



“HCL Technologies Q4-FY13 Earnings Conference  
Call”

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

**Anant Gupta** Good morning, Good Afternoon and Good Evening to all of you and welcome to the Quarter 4 Earnings Presentation and the Annual Presentation for Fiscal 13. To kick off the conference call I think we had an excellent year at all fronts – Revenues, EBIT, Net Income, and Return on Equity.

So across the board we saw significant sustained positive movement along with, actually, I would say an accelerated sustained movement. So if you look at our Revenues, it grew at about little around \$4.686 million up 13% on a YoY basis. EBIT grew faster to \$940 million up 38% over the Fiscal 2012. Net Income grew even faster at 51% at \$746 million, up from \$495 million and Return on Equity grew sharply from 26% to 34% amongst best in class in the industry. If you really look at where this growth has come, I think to sum it I would say it is largely been a broad based growth from all sectors.

From a service-line perspective obviously there has been a significant contribution from Infrastructure Services, but a healthy growth on a Year-on-Year basis across Engineering, Custom Apps and BPO Services. If you look at the vertical performance we have actually had 4 out of the 7 verticals demonstrated and delivered industry leading growth which is Financial Services grew by 17.5%. If you take Retail and Consumer Products, 18.2%, Media, Publishing and Entertainment 16.8%, Life Sciences and Healthcare 45.6% and Public Services at 19.5%.

What do you really see over here is our focus on continuing to play (a) In the momentum segments, which is Financial Services and Manufacturing - at the same time focusing on emerging segments such as Life Sciences and Public Services continues to pay dividend.

If we look beyond the vertical and service line performance if you look at our business operating model it continues to deliver a robust profitable growth. The shift of our Managed Services Component as a percentage of our overall business moved from 48% to 52% over the last fiscal. If you take our CSATs which is carried out by independent surveys, grew by 6 points, again best in the class in the industry and a lot of this is driven by our foundational strategy of non-linearity growth. From a booking's perspective we had another great quarter. In April-May-June we booked over a billion dollars including 12 large transformational engagements and this was really across most sectors – most of the Financial Services Manufacturing, Life Sciences and Public Services so across the board the booking profile has no specific trend in the previous quarter. The way we read the market going forward is really

the mix, this whole debate about spend on RTB and spend on CTB, the red line obviously shows this CTB and with emerging models including the new theme based “end to end total outsourcing” which is driving obviously significant amount of savings in the traditional spends for RTB plus incremental models such “As a Service” slowly chipping in plus the fact that cloud based implementations in software as a service is increasing, so over a period and this is a Gartner slide and pretty much our hypothesis and the trends we are seeing is also similar where the RTB spend from a high of 70% of a total CIO’s budget would move towards a 50% share of the overall budget in the next 4-4.5 years.

At the same time we are seeing the increased relevance of spend on CTB, so while the overall spend is not going up the shift or savings from your Run The Business budgets is really what is fueling the Change The Business programs which is very necessary for growing the business for the companies.

The other trend which we are actually seeing is a consolidation or what we call the Transformational Outsourcing Engagements where components of Change The Business are actually getting embedded or being sourced together which is Run The Business, so that the service provider on one hand can continue to unlock capital or run the business plus at the same time parallelly work on projects and programs to grow the business. From our perspective the way we have positioned ourselves in the marketplace, so if you really look at the four different key blocks which is starting from a product, moving to process, application and infrastructure, if the traditional Gen 1 model - we are looking at Enterprise Engineering Services Outsourcing, Business Process Outsourcing, ADM and IMS, which was largely driven by a labor intensive input based construct. So levers like Right Shoring, reskilling Automation and other elements like that with a real focus Gen 1 outsourcing, all though going forward what we believe the model is increasingly moving towards an Innovation Led Outcome Based Model. So our response to the market is really positioned around four themes in here. So innovation monetization is targeted at Engineering Services Organizations to participate in the risk and reward and monetizing the investments and R&D dollars that they do to ultimately succeed based on the success of the product in the market and therefore our strategies in being able to participate in the full lifecycle over there is how we have actually repositioned ourselves in the market place.

If you look at – the next one is really “Enterprise Function as a Service”, our belief is that incrementally a number of business process stacks will actually get sourced along with the IT and IT really will be more as an enabler with the Business Process Outsourcing Service and therefore expertise around Analytics, expertise around Back Office and some Business Process Reengineering would continue to drive the overall efficiencies in the actual business process which is the program which continues for 3 to 5 years thereafter.

ASM we had talked about it briefly in our previous calls. It is really a repositioning around our strategy in going after the application support and maintenance business and the theme really was all about proactive obsolescence, either looking at how to reduce workload using better domain expertise or looking at methods around Lean. Therefore increasingly that is the focus

going forward and we have significant wins in the last two quarters since we have repositioned and repackaged the entire proposition that we sell to the market.

Infrastructure Management Services- My Cloud is something which continues to be a very strong differentiator for us. The position in the cloud in the hybrid model as we see it is really that of a service administrator and service orchestrator. And My Cloud really is positioned around that and eWork really is our response to the next generation data centered architecture workplace, architecture and really the enterprise of the future. I think we will have Steve talk about it in greater details in their respective sessions. With that I will hand it over to Steve.

**Steve Cardell**

I am going to cover Enterprises Services first and then I will move onto Diversified Industries. So Enterprises Services had a 12-month growth rate of 5.2% constant currency, 4.2% in reported currency and a de-growth this quarter of 3.2%.

If I just talk about the market first, we really see two opposing trends taking place in the market. So the traditional business of implementing large scale ERP implementations, Back Office implementations on the SAP and Oracle platforms, we are seeing a continual decline about marketplace both because of maturity and because of other products that have become more competitive in that market. So we see the client of those Greenfield implementations but on the contrary side we see a set of new technologies that are generating fresh revenue streams in this market.

So we talked over the last four quarters about the SMAC areas of technology such as Social, Mobile, Analytics and Cloud. And what we see probably more strongly coming to the forefront of those four trends in the last two quarters has been applications on the cloud. A number of these have been in place for a while that are mostly focused in the mid-market. What we have seen over the last few quarters is these products having relevance of the large enterprise levels. So the likes of Sales Force and success factors Work Day dynamics, selling solutions for 100,000 user implementations. So we see those two primary trends in the market.

Now if you overlay onto that, the strategy that we have spoken about for the last few quarters in taking what was initially an 80% project business. The old ASM propositions and I spoke about we have deployed heavily in enterprise services. The transition of large scale project into long term annuity revenue and what that has allowed us to do is to move into a more margin enhancing model for those services. And secondly what you will see is that as a business we continue to increase the amount of our revenue that comes from Managed Service or Fixed Price Revenue Models. And what that is also been allowing us to do is to move from what a highly geo based delivery organization to look much more into low cost locations. So what that does is it can dampen the top line growth but enhances our margin deliveries. So if you look at software service as a whole, a year ago it was delivering 17.9% EBIT, this quarter it is now delivering 21.5% EBIT. So we see the benefit of focusing on profit enhancement in the enterprise services marketplace.

We are just highlighting coming back from the cloud topic that if we look at Oracle's primary offering around the fusion out stack, we have now just completed our 12<sup>th</sup> project in that area and becoming quite well-known in that simply on SAP product set, particularly success factors. We have won our third deal this quarter in that product area. So continuing to make strong focus and one of the emerging trends that we see was Greenfield implementations are in decline, many of the installed Oracle and SAP customer base have been running those products for close to 10 years now. And so we are seeing a reimplementation market emerging which are either upgrades of 3 or 4 versions or consolidation of multiple instances and multiple versions onto single platform opportunities. And this quarter we released a briefing along with SAP specifically targeted at that marketplace

If I talk about then Diversified Industries, just to run through what we see is quite variable opportunities in these markets. So Manufacturing which obviously is a significant vertical for us had a slightly slow year overall than we have seen in the past but this quarter and the previous quarter we start to see momentum growing again in manufacturing so 4.7% QoQ growth this time, 14.9% for the year.

One of the products that we have developed specifically for that market is Serve Smart. So we see a trend for large manufacturers who provide for example, equipment also being asked to maintain that and shifting that business model to be on a pay per use basis. So a serve-smart has been developed to enable manufacturers in that case to be able to underpin the systems that are necessary to move from being a pure play manufacturer to being a service provider.

We see two different trends geographically, so in the Americas we are starting to see some recovery in the manufacturing market there seems to be there is an end to jobs moving east and we are starting to see actually employment tick up in the American manufacturing sector. And in Europe we see some first time-out sourcers in some of the markets that we operate there, particularly Germany and the Nordic market. Retail and CPG overall had a good year 14.4% year-on-year, a slightly quieter quarter, 9.8% QoQ. While we see there are consumer goods Company, there is very strong competition in that market. Margins have been quite depressed there and so we see a dampening of demand on the pure play CPG side.

Public services continued a strong momentum – 25.4% year-on-year growth, 7.3% QoQ. And we continue to see that as an emerging and developing market for us. Couple of sectors in there to highlight - in North America the unemployment insurance solution which is part of our iGovernment product is starting to get real traction in the market. But we announced that significant win in that market for this quarter and we see pipeline developing for that. And our continued strength in utilities, Smart Grid which has been a driver of pipeline for us and new wins over the last 12 months we continue to expand our ecosystem adding two Smart Grid providers eMeter and Tridium into our consortium that we operate in that market.

Telco has for 8 quarters now been a depressed market. We see high competitiveness, margin pressures there. This particular quarter saw 5.9% QoQ growth. We do not think that determines a turnaround at that market related to two key accounts for us that we are ramping

up. We will wait and watch and see whether that grows into a bigger recovery. And then finally, Media and Publishing, again a good year – 13.4% year-on-year growth, 3.2% in this quarter. So with that I will pass over to Rahul to talk about Financial Services and Business Services.

**Rahul Singh**

We had a good year in Financial Services. We closed full year 2013 with revenues of 1,175 million and we closed the quarter with revenues of \$311 million. In percentage terms our full year numbers are up 15.3% and quarter-on-quarter is up 4.2%. I would like to mention here that full year number growth- 15.3% is higher than most peers in the industry today. That 15.3% also includes small business that we sold, since we were to back that off growth rate was 16.3%. Another 1% growth would have come in.

Now if you look at the market as to what is happening in the banks driven market and how we are positioned versus the same. Our clients both in Europe and in US continue to be under constant cost pressure. So although lots of banks have reported high profits this year there is continuous focus on cost reduction because they are still shoring up capital that is savings for their regulatory purposes. And therefore cost management becomes a very key requirement from a customer's perspective. At the same time our clients are faced with huge challenges in terms of improving their own customer experience so customer centricity is becoming critical for the customers or our customers and they need to spend more money on the compliance side as well as risk regulatory needs, etc., across the globe are increasing. So the discretionary spend that we are seeing in our client base is essentially towards improved customer centricity and on the compliance side in terms of where the spend is going.

We are also seeing two-three more trends. Number one is that the outsourcing decisions are being driven more from a risk perspective. So customers are looking at vendor consolidation. They are looking at getting rid of the weaker vendors and perhaps looking at single vendors able to provide more services. We are also seeing a shift of buying behavior, some of the decisions now for outsourcing are being more led by business units who are under the scrutiny of the shareholders and therefore the buying behavior in terms of our clients is changing. In light of that the way we are positioned for growth and for market shares is #1 we have focused a lot on cross selling, so we have realized early on that our clients are looking for reduction of the total cost, the cost it has to produce. They are looking at ways to improve productivity. The productivity of their application stack, productivity of the infra stack, the BPO and so on and so forth. So we have gone in with aggressive cross selling of our service line into our existing accounts and that is enabling us to get share from the existing accounts plus as I mentioned earlier customers are looking at vendor consolidation. So we are actually looking at existing accounts where we are trying to consolidate and win consolidation opportunities in deals from the smaller players which should be there.

I think the second thing that we are focusing on is in terms of new business propositions, as I mentioned customers are looking for discretionary spend in areas, customer centricity and compliance areas. So we do have kind of developed products focusing on micro verticals, focusing on customer experience, focusing on alternative and multi-channel in an ALT ASM

and new products proposition in the market to get market share. And then finally of course you know we are focusing a lot in terms of delivery excellence and trying to win large contracts with customers which come through our RTB deals. We see a reflection of that in recognitions. HCL Financial Services is ranked among the top financial services providers by various analysts in the market.

Very quickly, going onto the BPO, we have closed revenues of \$205 million for the full year 2013 reflecting a growth rate of 8.1% on a LTM basis that is at constant currency. If I look at real currency it was 9.8%. It means volume basis we have grown the business almost 10% this year. So people will remember that the BPO business was challenged and was having negative growth till last year that is now completely turned around with positive growth coming in. What is heartening to note is the turnaround on EBIT as well, so full year EBIT was \$10.1 million which was up against negative 5 million so we have a loss of \$5 million last year, so there is an 800 basis points improvement at EBIT level in the BPO. And the gross margin has improved by 40% over the corresponding number last year. So on the BPO what is happening on the demand side is essentially clients are looking for more bundled transformational deals. So the way we are positioning BPO today is to go beyond labor cost arbitrage to look at areas in which we can do more transformational deals where can perhaps build in an improvement on the IT landscape as well as in the infra landscape and on top of that do the business process outsourcing. I think Anant spoke earlier about this enterprise functioning as a service. That is the model which we are taking into the market.

Our clients are also now looking for opportunities to create shared centers; we are looking at opportunities to try out utility based models. So there are a few deals in the market which are for creating shared centers which we are going after in terms of creating the centers for them and also working with customers to create utilities where applicable. BPO tends to be a wide market so we are taking our products to a very specialized, sharper focused market so we have not broad basing the BPO at this point of time but selecting the segments that we want to be in, so we have selected a few vertical segments to create vertical business process services and a few enterprise business solutions I think being taken to the customers especially in areas of financial accounts and procurements – so the change of the HCL BPO profile is very well reflected by the analyst tracking the industry. So almost all the analysts - Gartner, etc., have rated the various segments of BPO and have moved them up a couple of notches in their surveys in the last one year. I would like to hand over to Srikrishna.

**R. Srikrishna**

I will talk first about the healthcare business. We had an industry leading YoY growth of 45.2% and we did grow sequentially at 2.84%. We added, amongst the IOPs the highest incremental revenues during the year of 169 million. The growth was both from our existing customers and new customers and new customers we acquired 14 logos and they were spread across Europe, US and US peer segment. I will come back to talk more on that in a second.

We are seeing clearly there is a patent cliff in the pharma industry worldwide and what that is leading to is several pockets of new opportunities from the rebid market they are relooking at their current portfolios much like in FS like Rahul spoke about. But the pharma industry is

also relooking at entire functions or areas that the erstwhile thought was not outsourcable to be outsourcable. Europe pharma is not too far behind. They have historically being averse to global sourcing but that attributes are changing fairly rapidly.

The biggest change of all is happening in the US Payer segment as an example in the last several quarters but on 220 new affordable care organizations that are up and running. And we are seeing the impact of the affordable care act; play out in many different ways. We have defined last year a strategy to diversify from being a predominantly US pharma based revenue stream to US Payer and Europe pharma and that has clearly started bearing results as borne out by the new logo acquisitions.

We are bringing several new services under the philosophy of combining Digital Analytics Database, Analytics Technology and People Based Services to improve patient outcomes and reduce cost of healthcare. The other thing we are doing is that while big pharma has revenue issue due to the patent cliff there was a growth in revenues in the lot of generics. We are focusing on generics; we are focusing on biotech as new segments in the industry.

From the infrastructure perspective - we again have industry leading growth both quarter-on-quarter and LTM, 8.6% QoQ, 36% LTM on reported currency. More interestingly our profits outgrew our revenues significantly at 66%. This is a validation for non-linear strategy that we have been following for a while. The traditional drivers for growth have been the Gen 2 rebid market and in that predominantly the data center transformation. Now those continue to be strong drivers but the two additional drivers we have seen are the transformation of the workplace in terms of enabling employees with the right level of technology to be productive and that is becoming more and more on HR imperative to attract and retain the right level of talent. And the second factor what Steve spoke about earlier of the cloud moving closer to the core of the enterprise from the periphery of the enterprise and that cleared significant opportunities for us in the infrastructure business.

So the growth in this again came from both existing customers and new logos and we did add 24 new logos all around the world with about 75% of the booking coming from the Gen 2 market and Europe leading our growth across all regions. And Anant spoke about the Enterprise of the Future and My Cloud those two are going forward propositions of how we will transform enterprises into an enterprise of the future for new generation data center solutions and new generation workplace solutions. I will hand it over to Anil.

**Anil Chanana**

Just to recap on the revenues and the growth, so we clocked 6,944 crores in revenues which is 8.1% up in rupee terms and EBIT up 14.5% quarter-on-quarter and net income up 16.3%. The Earnings per Share at Rs. 67.88. If you look at the full year it is 22% revenue growth, 62% net income growth. If you look at the growth has happened in this quarter as well as quarter-on-quarter as well as full year on full year basis in gross margins, in EBITDA margins, in EBIT margins as well as net margins. If you look at the right hand side of his slide itself you will find that year-on-year the growth at net margin or even at the EBIT level has been 360 basis points close to 400 basis points at net income level.



Moving on in dollar terms it was 3.1% quarter-on-quarter growth, 3.9% in constant currency. You are aware that in January to March quarter we had divested Capital Stream business, which revenues could have accrued to us had we continued. So just to adjust that contributed 5 million in US dollar terms and constant currency terms, so if that is added back it leads to 4.3% growth in constant currency this quarter and it sort of shows in terms of the other numbers, the custom applications this quarter which we are reflecting as 2.6 actually becomes 3.4 and financial services which Rahul talked about at 5.8 actually become 7.5. So again in terms of ratio analysis very similar picture.

Moving on the slide talks about the last eight quarters how we have been performing. So this is the seventh straight quarter of net margin expansion. When we look at the EBIT margin it is the fifth straight quarter. Since we are on the margin slide I will just – we do not give any specific guidance but in general we have been saying that we have a target in mind and we believe that we will be able to keep up our margins in a certain range and I believe that range is from 18.5% to 19% at Rs. 55 to a dollar which was the average exchange rate last year.

Moving onto the next slide, here is the operating cash flow to net income, the operating cash flow continues to be above the net income and the Free Cash Flow as a percentage of EBITDA has moved from 42% to 69%. I believe it is the best in the industry. Going on in terms of Working Capital Management focus highly has been on working capital management. We further reduced out DSO if you look at year-on-year it is down by 4 days and particularly the impact of growth on the billed category as well as the unbilled category. And if you look at our CAPEX, our CAPEX for the full year has been 171 million which is close to 3.65% of the revenues and the return on equity has moved up from 26% last year to 34%. Our net current assets as percentage of the revenues have further decreased from 11.2% to 8.2%, so efficient working capital management which is leading to return on equity improving.

Moving onto the next slide – This is the position of terms of hedges, the balance sheet hedges were 262 million as of June end and the cash flow hedge is at 1.6 billion. There is a breakup which is 900 million less than one year and more than one year at 673 million. The book rate for less than one year is 55.52 and for more than one year 62.52. And this has been significantly forwards and it is there split in terms of currencies in USD-INR being dominating because of the revenue mix.

Moving onto the next slide the tax charge for this quarter was lower at 21.4%, however it is within the guided range we gave for the year so we are at 23% for the full year. Next year we anticipate the tax rate to be between 21% to 22%.

Anant talked about the change in the customer year in terms of what they are buying. So the engagements are increasingly becoming integrated and where it is not just one service, it is more than one service which is getting sold. The delivery is also getting integrated so we are deriving the efficiencies of scale. I mean it is not just the resourcing but also the end to end responsibility which could be conceptualization implementation, application maintenance of

infra and provision of business services eFile, enterprise function as a service we talked about. So we are seeing the deals happening in that space, we signed deals in that space. And increasingly the business is becoming very-very integrated.

So we intend to make some changes going forward in the matrices, so the first is in terms of the employee metrics, so we give the employee count separately for IT, software, infra and BPO with their respective attrition, so going forward we will be giving you the total employee count at the company level and also because a certain category of BPO resource has a different attrition, we will split the attrition for IT services and BPO.

Going further in terms of we also give a split in terms of Fixed Price/Managed Services versus Time and Material at the IT services level. We intend doing it now at a company level so integrating the whole thing out so that you can get a full view.

In terms of the effort mix which is offshore-onsite and the revenue mix offshore-onsite limited to software services and then utilization, we believe that the effort mix, the data we are giving does not provide a holistic picture. As I said it is not just the provision of manpower, there are elements like Technology, Software, Bandwidth, and so on. It is not possible to convert them into efforts. If I do not convert them into efforts we will show as if the realization has moved up which actually is not correct. So again the work is getting delivered from the Global Delivery Centers and which center is adding what value is very difficult to ascribe a value because it is not just FTEs, it is lot of services which are getting delivered from various parts of the world and we are servicing our customers from multiple locations in multiple countries.

So what we intend to do is to give the blended utilization at a company level, so that you can look at how the company is tracking the utilization at an overall level rather than just the Software Services as we have been giving till now. Again the utilization, we have been splitting onsite- offshore and I talked about does not reflect the complete picture. So it is been tracked at a more of a LOB level rather than at an onsite and offshore level. And we give the flexibility to the business to manage their affairs they would like to do. So that is the reason we intend to give the blended utilization.

So we don't intent to give the effort mix and the revenue mix onsite and offshore for the reasons I stated. But it is not just efforts which are leading to the revenues and it presents an incorrect picture in a way. Going further in terms of ESOP charge, we have been showing the ESOP charge separately in the IR release. We intend putting it back into the P&L so that you can look at in the respective lines which it states where it is a direct cost or indirect cost into the respective lines and present it. So these are the changes we will be doing starting from next fiscal year. With this now I hand over to the operator.

**Moderator**

Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from Ankur Rudra of Ambit Capital. Please go ahead.

**Ankur Rudra** I just want to begin with understanding the persistent weakness in the Core Software Services Business. I understand your deals win have been very strong for the last three quarters, I think almost more than \$3.5 million deals won cumulatively. Just wanted to figure out if there is not much Core Software Services deals booked in that order book.

**Anant Gupta** Actually the large deals are coming in from the renewal market, I would say some of them are standalone infrastructure deals and some of them are integrated deals across application and infrastructure. In some cases it is even BPO and some of other stacks like EAS. So I would say that most of these would start kicking in and into them once they complete their transitions and statistics, but yes at an overall level of course infrastructure is doing faster you know given the very fact that it is largely underpenetrated markets, so even if you look at from an overall perspective the penetration for all IOPs put together from traditional outsourcers it is still less than 5%. So the headroom and the pace and pitch that is growing is obviously much faster than the rest. Coming to the comments which Steve made on some of the shifts we are seeing in the way package applications is being bought versus the software as a service I think the transition in the marketplace is still going on. Having said that I think yes, we still have an overall growth rate of about 2% in this quarter but overall in the year ranging from 4% to 6% for different lines of Software Services.

**Ankur Rudra** So the question basically is you would expect this to improve going forward given the order book you currently have?

**Anant Gupta** Well the market is bullish and yes, we definitely look forward to that. I think it will take a while for the transitions. So there are two elements, one is the ASM side of the business, we definitely see that kicking in given the change in strategy which we put in place just about little before two quarters back. So yes, that will continue. I would say some of the discretionary elements will have the transparency visible in the entire program because these would be large scale transformational programs but yes to that extent discretionary spends will also kick in specific pockets.

**Ankur Rudra** May be can you comment a bit about the sustainability of the infrastructure margins, tell me these are your highest ever margins, this particular service line. May be you can help us understand what is helping you there either in terms of automation or other productivity initiatives you have taken. I know you have spoken about this in the past but just some reminding us will be helpful.

**R. Srikrishna** So clearly we spoke about automation as a non-linearity as a lever with nonlinearity having two or three underpinning strategies. The first one is automation. It is simply elimination of work. The second one is cross skilling of adjacent technology work and hence eliminating the number of people required to do the same job. And the third really is using Intellectual Property to deliver a greater value. My Cloud falls under that category. So there is just some IT based revenue that is embedded within our overall sales revenue. So we expect to be able to see similar margin profiles, I mean we do not see a specific discontinuity happening to change what we are doing right now.

- Anant Gupta** Just to add to that going back to one of the earlier comments we always had was in a quarter especially it is the balance between the engagements which are moving from transition to steady state as well as engagements which are newly booked in the previous quarters which are still under transition, the margin profile during the initial phases is a lot lower and over the course of the last six quarters we have kind of arrived at a certain balance between what is getting into steady state versus what is coming in, but given the fact that there is such a large rebid market there and any uptick on that could potentially alter some of that but that is still a positive sign because it is only a short term impact. So given that there is so much renewal happening in currently 30x15, our strategy would be to focus on continuing to win engagements which where we see we can add value rather than look at quarterly aberrations and imbalance between new and what is moving into steady state.
- Moderator** Thank you very much. We will take our next question from Nimish Joshi of CLSA. Please go ahead.
- Nimish Joshi** You mentioned that you restructured your Financial Services Vertical Leadership Team. Could you just elaborate on that? And secondly do you think we are in round for next round of succession planning with Roshni coming in as Non-Executive Director, what is her role envisaged going ahead?
- Anant Gupta** There is no restructuring in Financial Services. Rahul Singh has been heading BPO and Financial Services for well over five quarters so there is no change in that. As far as Roshni joining the board, I think it is a welcome sign. First from a perspective that a lack some fresh thinking input. Second it will provide an alternative view, third I think the diversity aspect plays well in the favor of what we are trying to do from an overall perspective. And then finally up to the shareholder representation which is there. All this is part of a formal governance program which is just been executed and I see there is no – specific thing behind that.
- Anil Chanana** Just to add here, Roshni has been in the business has been the CEO of HCL Corporation for 5 years, she has been responsible for diversification which HCL Corporation is undergoing as well as the treasury operations, she has the Undergraduate Degree from Northwestern University and she also did her MBA from Kellogg Graduate School of Management. She has been managing in fact. She has played an institutional building role in the Shiv Nadar Foundation and the Shiv Nadar University in Chennai as well as the University in NCR and the Vidyayan Schools. So she has a lot of experience and she brings as Anant mentioned a different perspective and also diversity to the Board and she is a Non-Executive Director.
- Nimish Joshi** So more specifically on the business end among the company's reporting numbers obviously surprised all of us positively. Is it anything which is happening in the demand environment which has been positive over the last 2-3 months, has something surprised you all as well positively or is it just we were holding low expectations?

**Steve Cardell** I think from our perspective this is business as usual. So I think the outlook that we have been talking about the last few quarters that continues the performance of this quarter I think is consistent with what we have been saying before. I think it is true that particularly in Americas we see some growth sheets there and Europe continues to be good for us, not because the market is recovering in Europe but because we found ourselves a niche in that market as cost pressures come in we positioned ourselves extremely well to pick up some first gen outsourcers and also to transition from domestic players to second gen outsourcers. So I think for us it is business as usual.

**Rahul Singh** I think from the Financial Services market perspective the way I read it as that as I mentioned earlier, our clients are not exactly increasing the spend. It is where our market share in accounts is increasing. So we are focusing a lot on what we call as a Service Adoption Index which is increasing the service lines that you sell the account. We are focusing a lot on Vendor Consolidation Opportunities so when our clients look at reducing the number of vendors, we participate in that so that our share in account increases. So that is one key driver of our growth. And the second one is that we have increased penetration in Europe and US and getting new logos in which are enabling us to get incremental revenues, etc.

**Moderator** Thank you. Our next question is from Pankaj Kapoor of Standard Chartered. Please go ahead.

**Pankaj Kapoor** First question on the BFSI vertical. Rahul you spoke of 16% growth in this business. I was wondering if you can give a sense like how much of this was through the IMS annuity deals that we have been winning and how much was from say the traditional service lines. And second, about 4-5 quarters back you had mentioned that we have won 5 MSAs from the large BFSI clients, I was wondering how those MSAs have shaped up in the last 4-5 quarters?

**Rahul Singh** So our growth in the financial services has been quite healthy across all the service lines that we have in the accounts. As I did mention generically speaking our accounts are looking at higher levels of productivity, higher levels of cost savings in their run the business products, so whether it is infrastructure, whether it is BPO or whether it is application service with maintenance where we are running application for our clients. We are winning in all the three streams in terms of services. We are also winning some of the discretionary spends but caution here, to be mentioned here the discretionary spends is in specific pockets of financial services.

So long as we have got products in that area, which is around custom experience, regulatory etc, so our growth has come well rounded in terms of multiple service lines and accounts. And your next question was that how are you doing on MSAs, so I did mention earlier that our effort is to land into account, that is the way the financial services model grows. So there is a lot of focus on service adoption and the service adoption essentially today is driven by the client themselves because they are looking at multi-stacks in terms of opportunities like bundle in IT and in BPO, in some cases you can get the applications and infrastructure so the bundling in of stacks is delivering us to exploit the existing MSAs better.

- Pankaj Kapoor** So just understanding a little bit more there, so our growth in those particular 5 MSAs, has that been for example at a market share gain vis-à-vis other offshore vendors?
- Rahul Singh** Yes, if you look at our growth rates, our growth rates are higher. 17.5% growth rate is reflected in higher gen comparative growth rates of IOPs and therefore it is correct to say that we have taken share. I must mention here that there is vendor consolidation happening in our marketplace as well, which means that the clients are reducing number of outsourced vendors that they have. So we are getting share by taking from other vendors from that perspective as well.
- Pankaj Kapoor** My question was on the hiring and on the CAPEX plan, if you can give some color in terms of how you are seeing the recruitment planning going forward and on the CAPEX are we looking at some step up given the low number of seats that we have in WIP stage?
- Anil Chanana** In terms of CAPEX, this year it has been close to 3.7%. I believe it will be between 3.7% to 4% of the revenue. This is so far as the CAPEX spend is concerned. You would have seen there are number of seats which are going to come into play in a quarter or may be more than a quarter because we are expanding significantly something like 11,000-12,000 seats which will be coming up in the NCR region itself. That project is in fact moving on which is not getting reflected at the moment in the seat section, which you would have seen so significant capacity is getting created there. To answer your question in terms of employee hiring, Anant would you like to answer that.
- Anant Gupta** First is we do not provide guidance on employee hiring but having said that I think the multiple engines for hiring that we have which is high valued, high skilled resources in country, lateral hiring in India or the need for fresh engineer pool. I think we have all the three engines working well for us and our ability to quickly push a specific lever required for each one of them depending on how we see the business move in different service lines or in different service types will really be put into action over there. So given the supply and demand situation where your skill sets and the shift of large scale end-to-end outsourcing initially will call in for a lot more in country and a lot more senior resources required in most programs.
- Anil Chanana** Just to add on in terms of the seats, in fact we are also going for a lot of seat consolidation. We have a lot of facilities which are rented facilities or smaller facilities, so the idea of creating this also to sort of go for consolidation which will reduce our overheads.
- Anant Gupta** And improve some operational and managerial efficiency at the service delivery level as well.
- Moderator** Thank you. Our next question from Ashwin Mehta of Nomura, please of ahead.
- Ashwin Mehta** Just had one question on margins, Anil you mentioned margin range of 18.5% to 19% at 55 is maintainable, so in that case given that the rupee is closer to 60 now would you be looking at reinvesting the rupee excess or we could see that in margins?

- Anant Gupta** I think the way we will walk the market is we obviously have, we are completely bullish on the short term and I think there are certain medium term plays which we just like I outlined earlier, will call in for investments. So we will watch it quarterly and then decide how much to split between, how much needs to slow down versus what is required to provide differentiation going forward in the medium term.
- Ashwin Mehta** But in terms of the base we are looking at maintaining the 18.5% to 19% margin.
- Anant Gupta** That is correct.
- Ashwin Mehta** Okay, and just one more thing like it has been sometime since we made an acquisition, so Axon was a pretty good success for us. Are we looking at anything or anything in the pipeline, any areas that you would like to highlight where you would be aggressive towards acquisitions?
- Anant Gupta** I have been given so much momentum in the marketplace. I think our hands are full and we would like to be focused at what's there. We have a fairly focused strategy around markets like I talked about momentum markets and emerging markets. So in specific areas if we do see a need to kind of increase our skill and expertise, we will pull that in but as such we are pretty sharply focused around what is there at hand, which is substantial enough if we just execute to that.
- Moderator** Thank you. Our next question is from Mitali Ghosh of Bank of America. Please go ahead.
- Mitali Ghosh** Wanted to understand the outlook in the Custom Applications and Engineering Services space both of those saw an upturn this quarter, so just wanting to understand whether you think may be that has bottomed out and what is the kind of pipeline there?
- Anant Gupta** I think the business model in Engineering Services is undergoing an interesting change. So one side there is the Product and Technology Vendors. I think increasingly over there we will start saying what we call as risk-reward models which we have successfully executed for a number of very large technology players over the last 3 or 4 years.
- So we see that element accelerate some element of trust. That service line is all about being able to discuss and disclose and work on products which are fairly futuristic, way ahead in time, 3 to 5 years. So obviously try to open it into a new account and build that ramp up strategy takes a while. So we are looking at multiple areas in which risk and reward is one specific model which could potentially accelerate some of that. I would say we are still cautious about how the market is panning out over there. I think there are sufficient opportunities to kind of participate in the risk and reward model in this specific financial year.
- Moderator** Thank you. Our next question is from Anantha Narayan of Credit Suisse. Please go ahead.
- Anantha Narayan** Just one follow up question on the hiring – just hypothetically if discretionary spending does pick up significantly over the next 2 or 3 quarters, especially around the software services

segment, do you think that you have enough people in place to take advantage of that or would you need to scramble and accelerate your hiring at that point of time?

**Anant Gupta**

Discretionary is a broad based statement. So it really depends if you are taking about let us say Enterprise Application Services, Blue Printing and Implementation Services which are project rollouts I think the talent pool for that largely will be in country and we do have a good engine running over there plus this point Steve mentioned in terms of the ability to kind of to move pointed work from onsite to offshore also is there. So I think so there is a very different engine to kind of source that specific talent and I believe that is not very difficult. Coming to let us say generic development which is taking place in offshore again I do not see that because we have compressed our ratios around ability to deploy people plus their engagements which obviously from transmissions to steady state which will allow us to rotate more experienced talent in offshore as required. So, I would not be worried about the ability to staff resources once we start seeing the uptick. We will be seeing the uptick and we have started hiring. So that is not an issue.

**Moderator**

Thank you. The next question is from Nitin Mohta of Macquarie. Please go ahead.

**Nitin Mohta**

Just wanted to understand some of your peers who are late to realize the market opportunity in Infra space have pressed the pedal quite hard on the service line. So by far you have obviously doing industry leading growth but any initial signs of competition beginning to hurt you or do you think fiscal 14 might not be as good a year in growth for that particular service line?

**R. Srikrishna**

Infra services, the most important aspect of a customer taking a decision is trust. If they are going to hand over the data centers and networks which can bring down their business, they have to have sufficient trust in the capabilities of a provider. From our perspective, we have built that capabilities and trust over a number of years, and while others are making significant push at it we believe it is going to take them a number of years to get to the same level of competence and to be able to establish the same level of trust with the customers.

**Anant Gupta**

I think maybe just to add to that, I think the market is still significantly underpenetrated. If we look at the ratio of competition, we continue to see 70% being traditional outsourcers multinational firms. So I think we will continue to see that for a while. And in my view we have targeted segments and markets where we would like to win in, we carefully choose the battlefield which we want to play and our win rates are extremely high, and I am sure there will be markets like potentially in various parts of rest of the world where we have a very selective focus and the competition may wish to participate there.

**Nitin Mohta**

If I can do a follow up on that, so there has been no deal where you have seen slippages because of competition or the Indian IT vendors focusing hard on the service lines, have there been cases where you have lost out because of that?

**R. Srikrishna**

Our win rates are around 50%, while majority of our wins and losses comes against the western providers, there are some both wins and losses against IOPs as well.



- Moderator** Thank you. The next question is from Divya Nagarajan of UBS. Please go ahead.
- Divya Nagarajan** Just on the staffing question, you did mention that you would be able to hire on tap. But assuming that the market is beginning to pick up already do you think that you will be able to staff enough - suppose the growth comes back next quarter, will you be able to hire on-time without this impacting cost of hiring and therefore potentially some impact on the margins?
- Anant Gupta** The kind of engagements which we participate in are not a short-term program which is like a 3 man month project or a 6 man month project or maybe a 30 man month project which certainly needs 5 or 10 resources of such staffing. I think the engagements we work in, have a fairly well planned approach, especially when you look at the end-to-end sourcing bundle, where the CTB kind of work is embedded along with an RTB kind of transition, so I think there is a well planned approach in being able to that because it is based on a certain plan that we pick up. So I would say yes to a large extent, I would be comfortable in being able to execute to what we win.
- Moderator** Thank you. The next question is from the line of Yogesh Agarwal of HSBC Securities. Please go ahead.
- Yogesh Agarwal** The profits are stronger on the year end. You said M&As are unlikely as well. Then why not increase the dividend?
- Anil Chanana** To answer your question, the dividend last year was Rs.12 which was in FY12, Rs.10 is ordinary dividend and Rs.2 was a special dividend, this time it is Rs.12 as ordinary dividend. If you look at with reference to the last five years or last three years both ways one-third of the money, the net income generated has been distributed as dividend. So we are focused on improving our Return on Equity and therefore will always sort of continue to be focused in that regard.
- Moderator** Thank you. The next question is from Sandeep Shah of CIMB. Please go ahead.
- Sandeep Shah** In terms of the rebid market at the start of the calendar year you said that there is kind of a postponement in terms of the deal wins and the deal pipeline. So, do you believe that has normalized or do you believe this may actually get more pipeline been created entering CY14?
- Anant Gupta** If I recall what I said as part of the commentary is what ISG reported, it was clearly about that the deal closures will move more towards H2 of Calendar Year '13 and that is a similar trend that we saw and we continue to see that. I see from our funnel whatever is planned for closing the Calendar Year '13, pretty much will get decided, you can always have a slippage of a month here or there in terms of that but largely customers would need to take their decisions on whether they would like to continue with their incumbent vendors or they would like to switch to a new vendor because the exit transition has a finite time.
- So I would say H2 would hold decision-making as projected by various analysts and likewise I see no change in calendar year '14 from any estimates that I have seen, our funnel reflects

that, of course the components of the bids and the construct of these rebids will continue to take shape, Sri mentioned about as a service or Steve mentioned about again software service and different components coming into that play. So yes, the mix in the quarters will continue to change as different elements become stronger than the market but from taking a renewable decision I think we will need to take that.

**Moderator**

Ladies and gentlemen, due to time constraints, that was the last question. I would now like to hand the floor back to Mr. Anant Gupta for closing comments.

**Anant Gupta**

Thank you very much for joining our Q4 call and we continue to drive the market as per our strategy which we have outlined, obviously, we continue to be very bullish on the rebid market, we continue to look at the way in which the market shapes or we continue to participate in what we call a balanced investment both for a short term as well as the medium term. Thank you very much for joining in; look forward to having you on the call in the next quarter with us.

**Moderator**

Thank you very much members of the Management Team. Ladies and gentlemen, on behalf of HCL Technologies, that concludes this conference. Thank you for joining us.