the Mode-1-2-3 split.

Anand Birje: Thanks, CVK. It is a great question first of all. What is really happening is two-fold; one is as you said companies and enterprises are moving from what we call as POC Digital where they were over the last two to three years doing fringe experiments in terms of proof-of-concepts or taking one or two or three processes in terms of their business transformation and doing smaller digital programs. I think what has happened over the last year is really these programs and these strategies are culminating into more scale digital type of comprehensive projects and programs. In the scale digital journeys, enterprises are realizing that they cannot rely any more on just the boutique digital firms, that were solving sort of POC digital problems, but they are moving towards what you called as large cap or more mainstream providers and that is where we are seeing larger scale engagements coming to us. So there is a market movement from Digital moving from POC Digital or experimentation of digital programs in enterprises to more mainstream digital programs or scale digital programs as we call it.

C. Vijayakumar: Thank you, Anand. Sandip, on the Mode-1-2-3 segmentation, we are comfortable to provide it on an annual basis because there is a lot of complexities and a lot of these services are intertwined, we are putting the necessary systems in place for us to get this kind of visibility on a quarterly basis, but it will take us some more time. This is not so straightforward because it is a huge number of SOWs and a lot of clients, lot of SOWs have combined work not only across Mode-1 and 2 but between across multiple Mode-2 services. So it is a complex exercise and we are continuing to strengthen our systems and we will do it. Right now I can only commit to provide you when we publish the March results, but maybe next year we will see if we can do it more frequently. Thank you for the suggestion and we will look forward to meeting your expectations in the future.

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

Ravi Menon: First question is about the amortization. We have seen this move up significantly over this quarter. What is the guidance for FY'18 sort of about 62 million that you provided last quarter? It looks like we are on track for well north of 80 million. So want to understand what led to that – is it a change in amortization policy for anything or is it an accelerated amortization for the new deal that we have done?

Anil Chanana: In fact, amortization happens for all intangibles except the goodwill. Goodwill is tested periodically for impairment. These intangibles is basically the IP-led deals as well as the non-organic like Geometric acquisition we did, whatever acquisition we did. All these acquisitions are also adding to this amortization line and one of the major line items here is the customer relationships which are amortized. So I think these are about 18 million in AMJ quarter, it is expected to be about in OND quarter going up to $24-25 million. So it is in line with the sort of set numbers which we have already decided. So far as the IP-led deals are concerned, it is in proportion to the revenue. Two ways it happens. There is no change, it is just line with, we do believe that whatever EBIT guidance we have given is after taking into account the level of amortization we will be doing.

Ravi Menon: CVK, you spoke about the synergy with the IP deals. So is there any visibility to say large deals where you have started seeing some synergy between the IP Partnership deals that is feeding into your Applications and IMS service lines?

C. Vijayakumar: Darren, if you can just share an example of one such deal that we did recently in the Retail segment, that should explain this.

Darren Oberst: I think it is important to look at it by solution area because there will be different synergies and different opportunities depending on what the product category is, what kind of problem it solves to the end customer. It is how that aligns and with different service capabilities that we are looking to bring to market. A great example actually is the deal that we did in the last quarter. A relatively small deal but I think an exciting proof point of this kind of opportunity. It was a new client that was really looking for an integrated outcome oriented testing solution. Historically, we would be able to go to market with deep process experts with the operational scale and frameworks around it and then we would be agnostic to the underlying software tool. What we are able to bring to this customer that was looking for more than integrated solution was really a very rich set of IP and all of the product managers, the deep product experts, the people with deep implementation skills around that product and really then to be able to integrate that into the broader HCL service capability and then to deliver it in one box to the customer. So they had a complete and integrated solution spanning from the people, process and the underlying technology. Whilst one example is that is the model that we are looking to replicate, whether it is in the testing area or in a lot of the other categories of products, that we are doing across these IP Partnerships.

Ravi Menon: The DXC technology partnership, does this involve rebadging of people as well and will this come into the balance sheet next quarter?

Rahul Singh: Yes, it does involve rebadging of people.

Moderator: Thank you. The next question is from the line of Dipesh Mehta from SBI CAP Securities. Please go ahead.

Dipesh Mehta: Just want to understand DXC reconstruct of the transaction. You indicated about 22 million run rate currently going on and then you indicated about if one takes half of it 22 million is the impact which you expect in H2. If you can just help us understand what restructuring we did because last year CFT did around 58 million of revenue. If you can help us understand how the accounting will change and what will be the implication?

Anil Chanana: Dipesh, there is no change in accounting. So basically we had 51% interest in the joint venture which is the market facing joint venture. There were two joint venture entities – one is known as CFT and other is known as CFES. In CFT we have 51% stake which is consolidated line-by-line and this is where we picked up $58 million of revenue and very marginal loss for the fiscal year ’17. This was also part of the press release. It has been a successful joint venture. The current rate out of that venture is 22 million. What I am saying is that now with the partnership changing, with the intention of both the partners to access a larger pool of customers because when the joint venture was entered into, it was the CSC and now it is HP plus CSC put together which is now called DXC. Therefore, we will be now getting a share in the revenue. I am just taking for example it is less than 50% here. So that will result in a reduction in the revenue which we have been recording. From a run rate basis, there will be less revenue which will get recorded from October quarter onwards and for this financial year it is 22 million impact. So that I club with the India business impact and totaling up to about 100-odd million.

Dipesh Mehta: No, I understand. My question was 22 million what you are indicating is per quarter, that is why I…?

Anil Chanana: Correct, 22 million becomes 11 million, so 11 million in two quarters versus 22 million, so 11 multiplied by 2 is 22 million impact.

Dipesh Mehta: Last year if I look at the total have 58 million revenue. So in H2 I presume if one takes half of it, it would be around 25 to 30 million. So if we take incremental impact perspective, we are expecting around 22 million kind of revenue if we take half of our revenues there kind of thing, then 25 becomes 22, it is not significant. What I am missing? I am not able to understand.

Anil Chanana: 58 million last year was on increasing trajectory over the period, it was not flat.

C. Vijayakumar: The last quarter run rate was 22 million, now subsequent quarters it is expected to be 11 million per quarter, so there is a dip from a run rate perspective by 22 million.

Dipesh Mehta: We are expecting that trajectory to improve, right. If that trajectory to improve, impact would be to that extent lower in H2?

C. Vijayakumar: It would be early days, I mean, if the trajectory improves it will be marginal because we are just starting this arrangement. So this year the impact is reasonably rightly estimated.

Dipesh Mehta: I am yet not clear because if I do arithmetic, last year we book around 25 to 30 million from the same CFT in H2. Now you are indicating we will book somewhere around 22 million. So 25 to 30 million become 22 million is not big impact?

Anil Chanana: What we can do is we can take it up offline. I will be very happy to explain you how it is coming.

Dipesh Mehta: Second question is about the weakness what we are seeing in Telecom vertical. If you can help us how you expect that vertical to pan out in coming quarters?

Karan Puri: I think there are two areas where we have seen changes in the Telecom vertical, we have got substantial book. What is visible in the Americas specifically is a lot of investments are going into putting from a Telecom standpoint, new frameworks for customers to get onboarded and these are the customers for the big telcos. The investments that were going in were also getting diverted from the Mode-2 areas into Mode-2. So there were some shrinkage that we had seen in the last few quarters. The second trend that is very visible and that is helping us also become more relevant Mode-2 player for the biggest of the telecoms is the investments we are putting into enabling new service offerings. One of the bigger things that we are now doing is on Telematics where substantial investments are going in specifically in Americas where customers are beginning to find new revenue sources, whether it is track and trade, supply chain, areas which the telcos were never really involved with or only providing the framework or the infrastructure, are now becoming mainstay offerings from these telcos touch point. So the shift from Mode-1 to Mode-2 has seen some softness in revenues but the investments in Mode-2 specially in areas truly cutting edge where both our IoT practices, security practices that are getting pulled in, are now giving us the potential and the confidence to have upsides coming in the following quarters. Last quarter we also set up something very substantial in the China market for one of the big telcos, just to provide this capability engulfed for them.

Dipesh Mehta: Last question is about the guidance. Now, what we specifically called out is about weakness in two areas or maybe impact from two areas. Considering those things, which areas you expect to drive growth which is typically higher than H1 what we witnessed. So what strength we are witnessing in rest of the business if you can provide some more detail?

C. Vijayakumar: As I mentioned in the opening commentary, Dipesh, our booking in H1 of FY'18 is significantly higher than what we did in the same time last year. This is quite broad-based across Infrastructure, Applications and Engineering Services and to a smaller extent in the BPO business. Primarily, our booking and the pipeline that we are seeing are the two elements which is giving us the confidence. In any case, we are almost a month into this quarter as well. Given all the visibility that we have, we feel confident of meeting the guidance and I have specifically called out the visibility today gives me comfort that we would be in the lower end of the guided range.

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

Shashi Bhushan: Sir, you said that we are going to track towards the lower end of the guidance due to impact of DXC and India business. So a state of narrowing it more towards the lower end of the guidance we retained it, in fact, increased it in USD terms due to cross-currency tailwind. Any specific reason for that which is unlike practices of our peers?

C. Vijayakumar: Just we are translating the 10.5 to 12.5 on constant currency into the actual currency based on the 30^{th} September rate, it is purely a mathematical translation.

Shashi Bhushan: No sir, my question was, even in CC terms, we could have narrowed it more towards the lower end of the guidance, cutting up our upper end…?

C. Vijayakumar: If you look at even last year when we had guided 12% to 14% and towards the last quarter we said we will be around the midpoint, we did not narrow the guided range, we kept the guided range to be same, but we did give a good indication of where we will land as we approach the end of the year. In fact, this year we are doing that even with two quarters ahead. Just in the end of third quarter we said we will be in the mid-point. Our practice is to keep the range the way it is because there continues to be a lot of dynamics all through the quarter until the end of the year and just give an indication of where we are potentially expecting to land.

Anil Chanana: As long as we are not breaching it, it is fine.

Shashi Bhushan: Does it include any inorganic revenue contribution the deal which might be there in the pipeline in this guidance?

C. Vijayakumar: We continue to look for inorganic opportunities, but the way I have visibility now it is very unlikely that any inorganic would have any material contribution to the revenues before March. But if there are some small contributions that will still be within the guided range, I do not expect anything really material to change.

Shashi Bhushan: Sir, in our margin guidance also, right now we are tracking like 64.5 kind of stuff in US dollar terms and for the margin our assumption is for 65.5 kind of rupee/dollar conversion. Do you see downside risk to our margin if currency track lower than our range?

Anil Chanana: It is well placed at the moment. I do not see any issue. As I said, this EBIT number I am giving without taking the benefit of the only hedge gain which itself add significant amount to that. I do not see any risk per se to the margins.

Moderator: Thank you. The next question is from the line of Ankit Pandey from Quant Capital. Please go ahead.

Ankit Pandey: CVK, you mentioned something on the television prior to the conference call of organic growth being 5-7% this financial year. Would you like to narrow down that range? I think as you mentioned you pretty much nail down with the inorganic component through this year. What would you highlight is the uncertainty there…?

C. Vijayakumar: Let me try to qualify the television conversation… and it was not me. Anil said, lot of analysts are expecting our organic growth to be 5-7% and he said that could be true. So it was a very-very non-committal statement. As I have always maintained, we will not call out the separation of organic and inorganic growth because once we integrate the business there are too many dynamics. Our overall growth strategy is inorganic piece and IP Partnership is very integral to our growth strategy. So I would not really spend time trying to really break this down. But given the value propositions, given the faction that we have generated in various offerings, you should expect us to have not only an overall industry leading growth but in the inorganic business as well, we will deliver significantly in the top quartile of the industry. I would want to leave it there and not get into any more granularity on this.

Ankit Pandey: But just if you could also give me a little bit of clarification on whether urban fulfillment was included this quarter or is it not inclusive?

Anil Chanana: It got concluded this quarter, a very small revenue which came this quarter from there; just a couple of dollars of million.

C. Vijayakumar: Because the whole process got delayed by almost 2-2.5-months, so some small revenue got added this quarter.

Ankit Pandey: If I can archive it back to the question of IP deals and especially the risk factor on that, maybe this is something that you can clarify more, what are the risks there that we are dealing with realistically – could it be client concentration, could it be that we have to build more IP of that to ensure continuity of revenue, what are the risks that we are dealing with practically?

Darren Oberst: I think the first risk is these are complex relationships. A lot of our confidence come from the fact that we are working with trusted partners, companies that we have had multi-year relationships with and 360 degree relationships with. But the IP Partnership is a complicated construct. Again, we feel very comfortable operating within it, but that would be perhaps the first element to call out. I think the second then is by the nature of a lot of the products that are in these partnerships, a lot of them are more mature technologies, they have large installed customer basis. So it is imperative on us and our partner to continue to incrementally invest to help to modernize the products in some areas to be really thinking of proactively about innovation areas and opportunities to continue to extend the relevance of those products to expand the reach that they have within those installed basis. So that will probably be the second key risk factor that I would call out is just the maturity of the underlying technology and making sure that we continue to give a fresh air. The third thing then is just continuing to broaden both the breadth of products and the breadth of partners that we work with, as you had mentioned, some concentration issues. Those are probably the three that I would identify.

Ankit Pandey: If I could just put a request through, last quarter we did clarify that most of these are kind of relationships or IP deals, would be in a sell with way, so if you could segregate the revenues for that particular sell with the amount of revenue coming through there, I think that will give us some clarity?

C. Vijayakumar: We are not even segregating the overall IP revenues. So it will be very difficult to segregate what we are selling, what our partner is selling and things like that. What we can tell you is a large part of the revenue still continue to come from what our partner is selling and our sales channel is just starting to pick some momentum.

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

C. Vijayakumar: In closing, thank you everyone for joining the call. We really have a big target to chase in the second half to meet all your expectations and look forward to talking to you during the next quarter call in the new year.

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