"HCL Technologies Limited Q2 2014 Earnings Conference Call"

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

Anant Gupta: Good Afternoon, Good Morning and Good Evening everybody, this is Anant Gupta, and welcome to the 2ndQuarter's Earnings Presentation.Overall, we had another great quarter.

We grew sequentially 4% in revenue terms and 7.1% on net income. But really looking at the calendar year closing performance we have seen an interesting trend; we crossed $5 billion in Revenue for calendar year '13, up 14% on a yearly basis,our EBITgrew by 41% to a shadow of above $1100 million, Net Income at $868 million, 44% Year-on-Year growth, and Return on Equity to an industry-leading 35%.

Just digging in deeper into where the growth came in, actually, I would summarize it more like a broad-based growth across service lines and industry verticals:

So if you look at it from a Quarter-on-Quarter perspective the Application Services business grew by 2.4%, Infrastructure Services by 6%, Business Services by 13.7% and Engineering and R&D by 2.1%. On an LTM basis,Infrastructuregrew by 40% and Business services by 11%.

On the verticals side pretty much across the board growth, obviously, much high growth on Public Services due to some significant engagements moving into steady state over there, but otherwise on an LTM basis CY-'13 and CY-'12 pretty much across the board – 10% is Retail and CPG, to 16% growth in Manufacturing, Life Sciences 16.8%, Financial Services 19.2%, and Public Services at 33.4%, Telecom, Media, Publishing &Entertainment obviously a little worry especially on the Telecom service provider side but largely Media and Entertainment still holding on strong over there.

From a geo standpoint, Americas and Europe continue to drive the growth, largely driven by the nature of business in ROW. ROW has a significant component of project-based services which kind of end over, but in terms of Americas and Europe much larger portion of recurring revenue stream keeping the base strong over there.

In the previous calls, we touched upon the strategy which we are approaching in the market; the first was something we already touched upon, but just to recap, the first was really around Enterprise of the Future and MyCloud which is our offering for Infrastructure Management Services in the global markets. ALT ASM™ was something we launched earlier in the calendar year which is a new offering around Application Management Services really having proactive obsolescence as a theme as a core principle of the service delivery framework, and

enterprise function as a service which was more a front-to-back end-to-end technology and operations converged BPO offering.Both these services were launched earlier in the calendar year and they seem to be tracking well.In fact ALT ASM™ultimately did deliver 13 strong wins during the calendar year ’13. Innovation monetization continues to be relevant in the challenging market in Engineering Services.So we continue to nudge that differentiation,we see some revival, some uptick in the hi-tech spending, largely driven with this specific concept of innovation monetization, and risk-and-reward business models in there.

The key element which we have now introduced and finally which kind of puts together our full strategy across the different service offerings is consolidation of our offerings around the digital system integration space, more of this we will touch upon but I will introduce this concept a bit and then Steve Cardell will walk you through in greater detail over here,this is largely touching upon three specific areas in the emerging market as we see. So it is really targeted at the changing requirements of customers change the business service requirements, and really coming off from the need of a front-end digital transformation. So we have been hearing about concepts on disruptive technologies like Mobility, Analytics, Cloud and Social, but really they are all impacting the front end of the clients’value chain.But, from our perspective when we really looked at why is the service offering aroundMobility and Social not really creating much revenue for service providers worldwide including us, is really the fact that the underlying core foundation which is built on legacy is really wherethe money needs to be spent to kind of move that and modernize company’s digitalization strategy which is what we have kind of bucketed under the whole umbrella of Application Modernization now, followed by what we believe is the play around the business intelligence, the integration and better decision making around the data fabric itself. So it is a three-pronged approach to the marketplace.There is a Gartner case study which we have launched yesterday, and we will touch upon that in greater detail as we go along.But this we believe would really be our response to the change the business requirements in the digitalization needs of the marketplace today.

As part of that strategy we will be announcing a number of partnerships.The first one we have announced yesterday is the one with Computer Sciences Corporation and really it is to unlock this huge market potential we believe in the Application Modernization space where we are looking at taking the expertise in both organizations which are strong around various methodologies from assessment to migration to deployment and kind of addressing a new market space in there. Gartner projections indicate a much larger market from our perspective we believe the immediately addressable market space is anywhere between $8-12 billion, and that is what we will be targeting. I will ask Steve to touch upon this in more detail as we go along in the session. With that I will actually hand it over to Steve.

Steve Cardell: Great, thanks, Anant. So let me just start by talking about performance of Enterprise Services. I think just one comment to make is as we see more emerging technology increase in our share of revenues, the line between what we view as enterprise, and what we view as custom becomes increasingly blurred. But let me just take a backward looking view first and then just talk a little bit about how the DSI service offering is aligning to the trends that we see in the

marketplace and the growth areas that we expect as we move forward. So the quarter just gone we saw 2.5% Quarter-on-Quarter growth.As I have mentioned over the last few quarters,Enterprise technology really has one headwind that comes against us into the set behind us so the headwind that is against us is the decline of traditional back office ERP programs which 3-4-years-ago were a significant portion of our revenues and you see that in the reported numbers from SAP, Oracle and the Tier-II market players.And what we see driving growth for us is all of the emergent technologies where we see HCL having a very strong position, and a consolidation of existing platforms where our ALT ASM™services offering is helping us win in that marketplace. So a reasonable growth over this quarter.And really what we see is an acceleration of the trends that are out there. There was an interesting anecdote on yesterday's Forrester release, their latest global review of SAP, and its first sentence said that 80% of the software sold by SAP this quarter was software that they didnot have 2-years-ago, and it indicates the degree to which spending has moved.

So as Anant has already inferred in responding to three key trends in the market place, we have grouped these together into single serviceoffering called DSI, one is the modernization and the Cloud readiness of the whole existing landscape.So we hear from class on a daily basis it is not what they are moving towards them is their challenge, itis what they kind of move away from that is their challenge.So transformation of the application landscape to make a Cloudready, Digitalready is a core part of that. The second one is fixing the data and integration issues to taking a lean supply view to an application architecture.What that does is it releases funds and creates a scalable platform in which to drop in all of the systems of engagements, systems of innovation.So beyondAnalytics, the collaboration on that management is Social and so forth. So DSI is a significant launch for us in framing that opportunity and really aligning with all of the trends that we have been seeing over the last few quarters, and aligning to the strengths in the market position that we have in that marketplace.

And again, as Anant referred to CSC partnership, so it is very nicely into the first block of that, it is a core part of Legacy Modernization,Application Modernization and Cloud Readiness and you will hear from us over the coming weeks additional partnerships that fit into other parts of DSI journey.

So then if I move across to Diversified Industries, a fairly strong quarter across the board here. Public Services which was a relatively small vertical for us but one where we have a strong market position continues to engross significant growth 22% Quarter-on-Quarter growth, 49% Year-on-Year. Some specific micro vertical they are really leading the chart, so our market leading position in Utilities continues to gather momentum, our service offering to the 3PL plays and our Unemployment Insurance Benefit solution for the North American state in the local market continues to gain momentum.

Retail and CPG had a strong quarter 7.5%, particularly in Consumer Goods area, where we have a number of solutions that are finding attractiveness in the market.And as we have seen over the last few quarters there is a Research and Manufacturing sector across both Europe and North America; in Europe particularly in Central Europe, in North America we see both

consolidation work and a push towards more service management as manufacturers are going to expand their base.

Telco, Media&Publishing, we did see growth this quarter, and again this is an area where we have commented that we see this is a sector that is struggling for profit growth, and so we continue to have a watching brief on that marketplace.

I think the trends that we see this quarter we expect to see moving forward.Manufacturing continues to be strong, our market position there are strong. The service market proposition we have continues to differentiate us. I think on the Retail and Consumer Goods,Retail we will continue to be subdued, the Consumer Goods we expect to continue to see momentum. Telco,Media & Publishing we see pros and consolidated, I think we will continue to see similar performance, and Public Services remains a growth engine for us.

So with that let me pass over to Rahul.

Rahul Singh: Yeah, thanks Steve. So very quickly I will talk about Financial Services and then I will go into Business services. So Financial Services we saw a very good quarter, we had a Quarter-on-Quarter growth of 3.8% and this is on top of about a (+6%) growth in the previous quarter.So I think two quarters of good growth coming here through. We have seen a Year-on-Year growth of about 15% and LTM about 19.2%, which is on the higher side of most participants in the industry at this point of time.So our revenue momentum continues to come from project base that we had seen in the previous quarters and looking into the future we do have a healthy pipeline across the service lines and geos.

In terms of the demand environment from financial institutions perspective – Our cost continues to remain a very high priority.So across the board our clients are looking at expansions of their own capital base, and in order to shore up capital base, they are going after cost in a big way, and this is similar commentary to what we gave in the past that cost is a very high priority for our clients. However, the way in which clients are cutting cost is changing; I think they are expecting service providers to have more spin in the game, more outcome-based engagement models. Clients are also looking at modernization, so they are looking cautiously at modernization of legacy technology into single platforms, all in effort to cut cost on a long-term basis.

On an overall basis, we are also seeing the emergence is what we may call a non-conventional financial services entities in the Cards area, Payments area, so on and so forth which one has to continuously keep a watch on, at the same time there is new money which is going into spends on the compliance side.So the financial institutions across the globe are gearing up for Basel III,Solvency II, FATCA and other compliance norms. There is new money which goes in there.Also in terms of Customer Experience Management, Business Analytics, anything to do with front end customers is places where financial institutions continue to spend new money.

The growth drivers from an HCL perspective, essentially, we have had some wins as the large transformation wins in the last quarter where we are assisting our clients towards either moving to single platforms or renewing their existing platforms. We are also focusing on increasing share of market within existing clients.So clients where we have a low share of market either because we have not fully penetrated them, or we have not sold all our service lines, we are focusing on selling more service linesto the existing accounts.We are looking at vendor consolidation activities.So clients looking at cost cutting through vendor consolidations are coming out with processes to see how well this can be consolidated.And as our clients are also looking at cost cutting we are pushingALT ASM™ and other service lines which look at cutting cost of production from a customers' perspective. We continue to get good recognition from a Financial Services perspective and some of the recognitions are listed here.

I will quickly go on to Business services. So Business services we clocked about $61 million in the last quarter, it was a pretty high growth over 13.7% Quarter-on-Quarter over last quarter. This is in top of about 2% growth in the previous quarters.So we have to average off two quarters, roughly about 5-6% growth rate per quarter coming through,giving us Year-on-Year of about (+20%). The good part about Business Services is that we are adding new clients, and some of the clients additions are also in the Fortune 500, G 2000 list, so which means that our services are now being seen as effective, large firms are waiting to do business with HCL and the business completely transform into a transaction-oriented business.So we do see more activities now coming in areas of back office and other areas which are transaction in nature. From a demand perspective,BPO demand is good; however, as I have repeatedly being saying, the demand is changing the shape and flavor, there is more demand for industry-specific BPO, there is more demand for creating center of excellence shared service kind of environment; we are seeing more technology-enabled demands, in other words people are looking for combined BPO technology solutions,and there is higher focus on value versus just cost and innovation versus the efficiency.So your clients today are looking for higher value, higher innovation from their service providers.

In terms of HCL's growth drivers – we have a very clear strategy; we are focusing primarily on two verticals for developing domain-specific framework, one is Financial Services and Healthcare. And for all the other verticals we have an Enterprise Business Service focus on the front office and back office activities. This is where our EFaaSpropositions which Anant spoke about,sales, where we combine IT and BPO, and try and improve customers' back office and front offices.

We continue to sell HCL BPO on the basis of what we call as next-generation BPO, which essentially means that we will move clients from the existing wave of thinking about BPO into what we believe will perhaps the next-generation in terms of the requirements, focusing more on domain, innovation, outcome, integrated global delivery, and risk and compliance. So that is what is driving growth for us.

Another thing to note is that the BPO continues to get recognized Quarter-on-Quarter, improvement in scores and recognition across industry and analysts.So Everest has

relatedBanking BPO, Capital Markets BPO, etc., and moved us to Star Performer, and in Insurance is the major contender. Similarly, NelsonHall has rerated us on core banking and payments, mortgages so on and so forth.So we are seeing good traction from clients as well as good recognitions from theindustry at this point of time.

With that I would like to hand over to Srikrishna.

R Srikrishna: Thanks, Rahul. I am going to start on Healthcare where we had a muted quarter, actually our business went down by 3.8%, but actually almost all of it is due to a single large transformation project at a single client that wound down. The client is still with us but that particular project wound down. And if you look at it on a calendar year LTM basis we still grew at close to 17%, so still strong underlying overall performance.So we look at this quarter essentially a single aberrationquarter.

We continue to see different trends in the different underlying micro-segment.Pharma industry does continue to have their revenue challenges, because of which we will see cost pressures, and hence some lumpy opportunities arising out of the industry cost pressures in the Pharma industry.

On the Healthcare Payer industry, clearly, some of the promise of the Affordable Care Act started to play out, new customers that came in into being insured.On the other hand the number of new customers who came in is only about little over 2 million which is quite a bit lower than what many had anticipated would happen at this stage. There were initial numbers floating around could have been as high as 30 million over a period of time, but first few months have so far yielded about 2 million.So that is put a little bit of uncertainty on the discretionary spend in that industry. On the other hand, Europe Pharma continues to open strongly to IOPs and some of the major Europe pharma firms have lesser revenue and patent cliff pressures than their US counterparts. So on the back of these, we did add two logos, and we continue the two logos one each in US payer and in Europe pharma. We continue to focus on emerging new segments which is Biotech, CROs and Generics as there is a patent cliff for big pharma, there is a windfall for generics where generics are growing. We continue to get strong recognitions, in fact, Rahul had indicated an IDC report at the bottom of his, which actually had rated HCL as a leader on both BPO and ITO in R&D outsourcing. This is a report that came out late 2013.

From a value proposition perspective we continue to be focused on what we call as “Patient Support” or “Patient Enablement.”It is a set of services that helps essentially drive down the cost of overall Healthcare, and with the better outcomes of patients and hence lower cost of payers, and an overall better outcome across the value chain of the industry.

I will shift to Infrastructurewhere we had another strong quarter.We are an industry leading 6% Quarter-on-Quarter on a LTM basis, you saw Anant slide, we grew at over 40% LTM, 36% Year-on-Year. The Infrastructurecontribution to companyrevenues gone up to 33.7, and excitingly for us our CY-’13 revenues for this business crossed $1.5 billion. We are not really

seeing any let up in demand as we have been saying for many quarters.Gen II market continues to fuel a strong demand for services here. Likewise, we are seeing a continuation of the trend that workplace services is aiding strong demand on top of datacenter services, and we are seeing almost 3/4th of all opportunities have a component of Cloud as part of the desired end state. One of the underlying reasons for our partnership that we announced with CSC where we will white label their Cloud offerings. Purely from an Infrastructureperspective it gives us an ability to offer IS services almost immediately across the world in 13 different datacenters with minimal investment.But the larger picture is that the DSI strategy that Anant and Steve spoke about as with Modernized Legacy Applications to the Cloud, the CSC partnership will form the backbone of Cloud Infrastructureto host the modernized applications. We continue to have strong wins, we added five new logos last quarter, and a lot of it, about 2/3rd of our wins did come from re-bid market.

Finally, we have focused new go-to-market strategy on front office applications for which there is purchase of Infrastructure that doesnot go with the classic IPO. These underlying Infrastructure is being bought separately by the CMO or other parts of the organization and for the most part this is actually a joint go-to-market with the verticals aligned with our DSI strategy. With that, let me hand over to Anil.

Anil Chanana: Thank you, Krish.Hello everyone. So first recap on the numbers:

I am on Slide #19, so we did $1321 million which is $1.3 billion in terms of revenue which is 4% Quarter-on-Quarter growth, and this was also the quarter where we crossed $5 billion in revenues in calendar year 2013. The revenue growth on Year-on-Year basis has been at 14.5%, and the net income growth at 39%. So if you look at the EBITpart in this quarters are almost flat; there is only a decline of 8 basis points, I am going to explain how that 8 basis points, what exactly constitutes, what are the underlying components thereof. I also would like to highlight here the EBIT after FOREX taking the FOREX into account has moved up from 20.8 to 21.8 since the FOREX had negative impact because of the layered hedging program was lower in this quarter than in the previous quarter, and it is expected to further fall down.

If I go to Slide #20 this gives the figures in rupees – so our Revenues were Rs.8,184 crores and Net Income close to Rs.1500 crores, so 58% increase in Net Income and 30% increase in Revenues Year-on-Year, so the EPS goes up by 58%. As Anant mentioned,it has been a growth which is all pervasive, so Software Services grew in excess of north of 2%, Custom Applications by 2.4%, Enterprise by 2.5%, Engineering Services grew by 2.1%, Infrastructureby 6%.If you look at the verticals a very interesting trend which is coming up is that the verticals which constitute something like 78% of our revenue grew higher than the company growth rate. We talked about Financial Services having grown at 18% Year-on-Year.

Similarly, in terms of the market, the developed markets continue to dominate the growth; the US grew by 14.8% on a calendar year basis and Europe grew by 24% Year-on-year. So Europe which 2-year back used to constitute 27% of our revenue is now 31% of our revenues.

Moving on to Slide #21 – The top portion gives the impact of the currency; the GDP and the Euro were stronger as compared to US dollar, which give a positive spin to the revenue.So the revenues which in constant currency were 3%, got reported at 4%. Then we did a deep dive in terms of the margins, and if you look at the margins, there were positives which are reflected by 'green' and then there are negatives which are reflected by 'yellow'. So I will first talk about the positives the business efficiencies particularly in areas like Infrastructure Services or where we do run the business, and when these engagements coming to steady state there is improvement in the margins. The G&A optimization gave us 47 basis points, the depreciation and amortization gave us 23 basis points, I am going to talk about it a little later. And what took away was the 70 basis points wage impact – a lower utilization, you would have seen our blended utilization going down by something like 80 basis points and exchange took away 25 basis points.So we were almost flat as compared to the previous quarter.

One interesting thing which is emerging is that we also looked at how we are doing vis-à-vis the sales and marketing and G&Aspend, and one thing which is very clearly emerging is that we are on the G&A side we are saving something like as compared to last year like 130 basis points, while on sales and marketing we continue to invest ahead, when I say ahead it even goes beyond what our budgets are. So we are focused on revenue growth but profitable revenue growth.

Other thing I just wanted to focus is the wage impact which was 70 basis this quarter. I think in July when we had given guidance we had probably said 120 basis points expected in the OND quarter. What has changed in this period is that the lower increment impact is because of the figured reward cycle.So depending upon the performance rating, this reward cycle gets staggered, as a result of which some of the people would be getting their increment beginning January or beginning April. So the impact the first quarter was 50 basis points, Q2 was 70 basis points, Q3 and Q4 will be 30 basis points each.

Going further on Slide #22 – the fixed asset turnover is 10.8 – I think it is amongst the best in the industry. So we are generating more revenues using our asset base and the return on equity continues to be at elevated level of 35%. So this is very positive here.

Also, the DSO – which is on Slide #23 – we brought back the DSO to 77 days. Interestingly, each of the calendar year it has been hovering around that 76-77 days.

Moving on Slide #24 – the operating cash flows to net income ratio continues to be very strong. In fact, for this quarter, the operating cash flow to net income was like 127% while the free cash flow to EBITDA was 85%. This quarter we also increase our dividend per share to Rs.4 from Rs.2 which was there for the last quarter.

Going further, if you look at the CAPEX, our CAPEX spend is 37 million, significantly funded out of internal accruals and also extended vendor credits and our suppliers credit value which is as of 31st of December is on Rs. 166.3 million. You would see these numbers in the US GAAP accounts we have uploaded in the morning on to our website but I am just highlighting

the key information. The key thing which is emerging here in terms of the CAPEX is that our CAPEX spend in the first half of this financial year has been at 2.8%. Opposite, close to 5% it used to be two years back; in FY11 this level was 5%. So since our spend is coming down it is also reducing the depreciation. So you would have seen the depreciation and amortization charge going down. We believe that we will be in the range of 3-4% in terms of CAPEX going forward.

In terms of hedges – Our hedge book was 1.3 billion out of which 278 million were balance sheet hedges and close to a billion dollars were cash flows hedges, half of it maturing within one year and half of it maturing beyond one year. And the booked rate as an average was 60.44. If we apply the MTM rate of 67.8 which has an element of premium, as discounted by the time value of money. The OCI as of December 2013 was (-113) if I take the tax benefit into account, December end rate is likely to be 17.4 million in the JFM quarters. The tax continues to be in that range between 21% and 22% which we had guided. So this quarter it was 21%.

With this I will hand over to Anant.

Anant Gupta: I think we can open the floor for Q&A now.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from Anantha Narayan of Credit Suisse. Please go ahead.

Anantha Narayan: I had two questions. The first is, Anant, you referred to in the past as well about the industrialization that is helping improve margins for the company. Would be helpful if you could maybe give some specific instances of this, and also, how much more of this process is still left. And the second question was on the CSC sort of alliance. I just wanted to understand the dynamics of this a bit more. Which areas will it specifically be in – is it going to be sort of significant in terms of revenue and what would be the impact on profitability as compared to profitability of HCL Tech owning the business?

Anant Gupta: The first point around industrialization; industrialization is a number of elements. Even Anil touched upon a few. The basic level it starts off with utilization, looks at pyramid, looks at lean, multiple areas in there. So I think you will see some of that flowing in above the line indirect cost on a continuous basis, you would have seen for the last six quarters, and likewise even in the G&A side you would have seen with facilities coming up in campuses, and historically we have had a number of very-very small facilities spread all over, and consolidation exercise not only helping around the G&A side but also around management efficiency and productivity. So I would say we are well into the journey over there and like always there is never an end to any of the industrialization, so we will continue to drive that. As we move forward, you would have noticed we talked about ALT ASM™as a proposition earlier in the calendar year and that to me is one big initiative around common cohesive application management service offering which is there in the marketplace. So industrialization around that continues to happen because it touches all three different elements of our

Application portfolio which we had – which is namely Custom Apps, Enterprise Application, which was the Package Application side, and then the Enterprise Transformation Services. So with that initiative we are offering one seamless cohesive application management offering which I believe should help us continue the differentiation in the market and the win rates we have seen in the last calendar year. That was pretty much in the industrialization. Going back to the entire Application Modernization story, if you look at the DSI framework and the offering in there, they are really three big parts of that;on the front end side of the customers business is really the digital transformation around the customer experience, and there on the extreme foundational level really is all the core application platforms which are there. So the partnership over here is to synergize on best practices and methodologies that we have in the space of assessment of applications, looking at how they should get migrated and ultimately transitioning them on to modern application, it could be an application rewritten for being run on a CloudStack or it could be migration of a point solution into commercial application itself. So there are many parts of the Application Modernization journey, and the partnership is targeted at that space. From a margin profile perspective it would be similar to our application services portfolio margin profile, there is no difference in that. And we did touch upon the aspect that yes, there is a BizCloud element which is around the IaaS Stack which Srikrishna mentioned is the white labeling of the cloud offering of their InfrastructureStack as part of our overall total outsourcing engagements which is an increasing need for as part of an overall solution. Historically, when we go for total IT outsourcing engagements we look at both private cloud which we build for the customer and then the public cloud element which we include number of Stacks. Amazon and Microsoft sure are two elements. CSC is white label services, is the third element in that Stack.

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

Pankaj Kapoor: I have a few clarifications and then a couple of questions. First, on the utilization, we had almost like 40 bps improvement in the margins with just 80 bps movement of utilization. So I was just curious to understand why this high sensitivity? Second, in the pharma, we spoke of a ramp down. Which service line was this in – is it in the IMS where we saw a slight drop in the growth rate Quarter-on-Quarter? And thirdly to Anant, on the CSC partnership. I just want to understand will this lead to any kind of a cannibalization of some work that we are already doing either in the cloud space or in the legacy maintenance space? And if so, what kind of impact do you expect in terms of revenues or anything if you can just give some color on that?

Anant Gupta: I let Srikrishna answer the Healthcare question and maybe Anil on the utilization, the margin movement, I will come back to on the CSC cannibalization concern that you have.

R. Srikrishna: To answer the question which service lines we usually do not break out vertical by service lines but in this case, yes, it was an IMS; the transformation project wind down was an IMS.

Anil Chanana: Just going forward, so far as the impact of utilization is concerned, 40 basis points negative, because the blended utilization has gone down by 80 basis points. So this is the impact of that. We will be happy to sort of discuss it offline if you need any further clarification thereon.

Anant Gupta: I really do not see any big issue. I think we were always running at a very high utilization. First is increasingly we do not believe utilization is a good metrics of the kind of business models which are emerging, but nevertheless, I think we are in optimal range of what we want. So plus/minus 100-150 bps is a range we would hardly like to operate on a blended basis. But, given the different businesses will have end-to-end business large scale engagements which will come at we will see those quarterly aberrations in there, but really given the mix of the business moving more into Managed Service and outcome-based is not that big a concern. Coming to the partnership would result in any cannibalization, the answer is no. We are partnering in a specific area, both organizations have multiple products and services, we will continue to participate in the market, maybe compete in various other products and services propositions in the market. I think what we have clearly done is identified areas where we would like to partner and collaborate. We believe that there is a significant market opportunity in this space. It is largely driven by complexity of the legacy and the scale of complexity in there, further coupled with the fact that being legacy documentation and subject matter expertise is limited. So pooling an expertise and going after and creating a marketplace in there, makes a lot more sense from a time-to-market and from a return on investment perspective. So, that is the net-net on the partnership. I really do not see that impacting cannibalizing any of our revenue streams in there. Historically, we have sold CloudStacks and we do believe that it makes sense to move from one CloudStack to another which is more commercially viable to us from a cost perspective, that is continuously evolving exercise which we will keep doing as we do business.

Pankaj Kapoor: Anant, just a follow-up on that just to understand it better. If I get it right, basically what you are offering is the porting of legacy applications on a cloud platform through this alliance. So my question was that like the current business, which maybe HCL is not doing, but the other players in the industry are doing on the maintenance of existing legacy applications, will this kind of a business get impacted? It may not be so much for HCL, but for the overall industry as such. So do you see some impact on that on the base traditional business as such?

Anant Gupta: That to me at an overall level, yes, any migration to software-as-a-service does have an impact to the Application Services business, we know that. For a software vendor, the on-premise license cost is lower, the annual maintenance costs are lower. Obviously, the applications move on to as-a-service platform when there is cost of project implementation is lower, cost of management is lower. So, yes, net-net as an overall industry, the increase penetration of software-as-a-service does valued some amount of traditional projects and work in ASM. But at the same time because of the complexity it introduces there is an increased quantum of work or need which it has created, partly in the Application Modernization space, or for example, using the expertise we have in our Enterprise Application business around – and we talked about that in previous quarters about expertise in business benefits realization which we are using to help customers deploy their as-a-service applications as well.

Moderator: Thank you. We have a next question from Mr. Nitin Mohta of Macquarie. Please go ahead.

Nitin Mohta: I have two questions; firstly to Srikrishna, HCL has been leading the industry in Infra side. While we understand that the market is underpenetrated, one of the concerns that investors have had from a longer-term perspective, say 3-5 year period is how are you going to defend your market share when most competitors are committing significant sales force and money to come back from behind?

R. Srikrishna: First is that it is a concern that has been there for many quarters, and for the past 8-10 quarters I think this quarter has been there that everyone is now increasing focus on the IMS space then "Is that going to hurt your growth rate?Is that going to hurt your price realization?" And I think certainly the past has proven that both those have not been the case, our growth rates are sustained, our margins have improved. It is actually big Infrastructure business is built and dropped. Actually, our market position today makes it harder for new entrants. When a customer wants to outsource their datacenters, literally, the keys to their kingdom,and they want to give it to someone whom they have a lot of trust in, who has a solid proven track record of executing on large complexities. We feel like there are very-very few companies around the world who have a track record similar to us in large scale implementation and hence been confident about defending our market share.

Nitin Mohta: My second question was to Anil. In your prepared remarks, you alluded about the wage hike impact across four quarters. Just wanted to understand if there has been any change in the way wages are structured because if I remember this right, that is not the case in the previous years. So what is exactly leading to this change in the quarterly impact of wage hikes?

Anil Chanana: As explained, there is a 30 basis points impact, which is a very marginal impact going into the quarter which is the Q3 and Q4 each. We have been sort of innovating our reward cycle to make it more relevant for the new age technologies and so on and so forth, and also the ratings, etc. which are explained to each individual in the first part of the performance rating system. So depending upon a person's rating, he could be getting the sort of a increase much earlier than anybody else. So it pans out through that mechanism. So, we have seen positive results because of that. It is the same impact but it has got spread over a period of time.

Anant Gupta: And obviously, it is a very intrinsic piece to our business, it is quite proprietary, the fact that historically industries have been only looking at performance-based measure to look at the reward construct. What we done it and converted into is a matrix construct, which now takes into account the skill and the complexity of the skill and the demand of the skill in the marketplace along with that specific dimension to arrive at what should be a) the quantum, and b) when it should be bid at. Does that answer your question?Obviously, we cannot go into greater details on that, because that is quite unique to our operating model.

Moderator: Thank you. Our next question is from Nimesh Joshi of CLSA. Please go ahead.

Nimesh Joshi: One question on the CSC partnership is a number of such partnerships in the past have not really worked in IT Services. There is a lot of expectation and every time the lack of clarity on what is included, what is not, joint go-to-market, what can we separately go-to-market. What makes you confident that this is different from all the failed partnerships in the past? That is one. And the second part is what is it that CSC really brings to the table? As an observer from the financial markets, CSC is considered more like a sinking ship. So what can it really add to HCL which HCL cannot develop organically?

Anant Gupta: It is very interesting. As you rightly said, most partnerships have suffered where there is lack of clarity on what the objectives are. So I think at least what gives me the confidence is firstly, there is clear clarity on what we will partner on, and what we are not partnering on, which is in the space which we are addressing is around the specific Application Modernization space, which I believe is a large space available in the market. It is a challenge for most global players to address that specific need in there, and therefore we see that as a natural place for partnering, with a clear clarity on go-to-market and addressable strategy. The second part of the partnership is around the white labeling of the Infrastructure – the Cloud IaaS stack, which Krishmentioned, there again there is a fair clarity, there is a clear clarity on what the partnership is for,it is a white label architecture and therefore we resell it as part of other overall engagements. So if we do $300million deal, it may be one small component of that engagement.So clarity is there and that is what gives us the confidence that we should be able to execute on that. I think the second element is historically within HCL at least our partnerships have worked.So I would not know about the industry, but even if you look at the entire Infrastructure Services business, it is built on an ecosystem of partnerships, right. The first set of partnerships is around datacenter partners. We have built up a full industry where we are leaders, and we pretty much work with a set of certified partners which we have built over the last seven years, that has worked very well. If you look at the technology partnerships in there that has worked very well. If you look at the Break-Fix partners that we have globally to help us deliver an end-to-end global deal, that has worked very well.So I think the past track record of what works and what does not work gives us the confidence of using those elements in relationship with CSC. Now, as part of the DSI strategy, as Steve also alluded partly, there will be a number of partnerships we will need, because that space is large. And therefore, clarity on what role each partnership will play is an important element and you will keep hearing about that as to what the role of that relationship or that partnership will be. From a strength standpoint, I think our philosophy around building an Infrastructure CloudStack as an asset within HCL is something which we do not want to do, is not part of our business model, and we believe that we need multiple partners, and we have a readymade world-class secure offering available from the partnership in addition to what we buy from Amazon, or what we use from Microsoft Azure.So this would give us another key element required in order to deliver a fuller Infrastructure stack on one side. Secondly, on the Application Modernization side, we have elements or services which are not doing as well, I think they still have strong services in certain areas, they continue to be strong in complex problems solving system integration kind of engagements, deep rooted in very large scale complex programs, and we see methodologies over there to be very valuable to us.

Moderator: Thank you.Our next question is from Yogesh Aggarwal for HSBC Securities. Please go ahead.

Yogesh Aggarwal: I have a couple of questions if I may. Firstly, on the rebid market, Anant, I think you mentioned on TV that the rebid market is going up in the ADM space as well. So in that, are you seeing Indian companies more often than in IMS space considering the market share of Indian company is much more there, so will that or is it already leading to some churn among the Indian vendors already? And secondly, what are the margins in the Public Sector business, because usually companies like Accenture report much lower margins in public sector business. Is it similar for you guys as well?

Anant Gupta: Let me take the first one, I think, as you rightly observed, the rebid market does include Application Management Services as well.And one of the reasons to look at transformed or Version 2 or Gen II kind of a ready Application Management Stack was really the release of our ALT ASM™ proposition early in the calendar year.You are right.That market is obviously a lot more penetrated from an offshore standpoint, it is (+30%).So one would imagine churn from the Indian players to also be a key element of the churn in there, unlike in Infrastructurewhere most of the market share is with the global majors. So, the 13 deals we announced over the course of last calendar year does have a mix of both in-house as well as IOPs in there.

Anant Gupta: Steve, do you want to address the question on public services, the margin profile and the deal rate attractiveness?

Steve Cardell: I think what is worth highlighting is that, you gave a comparison to, I think, Accenture, a very large part of that public services business is in the public sector, and within public sector it is within Federal**.** And without doubt, what the federal market offers is very large long term programs at lower margins. So our Public Services business firstly is quite spread across a number of markets including things like Travel and Transportation, and Utilities, Oil and Gas as well as traditional public sector. And then within public sector, we have some very specific offerings, so we donot play only in that market, we play in specific areas where we have strengths,so in the US at the state, local level, not at the central level. So, we see normalized margins in our Public Services business.

Moderator: Thank you.Our next question is from Ankur Rudra of Ambit Capital.Please go ahead.

Ankur Rudra: Just if I could attack the CSC partnership in just one more way. Anant, could you clarify, I understand when it is an existing customer, to be clear who own the customer and who the prime contractor is. But vis-à-vis the joint go-to-market of a stack where the stack comes from them, is it clear, how the customer ownership will be?

Anant Gupta: Yeah, I think it is fairly clear and just so that I am clear, we will continue to compete in the rebid markets, so do not get confused, there is a large market, which, they are an incumbent player in ITO in there, so there is clear clarity that, yes, there will be competition in a certain

space, and there is clear clarity on others as to what the new props will be and who will own the customer.

Ankur Rudra: What led you to partner now and why CSC?

Anant Gupta: Like I said, our strategy is digital system integration.It is a much larger and broader strategy. In that specific space we do need; it will be an ecosystem of partners who will be able to deliver a full solution. Keeping that in mind, we see them as a credible player on the Application Modernization space, and we also see them as having credible, well reputed Cloud Infra Stack, which we can white label.

Ankur Rudra: One last question on margins, Anil, if you can help me understand what are the margin especially on the G&A side you still have, clearly you have been able to squeeze out a lot of benefits there. But is there further juice to be squeezed out of the facility consolidation exercise and other things you are doing on G&A?

Anil Chanana: I think Anant alluded to this saying that there is always a possibility to further industrialize the delivery as well as to reduce or optimize on the OPEX side.But remember, we will also be sort of stepping up our presence in the near shore centers in this period.On the one side we are cutting down the number of facilities, but at the same time we are also going to enhance our presence in the near shore centers to provide end-to-end services to our customers.

Ankur Rudra: The CSC partnership assuming is non-exclusive from both sides?

Anant Gupta: You are absolutely right.

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

Sandeep Agarwal: Sir, I have just one simple question. As you rightly mentioned that the digital space needs lot of innovation and probably change on the legacy applications and probably the data architecture side. But my question is that how much acceptance is there already, I understand there is lot of acceptance and everything is now moving to digital,but has it reached the stage where there is a widespread acceptance to go for this kind of change?

Anant Gupta: I think it is in the early stages. It is a market which we believe will evolve, right. And if you look at Gartner projections they again put a fairly large numbers as to what it could grow. I would say that we believe it is a market which will take time to evolve.And before it reaches huge numbers, I do believe it will take a couple of years, but it is the right start point, and we believe that it could be another blue ocean, just like Infrastructure or some of the other services historically they will be consistent.

Sandeep Agarwal: And a follow on to that, how integrated is this between themselves like is it a social media-driven or is it just data is intervening everything together? And is it largely still a customer front thing or it is across that business or it is being driven by other functions of the business also?

Anant Gupta: I think it cuts across and it is too early, but Steve, do you want to give some more flavor around this?

Steve Cardell: I think you are right. If you look at whether market has made progress on this, it is in the customer phasing industries like Media Publishing, like Retail, and so the customer interface. So what we see there is digital content being delivered through digital channels, being accessed through multiplicity of devices in order to do that. What we see coming from that is those same demands firstly being required from all stakeholders.So if a customer can access the data, that information in a mobile manner, why shouldnot an employee, why shouldnot a shareholder, why shouldnot a manager, why shouldnot a supplier. So what you see is the very same demand trends that have seen the growth of multichannel and E-commerce and mobile, and social at the customer end of the business.Those trends are now working their way right through the enterprise.So our point of view is that over the next five years, you will see the explosive growth on customer enterprise experience management over the last couple of years being replicated across the entire landscape, and so DSI is marking an opposition in that market and capabilities to be the provider of choice as firms are expanding that.And what we are already seeing is, it is moving into a much broader set of industries and into a much broader set of products, and it is being driven by many suppliers in the marketplace.So all the software-as-a-service providers are selling companies and that is what they expect from IT these days, all of the analytics companies are doing the same, all the mobile providers are doing the same.So to me there are these forces are creating an inevitable driver for organizations, and we want to make sure what absolutelyplacing ourselves in that market and enjoying the growth that we are sure that market will have over the next 1-5 years.

Sandeep Agarwal: Last one question for Anil, do you believe that we have upgraded the dividend from $2 to $4and we can continue to maintain this rate or we can probably increase going forward?

Anil Chanana: I think it is something for the board to decide. I donot have any doubt that it should not be retained or increased.

Moderator: Thank you.Our next question is from Sandeep Shah of CIMB.Please go ahead.

Sandeep Shah: One quick question on the CSC partnership. Sir, just to get it clear, I think it looks like there is no even a joint venture company which is being formed. So in a joint go-to-market once a new logo has been added, will there be any non-compete agreements in terms of cross selling the services where you are stronger versus CSC. So how once the plant has been added, what make sure is that there would be a client mining opportunities also on individual basis or on a joint go-to-market?

Anant Gupta: Let me first clarify, I donot think it is not a joint venture, there is no merger of any business with each other, it is a pure alliance, which is built on using best practices in different areas of creating right from assessment to delivery, and that is where we are combining a certain force over there with best practices between both organizations that we have an ability to seamlessly deliver the proposition to our customers. It is important to note that between two companies of

our size as most customers normally, either one of us would be providing some service or the other towards the customers in the marketplace, in anyways right, it could be either in the Infra side or the Application side, or in some other areas which are there. So, I think depending on the way the relationships are strong, each company will kind of continue to take the lead on being the lead relationship for that specific customer for that very specific set of proposition, while other services will continue to be served to the customer, which may already exist today from either organization.

Sandeep Shah: So in that scenario the invoicing would be direct from…?

Anant Gupta: Whosoever customer it is it will continue to be delivered and invoiced by that specific organization, if it is an HCL customer to whom we are able to do the Application Modernization, it will continue to be within HCL front end,likewise, it could be CSC.

Sandeep Shah: So does this partnership helps you to knock the doors for the clients for selling the software services which would not have been possible organically?

Anant Gupta: I think it opens a new marketplace in Application Modernization. I think the level of competency and expertise is needed in that larger space of legacy and application modernization,it is quite complex. To give you an example, you may have Hogan as a legacy application, lot of banks will belong to CSC.To enable banks to modernize their applications, which belongs to CSC, it is obviously a very proprietary product from CSC, which therefore allows us to have another larger addressable market. So, yes, to that extent services which are around software products which did not belong to HCL or which were largely CSC proprietary products gives us an increase addressable market space.

Sandeep Shah: Anant, just in terms of the facility consolidation, do you believe whatever needed to be done, it has largely been done and the full benefit has been reflected in the quarter, or this may continue at least in the near term going forward?

Anant Gupta: No, I do think we have facilities in India which still need to be consolidated, but they may not necessarily be planned currently.But have we optimized our consolidation plans for the country in terms of delivery? I think answer is no.

Sandeep Shah: Last question in terms of the software. I think for the last 2-3 quarters we are saying that in terms of the TCV which we are adding, the component for services outside IMS has been increasing. So now it means that the order book outside the IMS has also been healthy when entering into the Jan-Feb-March 2014 quarter. So is it fair to say that there would be an opportunity where the growth within software services may now start inching up rather than remaining stable at the current rate?

Anant Gupta: Thanks for reminding me.Actually I did not give commentary on our booking. During the quarter we actually booked more than a billion dollars;we signed about 15 transformation deals, with 50% of them in the Infrastructure Services space and the balance in other service

lines. So healthy mix of continuing our momentum on Infrastructure Services, and increasing our wins with some of the propositions which we have repackaged earlier in the year, continuing to show the balance growth over there, so that is a good sign. Another data point is 80% of these wins have come from the Fortune 500/Global 2000 customers which is very important for us because that is where we see the headroom for our growth as we move along and that is the market profile of customers we are working with.And finally I think Financial Services and Manufacturing led the wins although all other verticals also chipped in.So that give you a flavor of what we booked last quarter.

Sandeep Shah: Because these comments were also been there for the last one or two quarters where the order book has seen some traction outside the IMS in terms of service tax. So is it fair to say that now the order book is healthy, most of the contacts may come to a rampup stage and the growth outside the IMS may start inching up?

Anant Gupta: Sure, I think we have seen that in the quarterly numbers.

Moderator: We will take next question from Divya Nagarajan of UBS. Please go ahead.

Divya Nagarajan: I lost audio on you answer earlier, Anant. Just a question on how the rate structures now put in? Does it mean that it is not only payout difference between performance and non-performance, but there is also a timing difference, is that how I should understand it?

Anant Gupta: That is right, so there is a staggered reward model as well as the performance itself, combined with the complexity and the demand for a specific skill set.

Divya Nagarajan: And one last question on attrition. It continues to trend up. I think we are seeing that as a trend across the rest of the industry as well. Is that something that worries you? What are the comfortable levels of attrition that you would like to have and measures to contain attrition?

Anant Gupta: The attrition obviously the percentage numbers are high in general in the industry, and from our perspective I think it is slightly above what we would like to have it to be.So obviously we are putting certain measures around it, but it is not too way off from what we want especially given that as we go forward, it is again part of the industrialization framework and something in 4-6 quarters back we did have a lot of discussion on this subject where we are looking at creating fungible skills, in order to provide more sustainable careers to our employees, make sure that individuals kind of hone themselves in more than one skill given that demands are varying and therefore ability to continue to contribute positively is there. So I think there are certain set of people who are able to skill themselves, multi-skill themselves and some who are not able to do that and therefore, they are looking at avenues outside HCL, and from our perspective I think it is a fair decision.

Moderator: Thank you.The next question is from Mitali Ghosh of Bank of America.Please go ahead.

Mitali Ghosh: I apologize if this question has been asked earlier because I got cut off in the middle of the call, but really your EBIT margins HCL has done a great job in expanding the margins in the last

couple of years, and I think obviously you are much above the 18-19% kind of target range that was called out some time back. So just assuming constant currency and given the fact that on one hand you have optimized utilization and some of the productivity measures, and on the other hand, of course, you are looking to invest perhaps in near shore centers or in broadening offerings, how should we really think about margins over the medium term?

Anant Gupta: I think we have just started our investment activities in all those newer areas we talked about, right,the near shore and the DSI strategy.So I think we will continue to accelerate because we fundamentally believe that is an important element for sustenance. Much like the end-to-end sourcing on the IMS side, I think the ALT ASM™ also has moved on into a much larger end-to-end game, the EFaaS on BPO is the same.So the way I would look at it is the ideal comfortable operating profile that we would like to operate in would be in the 20-21% range.

Mitali Ghosh: The quarterly annualized attrition level is quite high at the overall company level, but just in IT Services if you could help us get that number?

Anil Chanana: It is likely around 22%.

Mitali Ghosh: Does this mean how would this compare with the last couple of quarters?

Anil Chanana: It is almost the same, slightly inched higher.

Mitali Ghosh: Lastly a book-keeping question. About tax rate going forward like FY15-16, again what is the kind of trajectory one should have?

Anil Chanana: Maybe, I need to do that exercise. I am sorry, I have not done that part as yet.

Moderator: Thank you.Ladies and gentlemen, that was our last question. I now hand the floor back to Mr. Anant Gupta for closing comments.

Anant Gupta: So, thank you very much for joining the call. In summary, we had a great quarter and we closed the calendar year again with a great performance. We crossed $5 billion, and we look forward to continuing the momentum that we have in the marketplace and look forward to having you back on the next Earnings Presentation in April. Thank you.

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