"HCL Technologies Limited Q2 FY'22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to HCL Technologies Limited Q2 FY'22 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 the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. I now hand the conference over to Mr. Sanjay Mendiratta -- Head, Investor Relations. Thank you and over to you.

Sanjay Mendiratta: Thank you, Stanford. Good morning and good evening, everyone. A very warm welcome to HCL Tech's Q2 Fiscal '22 Earnings Call. Trust you all are safe and in good health. We have with us today, Mr. C. Vijayakumar – Chief Executive Officer and Managing Director, HCL Tech; Mr. Prateek Aggarwal – Chief Financial Officer; Mr. Apparao – Chief Human Resources Officer along with the senior leadership team to discuss the performance of the company during the quarter followed by a Q&A.

In the course of this call, certain statements that will be made are forward-looking which involve a number of risks, uncertainties, assumptions and other factors that could cause actual results to differ materially from those in such forward-looking statements. All forward-looking statements made herein are based on information presently available to the management and the company does not undertake to update any forward-looking statements that may be made in the course of this call. In this regard, please do review the safe harbor statements in the formal investor release document and all the factors that can cause the difference. Over to you, CVK. Thank you.

C. Vijayakumar: Good evening, everyone. I hope all of you are safe and keeping well. Very Warm Wishes for the Festive Season.

Let me start giving you a high-level commentary on our performance in the last quarter. We delivered healthy growth last quarter; we posted a revenue growth of 3.5% sequentially in constant currency and 10.5% in year-on-year basis. We continue to execute well keeping our operating margins within the guided range; our operating margin came at 19%.

We continue to see strong demand for all of our services especially Digital business which is our Application Services, Digital Consulting and Data Analytics and our Engineering Services and on Cloud Services. These three forms a big part of our overall services revenue. This represents about 85% of our overall portfolio of the total revenue of the company and the Services portfolio grew 13.1% year-on-year and 5.2% sequentially in constant currency.

The acceleration in demand for digital and cloud propositions both in IT and Business Services and Engineering Services reflects as a 36.3% growth YoY in constant currency for all our Mode 2 offerings.

Successful ongoing client mining resulted in impressive client additions across all categories on a sequential basis. We grew our $100 million clients by one, $50 million clients by four, on a year-on-year basis we've grown over 12, $20 million clients by five and a million-dollar clients by 19.

This reflects strong demand and relevance of our offerings to the G2000 clients. Each of these clients are large investors in technology and are able to address a lot of their digital initiatives.

We also had strong booking which grew YoY 38%. We won $2.25 billion of net new deals. We also witnessed the highest net hiring numbers in the quarter- 11,135. All the stats they augur well for a business momentum going forward.

The $2.2 billion includes 13 large services deal and one significant product deal across Telecom, Life Sciences and Healthcare, Manufacturing, and other verticals.

I also want to call out that while there isn't a large deal in Financial Services, but our services momentum in Financial Services is very strong with significant incremental additions that happens in a number of our large clients.

This quarter we got a landmark analyst citation for Public Cloud Capabilities where Gartner in their Inaugural Report rated us Amongst the Top Three Leaders Worldwide in Public Cloud IT Transformation Service Providers. We are the only India heritage player in this top group and actually the only non-consultant full stack IT Services vendor in this category.

This is a great testimonial of our leadership in this space and with cloud becoming the very backbone of enterprise technology modernization, we believe we are most strongly positioned to leverage the opportunities that this multi-hundred billion dollar market presents to us.

We also received the Leaders Rating in The Forrester Wave for Application Modernization and Migration Services Report released this quarter. We are seeing the market awareness in the traction of HCL's unique offerings in the application space which is increasing by the day. It will only get stronger and we would be rewarded with the pole position similar to what we enjoy in our Infrastructure and Engineering Services.

We are also recognized in leadership position by various other analysts and advisors on various practices and offerings and you will find this in our quarterly investor release.

I'm very happy to share with all of you HCL has once again made it to the Forbes List of World's Best Employers. We emerged as number one among all organizations globally in the field of professional services and lead the ratings in the technology and services industry. We are also among the top five multinationals headquartered in India across all sectors in this list.

This is a very influential global recognition and the one that is reflective of our commitment towards fostering a culture of empowerment, innovation, learning and mutual growth as also the aspirational value of our employer brand.

This quarter also got another validation for our employer brand on the pack of Forbes Best Places to Work Global Citation. HCL America is now certified as Great Places to Work in 2021.

Brandon Hall recognized HCL in Eight Categories including Gold Award for Leading Under the Crisis, Take Care HCL program, recognized for a Leadership Strategy and Commitment for Managing Employee Engagement All Through The Pandemic. We are really proud of this recognition.

Now, I will throw some light on our segmental performance. In terms of segment, this quarter we posted 5.2% sequential and 13.2% year-on-year growth in constant currency in our IT and Business Services. Our Digital business embedded in the apps offerings continue to grow faster within this segment, providing impetus to the overall growth, led by various propositions like commerce modernization, client experience transformation, analytics and so on.

The strong growth reflects the solid foothold our propositions have made in this segment. We have brought home many defining large deals across Manufacturing, Retail, CPG, Life Sciences and Hi-Tech sector in the last quarter.

Two examples: Two US-based major healthcare companies selected HCL to digitally transform and modernize their applications across the organizational landscape. Also, a Finnish consumer group company choses to drive digital transformation initiatives for an immersive omni-channel experience for its end customers. And two leading Canadian brands also entrusted us with their digital transformation journeys.

We are also seeing a good momentum in integrated deals where clients are awarding us both application and infrastructure modernization programs, for example, a Europe-based consumer goods company selected HCL to deliver services in the area of data analytics and integration, marketing, sales and trade promotion management. We will be responsible for application development support in new projects across these products streams for this prestigious client.

HCL will also transform the clients' global work force experience services, delivering a consistent and personalized experience across all end points. We will introduce a flexible, scalable and agile delivery model to accommodate business dynamics across all markets and geographies.

In our digital foundation and infrastructure proposition, we are starting to grow again at industry leading rate after a relatively tepid Q1 on the back of healthy demand. We continue to win a good number of large deals in cloud migration, digital workplace and cyber security across geographies and verticals.

Now coming to our Engineering and R&D Services, led by a strong demand for Industry 4.0 Solutions and the Digital Engineering Services, our ERS business posted robust 5.4% sequential and 12.7% year-on-year growth in constant currency. Notable mention here is the strong recovery in asset-heavy industry after relatively a tough time post the first wave of the pandemic eighteen months back, while the hi-tech and telecom segment continues to grow well.

In this quarter, three leading technology companies entrusted their product transformation journey to us to develop new use cases for their products, improve product revenue and increase the market share.

Our key win here is a U.S.-based technology company that shows HCL as a product engineering and joint go-to-market partner for its work force management SaaS offerings. HCL will provide accelerated roadmap, integrate newer technologies, and expand the customer base by tapping into new industries and geographies.

It's really heartening to see our engineering business retain its pole position in the market even as the sector migrates from traditional project led work to digital engineering led end-to-end transformation initiatives.

We see a lot of growth potential for Mode 2 stack in this business and will continue our investments in this space.

With our strong numbers in digital, cloud and digital engineering, our Mode 2 portfolio continues to do very well, delivering almost 36% growth year-on-year basis.

Our Products and Platforms declined 5.5% year-on-year in this quarter in constant currency.

You probably know that JAS quarter is the weakest quarter in the new license sales for any software product business. We had a few deals which slipped from the September quarter to the December quarter. We expect to bounce back in OND including some catch up for the timing delays of some deals in JAS. And OND is seasonally a strong quarter and we're very confident of a very sharp bounce back in this segment.

During this quarter, we had 280-plus new footprint wins, a strong year-on-year improvement from the previous JAS. One of the world's largest retailers expanded its relationship with HCL for new licenses for HCL Commerce BigFix and Domino. HCL Commerce supports the customer's multi-billion dollar online business while BigFix manages its countless endpoint devices.

We launched HCL Now and HCL SoFy and are seeing good initial uptick from the customers, though a lot of them are still in the early stages in terms of pilots and customers’ interest. We're also seeing positive recognition from industry analysts for our innovation in Cloud Native strategy for our product offerings.

In all, it is expected to perform in line with our expectations as we've not seen any change in business fundamentals, be it renewal rates, scope or demand pipeline, all remaining consistent with our plans. However, having the experience this quarter where some deals slipped towards the last few days of the quarter, we believe our earlier low single digit guidance which would be more appropriate for us to restate that to 0% to 1% growth in our products and platforms segment.

After the segments, in terms of partnerships, we continue to work closely with hyper scalars, OEMs and SaaS partners to offer the best-in-class integrated solutions for our clients.

In this quarter, we launched a dedicated Cisco Ecosystem Unit focused on creating solutions to accelerate clients' digital journey. This ecosystem will create leading edge competency solutions and business outcome models by leveraging Cisco technologies.

We also chose the RISE with SAP offering to expand our enterprise digital landscape. This expanded partnership will see HCL take the role of a consumer and global strategic service partner for RISE with SAP. As an SAP's strategic partner, HCL will help its clients leverage their combined experiences in the industry cloud transformation space.

I also want to cover a little bit on our delivery footprint and go-to-market. We'd earlier talked about our three-pronged go-to-market strategy last quarter. That classifies our go-to-market into core markets which is US, UK, Nordics, and a few other English-speaking countries. The second one is the focus markets which are five large geographies; Canada, Australia, France, Germany and Japan and the new frontier markets which are the seven countries where we are getting our presence established.

Now the GTM strategy is well supported by our delivery strategy, led by the establishment of New Vistas globally. We had some very good success in Sri Lanka, Vietnam, U.S., and Canada. This would be in the form of onshore, near shore and offshore delivery centers, giving our clients all the options to address various business scenarios.

We now have more than 15,000 employees in smaller cities in India, what we call as New Vistas locations. This has helped us significantly to address talent demand as well as provide flexibility during the pandemic waves.

We also completed one year of operations in Sri Lanka and surpassed a milestone of recruiting more than 1,000 local employees, including both recent graduates and seasoned industry professionals.

We entered Sri Lanka in 2020 with the aim to make it a global delivery hub, that works on technology programs for some of the biggest corporations in the world and we are well on our way to it.

We are in the process of expanding these New Vistas footprint to Romania, Costa Rica and Philippines. So, you'll see a lot of actions emerging from execution of these blueprints.

In terms of our return-to-work strategy, planning has been initiated for the same and calibrated return to office in a phased manner and in compliance with the local guidelines and controls in the respective geographies. We believe the future operating model is a hybrid operating model and we believe a significant part of our work force would be in the office in the next twelve weeks.

Now looking ahead, we remain very positive of our near-term growth, confidence generated by our bookings and pipeline numbers across every segment.

We built a market leading momentum in the technology modernization and end-to-end digital transformation space across applications, engineering, infrastructure, and business process services which augurs very well for our mid-term growth.

We believe this upward trajectory will continue and the enterprises should realize benefits from the first phase of digital investments. That should only give the conviction to accelerate technology spending in the coming quarters.

In parallel to this business momentum, we also continue to invest and aggressively focus on our employee experience value proposition, talent transformation and the sustainability targets that we are defining for the company. Our aim is to continue to build a future-ready organization, that's a digital frontrunner, an employee-centric, globally diverse and the socially responsible organization.

We've onboarded a global sustainability head, supported by a team of dedicated exports to integrate sustainability in the day-to-day operations and also ensure our ESG proposition results in higher value creation for all our stakeholders.

We also plan to enhance this to a sustainability ESG consulting practice which can work with the top clients in the technology aspects of the ESG propositions.

For overall summary, I will hand it over to Prateek to provide more details on financials and other details.

Prateek Aggarwal: Thanks, CVK. Good evening everybody and good morning to the ones from the US, etc., Festive greetings as we go into the festival season. I'm going to change the order of my commentary from what we have been doing in the past and some of this you would have seen in our investor release today and the highlights is what I will start with. Though CVK has already covered quite a bit of it, the highlight of the quarter is obviously the services revenue growth which is at 5.2% sequentially and 13.1% on a year-on-year basis in constant currency. And this has been driven by both the services engines, both the services segments, engineering and R&D services, ERS has shown growth of 5.4% quarter-on-quarter and even on a year-on-year basis, it is 12.7% and it has crossed pre-pandemic peak which was around 425 million which was almost a year back. So, that has bounced back strongly in this quarter.

The second segment which is the largest segment of course is IT and Business Services that has also showed very strong momentum with 5.2% sequential growth and 13.2% on a year-on-year basis. ITBS growth has been driven foremost by our applications practice which obviously sits within it and as the overall services business Mode 2 has been the driving factor, growing at 36% year-on-year and 12.5% on a sequential basis.

As CVK covered, P&P revenue saw a deferment of a few deals and showed a decline of 5.5% year-on-year in constant currency. But that is bit of a blip in this quarter which at least most of it should get recovered in the next quarter.

It is important in that context to remember that in the last twelve months including this quarter, the P&P growth in constant currency is at a level of 3.6%. So, while this quarter 5.5% obviously doesn't look good, but even including this quarter it is 3.6% which is pretty much in line with the commentary that we had given to you earlier. And even for H1, the first half of this fiscal, it is a flattish growth which is -0.4%.

Moving on to some of the other key metrics then in the order of importance to say, deal wins came in again pretty strong for the third quarter running and $2,245 million TCV which is 35% growth sequentially and more importantly 38% on a year-on-year basis, is one of the biggest highlights, and this is further backed by very strong net additions in the employee workforce of 11,100-plus. Net hiring over the last three quarters has been at about 28,000 in our employee workforce and there is another 3,500-odd in terms of third-party contractors as well. So, the total is pretty much near 32,000 over the last three quarters itself.

As a result of the services growth that we have seen, our account mining has improved and you can see it most prominently in the 50 million category; $50 million plus customers went up by 12 on a year-on-year basis to now 41 in number and even on a sequential basis that number went up by four. So, that was very heartening to see. Even in the $100 million plus category, we have increased the customer count in that category by one both sequentially and on a year-on-year basis.

The major highlight which we announced today is for our shareholders… of course, let me just cover quickly the diluted EPS for the last 12-months which stands at 49.5, leaving out the milestone bonus, we are continuing with that practice, that Rs.49.5 per share is a 9.5% increase on a year-on-year basis versus the previous last 12-months period.

The new announcement we made today is on the payout policy. This has been a longstanding ask of almost the investors and analysts I have spoken to in the last few years. And the board has today agreed to increase the payout policy now to not less than 75% of net income cumulatively over a period of five years including this fiscal '22 right up to fiscal '26. So, this has been the ask for laying out a longer-term policy which give some degree of certainty and projections and almost guidance. And I hope our investors would be happy with this announcement that we are making today.

In line with the revised policy, the dividend for this quarter, we were running for the last few quarters at Rs.6 per share and with this change for this fiscal year, we are increasing that dividend to Rs.10 per share and we expect to follow similar Rs.10 per share for the balance two quarters as well.

The other big announcement we made today was for the employees. So, we are evolving our existing ongoing long-term incentive plan and replacing a portion of the tenure-based portion of that cash based LTI plan, with the Restricted Share Units, (RSUs). So, what is currently a 100% cash award plan, will move to a mix of 70% cash which is continuing to be performance-led as usual and the 30% tenure-based will be converted to RSUs at the market price on the date of the grant. And this will obviously need to go to the shareholders for approval which we will do over the next quarter including the stock exchange approvals and processes.

The good part which I must share with you of this RSU plan is that the way we have planned it, it will be no dilution for the shareholders and that is simply because we will be buying the shares from the secondary market, there will be no fresh issue of shares, we will buy these through our stock options trust and those will be held in the trust for the people to exercise as and when they get their vesting after three years or so. So, that is something we have made sure that this does not lead to any dilution. It is also no extra cost because it is in lieu of the cash LTI and because it is being converted at the market price, it is just changing the form but in substance it remains the same, of course, we do hope that we are able to grow the share price and employees gain from that perspective. So, those are the bigger announcements of the day.

I will now quickly cover some of the more usual highlights at a company level. The revenue was at $2,791 million. I am not going to go through all of that because I am sure you would have lapped it up in the last 2.5-years as you usually do. The overall company growth was 3.5, sequentially 10.5, on a year-on-year basis, EBITDA and US GAAP came in at 23.4% and in IND AS it is 24.3%. The second number is more comparable because most of our peers are reporting in IFRS which is practically the same as IND AS. So, our EBITDA in those terms is 24.3%. EBIT came in at 19%. As you know very well, 65 bps lower sequentially.

Again, if you look at it on a sequential basis, separately for the services business and keep the P&P business in a separate bucket, you will notice that the EBIT margin for services is pretty much flat on a quarter-to-quarter basis; it was 19% last quarter, it is 18.9% this quarter. So, pretty much the entire 65 basis points is practically driven by the lower P&P revenue and a little bit impact of 5 basis points due to the forex fluctuations, but practically it's the P&P revenue which has gone into the next quarter and therefore this should be hopefully a moment in time kind of movement.

And services margin like I said has remained practically the same as last quarter. Within this quarter, of course, we gave out increments and there has been a host of costs which has been increasing over the last few quarters as you know, pretty much across the industry in terms of hiring cost, backfilling of the attrition, special allowances and all kinds of training and hiring cost. And of course, last quarter we had some one-off costs. So, they practically offset each other and that is why the services margin is pretty much flat.

Net income for the quarter came in at 15.8% of revenue which is about 23 basis points lower on a sequential basis. In the net income, we did gain from a favorable assessment we received during the quarter.

Our tax cost for the quarter is lower than what we had anticipated simply because we got a benefit from the assessment this quarter. So, you would see that the ETR for the quarter is at 20.5% and therefore our full year guidance which we had earlier said, I think 24%-25%, now is revised for the full year to a lower range of 22%-23%. We are at about 21.1% or something like that in the first half and for the full year the guidance is now revised to 22%-23%.

Cash generation continue to be very good during the quarter; we generated $465 million of operating cash flow and $390 million of free cash flow. OCF as a percentage of net income is 106% and FCF as a percentage of net income is 88%. And on a last 12-month basis, the number is $2.05 billion of operating cash flow which is 117% of net income and free cash flow is at $1.8 billion which is at 103% of net income. Last 12-months, OCF and FCF yields are at 4.4% and 3.8% respectively.

We ended the quarter with strong balance sheet; gross cash at 2.7 billion which is an increase of about 20% year-on-year.

And our guidance remains as we had announced right at the beginning of the year; revenue guidance of double-digit and margin guidance of 19%-21%.

With that, I will return the call to the moderator. Over to you.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Mukul Garg from Motilal Oswal. Please go ahead.

Mukul Garg: Prateek, if we look at your guidance which you have reiterated the double digit revenue growth guidance, the general sense which we are getting from your peers across the industry is that the demand visibility is actually higher than what usually is there in the space. So, can you just help us understand what is the reason behind the kind of shying away from giving at least a range especially your employee addition number clearly indicate a very high degree of confidence internally?

C. Vijayakumar: Mukul, as we said, we are not keen on giving very specific guidance, we wanted to give a directional view which is what we started the year with, and we will stay with that. Now in lieu of that we provide the booking commentary every quarter which consists of all the new bookings and we are also giving you the headcount additions. So, then I think these are the two clear metrics which we can confidentially share. So, I think you should make your assumptions and do your models.

Mukul Garg: And CVK another question again, kind of following on this trajectory, if we look at the Indian IT industry post the initial shock last year in Q1 and look at you versus your large cap peers, you have clearly, you stood out in terms of the addition of employees, you have added and prepared for the supply shock probably at the best pace among the large peer pact. But if you look at the monetization of the employee addition, because others have also been adding quite aggressively, they have been able to monetize it in a much better way than how we have done it. And hence it has reactively ended up with your Q2 revenue per employee being down almost 9% on a YoY basis. So, what is the reason behind this gap which has been created while clearly the expectation kind of builds up that you are preparing for growth down the line. And if that is the case, then how should or when should we expect you to go back to the earlier revenue monetization of your employees. And if not then what has changed?

C. Vijayakumar: Yes, Mukul, pretty long question, but I think the one simple thing is, the headcount additions should be looked at with respect to how our services business is growing. And that's what will follow a logical sequence. So, if you look at, we had very strong growth this quarter. We had good additions last quarter. So, that is reflecting in good growth this quarter. Now it's also a function of the net additions as a function of laterals and freshers. So, this quarter we have hired almost 5500 freshers, so they will take maybe an additional quarter before they become productive. But the rest of the people hired, they got hired all through the quarter pretty much in a linear way. So, that's how the revenue will flow.

And as far as the revenue per employee is concerned, I think it went up at some point. And if you take the overall revenue per employee there is so much seasonality in our product business which is really not dependent on people and headcount. And post the pandemic, some of the onsite headcount, reduced and that got reflected as some offshore headcount. And that also has a significant impact to revenue per employee, because the realization rates at offshore are significantly lower.

These are some of the dynamics other than that the growth is all happening significantly in the higher end services. So, we feel pretty confident of how the revenue growth and services headcount growth would stack up, adjusting for these factors.

Mukul Garg: CVK sorry to push back on this element, the dynamic or the offshore shift and other changes over last one year, has been, I think fairly uniform for the Indian IT industry as a whole. And even if I look only at the revenue on the IT services and R&D side, and take your whole base because product employee base is quite small, even that has seen a fairly sharp decrease which we are not seeing in the peer growth. So, do you see a chance where like how these things will normalize as you said you are adding freshers and employees over during the quarter, do you think this will start reversing at some stage?

C. Vijayakumar: Mukul, I don't see anything unique for us in the services business which should change any, cause any major divergence from what the industry is. I have not done comparison myself, but I am confident of how our headcount growth and revenue is stacking. I am happy to do more detailed analysis and see if there is something which is different, purely on the services business.

Moderator: Thank you. The next question is from the line of Pankaj Kapoor from CLSA. Please go ahead.

Pankaj Kapoor: Understand how should we be looking at the revenue trajectory in the coming quarters, you were talking about potential catch up of some of the spillover of the product contracts in the P&P business, which can obviously push up the 3rd Quarter numbers. But how about the rest of the services business? Historically, you have said that the deal that you do they translate into revenue only with about a, at least a couple of quarters lag. So, is this the trend that is going to hold out for the recent deal wins as well, which means that we will see the reflection of that only in FY23 or do you see some of these deals could start pushing up into the numbers 3Q as well. So, we may actually see a fairly bumped up performance in the 3rd Quarter.

C. Vijayakumar: Yes, Pankaj, I think a big part of the ramp-up in Q2 has been the highest booking that we ever had in Q4 of last year. So, it's obviously translated after one quarter's delay. So, that would be the normal kind of delay, one to two quarters. And I think that will be the same for the deal signed in this quarter as well. So, headcount additions minus the freshers, I think that should give a good view in terms of what can be expected on the services business.

Now on the product business, yes, obviously OND is seasonally strong quarter. And there is a certain slippage in deals and in Q2, we expect some of this to get recovered in Q3, so there is a possibility of a very strong quarter in Q3.

Now, given that we have had this, see, actually, the dynamics of product business is lots of transactions happen, and they all kind of queue up towards the end of the quarter. In fact, we were ourselves surprised on the outcome this quarter, because it just happened in the last seven or eight days. So, there's a lot of dependence on in-quarter closure. So, now given that, we have experienced this, we are just factoring that in. And that's where we have provided a 0% to 1% growth for the full year. So, we have just factored the learnings and we are slightly revising our guidance from a low single digit to 0% to 1% here.

Pankaj Kapoor: So, just to clarify, does it mean that there is some when you are giving out this guidance, you are presuming that we probably will be at the lower end, or you see a risk to this guidance itself, if this kind of shifts happen so we might end up with a different negative growth as well?

C. Vijayakumar: Pankaj, we are reasonably confident of a flat to 1% growth, based on a lot of things that we are seeing. But of course, the there is always this uncertainty at the end of the quarter, I really cannot model that in any meaningful manner. So, we are going to do everything possible. And maybe Darren, you can add any more color on this aspect.

Darren Oberst: I think you summarized it very well CVK. You know, there is just a higher dependence in the product business on in-quarter closing, and there is seasonality. So, I think you covered all the key points.

Pankaj Kapoor: So, CVK if I can just squeeze one more, so the kind of the miss that we had on the product side of low single digit now to 0% to 1%, can we presume that on the services business, you are on track to whatever numbers you had modelled in at the start of the year, which is behind that, at least double-digit growth guidance. So, the only incremental impact to that would be the slightly lower growth in P&P or you think the outlook on services business also might have changed either for better or for worse?

C. Vijayakumar: Yes, I think the, I do believe, even if there is some slip in product business, maybe you factor in 2%, which is pretty much $25 million. I think we will make that up in the services business given the momentum and things like that. So, my year beginning outlook for the full year and all the variables, we are pretty much in control. And I am pretty confident of the outcomes.

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

Sandeep Agarwal: I just wanted to understand that in last four quarters if you see we have started losing on the platform and product revenue from $368 million it fell to $350, then again, we have a decline in Quarter 1 and again in Q2. While I understand that Q3 is short so it may reflect in that way. But my bigger question, is that CVK, it is looking like that this 11% to 12% of the business, if it doesn't grow, it actually puts down our business growth by 1.5% to 2%. Ideally because of our strong positioning in the IMS space, we should be the preferred choice by the hyperscalers and we should be a big beneficiary of this wave, which is there, but looks like our whole good efforts and hard work is being taken over by Products & Platforms. So, will it be fair to assume that Product & Platform business may not be only looked at from the revenue perspective, but it technically enables the services piece or is there something more to that because it is now fourth quarter in a row where we are seeing decline in this business.

C. Vijayakumar: Yes, so Sandeep see the Products & Platforms especially the IBM divestiture had a lot of dynamics of one-time payouts and settlements and all of that in the last year. And then, of course, there are certain product segments that we discontinued, all of that is playing out, most of it is in-line with what we expected except for the miss this quarter. Our fundamental book of business on the product side remains intact. Our hypothesis of modernizing these products and getting them into leaders quadrant in various industry analyst reports, it's very much on track.

The products are being used by some of the largest companies like the biggest retailer in North America, almost tripled their capacity on our commerce product in the last quarter. So, I think the fundamental hypothesis is intact. But obviously, there are some moving parts given the nature of this transaction. And I am pretty confident of the long term roadmap.

With respect to synergies, it's still very low. But there is a very, very conscious effort to drive more synergies, especially that we have opened up so many new geographies where we are not present, as well as some top clients, even in the core geographies, we are getting access and it should help us a little bit on the services side as well. I don't know how much is it, but definitely there is an influence on the front.

Moderator: Thank you. The next question is from the line of Moshe Katri from Wedbush Securities. Please go ahead.

Moshe Katri: I hate to kind of dig even more into this just talking about the slippages that you spoke about during the quarter into the December quarter. Are you suggesting based on the recent comments that this is predominantly due to the IBM asset that came onboard? Or there any specific enterprise related issues that caused the slippage maybe its regional base, maybe it's vertical base, any colour there will be really helpful. Thanks a lot.

C. Vijayakumar: If you see we call out our revenue in three segments, IT and Business Services, Engineering Services and Products & Platforms. The first two segments are our core services segments, which contributes to 88% of the revenue. We have delivered very, very strong quarter 5% plus sequential growth on both the segments. The IBM products are housed under our Products & Platform segment and that is where we have these moving parts. This was a declining business, our hypothesis was to reenergize, modernize, make them Cloud native, and get them to leaders quadrant and drive more growth. So, that journey is taking a little longer and product business itself is a very different dynamic from the services business, so last few days can determine what will happen to the quarter. So, we had a miss, probably the first time since the acquisition we have had a miss here. So, I think it's a blip and I don't see it like anything fundamentally or structurally, which should be concerning.

Moshe Katri: So, is that vertical specific or maybe regional specific, right.

C. Vijayakumar: No, it's not.

Moderator: Thank you. The next question is from the line of Apurva Prasad from Elara Capital. Please go ahead.

Apurva Prasad: CVK wanted your comments on whether you are getting the rate card increase broadly, and more specifically within mode 2, and also particularly in Europe, where I am noticing a lot more larger deals seems to have accelerated there. So, is there also an increased outsourcing there and more price benchmarking by enterprises?

C. Vijayakumar: Yes Apurva, we talked about our emphasis on Germany and France as geographies where we were, our presence was a little bit less than what the market opportunity was. And over the last couple of years, we have really invested in building the right local presence and relationships. So, you see both Germany and France doing very well, in the recent few quarters, that's one reason why you will find Europe, there were more announcements. And, of course, Proximus was a big deal, which is going to be a defining deal from a telecom segment perspective.

We have pretty nice deals in U.S. as well like in life sciences and healthcare, as I called out two large deals one is a sizable vendor consolidation deal where one of the incumbents were completely replaced by large incumbents. And another provider segment, it's an infrastructure and application outsourcing. So, there are pretty nice deals of decent size in U.S. and Europe.

Apurva Prasad: And just the earlier part to that question CVK on the rate card increase how widespread is that?

C. Vijayakumar: Yes, sorry. Rate card increase, definitely, obviously, given the, the supply situation we are doing everything possible to get increases, definitely new deals are going in with a slightly higher price. Even negotiations, we are probably holding much more firmer on our price. Of course, existing customers, it's difficult. But at least for some very niche skills and specialized geographies, even existing customers are a little bit understanding. But if you look at your overall 185,000 people getting a few things here and there still does not move the needle. But there are certainly some green shoots of getting better rates, especially in our application business and engineering business.

Apurva Prasad: And I had just one more on the Products & Platform piece so this is more from a medium term perspective, wanted to understand your outlook. And you did cover this in an earlier question around the strategy. But then how does this tie in with the focus also around the partner ecosystem, I mean, is there a tradeoff between the two or do you think that there could be synergies to exploit with the platform partnerships, or with the hyperscalers? And this is more from --

C. Vijayakumar: Yes absolutely. I mean, like, for example, Commerce is now Cloud native on Google Cloud Platform. Informix is Cloud native on AWS. So, we have modernized, containerized put these products on these hyperscaler platforms. And obviously, our close relationship has also helped us get that traction going, and now it's a part of their rate card, their part of our, their apps portal, where some of these offerings are that hyperscaler sales teams are also carrying with them. So, that is what our HCL Now proposition is where we are offering commerce as a service where we provide the software we host it, we provide all the operating services. And that's just started in the last quarter actually, July is when we formally launched it. We are seeing some good traction. Obviously that is increasing some costs as well, because we have posted a lot of products which customers are trying out on a number of hyperscalers but the outlook on that is very promising.

Moderator: Thank you. The next question is from the line of Prashant Kothari from Pictet. Please go ahead.

Prashant Kothari: Hi, my first question was on the production business I mean given the slower trajectory that we are forecasting now, is there any need to do any more write-offs?

C. Vijayakumar: Sorry, any more need for?

Prashant Kothari: Any need to accelerate the amortization, any you need to do any write-off of the intangible that we are carrying?

C. Vijayakumar: Nothing that I am seeing, maybe Prateek, you can provide a view.

Prateek Aggarwal: No, Prashant, as of now we haven't really baked this into this. This is one thing we typically do on an annual basis. As of now there is no trigger that I see. Like we discussed on through this call right from the beginning this is more of a postponement from this quarter to the next. But given the complexities, we are just penciling in a slight lowering of the outlook that we had given earlier during the year. But at this moment of time, I don't expect it to have any major impact. We really haven't done the numbers based on that.

Prashant Kothari: And the second question was just on the growth aspirations that I mean that there was a long period of time when HCL was the fastest growing large IT Company from India. And we seem to have lost that mantle. I mean how are our aspirations today when there are several peers who are kind of outgrowing us. Do you see a path of regaining that or that is just too challenging?

C. Vijayakumar: No, I think if you look at, Prashant, if you look at our services business our quarterly growth is already picked up and it's really industry leading. And as we go through the quarters, I do believe we will close the gap on year-on-year numbers as well. Our aspiration is supposed to be the growth leader and we have every dimension of service offering, client relationships and sales and delivery organization and a very stable leadership. So, I personally don't see why we cannot be a growth leader. So, our aspiration remains and there has been a little bit of slow growth in the last couple of quarters, I mean, Q4 and Q1. Q2, we have demonstrated a pretty nice ramp-up across all services and our booking and headcount addition all of that is also quite promising. So, I feel pretty confident that we will start narrowing the gap.

Moderator: Thank you. The next question is from the line of Ashish Aggarwal from Principal India. Please go ahead.

Ashish Aggarwal: Just one thing from my side. So, when we say that in the products business, there has been a delay in signing and it got pushed into Q3, so have those contracts has been signed, if you can give some idea on that?

Darren Oberst: Yes, we had one very large contract that slipped and then a number of other small to mid-sized deals so it was a handful. None of those deals have yet closed. They are all work in progress. None of them have been lost either. So, we are still working them. And we do anticipate closing most, if not all of them in OND.

Moderator: Thank you. The next question is from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah: CVK, if I look at the services growth in this quarter, 5% looks healthier. But my sense is, it could have been even better or higher than this. And why I am saying this is if I look at the last four quarters, new business TCV, it's close to around $8 billion and if I apply a five year tenure it could be close to $1.6 billion new business, which would have been 16% of your FY21 base. And we are coming off a low growth base in Q4 and Q1. So, in that scenario, my question is, is it the leakage in the existing revenue is higher than anticipated? Or there are some delays still continuing, in terms of conversion of deals wins into the revenue as a whole?

C. Vijayakumar: Yes, I think your equation would be accurate if the entire book of business is the annuity business. However, there is a significant part of the business in our Application and Engineering Services, and even little bit in the Infra Services, which are project based so some of the new booking goes to fill the projects which are getting over as well. So, I don't think it's a direct equation. So, that's why the headcount numbers and booking numbers both will have to be correlated to get to some kind of a model.

Sandeep Shah: But is it CVK the renewal pressure on your some of your infrastructure legacy business is still higher than it was in earlier years or those pressures are no longer separate or material to call out as a whole?

C. Vijayakumar: I don't think renewal pressures or anything material to callout, as I said in the past renewal rates are 97%, 98%. And the 2%, 3% that go away are because there is M&A or there is some consolidation work, which is driven by some other triggers, like a private equity acquires a company then there are some trigger to drive business in a certain direction, and things like that. And so that trend has not really changed 97%, 98% is our annuity business that is getting renewed. That's the metric that we are tracking.

Sandeep Shah: And you also said Q2 growth is a reflection of a Q4 order book, while Q1 and Q2 order books still stronger, but much lower than the 4Q. So, is it fair to say what we have seen in the 2Q in terms of the growth momentum and services may not be same, or slightly lower in Q3 and Q4?

C. Vijayakumar: Yes, I mean, possibly, if you extrapolate the data points, I think, you are right.

Sandeep Shah: And a question to Prateek, the guidance of 19% to 21%, is it applies only on a yearly basis or also on a quarterly basis because we are in Q2 at 19% EBIT margin, which is lower end of the band. So, do you believe it can be slightly lower looking at the supply side pressure, attrition challenges, either in Q3 or Q4 or you believe this guidance is applicable even on a quarterly basis?

Prateek Aggarwal: Sandeep, our guidance is always on an annual basis. It is never on an individual quarter basis.

Sandeep Shah: So, looking at supply side issue, there is a possibility we can be in a particular quarter lower than the lower end of the band.

Prateek Aggarwal: My guidance is on an annual basis. I am not going to comment on quarterly number.

Moderator: Thank you. The next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: So, two questions, firstly, is there a reason to believe that the momentum what we have got in the services business, in the last two quarters of 12% to 13%, is that going to decelerate either on a higher comps or because the translation of the deal win will only take one or two quarters before it starts fully pouring into the revenues? Is that a correct interpretation?

And the second question is on just want to understand little better on what are the puts and takes for the margins in the second half? What are the levers which can help you to keep your margins stable in the second half, although it may be still within the band just trying to understand the levers better? Thank you.

C. Vijayakumar: Gaurav, I didn't understand your first question. Would you mind repeating it?

Gaurav Rateria: Yes, so the services business has seen 12% to 13% constant currency growth in the first half, is there a reason to believe that the growth might decelerate in the second half, either because of higher comps on a YoY basis or because the deal wins, what we have done in the last one or two quarter will only flow through with a lag of one to two quarters.

Prateek Aggarwal: Gaurav, like I replied to Sandeep, in the earlier question, we really don't want to get into giving quarter-on-quarter guidance. Our guidance is given at an annual level and that's where we intend to keep it. I would leave it there both for the margins question and the services question. CVK, sorry, please go on whatever you are going to say.

C. Vijayakumar: Yes, that's what I was going to say as well. So, thank you.

Moderator: Thank you. The next question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: My question was on the products business. Now, typically product business, I presume, when you close a deal you basically sort of record a deferred revenue and every quarter, the revenue sort of recognized. So, for a sort of almost $30 million sequential drop, would it mean that the kind of sort of miss that's happened is primarily because of very large renewal, is that how one should think about it?

Prateek Aggarwal: So, Nitin, it's not that simple. There is a mix of what is, you referred to renewal so that's what we call Subscription and Support, S&S for short. There is a mix of that, where typically it works the way you described. But then there is another significant component, which is new licenses, and new licenses is most of it is recognized upfront, when the deal is sold, when booking is done. And that is the type of deals that slipped in this current quarter. And that has got nothing to do with recognizing it ratably across the 12 months types.

Nitin Padmanabhan: So, basically, on the new license its more like a one-time product sale for a specific period and it's recognized upfront. That's a fair understanding.

Prateek Aggarwal: A large component, yes. I also want to pick on the point you made about the sequential number. As we have been explaining for quite some time now, this is not a sequential business. Products business in any company is never a sequential business, there is a seasonality and the only correct way to look at it is year-on-year. And that number as we have talked about is -5.5%, it was a number of $344 mn in September quarter last year, this time it is $325 mn and that is a drop of $19 million, not $30 million, like you said. That is the right comparison I just want you to be conscious of that otherwise, you might end up making some erroneous outcomes.

Nitin Padmanabhan: Just one more, this new license, so typically license as a proportion of revenue, is that quite significant from a portfolio perspective, so that's one question. And second, considering that, this year, we are sort of negatively surprised on growth, in the Products & Platforms. And I think last quarter you mentioned that 25% of the business is on a declining trajectory, where the remaining is doing very well. Do you think that by next year, theoretically, this business should get back to growth, considering most of the declines should have happened, the proportion of declining business should be lower on the overall portfolio, theoretically, at least.

C. Vijayakumar: Unfortunately, you are right, but obviously we haven't done detailed planning. So, I would hesitate to comment on next year. We will provide that outlook as we get to the next year. But I just want to clarify one more thing, even though there are new licenses, a large part gets recognized in the quarter it is booked, that a small part gets converted into an annuity stream, for the same year and for the next year it will come in as a subscription revenue.

Prateek Aggarwal: And to your earlier questioned about license versus total, that is a proportion that is growing pretty much every quarter. Obviously it has a seasonality, September quarter being the smallest quarter in the four quarters. December quarter, on the other hand being the peak quarter. So, there is a seasonality but on a general trajectory, if I was to see across the nine quarters that we have been running this business at the front-end, it is going up as a proportion of the total pretty much every quarter seasonally adjusted.

Nitin Padmanabhan: One last question if I may, I think across companies on the peer set when we speak, I think, across the industry, one commonality is that growth from existing customers is very strong. Now in the context of your earlier comment, on existing projects getting completed, and that sort of impacting the backfill, ideally in this environment, shouldn’t that sort of be taken care of, considering the demand strength.

C. Vijayakumar: Yes, absolutely, you are right. And that's where you will see our client category, every category clients have grown. But of course, that is projects getting over and new projects being won. And new projects won gets into the new booking.

Nitin Padmanabhan: So, in that context when we say $3.2 billion in Q4, that getting converted into revenue this quarter, I was just wondering whether some of that $3.2 billion is yet to be sort of converted to revenue going forward, or the entire thing has already happened, and there was some project, sort of --?

C. Vijayakumar: No, there will be, it's a mix of multiyear contracts and whatever incremental ramp-ups in a lot of existing clients so it's a mix of that, incremental ramp-up will depend on the duration of the project, many of them are 12 months, 18 months, and they may get renewed after that. Then long term contracts for three year or five years, so there is a time to transition. And after that, that is somewhat stable revenue stream for three to five years.

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

C. Vijayakumar: Thank you, all of you for joining the call. In summary, we feel very confident of our business trajectory, especially our digital business, our engineering services, and Cloud transformation all of these are playing into the sweet spot of HCL. And we are pretty confident about harnessing the best out of the market momentum. Obviously, product business is unique in itself, I would encourage all of you to look at services business and product business with a very different lens, and all the positive work that we are doing and delivering very good growth in the services business is result of the strength of our propositions and relevance to our clients. So, I think overall the outlook is very promising.

And thank you for joining the call. And I look forward to talking to you during the quarter and during the next quarterly calls. Thank you, everyone.

Prateek Aggarwal: Thank you, everybody. Happy Dussehra.

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