“HCL Technologies Limited Earnings Conference Call”

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Moderator: Ladies and gentlemen good morning and good evening, I am Rochelle, the moderator, for your conference. Welcome to the HCL Technologies Ltd. earnings conference call. Please note that for the duration of this presentation all participants' lines are in the listen-only mode. And this conference is being recorded. After the presentation there will be an opportunity for you to ask questions. Should anyone need assistance during this conference call you may signal an operator by pressing * and 0 on there touchtone telephone. At this time I would like to turn the conference over to Mr. Shiv Nadar, thank you and over to you sir.

Shiv Nadar: This is Shiv Nadar on the line. There is Vineet Nayar, CEO of the company is with us. Along within there are Mr. Ranjit Narsimhan, Head of the BPO Division, Anil Chanana, Executive Vice President, Finance and Mr. Prahlad Bansal, who is Corporate Vice President Finance. Welcome to all of you, thank you very much for joining us this evening. In your sincere time we spoke to each other some two months ago, the world seems to been standing on its head. Major changes major turbulence many investment bankers that could lead us in the world could create an investment banking are no longer there or have become part of someone else, Wall Street does not seem to be there, but the activity somehow carries on. The whole world seems to have united in trying to pull itself out of this rut. Hopefully it will be completed with less pain than what is predicted or projected.

In the meanwhile HCL has been going along according to me extremely well, because during this period when we say that our revenue is 504.7 million which is what we completed during the quarter on paper it sounds like 17.6% up US dollars, but you have got to see it in a face of such huge currency turbulence, because it is measured in just one currency which is US dollars. I would like to look at it in another way because the bulk of a cost are in Rupees, the bulk of what the money earn goes is either towards dividend distribution or capital expenditure which means creation of capital expenditure for further business, are all in Rupees. If I measure it form that point, we have grown 38.6% year-on-year. I believe it is a tremendous growth. Given the period particularly it is a tremendous growth. And this even on quarter-on-quarter basis when we measure this sequentially, it is 9.2%; that is just the revenue itself. If I take the net income in terms of constant currency basis in Rupees, we have got up the chain in 56 Crores which is 15.5% though when it comes to the EBITDA level and to the EBIT level the growth is 46% and 49% respectively. It crossed that the EBITDA level which is the real measure of profit and real measure of possible cash flows it has crossed 500 Crores and it has taken quiet a bit of time to cross 500 Crores of EBITDA but it is something which has been achieved with a very big jump, it is almost 46%.

Now we are pleased that is to measure ourselves that this is sustainable so we gave a final dividend of 150% in the last quarter and we had explained our dividend policy that we would sustain our dividend quarter-on-quarter. So it is the 23rd dividend, quarterly dividend that we are declaring. Now in a lot ways our role model has been GE which is made this a practice several US companies who made this a practice so that shareholders can look forward to regular return. When I measure it against the price at which HCL share could have been purchased today, it is almost 7.5% that is post tax, you know where the level of certainty is extremely high. On the other side when I look at pattern of yield or certainty of principal of anything it looks so suspect. So we are happy to do that for the 23rd time and we hope to sustain it for the future that we can foresee.

In addition to that our total headcount now is standing at 52714. It is a measure of, to some degree the acquisition that we have made is Liberata and CPS. And to some measure direct addition of people in India. Now with these very broad remarks I continue to maintain a very buoyant view of the future ahead. I will turn you over to Vineet, our CEO.

Vineet Nayar: Good evening everybody once again. And it is a pleasure talking to all of you. As Shiv explained the revenue is up 17.6% year-on-year in INR terms it is 38.6%, in constant currency terms it is 2.5% quarter-on-quarter up. Now this is backed on volume growth Anil will explain to you but in my view the volume base of growth of 1.8% quarter-on-quarter, on bank of 4.1% quarter-on-quarter growth last quarter is pretty good.

There are three segments which contributed significantly, I had said that there is one financial services customer over negatively grow and it did happen and we did loose about $10.5 million in the degrowth, however, it was made up by telecom which I had promised. And telecom grew by 3.2% quarter-on-quarter that is largely because of one order which we have executed which was transitioned from some other service providers into HCL. Life-sciences of 3.3% quarter-on-quarter it has also grown. The financial services 0.8% quarter-on-quarter growth you are seeing is thanks to additional revenue coming in from Liberata otherwise the financial services has de-grown because not overall financial services but because of one client I was talking about, but what is interesting to see the financial services overall revenue is the fact that we were able to make up for the de-growth of that customer by other financial services customers. And when I talk about our outlook to financial services I will try and make that point again.

Asia especially Australia, New Zealand, and especially financial services in Asia continues to be the growth driver. So we saw a 3.9% quarter-on-quarter growth on Asia. The top 20 customers of 2.3% quarter-on-quarter shows the healthy indication of the fact that our customers are in a healthy state. And it is important to ask these questions these days. The deal flow of $270 million with 8 deals is on the back of $300 million last quarter is an indication of deal flow and I continue to say and will get an opportunity of talking more about it is that the deal flow on the table for decisions is more than anything I have seen before. It is suspect whether the decisions will get taken or not but let me just say that the deal flow on the table today is very, very robust. We added 29 new customers which again is a robust sign of growth.

The EBIT, if you go down to EBIT level it is interesting to note that on the software side we were able to expand our margins despite the significant pressure. This is a season for increments and Anil will explain to you in detail. So software up 10 BPS, infra 50 BPS up, but because of BPO there is a significant restructuring going on, moving from voice to platform based which Ranjit will explain. Overall we were 90 BPS down which I think is a good performance.

Now some of the factors which are contributing to IT services BPS expansion is this whole fixed priced concept which you are seeing. So when you look at the realization the offshore realization has improved. The onsite realization or the overall realization is flat or largely down and it is marginally down is because of currency impacts so don't look too much in it. Overall our realization on constant currency basis is up. Fixed prices is driving back. When I explained in the Analyst Meet the billion dollar transaction which we did last year 85% was output based pricing the trend continues. And the fact that the attrition is going down, 7th quarter in the row that the attrition is helping us, so you do not see a margin dilution, now because of attrition I think we are able to improve customer satisfaction and the huge amount of initiative is going on to try and circle our customers.

And the last point which I wanted to make here before I handover to Anil and then I will comeback and talk about state of business, is the fact that I hope you have noticed that on Axon we have purchased 10.7% at approximately at 631 pence as part of our overall strategy to try and see if we can acquire Axon. With that let me handover to Ranjit to talk about the BPO business and then Anil will walk you through details BPS analysis of why and what happened.

Ranjit Narsimhan: Yeah thanks Vineet. This quarter was of strategic importance to the HCL BPO. We successfully completed the acquisition of Liberata Financial Service and Control Point Solution. These two acquisitions made for such strategy to move away from linear monotonic growth, dealing the growth in revenue from growth in headcount and strengthen a platform based service offering. Our services continue to get growing into recognition during this quarter. HCL won 2008 European Call Center of the Year Award for Best People Practice. We also won the Indiatimes BPO Industry Technology Award for 2008. We also won the IDG CIO 'Bold 100' 2008 award which recognizes the innovation in technology in creating lasting business values. We were ranked 3rd in the DQ IDC BPO Employee Satisfaction Survey.

As we move forward we shall have a firmed focus on platform based services. And enhance contribution from platform based service offering, the focus is going to be on inorganic growth through acquisition of platform based company. I would just really explain slightly in greater detail our strategy behind that. When we were looking for acquisitions, we had many choices either we go for acquisitions of profitable companies which has quoting about 1.5 to two times the revenue or acquire companies while showed greater potential but whose valuation was significantly low. The advantage in the second option, is that at the time of acquisitions these companies either makes marginal or no profit, consequently at the time of acquisitions there would be a dip in EBITDA margins but over the period of time we are confident to bring it up to the normal profitability level of HCL BPO. And in the process, this brings on the total cost of acquisitions. We had Liberata Financial Service at extremely low cost and Control Point is less then 2/3rd the revenues. And so both of these companies were integrated into HCL during September 2008 and consequently you would see a dip in the margins but next two to three quarters we are confident of standing this company in order enhancing the profitability and bringing up the profitability to the normal HCL level. And with this I handover to Anil to take you to the financials.

Anil Chanana: Thank you so much Ranjit, good evening and good morning everybody. I am going to walk you through profit and loss balance sheet items and the margin analysis. So as Vineet explained it has been a excellent quarter because in the IT services if you look at IT services which is almost 90% of our business, the volume growth was 2% this quarter this was on top of 4.6% in the April to June quarter and 5.9% in January to March quarter. So three successive quarters volume growth. If you look at in constant currency terms we grew by 2.4% this quarter and this is happening in spite of the head wind what we explain was a BFSI client which had a loss of between $10 to $11 million this quarter.

So let me take you through revenue growth. So on the negative side we were impacted by 9.9 million which is close to which is about 2% of our revenues because of the depreciation of various European and Asian currencies, you know I mean each of these currencies I mean the Pound, the Euros, the Indian rupees on an average during this quarter as compared to the last quarter depreciated between 5% to 6%. Their was a deduction in business volume voice based from one customer in BPO and which sort of reduced BPO revenues by 4.2 million I mean which is 0.8% of company overall revenue, but it was of course a more then made up by the Liberata Financial Services and Control Point acquisitions which Ranjit just mentioned which gave us 6.8 million this quarter. And if you look at offshore onsite mix again our offshore efforts were higher. So in revenue terms we were marginally impacted by 0.2%. So we had negative factors impacting us by 3% and we had positive of volume growth, 1.8% on overall company revenues and the acquisition of Liberata Financial Services and Control Points adding 1.3% QoQ. So we were up by 0.7 million in spite of all these headwinds which is 0.1% Q on Q growth.

I now basically take you to the IT services separately and BPO separately the components will be this almost the same. So in the IT services the currency impact has been 7.9 million which is 1.8%. And as I said offshore effort more and the onsite effort less led to 0.2% impact of the revenues and effort increased gave 2%, so net-net we grew on the IT services site. On the BPO site we had a headwind and the currencies it is a major component there and significant portion of there regard their revenues get derived out of from through GBP. And the negative impact on the revenues was about 3.5%. As I said there was a reduction in the business volumes 4.2 million and 6.8 million was added by the two acquisitions we announced.

I know take you to the EBIT margins. So if you look at IT services, IT services recorded marginal expansion from 19.1% to 19.2% and this is the 6th quarter in the rows that the IT services is recording a margin expansion. Let me first explain the business wise and then I will come to the aggregate. Business wise increments took away 180 basis point from the margin for core software and it was made up by 188 basis points by the exchange rate more than 50% of our cost sit in India so we got the benefit there. And there was a marginal impact of 6 basis points higher utilization, lower SG&A, change in mix, so net-net EBIT margins were up by 14 basis points in the software services. In Infra, there was a net-net basis 55 basis points margin expansion. There was a negative in the sense of 179 basis points there was a utilization reduction in Infra. There was a positive impact on account of lower SG&A and lower depreciation by 130 basis points. The exchange rate made up 104 basis points of this margins contraction which happened. So overall there were 55 basis points positive. I will repeat here. Utilization negatively impacted by 179 basis points and two positives one being the lower SG&A, lower depreciation 130 basis points, exchange rate giving us 104 basis points and net-net 55 basis points. When you look at BPO, BPO in fact the Liberata and CPS acquisitions lead to a 490 basis points impact on the margin. This is a quarter when I mean we are integrating these spaces and we are building investment there. In April to June quarter we had a grant of 1.8 million which has boosted the margins by 300 basis points in that quarter, so that 315 basis points this quarter was not available to us. There were increments which were given in HCL BPO which impacted the margin by 130 basis points, SG&A increase impacted the margins again by another 129 basis points and higher depreciation and couple of other reasons lead to a 79 basis negative impact on the margins, they did have a positive in the sense of exchange movement gauged a 181 basis points, but on an overall basis they were impacted by 962 basis points. But this is the quarter in which they completed the acquisitions of Liberata and Control Point and did not have the grant as it was available to them and this was the quarter where they gave increments. So lot of things happening for BPO in the same quarter.

When you come to the company as a whole, so increments in core software as well in BPO impacted our margins by 145 basis points. The Liberata and Control Point acquisitions impacting our margins by 55 basis points. The grant not being available impacting our margins by 36 basis points and lower utilization in the company as a whole impacting by 27 basis points. So this 263 basis points negative was partially offset by 176 basis points positive on account of exchange rate so on the net-net we got impacted by 87 basis points which we rounded off by 90 basis points.

I now move on to the receivables. The receivables this quarter were equivalent to 80 days of sales days outstanding versus 79 days which were there last quarter I mean, but the promising thing is 86% of that money have been due for 0 to 60 days category. With respect to the treasury income, we have 555 million on our balance sheet which consists of 490 million of treasury investment and 65 million in cash and cash equivalent. So this income this if I adjust the unrealized if I adjust the impact of the currency, the income for the quarter was 12 million as opposed to 10.5 million last quarter. So this quarter I made 9.7% return above the 8.7% in the April to June quarter.

Now comes the interesting subject of exchange rate and let me put the perspective first and then walk you through what happened. So let us look at what happened to the currency. On an average the USD/ INR quarter-on-quarter on an average basis there was a INR depreciated by 0.9%, GBP and Euro depreciated against US Dollars by 5.5% and 4.7% respectively. The rates at the end of the quarter, I mean there was a huge impact in the USD INR rate which was an impact of 9% basically, so the quarter end rate was 46.95. GBP and Euro again. We look at the quarter and rate again depreciated by GBP by 9.6% and Euro by 9%.

So I will now take you through the cover position and the forex mark to market losses we have recorded and the losses which are sitting in the OCI. We have as of 30th of September 2008, 1.9 billion of cover, out of which 1.8 billion are Dollar INR and the rest are split between GBP and Euro almost equally. We are covered for the next 7 quarters and our average booked rate is Rs.41.05 so far as Dollar-Rupees is concerned. If you look at the last quarter. Last quarter our mark-to-market covers were 579 million and which was almost like 30% of our total cover growth. This quarter which was 30th September end we had 343 million of cover which was 18% of our total cover. And on which we booked 20.8 million of mark-to-market loss in the P&L account. And additionally we took 42 million in the other comprehensive income. So the other comprehensive income is currently negative at 156 million. So on 30th September other comprehensive income is negative by 156 million. So this is one perspective the other perspective is if I look at my 6 quarters last six quarters I mean sort of comparing my realized rate versus the spot rate so I am still in a positive territory, I mean not a huge number but 69 million but at the same time, I mean which if cash inflow happened in the company but I have a OCI negative of 156 million which is standing there. In terms of capital expenditure, we did incur 30.9 million this quarter and we propose to incur 150 million for the full year.

Coming to tax, the tax provision this quarter was 9.4 million which is about 11.1% I mean it has slightly moved up from 10.1 overall for the full year 2007/2008. In 2008/2009, we anticipate it to be between 12% to 13%. If you look at the charge on account of stock options this we have shown in the table below the P&L statement, this quarter the ESOP charges is 4 million and last quarter (Q4) of FY2008 it was 5.4 million so there is a reduction there. The options which are outstanding currently is at market price are 4% and at below market price is 1% so these are about 5% in terms of that percentage of capital of the options which are outstanding. In terms of dividend I mean last quarter we stepped the dividend from Rs.2 per share to Rs.3 per share and the outflow on this account is going to be about Rs.235 Crores.

I will now sort of give you a perspective on how the rates have been doing, I mean rather the realization. The realizations on a blended basis is at $5562 last quarter it was $5661 overall if you look at it a negative of 1.75% but this takes into account the currency headwinds, which happened the cross currency rates, I mean about 28% revenues come from European countries itself. So I mean you can estimate 30% of that and 5% on it leading to 1.5% and then the Asian currencies. I mean if you look at the onsite offshore, offshore there was a improvement in realization, onsite was slightly more negatively impacted as compared to the blended rate. So this is the overall picture and we will happy to answer any questions you have.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. Anyone who wishes to ask a question at this time may press * and then 1 on their touchtone phone. If you wish to remove yourself from the question queue please press * and 2. Participants are requested to use only handsets while asking a question. Anyone who has a question may press * and 1 at this time. The first question comes from the line of Kunal Sangoi from Edelweiss. Please go ahead.

Kunal Sangoi: Yeah thank you. My question is Anil can you help reconcile the stockholders equity. Basically we have seen a decline by about $60 million from 1.2 billion to about 1.1 billion.

Anil Chanana: You are referring to the balance sheet.

Kunal Sangoi: Yeah referring to the US GAAP balance sheet.

Anil Chanana: I will pass on to my colleague here Prahlad Bansal he will be able to walk you through it more in granule detail.

Prahlad Bansal: Now I do not have the exact breakup of this handy available, but there beside the profit element by with you know shareholders equity increases quarter after quarter. There are two elements in this quarter, one is we should see the negative OCI on account of the forward cover that has increased by $42 million which is negatively impacting the shareholder equity. And also we have to take the impact of the movement in Dollar INR because these figures are stated in Dollars actually the company INR and the shareholders equity is in INR and the profit but when you spread we have to take out the currency impacts to do it`.

Kunal Sangoi: So in Dollar it is going down by $60 million however if you add the current quarter profit also $76 million?

Prahlad Bansal: Right because the quarter end rates are 46.95 compared to 43 at the end of the last quarter. So when we restating that figure in Dollar that figures gets reduced by that.

Anil Chanana: So it is essentially a restatement, we can walk you through separately I mean if it nothing but restatement of assets and liabilities which happen and the impact of OCI will go there. Please note its not restatement, but the dollar impact.

Kunal Sangoi: Even in the cash flow if I look at all the effect of exchange rate on cash and cash equivalent it is $29.2 billion is that actual cash outflow?

Prahlad Bansal: No this is not the actual cash outflow again this is the way we have the several subsidiaries which are having different currencies where the cash flow is required to, due to the cash flow falls in the local currency for each of the country and then convert them and translate them into Dollar & then combine. So the differential as per the accounting requirement goes into that. This is not the actual cash flow.

Kunal Sangoi: Okay.

Moderator; Thank you. The next question is from the line of Mr. Pankaj Kapoor from ABN Amro. Please go ahead.

Pankaj Kapoor: Yeah hi sir. Anil can you just give some sense of what would be the hedging gain or losses in the top line for the three businesses separately please?

Anil Chanana: This quarter?

Pankaj Kapoor: That is right.

Anil Chanana: This quarter incrementally it was 1.5 million totally hedging gain. And out of which

1 million is in software services and half a million in BPO.

Pankaj Kapoor: Okay and for the Infra business the equipment sales and all what will be the percentage share of?

Anil Chanana: It is about $10 million equipment and material business.

Anil Chanana: Yeah equipment business as we call it at the same level as it was last quarter, so it will stay flat.

Anil Chanana: I mean you know that we substantially reduced it.

Pankaj Kapoor: Fair enough. And in terms of like broader operating environment can you give some sense on A) basically what is happening on the volume outlook has there been any kind of a decline in the ramp ups or any kind of a longer decision making cycle that you are seeing now. And on the pricing outlook is there any kind of abnormality in the price competition in the industry in terms of both players becoming more price competitive as well as clients asking for more contracts restructuring, thank you.

Vineet Nayar: So let me answer that. You know we are seeing what I call about 6 trends in the marketplace. I am more focusing on the negative trend because I think that is what you are interested in.

TPI has come up with a report which is interesting; they have said that after 9 successive quarters the JAS quarter has been significant soft quarter that means a negative quarter-on-quarter growth. There are 128 deals which have happened worth $14 billion which has been the weakest on total contract of size and EMEA for the first time has shown a decline in TCV for JAS quarter. And they are seeing a softness of financial services outsourcing. Now this data is relevant because of when I talk about this is what TPI is seeing I will talk about what HCL is seeing to try and make a point.

Now the second trend we are seeing is that the customer is look at newspapers all across, I would believe the world the right word have frozen. So I do not think there is a considered response of what will happen over the last 15 days for me to say that this is what they want to do other than the fact that they have frozen. And they do not know what is going to last, number two what impact it really has on their business and number three what would their response be. So I would say we will have to wait for October-November-December for us to give a considerate response to what are our customers saying. Having said that there is no you know financial services customer I warned you about, one or two quarters ago there is no such customer who has give us a warning of the significant reduction in quarter-on-quarter or year-on-year.

The third trend which is continuing over the last one year which is rate renegotiation where the customers are wanting a spend reduction. And at least over the last 4 quarters we have demonstrated to you and I had given guidance on IT services that our margins would remain intact going forward this is outside acquisitions and then based on the fact that rate renegotiation regime is a old regime, it is continuing there is nothing which I have seen because of what is happening in the market space today and HCL has a way of not only reducing the spend for the customer but also converting more into fixed priced contracts because of which we are able to retain our market margins if not expand it and that is the reason you are seeing an expansion in our margins.

We are also seeing a trend of more and more customers wanting a significant reduction in onsite and moving towards offshore and that trend continues seeing till now.

There is a clear trend of RTB run the business towards more and more spend towards to run the business and when I talk about the deals on the table you will get same sense on it.

And the sixth trend which I would say is wanting to convert more fixed priced contracts, more fixed costs into variable cost for the customers. And therefore how elaborate the trend is, is going to be very interesting. At HCL and before I talk about what are the deals we have seen on the table and I am going to share the deal details, this time and the only time and I am saying very clearly I am not going to share these details next quarter onwards. And the reason I am sharing this is because with significant uncertainty in the market, it is our responsibility to try and provide as much as certainty as we can to you about HCL and that is the reason I am sharing this. And I am also sharing this with clear articulation that we would not share these details going forward.

So before I share the details let me share our response, our response has been on seven parts. 1) First is we had reorganized our sales starting January this year towards more account management, more hunting, more focus on horizontal sales and the impact of that you would see. We have launched a new services which is what we call the business align IT services which we shared with you in the Analyst Meet in Bombay which is having a huge traction with our customers especially with reference to the fact that they want to convert their fixed cost into variable costs, they want to cut down cycle times. The third strategy was the acquisition strategy which we had articulated. You have already seen two BPO, you have seen Capital Stream and you have seen our move towards Axon. 4) Fourth is a massive employee engagement, I have personally met about 35000 employees, talked to them individually and explained to them the market conditions outside and what we are expecting from our employees.

We, at HCL, strongly believe that true value will be delivered by employees and Employee First Policy is the biggest boost for HCL and therefore the management team goes on the ground meeting all the employees and over 17 sessions and I think our employees are extremely well aligned towards what needs to be done. And to increase customer satisfaction, sell new services, reduce cost and all that. So employee engagement is the 4th strategy. 5) Fifth obviously is cost control, squeeze we have as much cost as possible which we are doing. 6) Sixth is a 40 day goal, I will explain that in a minute and 7) is what I call the customer connect. I am happy to share with you that we have an annual global customer meet. Some of you attended it, we have about 300 customers attending it every year and this is the first time at this time we are sold out. We had 500 seats for our Global Customer Meets and all are sold out. The conference is 100% booked. It is being addressed by Garry Hamel, Al Gore, Anne who is the CEO and Chairman of Xerox and you know the CEO of SAP and multiple other people are there, but the 500 seats which we had planned for this conference is booked, It is oversold actually. We are trying to see if we can accommodate 100 more customers. It has never happened to us before and therefore it is a very positive sign of the relevance of HCL for our customers. That is because of the customer connect and the fact that, and this conference is all about addressing how will you respond to slowdown. So 500 customer converging around middle of November spending two days with us of how they should respond to slowdown with about 40 to 50 thinkers participating in this conference should make you believe that HCL's relevance for the customer is very, very large. And I made to believe that this is one of the largest conferences being conducted today from a customer's point of view.

Now the 40 day goal which I had defined and the deals on the table, what I find interesting is that when TPI say the deal flow in JAS has been the lowest I agree with them because $270 million deals which we signed in JAS over 8 deals is lower than $300 million deal which we signed in the previous quarter. However, what I see on the table is $2 billion worth of deals. And these $2 billion deals will get decided either way in our favor or against us over the next 90 days. Now when I see, I have never seen $2 billion deals which will get decided in 90 days in the last few years. So there is something while TPI may be seeing a lower deal flow overall, I believe that we may be seeing early trends of larger deal flow towards the Indian IT services companies. But interestingly the deal flow is the manufacturing constitutes 45%. Now this deal flow is only of what HCL is engaged in so I am not making a sweeping statement of the industry, but 45% of the deal flow is coming from manufacturing, media entertainment is a second biggest segment with about 25% and third is financial services. It is interesting that the deal is in three places where we are seeing the large deal flows.

Against the competition if I see the primary competition for HCL, 55% of our deal flow in value term is pure MNC competition. That means there is no Indian player in that competition list at all, that means whoever is surviving in that bid right now 45% is mixed bag, mixed bag means Indian vendors, global customers, global MNC and all you know everybody is there, but 55% is pure play global MNC versus HCL. And that is interesting predominantly because that is the area which we were focusing on to try and see that our competition should not be with Indian major it should be largely with global majors our probability of win is our sweet spot. The biggest competition in these deals is very interesting is 5 deals are with 1 global player only and 34% of this business is a head-on competition with only one player. So 5 deals constitutes 34% of the deal value this is only in competition with one of the global majors.

So the reason I am sharing this data with you is to summarize as follows: it is true that the external environment is on freeze and there is a significant amount of uncertainty HCL hypothesis risk that in the short term there would be freeze there would be some cuts here, some growth there, you know we will chuck along and see what happens and a higher degree of clarity will emerge towards November-December and we are doing whatever is required to continue growing, but what is very interesting is the deal flow. And if, and there is a big “If”, and if the decision in this quarter in the next 90 days is it not next quarter. In the next 90 days do get taken of the size and scale which I am talking about so 1) if decisions do get taken and 2) some of these decisions get taken in favor of HCL and other Indian IT players then I think we can assume that this trend is going to continue. So that is the assumption I just wanted to end that perspective with that note.

And once again I will not be sharing this data, because this is competitive data and this puts us at a disadvantage but given the uncertainty in the environment I thought appropriate that you would want this analysis, thank you so much.

Pankaj Kapoor: Thanks, I think that was very helpful just one small clarification, any change in the last one month on price competition by other players offshore as well as MNCs and in the customer decision making cycle has there been any perceptible change in the last one month or so, thanks?

Vineet Nayar: No, so the answer is I am sorry I forgot to give you a data point, 1) First is there is no change in the last one month. 2) Number two is that the overall realization in the contract, realization when I say realization is not per person, realization of profitability per dollar of revenue is higher in the 55% category than the 45% category. So there is a lower margin when we compete with the Indian colleagues and higher margins when we compete with the global majors. That is all other than that I have not seen any significant changes because these deals are coming from behind, so they continue to be as competitive as they were a month ago.

Pankaj Kapoor: Okay thank you and all the best.

Moderator: Thank you Mr. Kapoor. The next question is from the line of Srivathsan R from Spark Capital.

Srivathsan R: I just wanted to get a sense of debt that has been finalized or that has been tied up for the Axon acquisition.

Vineet Nayar: So what we have shared so far is that we have signed up to approximately about $800 million of debt, which is maximum of $800 million debt. The terms of the debt are the US Libor plus 300 basis points all inclusive cost to debt which is what the terms of the debt right now are.

Srivathsan R: Okay then I just wanted to get, you are talking about $1.9 billion of hedges at this point of time, just wanted to get what are the instruments are mainly is it plain vanilla forward or do you have some terms of leveraged options or general options that we have written or something just wanted to get the instrument breakup if possible.

Anil Chanana: See it is mostly forward covers it maybe $30 to $40 million some sort of the options are there, that is it, range bound options are there.

Srivathsan R: Some range bound options are there.

Anil Chanana: Yeah, that is $30 to $40 million.

Srivathsan R: Okay and in terms of most of these forward contract that we see upside say we have 1.8 billion for this last up to next 7 quarters we would not be able to benefit from the upside in terms of Rupee depreciation, my guess.

Anil Chanana: That is absolutely right but on that still, I mean the purpose is to hedge ourselves.

Srivathsan R: Sure, that is it. Thank you very much.

Moderator: Thank you. The next question is from the line of Dipen Shah from Kotak Securities, please go ahead.

Dipen Shah: Yeah I think most of the questions have been answered. I just wanted to get the sense on one thing, the employee additions which we are seeing in the IT business since I have not last quarter in fact there was nothing significant this quarter also they have been slightly below estimates. So is it like an indication of some early trends in the next quarter going ahead, you did indicate that there are some freezes as far as customer signing is concerned but can you just give some more sense on that?

Vineet Nayar: First I did not say that there was any freeze of customer signing, I repeat. Number two is IT headcount I think that is very important point let me just get back and make a couple of points, which is important for all of you. When we started in 2005 defining the integrated service offering there was clarity in the fact that there is an application offering and there is a integrated services offering, i.e., infrastructure offering. As we got into competition we came up with a new concept called Integrated Operations Management that means the application of business and infrastructure operations should co-exist. And we started applying all the tools and technologies of infrastructure into applications. And most of our wins are coming out of run the business you know infrastructure and applications combined. So it is becoming very difficult for us to keep stating software business separate and infrastructure business separate, I do know for a fact that nobody else is doing it. And I agree with them that it is very difficult to keep segregating it. However, you know as a conscious decision we did not want to remove from what we are reporting some line items and therefore we have not removed it. So my sincere request to all of you is do not look at software and infrastructure separately anymore it make sense to look at them together because it is becoming very difficult for us to distributes revenues and you know define monetary structure in especially divide space. Now in response to your question we have added 2000 people in the IT business this quarter. And which, I think it is good. And none of this are fresher's, fresher's batch is coming in October. So therefore that give you an indication that you know we continue to think positively on this part.

Dipen Shah: Okay, yeah that is fine, I was talking about the net additions but anyway the other part is that just to data point what was the kind of ….?

Vineet Nayar: I am sorry, our net addition is 2000.

Dipen Shah: Okay. What will be you salary increases during the quarter which you were given?

Vineet Nayar: 11% to 13%.

Dipen Shah: And the onsite.

Vineet Nayar: 5%.

Dipen Shah: Okay thanks very much.

Vineet Nayar: Thank you.

Moderator: Thank you Mr. Shah. The next questions is from the line of Nitin Padmanabhan from Centrum please go ahead.

Nithin Padmanabhan: Yeah actually clarification on few points actually, one is if you look at the top 5 clients, top 10, top 20. when I put it in my sheet I get a de-growth, I think this is 2.1% de-growth in the top 5; 1.7 % in top 10 and 1.5% in top 20. So it is so from what I see it is not just the banking client but quite a few other clients I have seen some sort of de-growth.

Vineet Nayar: First is we have to three elements to it, one is the banking client second is that you know anybody who is not a US customer the conversion of that customers revenue into dollar would see a de-growth these are the two reasons you are seeing this.

Nitin Padmanabhan: Okay so sir so it is just because of the cross currency adverse we see this.

Vineet Nayar: And a significant reduction in one customer.

Nitin Padmanabhan: In one customer, right. And another thing is if I look at let say engineering in the R&D services per say, I think last quarter we grew by around 9.3% this quarter we have seen a de-growth of 1.4%.

Vineet Nayar: Yeah they are taking a deep breath. I mean they grouped in the last quarter so it is very difficult for us to judge their businesses quarter-on-quarter.

Nitin Padmanabhan: No because what I am trying to figure out is you know from what it looks like that you know the pain that we are having in terms of it seems to be quite across all our service lines. So I was just wondering if the environment that we are seeing today as bad and would it continue in a sense, because you did give some perspective on of the deals that are there on the table but what are the chances that this could get deferred further.

Vineet Nayar: So first I do not see a pain, you are seeing it, I believe 2.5% growth on constant currency basis despite you know a significant drop in one customer which I had warned you about is a good performance. 2) Engineering you know if you take year-on-year it has grown for 24.8% as contribution of revenue to 25.8%, I would you know on LTM basis outside 24.8% to 26.3% demonstrating a significant growth. So as of now and I can only answer these questions as of now, I do not see any trend in any engineering spend reduction from any of our engineering clients other then the BSFI which we are challenged and partially retail which is you know which will be the next sector to get impacted as and when it gets impacted. We have not seen a significant downward spiral trend in either any service line or any customers.

Nitin Padmanabhan: Okay so this would just be a quarter-on-quarter abrasion so probably a next quarter we should see a bounce back.

Vineet Nayar: I do not know about the next quarter but I would say on year-on-year basis you would see a growth in engineering and R&D.

Nitin Padmanabhan: Right, right, sir and just like you know you had mentioned in the last quarter that there would be one BFSI clients that would face some issue this time around. Is that client likely to resume in normal business going forward or and are there any other clients which are likely you know sort of see some sort of a de-growth next quarter.

Vineet Nayar: So first is the client I do not see the client resuming the section of the business he has de-grown, their decision will be only in January, February, and March. And that decision will be based on the lot of factors of how he looks at his business and his environment.

So for the time being I would suggest that you know you ignore it, I mean the fact is that bad news has been taken care of in this quarter and that client will not come back.

Nitin Padmanabhan: Okay.

Vineet Nayar: And have we seen an equivalent client, no the answer is no, we have not seen anybody else and as and when we see it, I will let you know.

Nitin Padmanabhan: Right so this client would be status quo, we are not going to see any increase or decrease going forward.

Vineet Nayar: Flat.

Nitin Padmanabhan: Flat, right. And just one last thing with the reference to pricing, are we seeing a number of clients really come out and ask for pricing cuts. And if they are doing that then how do we respond in a normal case?

Vineet Nayar: You know the comment which I made is the pricing cut is a one year old phenomenon. And it actually peaked at the time of the housing crisis, the mortgage crisis. And there is nothing new I am saying on the angle and I mean if you go through the transcript of the last three quarter calls, I have been saying the same message continues. And I have also been saying that we are proactively going to our customers and saying let us re-organize the contract so that you get the saving and we get to maintain our margins. In this environment it is very essential for you to be responding proactively to customer needs and I believe that reducing spend not rates reducing spend is a critical aspect for customers across the world are looking for. And HCL I think it has responded pretty well on it.

Nitin Padmanabhan: Right so that would mean that we would actually would require to hike our productivity reduce the number of resources for project, would that be a fair understanding but maintain billing rates.

Vineet Nayar: I would say that we have already demonstrated over the last 4 quarters, margin expansion by doing exactly what you were saying so there is nothing new we need to do..

Nitin Padmanabhan: Right.

Vineet Nayar: And I had already guided in IT services, we would be able to maintain our business on a organic basis.When an inorganic happens then to different issue, with the organic basis I have guided that we do not see any challenge in maintaining our EBIT margins of last year.

Nitin Padmanabhan: Right, thank you, rights thanks a ton. Thank you.

Moderator: Thank you Mr. Padmanabhan, the next question is from the line of Mr. Atul Bhole from Tata Mutual Fund, please go ahead.

Atul Bhole: Hello sir I have a general question what is your sales on the off-shoring part of say next year IT budget, will the theory of more off-shoring for cost cutting play again this time also? And how the Indian players are placed and considering the US unemployment as well as the elections and government etc, what will be your sales in the off-shoring part of next years IT budget?

Vineet Nayar: You know there are some good research reports which have come out on this topic, especially I recently saw the CLSA report talking about what percentage of the market is offshorable and you know sitting on my table it is an unfortunate answer but it is a true answer, it is very difficult to say at this juncture. It is I think I would definitely attempt to answer that question in January, but I would say that let us just wait there is nothing for us to say, let us wait for all this to settle down, for customers to make up their mind, do they see this is an opportunity to ramp up because some customers have you know, the moment I say there is so much outsourcing happening you know I am not concluding that is the trend which will continue, I am just saying that you know it is a data point let us just watch for it, let us conclude in January. So I am not making a concluding statement, I am just saying that data point do not look as negative as the newspaper say they are.

Atul Bhole: Okay thank you.

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

Sandeep Shah: Yeah sir in terms of Axon the debt to equity ratio you believe it will remain at 9:1 or you would like to cut the dividends and increase the treasury payments for Axon.

Anil Chanana: I didn’t hear your question.

Sandeep Shah: No at the time of the Axon acquisition you indicated around 9:1 as a debt to equity or debt to internal accruals ratio for paying the Axon. So would you like to, is it the current dividend is maintainable or you can reduce the dividend and utilize more treasury for Axon.

Vineet Nayar: The dividend is maintainable that is not the question. Our dividend policy as Shiv had already articulated in the foreseeable future it is going to be maintained. The debt equity or the way we are funding will be an 85:15 not 10:90 and that is the second part. Is there any other question you were asking?

Sandeep Shah: And on the cash flow statement from the cash flow from financing activity there is a component known as others, which is as high as $40.3 million what is the nature of this inflow?

Anil Chanana: Just give us a second.

Sandeep Shah: Yeah.

Anil Chanana: Some borrowing, which is taken into overseas subsidiaries which is reflecting there.

Anil Chanana: Short term borrowing.

Sandeep Shah: Okay so this is towards…

Anil Chanana: This is basically yeah we keep on sort of offshore company, I mean the overseas companies we keep on probably using it for working capital need.

Sandeep Shah: Okay and the last what is the sense in terms of margins because in our press release we have mentioned that there could be some more pressure on the margins on the BPO because this is only a one month consolidation of Liberata and Control Point. So what is your sense overall consolidated margins and a segment wise margins.

Ranjit Narsimhan: As it stated that for the BPO when we did acquire the companies that are lower valuation and which have greater potential for turnaround for the next couple of quarters so we actually acquire and integrate them there maybe a decline and this decline in margins is temporary and you will see a continuous improvement in margins as we bring these companies to the normal levels of profitable BPO, there is interestingly historical level but if you see the profitable in terms of the overall other BPO companies you will still find our margins pretty attractive, but going forward as we progress and as we bring up the profitability of these companies the margins will keep improving from what they are today.

Sandeep Shah: Okay and second about the next two business like IT service and Infrastructure.

Anil Chanana: Sorry, we are not giving any sort of guidance. So this is what Ranjit explained so far as how the margins has not impacted but so far as your purpose is concerned I think take it around 12% to 13% for your modeling but so far as the other businesses are concerned we are not giving any guidance neither revenues nor profits.

Sandeep Shah: And 100% of wage inflation is executed or there is something like generally we do in two quarters?

Vineet Nayar: Yeah the next stage is coming in October-November-December.

Sandeep Shah: Okay and this would be for the senior employees..

Vineet Nayar: That is true.

Sandeep Shah: Okay thanks and all the best.

Vineet Nayar: Thank you.

Moderator: Thank you Mr. Shah. The next question is from the line of Divya Nagrajan from JM Financials. Please go ahead.

Divya Nagrajan: Hi, while I understand there are a lot of uncertainties going into year currently. I would also like to know how you have gone about doing your budgeting for the immediate quarter that, what are the kinds of events that you have factored in, are you looking at budget freezes, where you spoke about clients frozen. Are you looking at this actually taking a toll on your revenue growth for the current quarter as well?

Vineet Nayar: The current quarter which is OND is 99% visible to us today. So I mean in our business you have to have that visibility so the manpower is in place, I mean placed means under plans, these seats are under plan, the contracts are under plan so there is only a 1% variability that happens in most of our cases unless somebody comes and you know spoils the party by doing something which we do not anticipate or you know throws a party by giving you some order we do not anticipate. So the OND planning is complete. I think you from now to OND there is sharp visibility. I think your question is more relevant with reference to JFM and AMJ.

Divya Nagrajan: Right and …

Shiv Nadar: And one fact is that there is significantly alternate is like last quarter we could not do as there is such a sharp appreciation of the Dollar against all currencies which was very difficult, clearly impossible for actually for anyone, it was impossible for anyone to anticipate the sharp drop in the price of oil, none of this was anticipatable. Given as you just see our revenue decline which is due to only the GBP and Euro currency change that is at $11.5 million if it is move exactly the opposite side you would have seen a growth of 5% right, but can it happen next week. It can happen next week I would like to draw your attention to say sometimes last year the elections in UP were announced and the government decided to bring down the inflation very sharply because it is already going past 5 and they wanted to get it down to less than 3. And the Reserve Bank took some sharp steps. Our foreign exchange reserves continued to be where they were, they have not fallen very sharply like the other countries. So elections are announced, I am hoping they decided to do something you know it can alter the dollar ratio totally. What Vineet has answered, this is Shiv Nadar responding to you, what Vineet has answered to you is given same currency that is the biggest, it could move either way, but when it comes to that real operating currency like the Rupee we have done extremely well.

Divya Nagrajan: Right so I guess you are saying when you say 99% visibility you mean in terms of volumes you have that kind of visibility right?

Vineet Nayar: That is true, that is true.

Divya Nagrajan: And also in terms of reconcile your salary hike sir, salary hikes is 11% to 13% offshore and 5% onsite I would have assumed that given the job deterioration and the demand scenario we would have been able to you know clinched some more favorable hikes for the company. What are your expectations that you have given this kind of a salary hike in the current demand environment?

Vineet Nayar: Our pro-employee policy and fairness to employee compensation policy.

Divya Nagrajan: Right so you think you will be able to sustain at the these salary levels going into the year assuming that you know demands and situation continues to be uncertain for the next one or two quarters?

Vineet Nayar: For this year I had said that we will maintain our margins in IT services and that is assuming the current salary levels and I continue maintaining my stance on it.

Divya Nagrajan: And what percentage of your margins maintenance would be contributed by the Rupee.

Vineet Nayar: No I am talking about at constant currency levels.

Divya Nagrajan: Okay sure.

Vineet Nayar: I am not, I had said …

Divya Nagrajan: Right and just one last question, I wanted to know what your fresher intake this quarter?

Vineet Nayar: Hardly any, all of them have joined October.

Divya Nagrajan: Okay and how does it compare with the planned intake in the September quarter?

Vineet Nayar: Planned intake means that we had planned to intake fresher's in September instead of that we are in taking them in October.

Divya Nagrajan: Alright thanks. Thanks I will come for follow up later, if I get a chance.

Moderator: Thank you Mr. Nagrajan. The next question is from the line of Dipesh Mehta from Khandwala Securities. Please go ahead.

Vineet Nayar: And this is the last question we will take please.

Dipesh Mehta: I just wanted to understand; if I remove these two acquisitions of Liberata and Control Point, then our revenue is marginally lower. So what is the contribution because of the cross currency we lost some revenue?

Anil Chanana: We lost a sum of $10 million of revenue on account of cross country.

Dipesh Mehta: Okay and because of that margins impact would be how much?

Anil Chanana: It is sort of a, I can explain that about the margins sort of impact if you give you two seconds I can explain again. Net-net on the currency side we had a positive of 170 basis point on the EBIT margins. There is negative on the revenue side and there is a positive and it gets translated into USD again.

Dipesh Mehta: And what would be the revenue impact because of hedging accounting that is positive how much or negative.

Anil Chanana: I think I had, probably I do not know whether you were there, I had given that number that 3.8 million is this quarter and 2.3 million was last so incremental it is only 1.5 million.

Dipesh Mehta: 1.5 is positive contributing.

Anil Chanana: That is correct.

Dipesh Mehta: Okay thanks.

Moderator: Thank you Mr. Mehta. Ladies and gentlemen I would now like to hand the conference over to the management for their closing comments.

Vineet Nayar: So thank you once again for joining us and I wish you a very Happy Christmas, Happy Thanksgiving, and Happy Diwali to all of you. May the next year be bright and smart and I look forward to talk to you soon. Thank you very much.

Moderator: Thank you gentlemen of the management. Ladies and gentlemen thank you for choosing the Chorus Call Conferencing Facility. Thank you for your participation and you may now disconnect your lines. Thank you.