29th January, 2004 – 6:00PM IST

Moderator: Good evening ladies and gentlemen. I am Monali the moderator for this conference. Welcome to the HCL Technologies conference call hosted by IDBI Capital. Mr. Ravi of IDBI Capital is your call leader today. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for international participants connected to SingTel. After that, the question and answer session will be conducted for participants in India. I would like to hand over to Mr. Ravi of IDBI Capital. Thank you and over to Mr. Ravi.

Ravi: Thank you Monali. Good evening to participants in India and Asia Pacific and very good morning to all the participants in US and Europe. On behalf of IDBI Capital I welcome you all to the Q2 FY 2004 post results conference call of HCL Technologies. Let me first congratulate HCL Technologies for coming out with a good set of financials. Now without taking much time I would like to hand over the proceedings to Mr. Shiv Nadar, the Chairman and the CEO of the company and to the senior management team represented by Mr. S. Raman, President, Chief Operating Officer, and Mr. S. L. Narayanan, Vice President, Corporate Finance. Over to Mr. Shiv Nadar. Thank you.

Shiv Nadar: Thank you very much. Good evening to all of you on this call. This evening we will deal with three broad issues. First I would like to begin with a HPS transaction. We can now safely engage in some candid discussion on what were imperatives and what motivated us to monetize the value that we had created in partnership with Perot Systems. Secondly, Mr. Raman will update you as regards the new shape of HCL Technologies which is emerging in line with the implementation of our strategy. And to end it SL will present some of the key aspects of the financials for the quarter that ended.

First let me deal with the HPS divestment. As you all know HCL over a period of 27 years has a highly successful track record of working in partnership with global organizations such as Hewlett Packard, Deutsche Bank, British Telecom, Delux Corporation, Perot Systems, etc. They have all brought value to the stake holders during their tenure. At an appropriate time some of these partnerships have been amicably concluded, by one of the partners inheriting complete ownership of the joint ventures. In continuation of this practice both HCL and Perot Systems arrived at an understanding that all stake holders will be best served with a single parent ownership. HCL and Perot Systems had been in discussions over the last several months to arrive at an amicable solution. This has culminated in HCL Technologies agreeing to divest its share in favor of Perot Systems for all cash consideration of US $105.3 million, which actually took us to an enterprise value of about 240 million. By this equitable agreement arrived at with Perot Systems, we also resolved channel and brand conflicts in the market place. It will help both partners to pursue their goals independently. Well, we were quite keen to take over this entity given its rich credentials in the application development and maintenance areas, we were also quite aware of the risks involved in taking over an entity where some clients have come as a referral from PSC. While HPS has managed to forge strong relationship with all these entities, we could not really wish away the risk of loss of some of these clients. What we were also building in to our assessment of the fair value of this entity was a fact that there was a disproportionately higher level of profits which was generated by these clients. We were also quite conscious of the substantial commitment of management time, which would have been required to make the integration a success. Besides, given the rebound in our organic software business, we decided that we focus our bandwidth in organic side and prepare for integration of the entities where we have majority stake and are scheduled to take full control.

Turning to our results of October to December 2003 quarter, I am delighted to report that the quarter was one of the most satisfying for HCL Technologies in recent times, coming as it has on the back of a sharp turnaround which you may have witnessed in September 2003 in demonstrating the onset of a clear trend line. I will now pass this on to Mr. Raman, President and Chief Operating Officer.

S Raman: Good evening to people in India as well as good morning to participants from America and Europe. The year of 2003 in which the global economy grew quite slowly and which provided tough environment for business, however, ended with a lot of good news on macro economic side and improved overall sentiments in all other key markets. Against this unpromising background, our business showed its resilience in tough times and our strategy showed that it is indeed the right recipe for good times or bad, but above all, all our people used their skill, experience and total determination to deliver reasonable business returns. We should not underestimate the real effort, commitment in many cases sacrifice that enormous changes demanded by our strategy have required our colleagues worldwide. They have our, and I am sure your, gratitude. We have reshaped our portfolio in order to focus on the businesses where we have good market share positions and potential for sustained profitability. Our business is structured around 8 operating verticals, serving clients in every major industry. This vertical focus using an understanding of industry evolution, business issues and applicable technologies enabling us to deliver innovative solutions tailored to each client or as appropriate more standardized capabilities that we offered to multiple clients. Our simplified structure also enables us to move quickly. Client engagements team typically consists of industry experts, capability specialists, and professionals with a local market knowledge. Our client teams are complemented by professionals in our delivery centers who capture replicable components of methodologies and technologies to create client evolutions quickly, predictably and cost effectively. The last year we have successfully leveraged our expertise in discipline such as embedded software and ported some very innovative solutions to our newer vertical such as retailing, traditionally not a area of strength for HCL Technologies. Every aspect of our performance during the last quarter gives us confidence that we will achieve our aim of accelerated growth in top line enhanced operating margins and return to predictability. We sustained the growth of our leading clients in all key verticals, and most importantly the revenue mix has continued to reflect our intended balance between product engineering services and end user applications. The ration between these two broad categories is almost 1:1 now. My own belief is that the product engineering and technologies based services grow. We will see fairly buoyant conditions with a lot of semiconductor equipment manufacturers reporting a sharp pick up in order flow. Industry analysts are talking of large capital spends by semiconductor manufacturers and consequently equipment manufacturers. The earnings growth in this segment is predicted to be 86% on the back of a very healthy revenue growth of 19%. I now hand you over to S.L. Narayanan.

SL Narayanan: Thank you Mr. Raman. Good evening to all people on the call and good afternoon to some of you calling from other parts of world. Both in terms of sales and margins, we have continued on the momentum that we built up throughout the second half of 2003 and finished strongly in the last quarter to provide a platform for even more growth this year. Many of you might recall the sharp turnaround in terms of the top line growth we reported last quarter, on the back of that our revenues for the current quarter have also increased to around 11% sequentially. While the software services revenue has grown by about 10%, BPO has grown by 13%, and infrastructure services has grown by about 25%. Our performance in the operating margin side also is particularly notable. We reported an improvement in EBIDTA margins last quarter, again it has moved ahead by almost 130 basis points to about 20%, a record high for HCL Tech for the last six quarters. I have met some of you and many of you had some misgivings on the drop in the EBIDTA margins. I think I am very happy to report now we have again improved on this front.

In terms of financial performance we have kept our focus on generating cash through all aspects of our business activities. A strict control on capex and fairly rigorous attention to working capital management has meant that cash flow from operations is healthy, and with the disinvestment of the HPS stake as on 31st December, our treasury investment in liquid resources aggregated to almost 2113 crores, which is about 61% of our balance sheet reflecting an extremely strong balance sheet. And with that, I will throw it open for the Q&A. Thank you.

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

Zenab: Thank you Monali. We will now begin the Q&A session for participants connected to the SingTel bridge. Please press *0 or $0 to ask a question. Thank you. First on line I have Mr. Bhuvanesh Singh from CSFB, Singapore.

Bhuvanesh Singh: Hi sir, Congratulations ….

Shiv Nadar: Hello?

Bhuvanesh Singh: Your stock based sales incentive has increased significantly this quarter, could you please explain that?

SL Narayanan: Yeah that is basically because you know that charge is with reference to the market price. In the last few quarters you know because our price was subdued the charge was lower, in fact in some instances we had even written back some of those APIP charges. These are essentially non-cash. Because now the stock price has moved up, it has taken a debit now.

Bhuvanesh Singh: Okay and SL could you give us some more details about DSL Software, what exactly is the current run rate of revenues and have we got any customers outside Deutsche Bank there now?

SL Narayanan: We cannot disclose the numbers separately Bhuvanesh for the simple reason the integration is on course and there is a lot of cross fertilization that is happening, many of our centers are starting to service parts of the Deutsche Bank through the DSL system. So it will be extremely misleading now to show this as separately standalone. And as regards the acquisition of non-DB customers, Mr. Nadar might like to add.

Shiv Nadar: We have started with non-DB customer acquisitions. Last quarter revenue consists of some non-DB customers revenue.

Bhuvanesh Singh: Okay, and SL one last thing that have we done any change in our organic business, because I notice that last quarter number which we have given in this press release are not matching with the one given earlier.

SL Narayanan: Yeah the things is last quarter since we consolidated the HCL Infosystem software business for the first time, we disclosed HCL organic and the PSO businesses separately, but now that has also got integrated fully into the HCL organic business group that some of the people getting integrated with some of the centers across both Noida and Chennai. So what we have done is for sake of easy comparison, we have aggregated the numbers of the PSO division both for last quarter as well as this quarter.

Bhuvanesh Singh: Hello, can you hear me?

Zenab: Due to some technical fault, please stay on the line, we will try to get back the Chairman on the line.

Moderator: Zenab? Hello Zenab could you hear me? Kindly hold on sir, we will get the bridge connected.

Shiv Nadar: Yeah, otherwise start with India.

Monali: Okay fine sir. Meanwhile we will start with the Q&A session for the India participants. We will take the first question from Amit Khurana of Birla Sunlife.

Amit: Yeah Amit here, could you hear me?

Shiv Nadar: Yeah.

Amit: Okay, my first question relates to the steady state margins that we see in our infrastructure business, last quarter also it was not making money positive level, so could you give us a sense of that what the steady state that we are looking at and any timeframes what we are expecting?

SL Narayanan: The first part of our question, which business did you mention?

Amit: Infrastructure services.

Moderator: Mr. Amit are you on a speakerphone?

Amit: No miss I am picking up my phone already.

Moderator: Okay fine sir, you could go ahead.

Amit: Yeah, my question was relating to the infrastructure services, could you give us a sense of what is the steady state margin that you are looking at the business and the timeframe one should expect it to achieve?

Shiv Nadar: I don't know whether we can, infrastructure business is at a fairly early stage and you know the global kind of the business is pretty early stage of the business, and I take it that we would take a while before we can settle into any steady percentages, but it will be on the increase, that is all I can really comment.

Amit: Okay fine.

Shiv Nadar: You can see at the EBITDA level there is a sharp increase form last quarter to this quarter.

Amit: I see, okay. The second ….

SL Narayanan: … many of the contracts you know some of the larger contracts a few months you know we are underwriting some of the transition cost and especially through our some of the larger deals, so it is slightly margin dilutive as the project kicks off in the first few months and then some of the recoveries are back ended, which is the reason why you know we had a lower margin in our last quarter, and it is quite possible that in the next few quarters we will have some more businesses coming in, but then some of the earlier margin dilutive effects will go away, so but net-net we expect margins to improve.

Amit: Okay, fine. The voice is breaking, I have got the answer. Can you hear me now?

SL Narayanan: Yeah very well.

Amit: Okay the second issue I wanted to you know just get a color was on the sustainability of this trend, especially from you know perspective where in the revenue mix has been more driven towards technology kind of services, do you see that as a contributor of your growth in the quarters ahead and what kind of projects are you looking over there?

SL Narayanan: See one thing that I would like to mention here is you know earlier there was an extremely high dependence on the technology development services, the outsourced R&D kind of work, but today after you know getting some of the newer business verticals like retail and banking in the shape of DSL and the Jones Apparel group joint venture that kind of extreme dependence has been reduced. Notwithstanding that, we expect the technology development services business to improve on the back of improved sentiments. So, to answer your question, we will have a sharp increase expected in terms of the technology development services share, but that should now take us back to a position where our sustainability becomes a question mark. Today the business is fairly well diversified, we have got BPO, we have got infrastructure, we have got the applications business contributing almost 60% of the total revenue mix. So therefore you know that kind of a fear need not be there to the extent that they were earlier.

Amit: Okay, and any color on the kind of projects that you are looking at in that segment, any new trends that you are observing over there?

SL Narayanan: See the thing is you know we are not putting out any numbers in line with our policy, I think that served us well. We would not be able to give any kind of estimate in terms of a guidance, but suffice is to say that the business is looking fairly robust, the pipeline looks fairly okay, and we look to the next quarter and the quarter after that with reasonable confidence.

Amit: Okay fine, thank you.

Moderator: Thank you very much sir. Next question is from Mr. Supratim Basu of ICICI Securities.

Supratim Basu: Thanks, good evening gentlemen, solid quarter. I had two or three questions really. Firstly, you gave us metrics on your organic software side, but if you could give me a sense of what exactly is the quantam of your organic software?

Shiv Nadar: There is nothing called organic and non-organic anymore, because …

Supratim Basu: Right, I didn't ……

Shiv Nadar: …… none of our acquisitions is less than 18 months old, almost all of them are inter-vowen, so now even if you want we can't segregate and give you.

Supratim Basu: Yes, I mean I understand that, but you see in the data sheet you provided us, you actually gave us some data points which has the label of organic software on it, so if I have got to make any meaningful use of that data I kind of need the revenue number to stack it up against.

SL Narayanan: Okay this is basically because of the PSO business coming in Supratim. I mean we have a ratio here because you know that business has got integrated into the fabric of HCL Technologies say almost a year back, but in terms of the US GAAP numbers we have started to consolidated that only from 1st of July. Last quarter because we had a fairly sharp rebound in the business excluding the PSO business, we disclosed the effects of PSO separately just to make sure that you know the number that was being reported as increase was not misleading. But today you know that business has got completely sort of absorbed into the mainstream on HCL Technologies. So that is the reason why you know we have added these two and reported that as organic, otherwise it is going to become very difficult, like you know if there was a center in Noida which was earlier in HCL Infosystems and there were 400 people there, today you know some 130 people are going to Gurgoan center, and another 200 people have gone to our enterprise ERP practice, it will become extremely difficult for us to sort of define it and then you know report separate numbers. So just to make sure that in terms of comparability we have numbers, we have added both the PSO revenues for the last quarter as well as this quarter.

Supratim Basu: Sure, SL I understand that, what I am trying to actually drive at is that when you give us you know billing rate metrics or capacity utilization metrics, I think of this kind of excludes your DSL, it excludes your Jones Apparel and stuff like that, so I think from a usability perspective I think it is more useful if you either give us a data for your entire services businesses as a whole or give us the revenue numbers based on which these metrics have been calculated.

SL Narayanan: Point taken Supratim, you are right there.

Supratim Basu: Okay, in which case do you think that there is a timeframe in which we can get this you know the entire software services metrics coming through from you?

SL Narayanan: See the thing is you know as and when we got these businesses coming in, I mean these metrics are available, but then you know we also have the other problems, whenever we change the spreadsheet you know quite often people have some objections, they say that you know we find it very difficult to make any comparison. So what we will do is we will start giving it to you and for all the people on the call, you know if everybody is wanting this to be done, we can incorporate this and start looking at a consolidated metrics.

Supratim Basu: Excellent. Okay my second question is on your technology development and products engineering services which is roughly about 40% of your revenues, we are actually fairly bullish on where this particular area of services activity is going, I mean I would just like to get some more color from you in terms of where do you see the growth areas, what is of particular interest for HCL Technologies and you know what are the real technology drivers here?

SL Narayanan: See, the one thing is that has been very very certain that this company was actually founded on the back of an extremely robust technology expertise, I mean this sort of imprinted in the organizational DNA, so the early years we were focussed on that part of the business and as you know we went through a difficult time and some of those strategies that we did to counterbalance that have paid off. But today as we see it that technology development practice truly cuts across a host of verticals, I mean this is basically the underlying expertise in embedded software and semiconductor design, working with compilers, databases, it is that skill that runs across a whole host of industries, I mean we started off with certain players in the networking side and then based on that you know we went into avionics, and from avionics it went into automotive and today we are working in medical electronics. All along we also had a growth in the semiconductor equipment vertical. So today if you were to look at that space, we have actually now moved laterally and penetrated several verticals on the back of this skill set. So as somebody said, unfortunately the industry groups don't analyze and put the potential of this market size, but in our estimate it could be somewhere close to a $100 billion, because every R&D budget is a potential addressable market for this company. And I share your enthusiasm as well in fact internally we feel that you know we can actually build a fairly large business on the back of this knowledge base that exists and the kind of inquiries that we are getting, in fact one very large player, which is into cutting edge, I mean I don't want to say the name, but you could guess, it is in the aerospace and avionics area, I mean these are companies which have not looked at outsourcing at all and you know once they came and looked at HCL Technologies and the kind of work we were doing with the likes of Rockwell Collins and Thales, they went back with a view that how did we miss you, I mean how could we afford not to have worked with you, I mean this is the kind of realization that is coming. So once those kind of big-ticket deals come in, the kind of multiplier effect that it will have will be fairly, fairly strong. So without getting into any numbers, all I can say is earlier we were focussed on the semiconductor equipment vertical and a few semiconductor companies like Vitesse Semiconductors and names like that, but today that common core competence is running across a variety of industries ranging from aerospace to medical electronics.

Supratim Basu: Right, just one final question on this, I mean do you actually see the nature of this work changing compared to say back in 1999-2000 to what you are doing now, I mean is it getting more onsite driven from a delivery perspective and are some of the deliverables itself changing?

SL Narayanan: No I think today the way we are seeing it is, it is more and more offshore driven and there may be some initial visits while the transition takes place but within a period of 6 months or 7 months typically, most of the work is offshored.

Supratim Basu: Okay, thank you very much and good luck gentlemen.

SL Narayanan: Thanks, and thanks for your recent report as well.

Supratim Basu: You are welcome.

SL Narayanan: And you have been a nay-sayer for a while, but now you have become a believer.

Supratim Basu: Thank you.

Moderator: Thank you very much sir. Next is Mr. Rahul Dhruv from Citi group.

Rahul Dhruv: Yeah hi, good evening and congratulations on a great set of numbers. My basic question was if you look at the whole of FY-03 and I am purely looking at the organic business, you had a 660 basis point margin erosion last year, and only 280 basis out of that was because of gross margins coming down, so a large part of the reduction came from SG&A, and I guess in the last two quarters you have gone most of the savings on the SG&A level, I am talking purely of the organic business. Do you really see a further gains from SG&A front going forward and can you effectively go back to the mid 20s in terms of operating margins for the organic business?

SL Narayanan: Rahul I wouldn't want to say anything at this stage. There are certain plans which are internal to the company. It is a fact that you know we are looking at a whole host of issues, looking at possible scenarios where the dollar could you know depreciate further and the impact of that on the bottom line. So, some of the action plans to reorient the entire cost menu to make that you know we have a viable business on a sustainable basis making sure that the growth numbers are fairly sustainable. Those are the things which are still under discussion, I wouldn't want to hazard a guess whether we would go back mid 20s. I know that you would love to have that answer so that you build your model, but at the moment I don't want to hazard a guess.

Rahul Dhruv: Yeah I mean what I am exactly trying to get at is today SG&A is around 15-16% of revenue for organic business, I am just estimating, I mean I have tried to do a break up of organic and inorganic based on the historic trends. So if it is at 15-16% I guess it is very much in line with the industry, do you think you can cut it down to like 13-14%, because as I said last year you had around close to 400 basis points being lost because of the SG&A, so you don't think you can go back to the 12-13% SGA levels.

SL Narayanan: Unlikely, but that is why I am saying you know I don't want to, it will too premature to put out a number at this stage.

Rahul Dhruv: Sure. Okay my second question was on BPO. When do you really look at a turn around in this business, I mean I know you have had pretty decent turn around in the operating margin up to 8% now, but when do you really see it net breaking even?

SL Narayanan: All I can say is you know there was a certain plan to reach break even around this financial year, but I have a feeling that we may not be able to reach PBT break even in this financial year; cash break even perhaps yes.

Rahul Dhruv: Right, okay one last thing again on the non-operating income front, you know it is little bit volatile, I see as you book part of the income in a particular quarter, can you give us an approximate yield that you expect on your treasury going forward, and will it be again very volatile the way it has been in the last two three quarters or will it be more streamlined going forward?

SL Narayanan: It will be about 5%.

Rahul Dhruv: And it will be more streamlined or again it will be?

SL Narayanan: Yeah. See the thing is you know this is something which we don't understand, so we consult a lot of experts. People say that you know there is perhaps one more minor rally which is expected when interest rates might possibly break the 5% point and go to say 4.9 or 4.85. I don't understand that but most people say that perhaps it will fall to 4.9 levels, in which case there could be another you know up trend in the bond prices, which means we could have some kind of kickers coming but nobody is looking at those kind of possibilities internally. We are happy to get about 5%, which I think is reasonable expectation.

Rahul Dhruv: Right. And one last thing on income from equity affiliates, you have around Rs. 65 million again this quarter, I guess this should be from HCL Perot?

SL Narayanan: Yes.

Rahul Dhruv: So that means it will not be there next quarter onwards.

SL Narayanan: Right.

Rahul Dhruv: And there is no other sources for this head?

SL Narayanan: Yeah.

Rahul Dhruv: Okay, alright thank you very much.

SL Narayanan: Thanks

Moderator: Thank you very much sir. Next is Mr. Trideep Bhattacharya from UBS.

Trideep Bhattacharya: Yeah hi, congratulations to the management on a good quarter. My first question is your press release mentions quite a few contracts/like engagements without the names etc. Is it possible to get an idea at least of the size of the contracts that you have entered in, just to get a sense how the average sizes has moved of the new ones that you have entered into.

SL Narayanan: See this has become a slightly touchy issue off late. The people do not want to release either their own names or even the possible size of the framework contracts. So that is reason why, you know, we have just worked with this kind of references to just major leading provider of storage networks, we have just used names like that. It is becoming difficult to get their names and also the contracts sizes because of various sensitivities.

Trideep Bhattacharya: I see. My next question on the data sheet that you have given, the pricing seems to have declined by about 2 to 3 odd percent, what is that due to?

SL Narayanan: See it is again due to a variety of reasons. We have a thing of the PSO business, which is getting consolidated with the organic business, and as I mentioned many of the PSO people have got redeployed and some of the PSO contracts are can be Southeast Asian region where the prices are lower. The prices are lower and so are the costs. So on the pricing side that impacted our blended billing rates.

Trideep Bhattacharya: But that should have been in the previous quarter as well, if you would build this in the previous quarter numbers.

SL Narayanan: See that is the reason why we have also now restated the thing on a quarter-on-quarter basis, in fact why don't you just, in fact Trideep we can actually share with you exactly how it was, because if I count consolidated this in the metrics for last quarter, we would have had a pricing decline of this impact in the last quarter, but then last quarter we wanted to show what is the revenue coming from the PSO business so that you could see the organic side, how much it grew by. So what we can do is we can share with you the effects of PSO, both the revenues as well as efforts, and then you know you can get that full picture.

Trideep Bhattacharya: Okay that probably will be off line.

SL Narayanan: Yeah

Trideep Bhattacharya: Okay, fair enough.

SL Narayanan: Otherwise you know we had that option, but this whole sheet would have become such a complex sheet, we did not want because in the past when we tried to do something in the best intention the response was you guys are confusing the hell out of us. So that is the reason why we did not do it, but we will give you all those data points.

Trideep Bhattacharya: I see, again on the operational front, how much do you think is the **leverage** to improves the capacity utilizations further, especially offshore.

SL Narayanan: We have got in the past almost about 80% offshore centric utilization. We are currently at about 77.1, so perhaps we could look at another two percentage point increase.

Trideep Bhattacharya: I see, thanks a lot and best of luck for future.

SL Narayanan: Thanks Trideep.

Moderator: Thank you very much sir. Participants are requested to limit to one question in the initial round. We take the next question from Ms. Priya Rohira of Refco.

Priya: Yeah, good evening sir, congratulations on good set of numbers. I revert back to the improvement in the environment which you have see for the R&D spend, especially from the semiconductor and equipment segment plus the broadening of the vertical areas to which you catering. If you could give us the idea on the pipeline of orders in the coming quarter which you have and given the fact that couple of deals which you have mentioned in the release are more in the product engineering side.

SL Narayanan: No we will not be able to give you, you know, pipeline and all, we have not been giving that till now.

Priya: Okay and what were the attrition rates, did we see an increase in the attrition rate, if you could highlight, what are the key levels where you have seen a higher attrition or is it in line with the industry trend rather.

SL Narayanan: We are at 10.5%. I do not know what are comparable numbers for rest of the group.

Priya: No what I mean to say is it in terms of, if you could share the details on the experienced front people like more than three years or say more than six years. If you could give only indicative idea where you are actually seeing a high attrition compared to the company average of 10.5%.

Shiv Nadar: Typically this would be less than two years.

Priya: Okay, thanks a lot sir. Other questions have been answered and wish you all the best.

Shiv Nadar: Thank you.

Moderator: Thank you very much madam. Next is Mr. Shekar Singh from DSP Merrill Lynch.

Shekar Singh: Hi sir, congratulations on a good set of numbers.

SL Narayanan: Hi Shekar.

Shekar Singh: Hi, I just wanted to understand this share of income of minority shareholders, it has come down on a sequential wherein the negative number has come down basically. So does it mean that the share of revenues from Deutsche Software and Jones Apparel would have come down?

SL Narayanan: Just to, you know, I am quite impressed you caught that. There has been one time expense, which has pulled down the profits at Jones, but that is a one time thing and otherwise, you know, things are pretty much on course.

Shekar Singh: Okay and how about the rate re-negotiations a bit both Deutsche as well as Jones Apparel, does it continue at the same level or are there any changes in those rates?

SL Narayanan: They are pretty much at the same levels.

Shekar Singh: And just one small question, in the balance sheet the investment in venture funds that has been reduced mainly because of the sale of stake in HPS only.

SL Narayanan: Correct.

Shekar Singh: No other changes.

SL Narayanan: No.

Shekar Singh: Okay thanks a lot sir.

SL Narayanan: Thanks Shekar.

Moderator: Thank you very much sir. Next is Mr. Anantha from Morgan Stanley.

Anantha: Yeah hi, good evening everyone. I have a couple of questions. It is balance sheet related questions. First one is what are your plans on your debt position, now that you have some more cash, which has come from the HPS sale; and the second is do you have a precise dividend policy in terms of bench marking it to a certain percentage of net income or certain percentage of cash balance or some thing to that effect.

SL Narayanan: See the debt is something which you know we took at a time when we saw that the dollar denominated revenue stream was under pressure because of rising rupee. So we thought you know we could use the capex to be funded out of a dollar liability, so that you know we have some kind of natural hedge, and use the surplus internally generated for investments, because the rate differentials were quite high, as also the possibility of making a gain on the loan itself becoming devalued over a course of time. So at this point in time we do not have a plan to repay the debt. And in terms of dividend policy, while we have not articulated formerly that we would distribute a certain percentage of disposable profits, we just want to maintain that there is predictability in terms of income streams arising out of owning the HCL stock. So while we cannot put out because of legal restrictions that we would pay a Rs. 2 dividend every three months for all times to come, we thought we would just articulate an intent to consider quarterly dividends, as an established practice, clearly lay down that expectation that this company would be distributing Rs. 2 every three months, and that is something which came from most of the investors in Southeast Asia. So we took note of that suggestion and we have implemented that. At the moment, our distribution ratio is almost around 65% and between that dividend and the capex requirements I think our internal generations more than take care of those kind of requirements, and on top of it we have a fairly large sized cash portfolio to take care of whatever exigencies including possible opportunities that may come, although at the moment we do not have any such opportunities.

Anantha: Thanks and wish you all the best.

SL Narayanan: Thanks.

Moderator: Thank you very much sir. Next is Mr. Chetan Shah from Quantam Securities.

Chetan Shah: Yeah, this was in connection with the billing rates, which have been going downwards for the last few quarters, if you can give some kind of reason and whether the new client addition is having at the weighted average rates or they are coming at the below the average rates?

SL Narayanan: Chetan it is a mixed bag, you know, there is no clear trend. There are some people who are actually coming at the same rates, some people who are looking at discounts, and in some rare cases we have still been able to get rates in excess of $30 an hour because of certain key technology credentials that we are able to prevail upon. So it will be very difficult for us to put some kind of generalized statement. Suffice is to say that, you know, it is reasonable to predict that rates are not going to sharply go up and we do not expect major deterioration in rates as well. Same time last year you know we were still **dropping** 2%-3% each quarter, that kind of decline is behind us, and today you know the demand supply true kind of price discovery that is emerging. We are able to hold on to our prices.

Chetan Shah: Okay and I wanted to reconcile this gain on the divestment of the HPS stake. You have said that the total consideration was Rs. 4.8 billion and if you look at this gain that you have given is 2.6 billion, so the difference will be the book value?

SL Narayanan: Yeah the book value and less some transaction cost.

Chetan Shah: Okay, the book value should around, say 1.7 billions?

SL Narayanan: Tell me what is this numbers separately because I have all the dollar amounts.

Shiv Nadar: See the transaction cost is about 105 millions, carry value was about 42 millions, and the 105 millions after the transactions costs would have yielded somewhere around 97 million or so. That should leave us with about 57 million of gains. That is what it translates.

Chetan Shah: Okay and lastly regarding the Softex division basically of HCL Infosystem, if you can comment on the how the progress has been on that front?

Shiv Nadar: It is getting integrated. See it constituted three parts, one in America and Europe, certain accounts and people integrated into HCL Technologies, which has been completed. Second is full entities where HCL Technologies did not have presence, which are three countries, India, Singapore, and Malaysia. They have been completely taken over and now stand integrated, that is India facing and the other two. And the third as I mentioned the third part of it was group of people in certain package implementation specializations, particularly SAP, and these people are then redeployed in our own SAP factors. So they have been now fully integrated into the organizations.

Chetan Shah: Okay sir, yeah thank you very much sir.

Shiv Nadar: Thanks

Moderator: Thank you very much sir. Next is Mr. Pramod Gupta from ABN AMRO.

Pramod Gupta: Just thank you to all of you. All my questions have been answered.

SL Narayanan: Thanks a lot. Nice of you.

Moderator: Thank you very much sir. Next is Mr Manoj Singla from JP Morgan.

Manoj Singla: Yeah hello, good evening sir. Congratulations once again on a good result.

SL Narayanan: Hi Manoj

Manoj Singla: Hi sir. Sir my first question actually relates once again to the margin increase, I am just trying to understand how much of it is driven by SG&A and how much of it is driven by the salary side, and what is our expectation, when are we going to take the next salary hike?

SL Narayanan: Manoj, salary increases don't happen one fine morning, I mean, most people, you know, it goes on a 12-monthly cycle as and when they join. So it is not like one fine morning it is going to jump by a few percentage points, and I don't know if I shared this with you, we try to control the cost through a multi-pronged approach. At certain levels, especially at entry levels, today we are able to hire at lower entry salaries. At middle level there has been a rationalization because you know that is the segment which is very vital in terms of project execution, and so certain corrections have happened, even as high as a 15% to 20%, and at some at senior levels there has been some kind of rationalization, especially now that our M&A program is over, and also some of the relocation effects of people moving from overseas locations to India. Of course, typically what happens is when people get posted abroad they are paid in accordance with a certain living standard that we want to them enjoy relevant to that location. So net-net, we have been able to hold on to the costs through this kind of strategies. So it will be very difficult for me to say what is the effect of the salary increase as such. We have factored in a certain rate of increase because of general pressure on costs on account of pick up in recruitment levels with a lot of people from abroad also setting up centers in India, but I think we will be able to manage margins.

Manoj Singla: Okay and the salary increase would come in the June quarter.

SL Narayanan: No it comes over a year, as and when people complete their 12-monthly appraisal cycle. So it happens like you know there are thousands people who join this quarter, their increase would be in the same quarter next year, whereas the people who joined last quarter, they will be due for increases in the September-December quarter of 2004. So it is a rolling kind of effect, so it is already factored into the quarterly numbers.

Manoj Singla: Sure sir and secondly you talked about the R&D business gaining more traction, is there a difference in the margins that you earn on the R&D and enterprise side?

SL Narayanan: Definitely

Manoj Singla: And why is that, what is the difference?

SL Narayanan: It is just that you know it is differentiated service, it is a service, which was founded on intellectual property and intellectual capital. So if something, which is not easily sourceable from the market and there are only a few players who are able to offer that service, it will command a higher price. It is like a BPO, which just offers call centers services as opposed to a BPO which is doing say back office equity research. So the rates would be definitely higher.

Manoj Singla: Okay and just one last question on the new customers. We have heard almost all the other larger peer group saying that new customer pricing is better in current average. So what are we seeing in the market place on prices from new customers?

Shiv Nadar: You know, this is a function of what the current average were, because whatever market prices which is prevailing, in many of the contracts it is multivendor based and the prices are the same. So I suspect that we may have held marginally higher rates because of a higher technology services content, which is almost 40%.

Manoj Singla: Right, sir in conclusion are we seeing basically flat pricing from new customers or close to current averages?

Shiv Nadar: I should think so.

Manoj Singla: Sure thank you sir.

Moderator: Thank you very much sir.

SL Narayanan: I think we should be able to wind up in the next 3-4 minutes, so this is the last caller please.

Moderator: Sure sir. We take our last question from Mr. Mahesh Vaze of SSKI Securities.

Mahesh Vaze: Yeah, sir congratulations on the good set of numbers. Just one small followup on earlier question, you discussed this salary hike thing, what about people who have been already with you for sometime, for them surely once in a year there would be a salary hike, so I would like to know when was the last salary hike and when is the next one likely?

Shiv Nadar: See it is not across the board and that is what SL was trying do. People who have been with us for a while will fall into two general periods, one would be sometime around July, one would be some time around January. Even that we have split it now into four quarters and it is spread all over.

Mahesh Vaze: Secondly sir if one looks at the gap between your gross addition for the quarter and net addition, it is about 700, and if one uses that number for calculating the attrition rate the numbers works out to be much higher than this 10.5%. I just wanted to understand how exactly this 10.5% came?

SL Narayanan: The 10% is only on the organic side of the business. Sorry, the attrition is only with reference to people who have spent more than one year.

Mahesh Vaze: Okay, so what would be the number if one were to include people with less than one year, meaning everyone?

Shiv Nadar: Whatever that number, which you see is attrition. If we take 700 people, whatever that 700 people means. See we are in three different businesses. It is very difficult for you to compute because the ratios in BPO would be different from the ratios in other. Time taken to train in BPO is so different from time taken in enterprise services, which is very different to technology services and which is very different to infrastructures services.

Mahesh Vaze: Okay, that is it sir. Thanks a lot.

Moderator: Thank you very much sir. At this moment there are no further questions from participants. I would like to hand over the floor to Mr. Ravi for final remarks.

Ravi: To the HCL management I have three small questions, one is from the direct cost has gone up by 9.1% sequentially, I want to learn from you how is onsite and offshore behaved. Is the onsite gone up or offshore gone up or both gone up, which are the one actually going up?

SL Narayanan: How did you say that sequentially it has gone up by 9%?

Ravi: Actually if you say that in a quarter you have done 3959. 8 million direct cost and last quarter which was 3633.6 million, it is a growth of around 9.1% in terms of direct cost, I just wanted to understand how the onsite per employee programmer cost is growing and how the offshore per employee programmer is going.

SL Narayanan: But I think you should look at gross margin, which has actually gone up.

Ravi: No that is fine, I just was wondering because I have been hearing off late that offshore per employee programmer wage is growing up and onsite is going down. So are you doing a balancing act whereby onsite is technically going up and offshore is going?

SL Narayanan: No, no.

Ravi: You are not?

SL Narayanan: No

Ravi: The second one is how much of your foreign exchange is having a forex cover that means how much has been covered at this point of time.

SL Narayanan: Fully.

Ravi: Okay and the last one is you have a gain on divestment of 263.3 crores. There is no tax on it, what are the taxes, because the taxes have gone down?

SL Narayanan: Yeah there is no tax on it.

Ravi: There is no tax on it?

SL Narayanan: Yeah.

Ravi: Okay from my side that is fine.

SL Narayanan: Okay thanks for all of you. At any time if there are any questions feel free to call, ….

Shiv Nadar: ….. particularly those from Singapore who were unable to join.

Thank you, thank you very much

Narayanan: Thank you, bye.

Shiv Nadar: Bye.

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