“HCL Technologies Limited 2nd Quarter Earnings Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the HCL Technologies Limited Earning Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. 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 Day to all of you and Welcome to the 2nd Quarter Earnings Presentation. A quick snapshot on the calendar year we just concluded.

We have another great calendar year of consistent performance. Our revenues grew by 13%, CAGR for the last two years if you look at our EBIT grew about 1373, a 35% CAGR, our net income at 1184 million demonstrating a 41% CAGR growth and the cash conversion again averaging greater than 100%. So, all in all from a calendar year perspective, great performance.

Coming specifically to where the growth really came in this specific quarter and how did we fair in the calendar year. On a constant currency basis, we grew by 6.2% overall and 13.6% on a yearly basis.

If I was to really summarize, I would say the growth has been a consistent performance of our strategy and a broad-based growth across geographies, across service lines and across verticals. If I look at Americas, it grew by 6% this quarter and our above industry 11.3% YoY growth, Europe continues to perform well for us; 7.2% on a sequential basis and 21% on a calendar year basis, and rest of the world chipped in, in this specific quarter with a 4.3% sequential growth.

From a service line perspective – Application Services grew by 3.8%; Infrastructure by 6.2%, again driven at the back of a soft India while the Global Infrastructure Services business continues to deliver well; the Business Services business at 4.5%; and our Engineering and R&D, another quarter of double digit growth at 12.6%.

So just to look at the consistency from a Year-on-Year perspective, Infrastructure Services at 22% ; BPO at 26%, demonstrating healthy yearly growth over there; Financial Services a little weak in this specific quarter, but that too on the back of two quarters of very strong growth; the calendar year performance was 22%; Manufacturing continues to do well; 7.3% sequentially; Life Sciences aided by a couple of specific transformation projects kicked in a very healthy 19.3% in this specific quarter; Public Services is where we really have been showing a consistent growth which really consists of our energy, oil, utilities, and natural resources plus logistics business continues to deliver 8%, sequentially growth on a 35% YoY growth. Retail, CPG largely driven by our Digitalization strategy, continues to do well; 20% YoY and 8% sequentially.

To sum it up, I would say, it has been a good growth across the board, all geographies, all service lines and all verticals chipping in into their respective portfolio.

I now think it is important to also spend a minute as to why we see this and how the balance portfolio is really growing for HCL and some of these I would have shared with you earlier but I just wanted to recall this and HCL has always been leveraging disruptions to build a balanced portfolio. So, whether you look at Engineering Services when we started in early 2000 or RIM business in mid-2000, we carved out business model which we did with Deutsche Soft. The total outsourcing market or the acquisition of AXON which clearly give birth to the Enterprise System Integration business, the rebid market and then towards mid-2013 when we said we are relaunching a strategy on Alternatives Application Management which is based on proactive obsolescence. I think each one of these gives us disruptions in the market has led us to kind of look beyond what we offer and that will stretch ourselves to what the real value proposition should be in the current environment.

And as we look forward you know, I would like to call on two specific areas which we continue to see extremely bullish on – the first announced structured Engineering Outsourcing; so we continue to see deals coming in into the closure and therefore I am quite bullish on that specific market. We are still not there in terms of the inflection point which mirrors the Infrastructure business of 2008-2009 but I do see signs of that and I am keeping in. And finally our strategy on Digitalization which is very different from the front office SMAC strategy which most others in the marketplace has but I fundamentally that Digital business transmission and the structured Engineering Outsourcing are two disruptions which we are seeing in the marketplace which will fuel our growth going forward.

Moving onto the next Slide and this is a Slide I have shared with all of you in terms of what is HCL strategic place – it is largely in three areas. So the first one really is the IT Outsourcing which is Application, Infrastructure, and Business Operations Outsourcing. Largely the Run-the-business services, large contracts it's a momentum business significantly driven by rebid market. 70% of what we see today is the rebid market, 30% we still see some of the first time outsourcers, and here our strategy has been to continue with our Proactive Obsolescence or Hybrid Cloud Enablement using our Enterprise of the Future Architecture, Cloud Orchestration Integration, and the Service Integration Framework through MyCloud. So we continue to see good traction in that one and that's a momentum market which we will continue to drive as we move forward.

There is certain signs we see of overlap between deals getting integrated between either Application and Infrastructure or between BPO and Applications and that's something which will keep moving on as the market plays out depending on different segments or different geographies.

The second one really being the Engineering Services which is where we are seeing the bulk of the play the market moving towards a full service end-to-end outsourcing model. It's both sustained category of Engineering as well as on the new product build category of Engineering so we see both actually flowing in when we look at the deal flow. Even in last quarter we signed an additional deal so if I look at the last three quarters we would have signed five significant wins in end-to-end Engineering Outsourcing which is a very positive sign.

Finally on Digitalization – the way we look at Digitalization is it is really not a competency-based service offering like Infrastructure or Application or BPO or Engineering but really it's the convergence of these four expertise to deliver an outcome which is really Digitalization and our focus has been front-to-back, end-to-end processes and helping customers build the Digital platform and also the Digital operation environment for the future. So we are positive about this market and in my view we should see this as another very large play in the next two to five years.

From a booking standpoint, we continue to have a great booking record. We have booked 15 large transformational engagements in this specific quarter which translated to over a billion dollars of our total contract values so the booking profile continues. Like the previous quarter it is broad-based, it is across the board, and Infrastructure continues to do well in that space as well.

Coming on to the people front, I think there was a significant milestone. We crossed about a 100,000 people in the previous quarter with about 4,700 people as net addition. Largely fuelling what we believe would be the talent gap in some of the emerging areas in Engineering and in some of the new segments which we see in the marketplace as well as Digitalization and Internet of Things going forward.

So we are actually driving a momentum businesses to run very efficiently, at the same time acquire talent and retrain our existing talents so that we are better prepared for some of the disruptive place in the year.

With that I will move on and maybe spend a few minutes on the Engineering performance:

Engineering grew by 12.6% like I said we had 5 significant wins in the last three quarters. The last quarter specifically saw 2 very large wins one with a large US based ISV and the second with a large medical devices company were we doing a full product lifecycle-centric Engineering work for them.

Trends – As is the buzzword today, machine-to-machine, Internet of Things is a conversation which has been going on. I think different industries are obviously looking at how to leverage and how to take advantage of this emerging trend and we are helping our customers both in Engineering and our expertise in the verticals to help them build their strategy on the industrial Internet of Things marketplace as it opens up.

From a scale and size perspective – in the ERS business, we are the largest of the Indian market and continue to be 5th largest global player in Engineering Outsourcing Services.

A specific recognition during the quarter – We were recognized by Intel as "One of the Innovative Players" in kind of creating solution accelerators around Internet of Things as well as some platform accelerators for enabling and accelerating this Digital Platform Development.

With that I will handover to Steve so he can walk us through our performance on Application Services and the Diversified Industries. Over to you Steve.

Steve Cardell: Great thanks, Anant, so yes, let me cover Application first. So we had a strong quarter for the OND quarter market-leading growth. As you will be familiar now we now report our Applications business split between industry Application Services and Enterprise Systems Integration. IIS saw 3.6% Q-on-Q on a constant currency basis ESI saw 4.2%.

Just a couple of things that we see driving demand for us and supporting the strength of the growth that we are seeing – so firstly we are seeing a development in legacy modernization upgrades. The primary driver that is causing this is companies look to make that platform able to be integrated into Digital activities that they are doing. So it is driving a requirement to modernize existing landscapes and enable them to be integrated particularly on the data and process flow side. Just adding to what Anant has been saying we see Digitization starting to form quite material revenue streams for us now. Particularly on electronic trading also on front office activities in our zCMO offering so particularly Digital content and Digital marketing. And then thirdly in the rebid market so particularly relevant to IIS we see deals that are being restructured in a different way to how they've come to market before**.** One of the elements of that is we see deals that sit at the intersection between our service lines so either combined operations between Infrastructure and Applications or combined people and operations between Applications and BPO and a number of other permutations on that. So we see that being a disruptive force in the market and as Anant referred to we are getting where this disruption in the market. HCL normally prospers in those sort of situations.

A number of recognitions in the quarter probably the highlight being the National Outsourcing Association recognizing HCL as the "Outsourcing Service Provider for the Year". We continue to grow our recognition and presence on this SMAC Stack. IDC naming us as the "Leader in Mobile Apps Development" and we picked up again two more "SAP Quality Awards" which takes our tally to more than a dozen of "SAP Quality Awards".

So we move on from that to look at non-Financial Services verticals – again a very strong performance across all of the verticals in this quarter. So just a touch on some of the highlights:

We see resurge in Manufacturing 7.3% in the quarter. We see Manufacturing being a quite a leader particularly in the Hi-Tech micro vertical on a lot of the softwares as a service products. That's almost exclusively what we are seeing the manufacturers go for at the moment and this trend of seeing investment shift from the core Manufacturing Process to Servicing Manufacture products in production whether that be planes or cars or consumer products and our ServSmart offering has us well-placed and generating revenue for us in that market. We are also seeing strong demand for Manufacturing in Continental Europe as cost pressures continue there those doors are opening up to HCL. So Manufacturing had a good performance Retail and CPG second fastest growing sector us. Really this is being fuelled by the position we build in the Digital space so lot of the Retail and CPG demand that we are seeing is things like Digital campaigns and Digital marketing and also the multichannel solution that we have to allow Retailers and CPG companies to offer their products across Digital mobile, tablet, and web in a consistent manner.

Telecom and Media – As we talked often remains a depressed sector globally, particularly, media due to the impact Digital is having on existing revenue streams. Our Content Management Solutions continue to enable us to drive growth in a sector that is declining overall. So, to see a positive growth in media has been strong performance for us.

Life Science – there was a resurgent in this quarter, a number of our offerings, again on the Digital space but also, our clinical trial solution 19.3% in the quarter. We have a strong pipeline for us sitting in LSH at the moment.

And the last, we have seen a Quarter-after-Quarter of strong growth in Public Services. That has particularly come from the Energy and Utilities where we have a number of differentiated proportions on the transformation side and also our market-leading position in the TTL space particularly, in the third party logistics.

So, overall for non-Financial Services strong set of growth in all of the verticals in this quarter, Life Sciences and Retail CPG leading the charge.

And with that, I will hand it over to CVK.

C. Vijay kumar Thank you Steve. Let me take you through the highlights for Infrastructure Services for this quarter. In terms of financial performance – Infrastructure Services grew 6.2% in sequential quarter in constant currency terms and in the calendar year; we grew at 22% Y-o-Y.

In terms of new wins in this quarter, we had 4 large deals and many mid-sized deals. Executions of many of the mega deals that we had won in the past quarters are on track which helped us achieve good sequential revenue growth. I also want to point out that this quarter, we reached a significant milestone. We crossed revenue of $500 million per quarterly revenues in Infrastructure Services. It has been a spectacular journey from really innovating and being the pioneers in remote Infrastructure Management to really build the business to where it is. It is really a proud moment for us.

In terms so some specific wins this quarter, as I said we had several deals in the last quarter. We won a large deal in a Fortune 500 company in the Industrial Automation segment where HCL has been chosen as the exclusive partner to provide end-to-end Infrastructure Services globally and this also includes a recently launched service integration and management of them. We also won a large Infrastructure Services deal in the Manufacturing segment in the DARK region in Europe. This win will make us the largest IT partner for this customer. Here we are implementing a key component of our "Enterprise of the Future" framework by way of implementing the ""Next-Gen Workplace"" services. This deal also includes our SIAM offerings. As you can see our wins are been enabled by our "Enterprise of the Future" proposition like "Next-gen Data Center", "Next-Gen Workplace" Services, as well as the SIAM services.

I think our ability to spot opportunities to be ahead of the market in building capabilities and IPs like MTaaS™, MyCloud, and ITSM Gold Blue Print are really helping us stay ahead of the curve and emerge as a preferred choice for our customers. We are also working very closely with many of our customers in their Cloud adoption journey by the way of building and managing Hybrid Cloud solutions, leveraging our MyCloud which is our Cloud Orchestration platform.

In terms of Analysts recognition – we had several accolades for this quarter. The IDC Marketscape rated us as the leader in the "Worldwide Datacenter of Transformation, Consulting, and Implementation Services". We were also rated as a leader in the "Gartner Magic Quadrant" for communication, outsourcing, and professional services. What is very significant is HCL is the only India-based service provider to be profiled as a leader here and with this, HCL is "The Only Service Provider Across the Globe" to be rated as a leader by Gartner across the end-user outsourcing, datacenter outsourcing, and communication outsourcing and services. Recently, Forrester released their Forrester Global Infrastructure Services Outsourcing Wave and HCL has been rated as a leader and what is even more significant is on a global scale, we are positioned as #2 in the overall scoring. We are among the Top 2 in this overall scoring.

In terms of the demand environment, the rebid market continues to be having the same momentum and customers are looking for increased transparency and innovation and we are becoming a good cultural fit and we are emerging as a preferred choice. We are also seeing traction in some verticals like Energy and Utilities where customers are trying to optimize their cost structures to manage the challenges in their businesses today. We are also seeing apart from the core markets of UK and Europe for the Gen 2.0 outsourcing. We are also seeing good traction in DARK, Australia, and some of these geographies. There seems to be an increased interest in leveraging global delivery models for Infrastructure outsourcing.

So in summary, it has been a great quarter. Significant milestones, impressive wins, and good execution; all of this led to a good performance in this quarter.

With that I will hand over to Rahul Singh.

Rahul Singh Thanks CVK. I will quickly talk about Financial Services and then the BPO.

The Financial Services, we ended the quarter with revenues of 397 million which was up 1.6% on a constant currency basis Q-o-Q. It should be noted here that this quarter was on at the back of very strong couple of quarters in the past as well and we ended the full calendar year 2014 with a 22.3% growth over the calendar year in the previous year. However, we were impacted on upward currency by headwinds especially in Europe where we have significant presence in Financial Services. Our pipeline continues to be good across service lines and geos.

If you look at the demand environment for Financial Services firms and essentially there are two demand environments which are driving the way our clients are buying. The first is continuous focus on cost and optimization and that is resulting in clients going in for vendor consolidation. So, they are looking at new ways in which they can derive more value from the same dollar spent. We are seeing a focus on value Engineering and Gen 2 outsourcing also as a result of that. And the second key demand environment we are seeing is the whole focus towards innovation and transformation. Innovation and transformation at our client's end is driving them to adopt COTS product more than what they have in the past and we are seeing a lot of focus in terms of Digital channels which we are participating with some of our clients.

If you look at the growth drivers for HCL, we are present in multiple large accounts and we have had some wins in vendor consolidation opportunities which means that we have gained market share from some of our competitors in the accounts that they existed. So, we did announce one large vendor consolidation in this particular quarter.

We continue to focus on the European and the North American markets which are large markets for our growth and we are trying to penetrate these markets through newer products which are more focused in terms of their offering and through Digital offerings as well. We are also seeing a demand in transformation deals which is coming through which we are fulfilling. All this is reflected in substantial improvements in our rankings in the Financial Services sector. We were rated as "Star Performer" both for Banking and Insurance during the year 2014 and in both these analyst reports, our rating has moved up substantially over the previous year in terms of the changes that have happened.

With that, I will quickly go on to the BPO, talk a little about that. The business services group, we closed revenues at $73 million in the last quarter. The revenues were up 4.5% on a Q-o-Q basis and again, if I was to look at 2014 as a full year, 2014 revenues were up 23% over 2013 which indicates that substantially, the BPO is out of issue that we have seen in the past and is now seeing good growth momentum. At 23% growth, the growth rate was higher than most of our industry peers in the country.

We have also signed one large BPO transformational deal. Now, it is important to note here that one of the things that we were working on in BPO was to have a more focused approach. So, we are doing fewer things but wanted to do more integrated deals and glad to say that this transformation deal is an integrated IT BPO deal.

In terms of the demand environment – the market continues to look for more industry specific domain specific BPO and there is a movement towards more as a service model. In addition to that clients are expecting the service providers to have more business outcome focus in terms of the pricing models and the more integrated and globalised delivery model. Plus there are a lot of buzzwords in BPO in these days around Digitization, Robotics, Automation, Analytics, etc. and perhaps, we are trying to use these for our growth drivers as well. As I mentioned earlier, focused approach, few domains, and integrated deals. We are focusing on verticals which are specifically around Financial Services, Healthcare, and around Enterprise Services. We also started launching IP-based products. So, we have got products like EFaaS™, TOSCANA, and BOT, etc., which are basically tools and kits that we have developed overtime which are now enabling us to differentiate our services in the market place.

Again reflected well in terms of the value, in terms of recognition by the analysts, Everest has rated us a "Star Performer in Capital Markets" and similarly, major contender in Banking and Insurance and we have also started getting some exclusive reports from some of the analysts who are covering this sector.

With that, I would like to hand over to Anil to take us to the Financial Analysis.

Anil Chanana Thanks Rahul. Good afternoon, good morning everyone. So, in terms of the revenues and profitability, the constant currency revenue growth this quarter has been 6.2%; this is the highest in the last 16 quarters. There was a 220 basis points impact of translation being the currency impact. 70% of the 220 came from the currencies like GBP, Euro, and Australian dollars and the balance is contributed by the rest of the currencies. The constant currency growth; we have seen in the last 8 quarters, excluding O&D quarter to be in the range of about 13%-14%, but this quarter it has stepped up to 16.2%; it is the highest in the last 10 quarters.

As Anant mentioned, all business lines, all service offerings grew, and all verticals grew. The net income grew by 7% Quarter-on-Quarter and 27% Year-on-Year. In the last quarter, which was July to September quarter, there was an extraordinary gain from sale of property and if I exclude that, in fact it comes to 7% Quarter-on-Quarter net income gain. In terms of operating margin, we are at 23.8 which is 10 basis point lower than what we reported in July to September quarter. The increments caused the headwind of around 100 basis points. We gained in terms of exchange, etc.

In the quarter, which is the January to March quarter, we could have a headwind of around 40 basis points on account of increment. So, this quarter, one of the interesting things is the Sales and Marketing and G&A Spend went up significantly. On an average, the total went up by 12% Quarter-on-Quarter. Our annualized EPS currently, is at now Rs.109 per share which is 28% Year-on-Year.

Moving on – in terms of growth, it is a very interesting slide. If you look at CY '14 and compare it with CY'13, see a huge increase in all categories in number of customers. It was not so much in CY'13 as much is coming in CY'14 and particularly in the last quarter, there is a significant, in all categories whether it was 50 million where one client addition happened, 40 million where two client addition happened, 20 million where another 2 client addition happened and then 10 million where something like 6 client addition happened, 5 million where 12 client addition happened, and 1 million where something like (+20) client addition happened. There is a significant sort of a client addition in this calendar '14 and particularly, last quarter. The growth has become more balanced so another thing which is happening is. So, if you look at last four quarters, half of the growth has come from non-Infra Services. So, to total we have added something like 680 million in incremental revenues in CY'14. So, half of that came from non-Infra services.

Moving on – in terms of return on equity, it has been 38% up from 35%. The Board announced a dividend of Rs.8 per share, up from Rs.6, it was last quarter. And then the Board also recommended a bonus share in the ratio of 1 share for every 1 held.

Moving on – in terms of hedge position, our hedge book is 1.4 billion and is about 87 million higher what it was in the last quarter and the cash flow hedges are close to a billion dollar which is like (+40%) of our likely inflow.

I will move on –in terms of FOREX gain and losses, this quarter net-net we gained 2.6 million. Our OCI which is using the mark-to-market rates is (-24.1) million; however, if I take held-to-maturity, it will be exactly (+24) million using the rate of 63 which was prevalent as of end of December and for January to March, using that particular December rate, on the cash flow hedges, the likely loss is 2.8 million. However, as you understand, this number will keep on changing as we go through the quarter and these hedges are sort of a mature.

In terms of tax provisioning, the tax charge this quarter has been 21%; it is very much within the guided range. So, with this I will hand over back to the operator for questions.

Moderator Thank you. Ladies and Gentlemen, we will now begin the question-and-answer session. We have first question from the line of Anantha Narayan from Credit Suisse. Please go ahead.

Anantha Narayan I had two questions. My first was on the Infrastructure Management Services business. So we have seen this fantastic (+20%) growth in 2014 and besides the scale, is there any other reason why the growth rates could materially slow down in this year or next? The second question was on the margin side. So if I look at the segmental break-ups, Infra margins have now overtaken the margins of what you early used to call Software Services. Just your comments would be helpful and whether this could reverse going forward?

C. Vijay kumar So, there is nothing materially different which will impact the growth rates. Obviously, as we grow up and as the business volume grows, there will be an impact of the base effect. The market continues to be very-very robust. We are able to significantly transform client landscapes into a hybrid operating model. So, we do not see any impact due to significant technology changes. So, it continues to remain positive. Momentum is there, it is an underpenetrated market. We have been very selective and our win rates continue to be high. So, we remain fairly positive to maintain healthy growth rates. So, in terms of margins, I think as you know that a lot of our services contracts are managed services contracts. So, they naturally lend itself to optimization and margin enhancement as we progress into the subsequent years. So, there could be some variation due to maybe large transformation, there is higher level of investment upfront. So, there could be a minor variation but we do believe that it will be in the range of our overall company level margins; that is what our general indicator would be.

Anantha Narayan: If you could just clarify on that question I had, basically Infra margins have been consistently trending up and Software Services have sort of somewhat trended down. So are these trends sort of likely to continue for some time as well or can they just be choppy in subsequent periods?

Anant Gupta: Just to put a little perspective over there, like a big sharing in the previous quarters, we have been having some very large significant Infrastructure engagements, and while some of the transformational components, one-time components of those come to an end, we obviously see the translations into margins which is much higher. So, in some cases, we see slower growth but that is because the one-time is trailing off, and the operating margins on operations obviously higher than the transformational in nature. So I would say on a Quarter-on-Quarter basis there will be some aberration. When we talk about Digitalization it is not only just about the front office, SMAC, technologies being put together, I think it is fundamentally customers building new technology estates to service their Digital businesses and when we look at that, there is a significant component of both on the Infrastructure side, the Application side, Engineering side. So I would say we will see some level of ups and downs on a Quarter-on-Quarter basis which will impact both revenue and margin when they translate into the respective service lines.

Moderator: Thank you. We have the next question from the line of Ankur Rudra from CLSA, please go ahead.

Ankur Rudra: I had three questions: first on IMS, Anant, last quarter you had highlighted that in the previous year there were some transformational deals which had ended and impacted the growth in the last quarter. Just wanted to know if that impact as a drag basis on growth has ended this quarter? Secondly, on Engineering Services, congrats on getting much larger deals. If you could just help us, because we are not familiar with the kind of deals you are getting into these days, in terms of scope of work, contract profitability over time, how are they different from the traditional IMS large deals? And the third question is on Europe. Clearly, it has been a very strong area of growth for you and for the industry, but with the persistent weakness in the currency, do you think your ability to continue to be very aggressive in future deals or your participation may be impacted by the currency weakness if it sustains here?

Anant Gupta: I think the Infrastructure, let me try to answer that, from engagements where we had transformational components coming in from 2013 and before, right, and I did mention about some of the very-very large transformational engagements, yes, those have come to an end and I see them behind, but at the same time, in early 2014, we have signed significant number of transformational deals again. So it will be a continuous cycle where they will be in every year, one, two, three, four very large transformational elements. It is really a question of a balance in that specific order what comes in and what moves out. But the net-net of all that really is once you have executed the transformational engagements, the core foundation operational work is the base becomes higher and higher. So that is really the focus and you cannot segregate these engagements anymore. So I would say we will continue to fight and we will continue to pick deals which have large components of transformation, and in the Nordics deal we talked about in the first quarter of the calendar year, it has significant amount of transformation right, and the question is, what duration of these transformation programs, some of them are four quarters, some of them are six quarters, some of them could be eight quarters, so we will see some of that choppiness in there. Coming to the second question on Engineering Services, I think the shift that we are seeing and I am likely they are still indicators, they are still not **inflection point** which I would say we are there from 2008-2009 perspective when we saw the Infrastructure trend. The nature is changing as follows: We have been in Engineering Services for a while, and we have been leaders there, but it is largely being driven by projects whether the scope of work is on sustaining the lifecycle of a specific product category or it could be a new product there, but specifically they have been coming more as programs, so it is not a large scale program where you have signed up for a long-term, where you can have consistency and visibility and then therefore plan the whole model around that. The shift that we are seeing now is A) it is becoming more full service, that means end-to-end, much like Infra where you saw it was largely remote offshore-centric and then moved on to full service sourcing, a similar kind of deals is what we have signed up in the last three quarters. So you are seeing them more full service end-to-end outcome based is the name of the game. And secondly I would say the mix between sustained and new products, there is no specific direction in which it is taking, I guess it is both, so customers are looking at quickly unlocking their R&D spends so that they can optimize their lifecycles affordance and sustain category and then use that to the kind of prioritize or have parallel priorities on both products for the developed markets as well as the emerging markets. So that is a certain change we are seeing. So historically customers had to make choices between where to put their money from an R&D perspective, “should they focus the R&D on new products for building the next-gen products for developed markets which is more profitable but less growth, or should they put it in emerging markets where the profitability for their products is low but growth is high”, I guess they don’t have to make those choices once you look at the specific business models which HCL has to offer. So that is where I would say with changing nature of these engagements. And I think the other big thing which is shifting in Engineering is it is no longer just the Hi-Tech sector which is contributing to the Engineering works, so it has gone beyond Hi-Tech, it has gone beyond Aero and Auto, which we have always been in that market, but I think some of the new segments which are driving more growth is really the Industrial Goods and Medical, your B2B medical device companies. So I see two new sector where we are seeing incremental demand coming in from.

Ankur Rudra: The impact of the euro on your participation in European large deals?

Anant Gupta: I think the market is continuously being driven by business case, we will continue to drive that market, I think the market is still significantly under penetrated and our margin profile is reasonable enough for us to participate even in the current currency environment, so we will continue to participate in these markets, these are long term engagements and therefore we will continue to acquire market customers in those markets, like Nordics, we are a leader in the Nordics, I mentioned to you previously our strategy on Switzerland which again is paying off well for us. Germany I had said that towards the end of the calendar year or maybe towards the first quarter, second quarter, or first fifteen we should see significant churn. We believe that will happen. And of course we will follow suit with France and Benelux. So, yes we will continue to participate in those markets and I think there is a way for money to be made and also deliver business case to our customers.

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

Sandeep Shah: Anant, sorry to just again asking a question on the Engineering. The first question is why you believe that the program base end-to-end outsourcing would not be a discretionary, why you believe it would be annuity versus the earlier trend being a project base? And the second question is why a client should outsource a next-generation product to a third-party? So what is the value proposition leading to this kind of a large deal signing?

Anant Gupta: The commentary I gave is what we believe, I think different people may believe it differently. So our hypothesis is based on what we see and hear, and makes us believe that is as follows. I think we are all living in a world where Digital is moving fast, companies are getting competed by the bond Digital companies, so the luxury of saying I will do it on my own is not necessarily the most prudent way to do business in today's environment. I think if at all we will see, the most significant shift in the next few years will be what I call as eco systems. I think companies will evolve eco systems to build their next-generation products and services. Let us take an example of a company in the technology game and they really want to offer as a service model, right. They will leverage Engineering capability to help them do that, then they will move on to the Cloud, help them host it, help them run it, help them build a Digital platform. So it is not just about building their own product, but make a fuller product they need capability which they may not necessarily have in-house. So that is the first point, and this will get driven a lot more because of the Digitalization and as well as end-to-end and IOT and everything to do in that space. Second is, the interest the companies to do new product development, it is a rather question, and I guess they will need the trust to be built, so I think it will be a parallel approach. Service providers like us offer fresh thinking to what I call **frugal** Engineering, so especially when you are looking at new product development for emerging markets or let us say markets in Africa, at times we are better in fine tuning the product build than the in-house R&D organizations which may be in other parts of the world. So these are the two hypotheses which are kind of watching like I said, five or six deals we have closed in the last three quarters and we will keep watching it before I say, yes, we believe the inflection point is there.

Sandeep Shah: Can you just give us some color in terms of the average size of those five deals signed in the last three quarters?

Anant Gupta: I would say these are all large deals, if I just take you back to 2008 and 2009 these would be significantly large deals typically in your triple digits, three to five years.

Sandeep Shah: In terms of cash flow generation, Anil, if you look at the Q1 as well as Q2 the free cash flow as well as cash flow from operation both on a YoY basis has been down. So what is the reason for the same?

Anil Chanana: I think it is more of investments which are taking place, whether it is in terms of CAPEX, I would say CAPEX has been one of the major areas where the investments has gone, in fact last year it was also helped by the fact that we had brought down in the O&D quarter of 2013, the bills receivables down significantly as it came, if I remember correctly came to the level of something like 74 to 75 days, but the last two quarters the number of customers we have onboarded and where we will be yet to raise the first bill, we are working out how to raise the first bill with the customer, just to make sure that the customer system is able to accept that, so we are going through that sort of piecing sort of issues vis-à-vis with our customers so otherwise this would have been significantly better this quarter. So I would say it is more of nothing per se as any apparent reason other than the BR which is at this moment is higher than it was at the same time last year.

Sandeep Shah: Anil, is it fair to say that we could be closer in terms of converting that FCF to PAT which was closer to around 100% in FY13 and FY14 can be repeated in FY15 as well?

Anil Chanana: That will always be an attempt. It comes with its own challenges, we want to definitely feed the business and you see the CAPEX also continues to be like 3.5% on an average in the first six months, so we want to continue to invest in our business, we have our global delivery centers, significant capacity addition is happening in India.

Moderator: We move on to the next question, that is, from the line of Sandeep Agarwal from Edelweiss, please go ahead.

Sandeep Agarwal: Hi, this is Sandeep Agarwal from Edelweiss. Sir, I have only one simple question here. How do you see now the demand environment versus what you were seeing last year at same time from industrial perspective and from HCL Tech growth perspective? Secondly, I am sure by now you would have got some idea of client budget, how they will shape up going forward. So what is your sense on that? And thirdly which is a part of actually second question only, how do you see Automation will relate to the IMS deals which we are doing, how much action will come from there, what is the margin levers still left or how much is the margin lever which is there, which can come from Automation and the IMS side?

Anant Gupta: Sandeep, that is great, one A, B, C, all rolled in one question, okay, let me take the middle one first from a client perspective, so that we get that. I think we don't see client budgets go up, right, we see client budgets shift, and the priorities shift, so the need for cost and efficiency on run the business continuous to be on top agenda and moving that money to C2B or grow the business, or whatever we may call it is the what is the order of the day, okay, so budgets are not seeing any shift, if at all maybe in a little bit of the Digitalization space, some budgets which relate to the CMO is something which is in the borderline of maybe which could be kind of attached to some of the end-to-end, front-to-back kind of Digitalization programs and with that I would actually maybe request Steve to give a commentary on the overall market view and then what we see and CVK will address the question on the IMS.

Steve Cardell: So I think just to lead on from a comment Anant made so if we look at CIO budgets what we are seeing is they are consistent to what they have been in the past, we see the spend continuing to be an aggressive reduction in run costs and to find further efficiency that to fund investment areas, yes some additional space, but also in some of the big data and analytics areas, and really the question there for about whether there is overall market growth for us is whether we can secure budgets that sit outside of the CIO's office. So whether that be in the CTOs office, the chief marketing office, so either in the Engineering or Digital space and so I think that is the question but in terms of the core budgets we see consistently and as we have already alluded to, I think we see a more buoyant customer base in the Americas, and we see a more stringent customer base in Europe, but that disruptiveness in Europe opens up markets to us that have been traditionally more closed to the out sources. So just a few extra data points there on the overall market.

C. Vijay kumar: And coming to the question on Infrastructure Services and the impact on Automation, Automation is a very important lever for not only enhancing productivity but it is also becoming a very important lever in a lot of new deals. Like customers expect us to bake in reasonable levels of automation and expectations on Year-on-Year productivity improvements are going up from a customer perspective and the new deals we do commit upfront on a lot of initiatives in the second, third, and fourth year onwards. In terms of levers I think whatever we have done so far has given us good results. We do have some more headroom to improve our automation initiatives and gain benefits, but in my view some of the benefits that we will get would really offset with the productivity commitments that we have, and maybe there is a small delta that we may really accrue to our margins, that is really the overview on the Automation front.

Moderator: Thank you. We have next question from the line of Ashwin Mehta from Nomura Securities. Please go ahead.

Ashwin Mehta: Anant, I had one question, if you could provide us an update on your CSC partnership which you had entered for the App Legacy modernization space in terms of how the traction has been on that, how many deals, how many clients have been on-boarded, and how do you see that shaping up going forward?

Anant Gupta: So Ashwin, I would say yes, it is slower than what we had anticipated, we thought that there would be a much larger uptake of that proposition, but I think you know we have to give some of these propositions, some of these partnerships time so I think we continue to adopt, we continue to acquire good clients whether it is trying to provide a fuller service to a customer on CSE side or vice versa, but I think it s a little slower. I would say that we will have to give it some time before it really impacts us significantly.

Ashwin Mehta: One is in terms of Engineering Services, so where is the traction higher? Is it in the core ERS space or ISV is where the traction seems to be building up higher?

Anant Gupta: I would say the ISVs continue to evolve their models and especially when the ISVs are confronted with a full as a service onslaught so we see more traction on the ISVs on one side, and at the same time I would say there are two additional centers I mentioned which are opening up faster. We have been in the medical devices for a while so we see that specific area actually accelerate even more and then finally the entire industrial goods area, which largely used to come in through the mechanical side of our offering now becoming completely I would say, not just restricted to mechanical but including embedded. This has to do with the whole theme of .,…

Moderator: We have the next question from the line of Viju George from JP Morgan, please go ahead.

Viju George: My question really relates to the margins that you guys have been showing for a while now, it is closer to 24% EBIT. Yet you do say that you want to operate 21%, 22%, but you are operating way above your stated intent. I am just curious why this is happening because you do have peers who stick to their operating margin intent band, but you are operating way above it. Is it that you are not finding opportunities to invest? What is preventing this from happening?

Anil Chanana: Viju, the intent here is to build a model, the business model which is sustainable, and that is why we are going in for a very diversified set of offerings, whether it is in terms of Digitalization, how to sort of surround the customer, how we can surround the customer in terms of Digital using Applications or using Engineering Services, so there are a lot of investments which are taking place, so our internal target remains as 21 to 22%, so it is only a matter of time that will be reached, but our investments are very much, our internal goal is very much in that range. Between the service offerings as we just talked, I mean some time ago that Infrastructure has sort of moved ahead than Applications because a lot of investments have started taking place in Applications which is sort of putting pressure on their margins but we are also looking at areas within the Infrastructure, we are innovating more and more, so I think it is more of driving deep and that is how we are sort of winning that recognition and signing the businesses, so it is important for us to make those investments.

Viju George: So what you are saying is that you intend moving into that band. Can you give the timeline -- is it going to happen in 12, 18 months or what is it because we are seeing a constant margin trajectory, so we are not seeing that movement really?

Anil Chanana: Its internal goal is that, so internal targets are set according to that, it may come, we do not know exactly it will start, we will reach there, because we are not stopping any of the investments taking place internally. In a couple of quarters it could be in four quarters from now or three quarters from now, so it is all, it sorts of totally depends upon how fast the particular service offerings is able to identify and is able to sort of have its plan crystallized because they also have to go back to their teams and work out what exactly is needed by the marketplace, so all that sort of exercise is happening in parallel, we are already running some extending programs while other programs are being thought through how we are sort of doing it, fine tuned, all those sort of things are happening. It is a constant exercise. So that goal which Anant has given us is like 21 to 22% internally, we are happy with that margin range because we have to grow and we have to grow and to create a sustainable model which is dependent upon diversified offerings not just a single offering or a couple of offerings, and we have seen in the last one year that non-IMS Services have sort of contributed half of the incremental revenues we have recorded.

Moderator: We have the next question from the line of Yogesh Agarwal from HSBC, please go ahead.

Yogesh Agarwal: I have two questions: Firstly for Anant, I am going back on the Engineering and R&D business. So as you are moving towards program-based projects, is the contours of the deals are changing as well like for instance from time and material to BOT kind of contracts where initially you will have to invest more and over a period of time you will have tighter or more control over the costs and better margin just like we saw in the Infra case? Anil, just a quick one for you, BPO margins have improved quite smartly. Are you happy with the margins or there is still scope for improvement in the BPO margins?

Anil Chanana: So the BPO margins, Yogesh, I think it is in the range of 13%, it used to be 12%, and for the last two quarters, it has been 13%, so that is the margin, so in the last two to three quarters, it has not increased. From a year before if you look at, it has significantly increased, where it used to be 6%, it has come to 12% to 13% now.

Yogesh Agarwal: So, I was asking is there further scope to improve as you scale up the BPO business?

Rahul Singh: I would think that the BPO margins are now reaching some kind of stability, they have improved substantially over the last couple of years, as you will notice.

Anant Gupta: Coming to the Engineering and the nature of the scope, I think there are a couple of significant variances which are seeing: 1) it is a full service, so the customer is giving you an objective to be delivered and not saying you are co-sourcing with me, that is, historically it could be, you know you take the offshoreable part of the deal or you take the sustainability part of the deal but the program is becoming more fuller, point #1, where the accountability is end-to-end, whether you need the people onshore, near shore, offshore, that is pretty much your call, likewise whatever is the pyramid and so on, so from that perspective it is kind of tracking towards the infra model where the customer is saying I am really interested in the outcome of the specific program. So I would say that yes, more and more, we should see a shift of that towards a specific kind of business model, the scope will be end-to-end, there could be even scenarios where customers are saying fine, why not take the outcome to the extent of the success of the product in the marketplace, and that is something which we also participate in and we have successfully done that in the past, in terms of taking a cautious call on participating in the success of the products, so if it does very well, then we obviously stand to gain much more nonlinearly, yes compared to even an outcome based model, and depending on how the product does not do well, then we obviously get paid much lesser, so I think that is a balanced decision and a call we need to take based on our knowledge of the different industry segments and product categories we have participated. Coming back to the other portion where I just got dropped off, it was the industrial Engineering sector which I was talking about, which is where we see a lot more of the shift, and a lot more of the passive devices becoming more intelligent and as you look at all the emerging trends which are not yet mainstay, but will be mainstay maybe two years, maybe three years down the line, things like machine-to-machine communication, things like the industrial Internet of Things, things like the Digitalization, I think these will call for a) an eco system b) it will call for different categories of devices in Manufacturing organizations, in oil companies, in energy companies, where you start translating what I call high value industrial goods to be more intelligent so a) they can be remotely managed, and b) when they are remotely managed you can provide a better management constructor ahead. That is where we see the market, and that is where we are investing heavily a) both in skills, in labs, and expertise to build, because it is a very, very broad sector.

Moderator: Thank you. We have the next question from the Ravi Menon from Elara Securities, please go ahead.

Ravi Menon: If I could get some color on the increase and the good growth in Engineering services, was this led by mostly the Hi-Tech vertical or whether was this kind of distributed across multiple vertical in this quarter?

Anant Gupta: I would say it is mixed, it is Hi-Tech, it is medical, and some amount of industrial as well.

Moderator: Thank you. The next question is from the line of Moshe Katri from Cowen & Company, please go ahead.

Moshe Katri: Financial Services this quarter has showed mixed results across the board from your numbers this morning and from some of your peers. Is there anything else that is going on there that is affecting this, you have indicated decent pipeline here, but maybe you can give some more colors on the budget cycle, maybe more about the fact that maybe it has to do with the fact that some of the large banks are going through some tough times, anything in terms of incremental color would be helpful.

Rahul Singh: This is Rahul here. So the Financial sector's growth rate this quarter as I explained earlier you know was at the back of a couple of very large growth rates in the previous quarters, so if you look at the full year number, we actually recorded 22.3% growth on a full year basis. So there is a sustained growth that is happening in the sector, now your specific question on whether there are client budgets, which are kind of any dip or any increase, the commentary is the same, in essence the client's budgets are fixed but the nature of the budget is changing, the customers are looking at service providers being able to kind of optimize services, there is a lot of vendor consolidation going on, and when vendor consolidation happens, overall budgets do come down, but successful vendors gets a higher market share, so for example we spoke about one significant vendor consolidation deal that we actually got in the last quarter, so therefore we are gaining market share, and I would say that the 1.6% QoQ growth on a constant currency basis this quarter being at the back of several quarters of high growth is just aberration.

Moderator: We will move on the next question, that is from the line of Mukul Garg from Societe Generale, please go ahead.

Mukul Garg: First, on the Engineering and R&D side, is there a regional skew in that business still or is it now strong across the board? Second question is on the Energy vertical. How big is the revenue from Energy vertical and are you seeing any pressure coming in because of the recent decline in crude prices?

Anant Gupta: Let me take the first one, and I will ask Steve to take the Energy question. On the Engineering I would say it is both US, it is in the continent, we see significant amount of market there, we do have some business coming in from Japan, although a little slower than US and Europe, but I would largely the demand is originating from America, the continent, and Japan.

Steve Cardell: And then just picking up on the question around I guess it was oil price really, so within our public services vertical we have a number of verticals in that public sector plus TTL, plus energy and utilities, so our exposure to oil and gas is below 5% of our revenue, and within that sector we are seeing some very strong momentum markets as we are seeing both in our current quarter 7% growth and our full year 35% growth but I would say specifically on the energy space, I would give a similar answer to the one we had given on Europe which is when you have pressures like we see today that drives disruption in the market, and HCL tends to prosper when there is disruption in the market. So it is enabling us to bring some of our stronger cost propositions into the energy sector but just to be an exposure for us as a sector is relatively small.

Moderator: We have the next question from the line of Sandeep Muthangi from IIFL, please go ahead.

Sandeep Muthangi: I have a question on the trend of this diversified growth that we have seen during this quarter. This quarter has been very healthy across service lines you have had some good growth. So now when you look at your pipeline and the kind of order book you have, does it give you confidence that this trend of a fairly broad-based growth will continue or do you think it is still a bit too early to call?

Anant Gupta: If I was to just comment on a full year basis, I would say, a) our pipeline is healthy across the board but trying to peg it down in a specific quarter which specific segment or service line may do better than the other, is dependent on a number of things, but if I was just to look at it from a full year perspective I would say we have made all the right investments in both the momentum plays, or making the right investments in some of the emerging plays. So it tends to give us confidence, yes, we should continue to see a broad based growth on a full year basis.

Sandeep Muthangi: If I look across the kind of client bases that you have, it is good that you have grown the $50 million, $40 million accounts, but the top $10 million, $20 million accounts, there's been some kind of a moderation in the past year, while these were growing pretty well in the prior years. Now my question is do you think there are investments that need to be made on the account management front or should this be just an aberration that has happened over the past year and when these clients that spending, you will again start growing with these accounts?

Anant Gupta: The way I would put it is, I do not think we need to put incremental investments on account management I think we are well-invested on that front, I think different customers are in a different journey; some are consolidating their vendor portfolios and you would have heard some of the commentary and us winning some of that, I would say it just a quarter phenomena, but if you look it on a yearly basis, I think the concentration continues to be good. Yes, of course, we will need to invest in some of the newer areas like Digitalization or Internet of Things or depending on what the client is, if there are in the Engineering Services space or expanding the budget into the CMO side, I think those are national activities, which are kind of built into the cycle of the engagement with the customer.

Management: Operator, we will take the last question now.

Moderator: Thank you. We have that from the line of Ashish Chopra from Motilal Oswal Securities, please go ahead.

Ashish Chopra: I just wanted to know, firstly, the Engineering deals have really picked up in the past couple of quarters, but despite that the overall TCV being shared is in the range of billion dollars. So just wanted to understand why is it not adding to the overall TCV or is there any particular segment where the TCVs would have gone down in the recent quarters? Secondly, just a follow-up to the earlier BFSI question to Rahul. Are there any differences in the demand dynamics between the US and the Europe given that the skew for HCL Tech is more in the Europe as far as BFSI is concerned? Anil, you shared earlier during about the SG&A spend wherein S&M grew by 15% and G&A by 7%. If you just do the backward math it actually worked out to an S&M spend of roughly between 3% to 4% of revenues, if you would just want to correct me on that?

Anant Gupta: Let me take the first one, I think if you look at our booking performance over the full calendar year, each quarter we have delivered significant booking performance, a consistent booking performance, and this, when we announced these deal values, these are for large transformational engagements. So there is enhancement in every engagement and every customer that we do, so this is not necessarily, it does not reflect the total book value that keeps coming in on a quarterly basis, I would not read too much into, whether it is Engineering, there will be aberrations in a quarter, some service lines will be better, I think the first fact is that from a $2-billion book per annum we have consistently moved to great than a billion dollar book a quarter, I think that is a great achievement for calendar year 2014. I think let us wait and watch as to what calendar year ‘15 has in store for us.

Rahul Singh: Anant, I will take the question on the Europe versus North America Financial Services. Essentially the Europe Financial Services we are seeing opening up, it is not that they were not outsourcing, they were outsourcing, but a lot of the outsourcing was happening to regional players, so in the Europe side, we are seeing outsourcing happening now to the global players as well, so in the Indian players as well. So that is a definite difference between the way North America and Europe looks at outsourcing, at the same in terms of activities which have been outsourced, the US tends to have already perhaps taken advantage of costs arbitrage, so there is a more value play there, more change-the-business kind of outsourcing, while in Europe, there is still potential for cost improvements, so firms are looking at ways and means to use the Indian players and foreign players as well from a cost optimization perspective. Our footprint is significant in Europe from Financial Services and as this market opens up I think we are well positioned.

Anil Chanana: To answer your question on the G&A spend going up, I think what the numbers I am giving is in terms of constant currency, so that is what has been used, so 12% overall growth is in terms of constant currency and whether it is S&M at 15% or G&A at 7% we are using the constant currency. So Sanjay will be very happy to walk you through that outline, but that's how the numbers have been arrived at.

Moderator: Thank you. Ladies and Gentlemen, due to time constraints, that was the last question. I would now like to hand over the floor back to Mr. Anant Gupta for his closing comments. Over to you, sir.

Anant Gupta: So Ladies and Gentlemen, thank you very much for joining the second quarter earnings presentation. We obviously extremely pleased with the second quarter performance as well as the calendar year `14 performance. As we enter the new year we are extremely bullish on the way we see the market, the way we are geared in our different services line, both in terms of the momentum plays in the IT Outsourcing business which is Infrastructure, Application Management and BPO plus also extremely bullish in the way we see the Engineering services play out. We still not there at the inflection point on Engineering, but it is again like I said it is a big market and we continue to invest in all the new segments we believe could capitalize this market much further. We will continue to make our investments in some of the disruptive trends because you would have seen HCL always actually is able to catalyze around disruptions which are there in the marketplace and create a more balanced portfolio. So we will continue to invest and be more aggressive in our plays at our Digitalization, in our plays around Industrial Internet of Things and actually the convergence of different competencies required to serve these two markets. Look forward to seeing you next quarter. Until then thank you very much for joining. Take care and bye-bye.

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