Moderator: Good afternoon Ladies and Gentlemen. I am Prathiba, the moderator for this conference. Welcome to the HCL Technologies conference call hosted by Deutsche Bank. Mr. Bhupinder Ahuja of Deutsche Bank is your call leader today. For the duration of the presentation all participants' lines will be in the listen-only mode. After the presentation the question and answer session will be conducted for international participants connected to SingTel. After that, the question and answer session will be conducted for participants in India. I would like to hand over to the Mr. Bhupinder Ahuja of Duetsche Bank. Thank you and over to Mr. Ahuja.

Bhupinder: Thank you Prathibha. Good afternoon everyone and welcome to HCL Technologies first quarter earnings call. We have the HCL management team with us to take us through the results announced this morning and answer any questions that you may have. With this I would like to hand over to the HCL management team.

Shiv Nadar: Good afternoon. This is Shiv Nadar. Thank you for joining us on this conference call to discuss our financial performance for the first quarter of fiscal year 2002-2003. Joining me in this call are Arun Duggal, our Chief Financial Officer, S. L. Narayanan, Corporate Vice President Finance, Raj Sirohi, the CEO of HCL Technologies America and Sujit Baksi who oversees our BPO operations.

The scheme of the presentation will be as follows: I will begin with the key highlights of this quarter. Thereafter, Raj Sirohi, will brief you on the happenings in US - still the largest market for all of us in the industry and Sujit will update you on our BPO business. Arun will conclude with the detailed financials. Let me begin now.

Last time around, I had mentioned briefly about our JV with the Jones Apparel Group and the potential that it held for us to prospect the retail vertical. I would take a couple of your minutes to share my thoughts on this Joint Venture, which in effect has created a $10 million client for us, if the first quarter revenue run rate is any indication of things to come. This JV is of great strategic importance to both partners. For JAG, the JV enables them to extract more value from their IT budgets and gradually transit from an in-house management of IT to an outsourced delivery model that is more cost effective. For HCL, it provides a very credible platform to grow our presence in the retail vertical and expand our revenues streams in this very important segment. As you would know, the retail and apparel-manufacturing sector has always been one of the early adopters of information technology and now it is reaching a level of maturity that demands innovative service models. Most industry experts indicate that this domain would continue to be a key buyer in the technology market. I am confident that our combined efforts ie JAG's domain expertise and our ability to execute aggressively would help us to emerge as an important player in this domain.

In terms of culture, I see a significant similarity in the two companies in terms of the entrepreneurial drive shown by the key employees and the way they do business. We have a high degree of commitment to this venture which is equally reciprocated by JAG as borne out by the fact that Paul Lanham, the CTO of JAG has moved to head this venture and has brought in a team of highly experienced domain consultants from JAG.

As you would have seen from the financials, within a very short span this venture has managed to reach a healthy run rate in terms of revenues and profits. Currently our prime focus is towards tapping the opportunities within JAG and to establish the credibility of an outsourced delivery apparatus within Jones' various business segments. I am pleased to say that this has got off to a flying start. Later, we would expand the franchise and add external clients. Going forward, we also have plans to productise our offerings to generate additional business.

Raj can you take it from here.

Raj: Thank you Mr. Nadar. Good afternoon everyone. I will be covering in brief the market trends in US from our prospective, the operation summary of HCL America, and opportunities and challenges. Even though, the late set of economic data point aim to a picture of an economy that is muddling forward, it is no slow down on decisions for out sourcing projects offshore. In the current pessimistic economy, even though high ticket spend is under microscopic review, companies have retained the critical spent and are looking for partners who will help manage these areas. The Indian off shore has graduated from being a main stream to a destination for the risk averse CIO. This is primarily due to a demonstrated track record of high quality execution excellent and predictable cost. As reported in the last couple of quarters, we have progressively shed some of our smaller customers with marginal revenues and substituted them with more mainstream and larger corporations who have the potential for us to ramp up the revenue base. This key strategic shift has resulted in a lower sequential growth, but we believe that this is a step in the right direction, fruits of which will be realized in the next year. We acquired fifty new customers in HCL America in this quarter, 66% of the growth came from additional business from existing customers and 34% from new relationships. Some of the new engagements in this quarter were one of the world's largest providers of products and services to the petroleum and energy industry. This company provides and integrates products and services for oil exploration and refining. For this company, we are designing both hardware and software. We are developing and implementing a wireless land for the ruggedized environment. We added four new customers in technology product space. For these companies, we engaged in development, porting, internationalization, and interoperative testing. Retail, auto, and pharmaceutical verticles produced new revenue this quarter for us. Semiconductor remained even compared to the last quarter. The offshore out sourcing companies continue to compete on price rather than service offering differentiator. ROI still remains the driving vendor selection criteria for the CIOs, and software companies with low cost delivery structures continue to fair better in the out sourcing decisions. To mitigate risk on large multi year multimillion dollars deals, track record, infrastructure investments, financial strength are becoming critical factors in selection of offshore partners. Pricing is more stable in both technology and application opportunities, but absolute pricing levels continue to be depressed. We have witnessed improvement in the leading indicators like order bookings even though delays in the start of projects are experienced in few of the cases where decisions had been finalized. Other leading indicators are just confirmed pipeline and prospect list also look good. As you grapple with the worst technology recession in memory, the initial signs of recovery with regard to offshore services looks encouraging. There are also early signs of priority changing in the technology area from cost to market to time to market. Thank you.

Shiv Nadar: Sujit, can you take it from here.

Sujit: Good afternoon everybody, this is Sujit Baksi and I am responsible for the BPO operations of HCL Technologies. As all of you would be aware BPO is being seen as a new growth driver for the Indian IT industry and all major players have committed considerable investments. While the India advantage with regard to this sector is well understood, the BPO business quite unlike the tradition software IT services business is subject to longer gestation period and operates under a very different financial model. The most striking feature being a higher capex per seat and lower realization per hour as compared to a typical offshore software operation. Empirical data, based on the experience of the some of pure play BPO company reveal that around three years seemed to be the minimum lead time before reaching cash break even and somewhat longer for PBT break even. Ours I presume will be no exception. The launch of E-Serve operations coincided with an overhang of capacity created by the initial wave of investments in the BPO space by a several marginal players. Customers are taking advantage of what has now been transformed into a buyers market. Lead times between prospecting and commencement of billing are extremely protracted. Accordingly, we have supplemented organic efforts with a key strategic partnership with British Telecom aimed at building legitimacy to position HCL Technologies as a global BPO player and to create a captive and large account mining opportunity. BT has large spends on in-house customer care and their increasing efforts at reducing non-core of activity was and continues to be relevant as an effective vehicle to transition large volumes of work to an India based delivery arm. We are now in a position to commence migration of some of the BT engagements from our offshore facility in India. Lastly, I would like to add that the adverse movements that you see in HCL E Serve's gross margins are due to the high upfront preoperative expenses related to couple of pilot projects currently underway with some large retail giants in the US along with related training and travel cost.

Thank you.

Arun would you like to take it over from here.

Arun Duggal: Thank you, Sujit. Good afternoon. The first quarter results of the current fiscal year have been reasonably good performance from the company. Let me run you through our key financial and operational matrix. The growth revenue for the quarter increased 21% year on year and 2% quarter on quarter to reach Rs.4.4 billion. The net income for the quarter was Rs.760 million. The net income before extraordinary is 27% lower than that of the prior quarter. The pressure on bill rates is within manageable level. Our onsite effective dollar bill rate have increased by 1.5% sequentially while there has been a marginal drop in offshore bill rates to the extend of 0.3%. Our profitability matrix remained healthy. We have managed to hold on to our gross margin even after granting some salary increases during the quarter. Our SG&A cost have certainly increased this quarter with our efforts to beef up on our sales and marketing team for our end use application business which has put some pressure on the EBIDTA margin. Let me now dwell somewhat deeper into the details and share with you the story behind the number. I will cover both, what is working well and also the areas in which we have challenges. Some of the areas which are working very well include our core software services business, which continues to show a good growth and has registered a sequential growth of 3% in dollar terms. Though this growth may seem low in comparison to our peers, I would like to draw your attention to one important fact. If you focus on our top clients, you will see that they continue to give us more work; our top 20 clients have grown by 23% sequentially and have contributed 56% of this quarter's revenue. So a logical question may arise as to if the top 20 clients business is growing at 23% quarter on quarter than why is the overall sequential growth only 3%. The reason for this apparent dichotomy is that our client rationalization program under which we are disengaging our smaller clients, mostly onsite work, and from these clients the business growth potential is limited. The client rationalization will continue for the next two quarters until the current projects from these clients, which have a quarterly revenue of about around 4 million per quarter conclude. Therefore while this client rationalization strategy will result in lower overall growth rates in the next two quarters, we believe that it will lead to a more robust business over the long term. As you would have seen nonorganic entities have contributed a sizable 22% of the revenue this quarter. As Mr. Nadar mentioned that two of the largest nonorganic entities, DSL Software and HCL Jones Technologies have turned in very good performances this quarter. DSL has shown good sequential growth and a quarter on quarter improvement in gross margin. The annual revenue run rate has increased to $30 million as compared to $18 million when we took over this company. As you have seen our JV with Jones Apparel Group has also started off at a brisk pace and should increase its contribution to our revenues and profits in the coming quarter. Our efforts to increase our non-US business revenue are also paying off and the revenues from Europe have increased to 15% from 6% in the same quarter of the previous year. Our initiative to broaden product mix of services is also bearing fruit. The contribution of end user application to total revenue today is 38% of the quarter's revenue sharply higher from the 25% of JAS quarter of 2001. Now those were the positive developments.

Now let me come to the challenges, some of the challenges that we are facing. Firstly, our JVs and alliances in the enterprise application side namely Answerthink & Zamba and to some extent HES have not performed as per our original plans. This space remains very competitive. But we are taking adequate steps to ensure the success of these ventures, but it may take us some time before they start delivering the desired results like DSL and Jones Apparel Group. I will now hand you over to the moderator of this call to begin the question and answer session.

Thank you.

Moderator: Thank you very much, sir. At this moment, I would like to hand over the proceedings to Manisa at SingTel to conduct the Q&A for international participants. After this, we will have a question and answer session for India participants. Thank you and over to Manisa.

Manisa: Thank you Prathiba. We will not begin the Q&A secession for participants connected to SingTel. Please press *0 to ask a question. We have Mr. Sandeep Dhingra from JP Morgan, Singapore. Over to you Sir.

Sandeep: Yes, Hi! Good afternoon. I have a couple of questions, one is I think Mr. Duggal alluded the fact that while we have seen top customers grow quite rapidly, the rest of the mix has come off quite substantially, can you throw some more light on this whole client rationalization program? What exactly has been done, and how much more needs to be done going forward?

Arun: Okay, Sandeep, happy to respond to that. Sandeep, we had actually mentioned in the past that we periodically undertake client rationalizations to focus our attention on the high growth and high potential clients and put our marketing efforts behind them and to that extent take them away from the clients where either the revenue growth is unsatisfactory. All we conclude that the potential for those clients is not very high or in some cases where we have some concerns regarding the credit quality of the client. This process has been in the works for some time now and the impact of this process is that the disengagement is not instantaneous as the existing projects from these clients run off. Then after that the new projects from those clients do not come about and that is how the client disengagement occurs in a very sort of normal cordial manner. As I mentioned in my comments earlier, the client rationalization program that we have from these low potential clients, we are still deriving about $4 million of revenue per quarter from these client's projects underway, and we expect that over the next two quarters these projects will conclude and this revenue stream would go away. Our expectation is that the marketing energy is released from pursuing these clients would then be adding to the higher growth from some of our existing clients and some of the new higher potential clients, as you have seen in this quarter. Shiv would like to ask something?

Shiv: Sandeep, if you recall in 1999-2000 we undertook a similar excise and we started focusing on larger potential clients that is one, and two what Arun mentioned was a graceful winding down of the project are necessary, because we cannot just leave anything midway through. That is what has resulted in some reduction in revenue and some reduction in potential margins. But that releases the SG&A dollars that we are incurring, going after larger clients and larger deals because that is what seems to be happening in the market place.

Sandeep: Right, I mean thanks for the explanation. I think Shiv, the problem that one sees is that the potential loss in revenue as you mentioned seems to be fairly dramatic. Because, if your top 20 customers are growing at such a high pace that means the rest is declining at may be 25 odd percent on a quarterly basis. So the whole rationalization seems to be fairly dramatic and secondly just to you know, if you look at the balance sheet in conjunction with that, it is not leading to any improvement in debtor days or quality of the balance sheet in any manner. So, I am getting confused as to what have we achieving from this exercise? Because, the results are not visible in the balance sheet.

Shiv: If you see the total revenue growth, you may see there is a significant drop in comnet revenue, it was somewhere around 10 million and is somewhere around 6 million. Ok. So there is a 4 million drop which is taken place in comnet revenue. That is something to do again with moving away from this large government tender business in which the margins are relatively low. It does not affect the profitability very much and comnet, we are consciously moving towards global strategy, some energy has to be released from what we are doing here towards the global strategy. Something like in the top 20 people now, 10 of them have been made responsible for the global strategy because we have a very good service offering, but we need to globalize that. We had to start that without looking at what quarter on quarter it does. Otherwise, if you just take the last six quarters of comnets revenue and compare that, it is steadily around 10 to 11 million a quarter which has come down to six. That is one reason for the drop in the top line. Second is in the core software business globally, there would have been a drop of about 3 million and that is not reflected in the bills receivable. You know, you are seeing a combined bills receivable. You are not really seeing the balance sheet of each one of this operations, but in the combined bills receivable, the increase has been more caused out of our SAP implementation process which has delayed the invoicing a little bit rather than any other reason, but that we are very very confident that we will bring it under control during this quarter.

Arun: Ya, let me just take a second and delve him back on to little bit. It is right on the balance sheet our receivable number has gone up, and as Shiv mentioned this is a temporary blip due to this transition in systems that we are having. I would like to show you that there is no reason to worry about the credit quality here or the quality of assets here and we are on the job we will fix this. The systems issues have been sorted out and you will see the receivable levels come back to the normal level that we expect in the next quarter or so.

Shiv: Sandeep, I want to add here that we have one Network Operating Center (NOC) located in Noida for a long time. During this quarter, we have spent a lot of money and effort behind building a NOC now in New Jersey, in America. This is probably the first NOC of an Indian company overseas, and we are diverting a lot of attention to grow the global business, because we believe that is where really the profit lies and we will be happy to show anyone of you what we have built there or what product offerings that we have introduced globally. However, that will take some lead-time before it yields some revenue. If you just add up, this is just not looked long term and looked only short term, there would have been another four to five million of revenue in comnet that would have come from India and may be another three million which would have come from the client rationalization, but we have chosen to look longer term and make this midway corrections.

Sandeep: Sure. Thank you, thanks.

Shiv: Sandeep, you had another question?

Sandeep: No, I will pass it. I will probably take it at the end of the call if there is time.

Shiv: All right.

Moderator: Thank you. Next, Mr. Sujit from UBS Warburg, Singapore. Over to you Sir.

Sujit: Hi, I have a couple of questions. The first one is on your core business margins itself, which have dropped again by almost 300 basis points in the quarter. Now, where do we see the trend going, I mean do we see some stabilization here? Is it still happening because of some business mix changers and where do we see the margin going settling down?

S.L. Narayanan: Sujit, if you look at margins in the core software business, it actually stayed constant on a sequential basis at the gross margin level. What you see is a drop in EBIDTA margin because of an increase in opex. See, here I would like to dwell deeper, because it needs a very careful analysis of the swings that have happened. If you look at the overall table of costs, and look at the 34 Crores swing which has happened in the sequential net income before extraordinary, roughly about 10 Crores is on account of SG&A and about 8.5 Crores is on account of adverse Forex swing and 3 Crores is on account of depreciation because of the full quarters impact of capitalization done on June 30. And another important factor is the reduction in other income by about 4.5 Crores, which you may recall in the last quarter or even before that quarter we had indicated that this is because of redeployment of the treasury assets to optimize on the tax efficiency. The another major item which is contributing to this overall 34 Crores swing is about 7 Crores increase in tax provision which is basically because the last quarter we had certain assessments completed which resulted in almost write back of 5.2 Crores in provisions that were no longer required. So, more or less if you look at this, the fundamental structure is not got impacted. And even out of his 10 crore increase in opex as much as 5 crores is related to the newly acquired entities, which were consolidated for just one month in the case of Gulf and 15 days in the case of Jones. And the third item contributing to the increase is about 400K in US dollars on account of an increase in the marketing bandwidth, which has been invested by DSL software as they are expanding their product offerings in Western Europe and in the US.

Sujit: Sir, we expect this opex increase pressure to remain by and large?

S.L. Narayanan: At the moment, we feel that we should be working on these levels because we will also have this investments in our M&A front offices in both the US and UK. Unfortunately, the market sees them as cost, but we believe these are investments in the right direction to broaden the portfolio and bring in some additional franchisees, which will be important for future growth.

Sujit: Okay. I had a question for Mr. Baksi on the BPO business.

Bakshi: Yes please.

Sujit: We have seen that, I mean in the last about six to nine months, total efforts of the company organic and inorganic, the total size of the business has not grown much, I mean, we are still at 600 to 700 people altogether. Although, it is staying with right sale cycle, but relative to many other pure players, I think the ramp up looks even relatively quite slow. Any specific reasons or any specific business plan, which is causing this delay?

Bakshi: I would like to divide it into the India operation and the Belfast operation. In the Belfast operation, you would see that before we took over on 1st of December, the previous year the total revenue or total services delivered out of Belfast was about six million pound or nine billion dollar, that has come to currently a run rate of $1.5 million per month. It is about $18 million run rate we have achieved. And you do not see the staff increase there, because out of the total staff only 43 are on our rolls, the balance people who are 300 people on the production floor or agency staff, which has grown to roughly about 550 people from 300 people in last one year. So you do not see any increase, if you take that increase of roughly 300 people in Belfast and the increase that has happened here, the number of people delivering the service has definitely had a substantial increase.

If you look at the India part, we have not had any bench, except when people are undergoing training of new recruits, we have almost held on to the zero bench for the last nine months. We do not recruit in anticipation in this business, because bench costs are very high. And if you look at any of our peer group, look at the number of people they are delivering service, and look at the revenue, and the bill rates that they declare, you will find that there is huge bench that is there in most of our peer organizations. We do not believe that the bench is good for this business. We have been very conservative in hiring. I do not know whether I have answered your question.

Sujit: Okay.

Shiv: Sujit honestly, you should look at this, for anyone of the new enterprises, I have been here for 25 years, anyone of the new enterprises I would have normally covered this as preoperative expenses. It is a buildup period and we should let this buildup, because of the huge market place out there, and this is just this part of the business. This is the equivalent of what we would have done in the software services business some five years ago.

Sujit: Right. Okay, thanks very much. Thanks Ladies and Gentleman.

Manisa: At this moment, there are no further questions from participants outside India. I would like to hand over the proceedings back to Pratibha.

Moderator: Thank you Manisa. We will now begin the Q&A interactive session for India participants. Participants who wish to ask questions, please press *1 on your touch tone enables telephone keypads. On pressing *1, participants will get a chance to present their questions on a first in line basis. To ask a question, please press *1 now.

First in line, we have Mr. Amit Khurana from Birla Sunlife.

Amit: Ya, hi! Thanks for the first slot. My first question is Sir, in terms of the top 5 and top 10 clients and the top 10, 20 clients for us, they have grown pretty impressively for the current quarter. Could you give us a sense of where what has been the growth driver, what segment, is the technology domain looking better than what it was earlier?

S.L. Narayanan: Amit, you know pretty mixed bag in fact the traction has come from almost all the segments. We had added three new names in the semiconductor space. We have started billing over there and also the traditional main stays that we had in the both semiconductors as well as some of the other verticals. All of them have contributed sequential growth.

Amit: Okay. My second question was in relation to the margins that we have at the Deutsche Unit, with current margins are already about 23% at the EAT level. Do you expect that to kind of steer on. Would you say that we have achieved a stable state margin over there now?

S.L. Narayanan: We are reasonably confident that the margin should maintain going forward.

Amit: Okay, and Sir, you have mentioned somewhere that the investments that we are currently making in the BPO initiative out of the issue longtime driven now. The issue that when we analyze the operation that HCLT get driven that most of the initiative that you have taken have been in the last four to five odd quarter. Now what is your says that all these initiative will start building upon towards the bottom line growth. If you could give us the qualitative assessment at your end and the time frame that one could be reasonably looking at.

Shiv: If I were to go by the people in the industry and I cannot name them, there are two of the largest players at BPO space, they are still very small in terms of size, but they have taken about three to four years to get to that level and our belief is that since we started out a lot after they did, we do not have to go through that long a period. We have already gone through about four quarters of initial build up period and during the course of this fiscal year we should come closer to cash break even.

Amit: Okay, alright, thanks a lot.

Shiv: Can I add something here, it has been on my mind. We continue to follow a very conservative policy of depreciation in this area and we have extended the same structure of depreciation of three years into this industry as well. I do not know whether the rest of the industry does that also. Just a point.

Moderator: Thank you very much Sir. Next inline, we have Mr. Shekhar Singh from DSP Merrill Lynch.

Shekhar: Sir, can you just explain this provisioning for taxes, which has gone up substantially on a sequential basis.

S.L. Narayanan: See, the number that is siting on the column marked AMJO2 has to be seen in the light of a reversal of roughly about 5.2 crores which was put through the books last quarter, because that was the outcome of a favorable pronouncement in our favor on certain tax treatments on provisions which were set up earlier. So what you see as a sharp increase in tax provisions needs to be adjusted for that.

Shekhar: I hope it is not got anything to do with the deferred tax assetsl.

S.L. Narayanan: No, these are under US GAAP and therefore there is absolutely no such treatment here, because actual provision which have been reverse based on certain provisions which were no longer required.

Shekhar: Secondly, just wanted to understand that interest from interest and other income, the redeployment of the cash assets into more tax efficient schemes was done in the Q3 itself, so on a sequential comparison that is as compared to Q4 of 02 this income has come down quite substantially so why should it happen on a sequential basis?

S.L. Narayanan: See, if you were to see the movement it has happened over time you know, we could not have shifted all this in one mark, so what we have done is we have also taken care to spread this over at least couple of quarters, so that the one year completion cycle also gets staggered.

Shekhar: Okay, lastly like just looking at the HES that is one of your subsidiaries.

S.L. Narayanan: Let me just add, if you were to also take the unrealized gain in the investments, if US GAAP did allow recognition of income in the books of accounts of growth in NAV, this number would have been higher by roughly 3.5 millions.

Shaker: US dollars?

S.L. Narayanan: US dollars, that is right. But since we carry the investment at cost or market price whichever is lower and since they are in the nature of dividend bearing securities we would be able to recognize the income only when we have redeem these units.

Shekhar: Okay, lastly the performance of HES has been deteriorating over the quarters, can you just explain why or what is happening over there?

Narayanan: Raj would you like to take that question.

Raj: Yes one of the key reasons for HES challenges have been basically the business at HES is in implementation of packaged software and with the economy down turn the license sales have decreased substantially, so the business that HES is gone into has mainly been upgrades, number one update of licenses or update of versions whether it is in Oracle or in People Soft and SAP. And number two, what they have gone is in one mainly in the support area, and in support area when you are supporting the licensed implementations, they tend to become more from a revenue point of view tend to be very low and that is the reason why our HES is kind of facing a little few challenges from a revenue growth point of view.

Shekhar: However, like what we have heard is that enterprise application and integration area is one area which is growing extremely fast and some of the other Indian companies also have been doing very well in this area. So isn't HES focusing on the EAI area rather than just on the upgradation of packages?

Raj: Yeah, they were broadly in the first and they are only in the implementation, the package implementation area and that is where the growth was coming through, than to go into a broadly EAS area. Hence, now they are getting into actually the data wear housing area and the other areas, which are complementing the packaged implementation area. So, in the coming quarters we will see a growth coming from HES side, but in the past they have just struggled in terms of growing from a license sales.

Shekhar: Can you explain the profitability fall in the HES that has been pretty sharp as the revenue growth has been there, but the profitability fall has been much, much more.

Raj: Yeah, if you notice again the package implementation is mainly an onsite business in terms of getting the work done onsite and that is the reason why the profitability has come down to some extent because the onsite business itself has come down from there and the rates have been under pressure because of the down turn in the economy and that is the reason why they are looking at their margins coming down quite a bit.

Shekhar: Okay, thanks a lot.

Moderator: Thank you very much Sir. Our next question comes from Mr. Girish Pai of SSKI securities.

Girish: Yeah, this is regarding our technology R&D services business, could you throw some light what is happening here especially with regard to your company and when do you see a bottom in this business?

Shiv: Raj could you take this question please.

Raj: Sure. From a technology point of view, the R&D business are there in the core business, actually we believe that the bottom has reached although to a some extent or I would say to a very large extent. Number of decisions that are taking place in this area are being done mainly for the next year when the new budget start cracking in from January onwards, and also we are noticing that in some very selected areas, and I would not say this is a trend, but in very selective areas, the decisions are being made again from a time to market point of view than from a cost point of view in the R&D segment. So, we believe that the trend is shifting. Companies are investing money and trying to get new products out of the market and for us that will be a good ride again.

Girish: Okay, did I hear right when you said that even the client rationalization would delivery fruits next year, what you define as next year, is it FY0… that is Calendar year 2003 or is it fiscal year FY04?

Arun: No, let me clarify what I had said was that the impact of this client rationalization program will be over in the next two quarters, the current quarter and the coming quarter, during which the existing projects from the clients from whom we are disengaging will run their course and will be concluded.

Girish: Okay, so which means to say that you are saying that say March quarter of FY03 should look better versus the December quarter?

Arun: We would expect that, but I was just commenting on one specific initiative and its impact on our revenue going forward. I think the client rationalization program in some ways comes at a very good time for us. Our option would have been to grow the company and act to manpower at a rate even faster than what we are doing now as our basic business is recovering. So in a way we are taking advantage of this growth and removing from our business the less attractive parts of the business so that the remaining business is more robust.

Shiv: I would like to add some information here. You know, the question was whether the technology segment has bottomed out or not. If I were to just compare the previous quarters and the July quarter, out of the top 20 clients there are six of them on technologies services, out of them five have grown during this period and one has decreased in this period, in total there is a growth.

Girish: Yeah, that is nice. Now regarding your accounts receivables, could you just give an aging analysis in terms of how many are above 180 days and how does this number compare with say the June quarter that would be most helpful.

Arun: We will rather than sort of give the number over phone, what we will come back to you and give you the numbers.

Girish: Okay, just one last question this is regarding a HCL Comnet. I believe it is getting into IT infrastructure management, which I think is something like IS outsourcing. Are you bidding for any large projects in this area? What is the visibility on deals or are you tying up with any global service providers or so in this area. Can you throw some light on that?

Shiv: Can we come back to you on this?

Girish: Okay fine, okay thank you.

Moderator: Thank you very much Sir. Our next question comes from Vijay Bhayani of DSP Merrill Lynch.

Vijay: Yeah, hi, I have one question for Mr. Sujit Baksi. It is on the BPO side. What exactly is your marketing strategy and what areas do you focus, because generally we do not find HCL E-serve the shortlist of most of the RFPs in India.

Sujit: I do not know what is the source of the information, but in the last three months, most of the RFPs that have come, we have been shortlisted and due diligence is going on, almost three a week visits and due diligence are going on. In terms of focus area, one area is collections, if you look at the expertise or skill level, we have developed a fairly good skill level in the collections area because there is not much competition in the collections area with the skill and the compliance which is involved and our focus has been in the financial, insurance, and telecom segments where we are fighting some fairly large deals.

Vijay: Okay, can you give us some sense on your strength of your marketing team and where exactly they are based.

Sujit: HCL Technologies has a fairly large sales organization in North America, in Europe, and in Asia Pacific. They are basically our front-end sales organization. In addition to that, we have four sales support people who understand the BPO business, based in North America, and we have four direct sales people from Belfast based in HCLT NI. This is the total marking that HCL E-serve has. It does not make sense for us to spend any extra marking dollars, since we have a fairly large lead through HCL Technologies, the parent company.

Vijay: Right, and generally what is your experience in terms of the incremental development in the space. Is it in terms of pricing and other factors?

Sujit: The pricing is under pressure. Initially that I think it has become a buyers market because of the huge capacities that has been created. We firmly believe that there will be shake out in the next three to four quarters and prices will stabilize, but even very large organizations are definitely looking at taking advantage of the huge capacity that has been created, so prices are under pressure.

Vijay: Right, thanks a lot.

Moderator: Thank you very much sir. Our next question, comes from Mr. Rahul Dhruv of SSB.

Rahul: Yeah, good afternoon. Actually, my first question was on the inorganic part of the business, I mean, I have asked this last quarter also. I mean we saw a pretty decent recovery over the in terms of profitability. The inorganic business actually had around 11% of the profits last quarter and in this quarter despite HCL, Jones, and Duetsche, it has basically gone down to 6%. So, can you just explain when will this inorganic strategy really fructify. We are not seeing any signs of profitability coming in from there.

Arun: I think our inorganic strategy is on in course. We are seeing the results of some of our earlier acquisitions already translating into very decent revenue and margin contribution. But it is no short term strategy and it is not going to have short term material or significant impact on our, sort of a, you know one or two quarters after we make an acquisition, that type of time frame. So, the profit has stabilized, our better performing companies are doing very well. Some of the companies I mentioned, where we have not seen the kind of growth that we had originally envisioned are receiving management's attention to bring them back to the desired level. So, I would say overall, the program is in place working well with some challenges and this program will continue.

Shiv: Just take you back based on our experience. The first four quarters of any one of these new ventures, we have to build in what we want to achieve long term. Let me just take these three pieces that they have done which are departments. If we take DSL, it was a department of Deutsch Bank. If we take the Belfast facility it was the department of British Telecom and Jones was the department of Jones Apparel Group. Now, we are not forming this to acquire revenues. We are forming this to acquire capability and when we are taking the capabilities, we are forming this to serve the entire space, like banking space in DSL, the retail space in Jones Technologies, and the telecom space and BPO space in Belfast. Now, when they are coming out of a department to serve external vendors it is something as a culture change that we have to accomplish. During that period, they have to be, instead of a contiguous department of an organization, have to be providers of solutions to the parent from where they came from, which is what typically gets achieved in the first year and then to external market place which is what will be achieved in the second year. On the whole, if you try and judge it less than four quarters then we would not be giving the management team the time for them to come and become a vertical by themselves. DSL has achieved it in four quarters. Jones has started achieving it right from scratch and British Telecom that unit is just about going into the fourth quarter and all of them according to me are functioning satisfactorily. Some of the ones, which are not functioning satisfactorily, are going to stabilize in their fourth-fifth quarters.

Rahul: Okay, let me put it this way, if you have 29% of revenue coming from these and whatever 6% of profits coming, when would you expect that ratio to be same. I mean when would these contribute.

Shiv: Actually, they would reach a higher level of profitability because they are domain specific and fifth quarter onwards these are good benchmarks.

Rahul: Right, okay.

Shiv: What we built in JV, we have a lot of experience in doing these things. If I were to take which are the quarter in which 100 million type of a company like HCL Perot Systems, which is a joint venture, it broke even in the sixth quarter, but now we can expect with all these experience behind us that we should break even not later than fourth quarter. And then come to the regular profitability levels at sixth quarter and grow upwards after that.

Rahul: So effectively what we are seeing is that the current acquisition should at least one or two quarters down the line would have the same profitability as the core business.

Shiv: Yes, that is absolutely correct.

Rahul: Okay. My second question was on, I mean, it is just a corollary of what I was asking earlier was goodwill right off. I mean we have not seen any goodwill right off till now and it surely, I mean, impairment is something which is management discretion, but then do you really see any impairment, given the fact that couple of them are still in ……

S.L. Narayanan: It is balanced after all, because if you were take goodwill there are certain amount of goodwill which has been created like HES, which is shown currently at investment value only. They are holding it at $32 million from our $240 million investment, whereas its value is likely to be a multiple of that.

Arun: Also, I will just say that since we closed our accounts on June 30, a detailed study of impairment was done by our outside auditors and their conclusions I believe still holds.

Rahul: Sorry, conclusions hold as in ......?

Shiv: That means there is no impairment.

Rahul: Okay fine. Thank you very much.

Moderator: Thank you very much sir. Next in line, we have Mr. Dipankar Choudhury from ICICI Securities.

Dipankar: Hi, good afternoon. Can we have some update on the prospects for HCL Perot because the profitability contribution seems to be sliding on a sequential basis for the last few quarters? If you go by the minority investment line.

Shiv: You know actually the application segment have been facing this profitability pressure and that is the cause for the profitability decline. It has not been growing in revenue.

Dipankar: Can we have an update there exactly, I mean how things are going to shape up going forward or some brief indication.

Shiv: We would expect that the revenue level to more or less stay where it is and the profitability level to stay where it is during the next two or three quarters.

Dipankar: Okay.

Arun: We have time for one last question.

Supratim: I just want to go back to something that you have said Mr. Duggal, which is your top 20 clients having grown by 23% sequentially, but if I look at the data sheet it shows that the top 20 percentage has gone from 51.8 to 56 and whether I take it as a percentage of HCL Technologies organic or total HCL consolidated, I only get a sequentially growth of about 8-8.5%. Sir, could you please clarify this?

S.L. Narayanan: See it is because now on a sequential basis there are changes in the composition of the clients. So what we have done is, we have taken the current quarter list and then compared it on a sequential basis with the preceding quarter.

Supratim: So it is not really a like-to-like comparison as per the data points and data sheet?

Shiv: We can get you the like-to-like comparison and give you.

Arun: In a way they are like-to-like, but we can elaborate on that.

Supratim: Okay. I think the difference is very significant, which is why I was asking that.

Arun: Now, we can explain that for you off line. That is not a problem.

Supratim: Okay, if I could just squeeze in one last question on the SG&A side. Now, if I go, I mean, go back about two years-two and a half years, one of the issues that I have brought up repeatedly with HCL management has been that your SG&A expenses as the percentage of revenues has been significantly higher than that of your peer companies. Now, this was explained by the fact that you had a stronger front-end and a more shall we say localized presence than many of your peer companies at that point in time and this would go down over the next two years as your revenues increased and you actually leverage the selling infrastructure that you have build up. Probably, what it looks like now is that there is not going to be a reversal in this SG&A expenses. In fact your SG&A expenses are climbing even some more. So could you please just clarify what exactly is happening out here and why we are not seeing a drop in the SG&A side.

Shiv: See, when we explained this in year 2000, you must look at it in perspective. In 2000, 75% of our revenue came from technology services or software engineering services and when 2001 the technology segment slowed down and kind of hit the wall we had to change it to the end user segment. If you see our revenue analysis at that time and revenue analysis now with the growth also built into it, you would see that we are now about 50% which is coming from the end user segment and 50% which is coming from the technology segment. This includes acquisition. And a technology segment is not going to permanently stay that way. It has started stabilizing now and the end user segment as the revenue grows is taking a larger and larger part of the pie, some of which is driven through our acquisition strategy. And the acquisition acquired companies' op-ex sits on our op-ex because they are all more than 51% held. That is the reason why you are seeing this. But, I don't know whether you are watching this, the SG&A as the percentage is going up for all Indian companies.

Supratim: Sure Sir, but I think the point is that they are still significantly lower than your expenses, but I think your explanation clarifies some aspects of that. Thank you and good luck.

Arun: Thank you. Thank you very much to all of you for participating in this call. We look forward to a continued interaction with you. Thank you. Bye, bye.

Shiv: Thank you very much.

Moderator: Ladies and Gentlemen, thank you for choosing CyberBazaar's conferencing service. That concludes this conference call. You may now disconnect your lines. Thank you and have a nice day.