"HCL Second Quarter Earnings Conference Call"

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Moderator: Ladies and gentlemen good morning and good evening. Welcome to the "HCL Earnings Conference Call." I am Rochelle, the Moderator:, for this conference call. Please note that for the duration of this presentation, all participants will be in the listen-only mode and this conference is being recorded. After the presentation, there will be an opportunity for you to ask questions. Should anyone need assistance during this conference call, they may signal an operator by pressing "*" and then "0" on their touchtone phone.At this time I would like turn the conference over to Mr. Vineet Nayar. Thank you and over to you Mr. Nayar.

Vineet Nayar: Good morning, good evening friends and thank you so much for taking time out and joining this conference call. Wish all of you a very Happy New Year and I hope it is as great as the year before. I am happy to present the results of HCL Technologies to you. As you would be expecting the results are consistent and good. Before I go into the details of the result it is important for me to set a perspective of what are we doing in HCL. Two and a half years ago we had set the vision that we would like to be known as a company for what it does, better than how big we are or who we are or what brands we have. And we wanted to be known for blue ocean thinking, we wanted to be known for new services, we want to be known for new ways of doing it and we wanted to be known for innovation both in the way we deal with our employees and deal with our customers. So we had set an agenda for a company which was not competing in red ocean, but was thinking differently in blue ocean. That journey brought us into three phases of transformation. The first was based on focus. And the focus was to drive operating efficiency to drive integration, to have an effective go to market, to create new service proposition and to clean up the house keeping which needed to be cleaned up so that we are effective both in front of our customers, our employees and our investors.The second phase as we enter today is to create leadership in few market spaces, and the theme there is collaborative transformation. The collaborative transformation was defined with output based pricing, result orientation, engagement and alliance with our customers with their revenues alignment with other vendors and partners to cope develop products for incremental revenues and changing the business model radically so that it is no more a T&M business model, but a new business model. The collaborative transformation space is going to take time for it to turnaround but it is heartening that we started the journey two years ago. We would be sharing the results of collaborative transformation with you which you have seen in form of quest announcement, in form of the CA announcement which was happened this quarter, in form of the $300 million deal which we announced early this quarter. And you would hear many more announcements in the coming few quarters and years which will validate HCL's thinking on collaborative transformation. We believe as we were pioneers in thinking of engineering services outsourcing about a decade back, we were pioneers in thinking about BPO services, we were pioneers on thinking about remote infrastructure management services, we believe we will be pioneers on collaborative transformation the way we define and execute it and that would be followed by the rest of the industry.However, this is all English what are the results? The results actually speak for themselves. The year-on-year growth of 39%, the quarter-on-quarter growth of 7.4% with IT services growing at 8.4% quarter-on-quarter is validation that some of our strategies which we have started, has started showing early signs of progress. These are still early signs predominantly because we have consistently perform over a longer period of time for us to say that our strategy is really succeeding. In IT services I am specially happy to see 7 quarter, 7 consecutive quarters where we have demonstrated a growth of 8% quarter-on-quarter and 5 out of this 7 quarters we have grown greater than 9% quarter-on-quarter. That is quite heartening, because you know what we as business managers really look for from our teams is consistency. And I am happy to know that there is some element of consistency which has started coming in our results. On gross margin it is heartening to see a 8.2% growth on quarter-on-quarter basis on EBIT. And the fact that despite the currency challenges we continue facing we have enabled to expand our margins. The drive of growth continues to be Asia and Europe as I had said before. And you can see those numbers, but what is very heartening is that the US has grown 8.9% quarter-on-quarter. And the reason that fact is important is not an indicator that this the rate at which US will continue growing, but the fact is the fact that if your propositions and service articulation and the way you deal with customers is correct then actually you can grow. And that is also the story with financial services which is growing at 50% year-on-year, life sciences which is actually growing 95% year-on-year, are indicators that if you choose the segments well then you potentially can grow. Infrastructure, R&D and IAS are also big growth drivers. Infrastructure growing at 52% year-on-year, R&D and engineering services at 43% which forms the base of what we do. And applications, I am very happy to see applications comeback to the growth of 40% year-on-year. The Enterprise Application Services has not grown, but I would comment about that during the question and answer session as to what are we planning to do about it. Having said all this, there is one additional point which I would like to make. And that point it the fact that as we define our journey to be known for what we do I am very happy that the world has started noticing this 5th largest computer company or 5th largest IT services out of India. When we got recognized as a World #1 in IT Infrastructure space in the Black Book of Outsourcing above all global major players it really warmed our heart, because in the end you really want to dominate the world market and not be known as #1 or #2 or #3 Indian IT Services player. The word Indian has to be removed and the word world has to be added for more and more service lines within HCL. And I am happy to see that the world has started recognizing with this recognition by the Black Book of Outsourcing. I am also happy to see the thought leadership which HCL has brought in the employee relationship called employees First. It is not only increasingly adopted by many companies worldwide, thanks to the Harvard Business Case Study, the articles on Business Week, USA Today and many others, but also the fact that we are suddenly seeing a very large inflow of HR Managers coming to HCL to learn what Employees First philosophy really means. And we are seeing increased adoption of some of the tools technologies and methodologies we are using in our employee relationship. The 4th consecutive quarter of attrition being coming down is an early indicator of what Employees First is all about. However, the fact that the attrition has come down is not what we are really targeting for. Employees First is a lot more about unleashing employee energies towards creating value centricity for a company's rather than just attrition coming down, but in an industry environment where the attrition is going up to see attrition going down is a heartening, heartening fact we cannot ignore.So that is what I wanted to say from an opening remark perspective.I also like to introduce Anant Gupta, who has just been promoted as President of HCL Comnet and heads our infrastructure services division. He joins me on this conference call today so that he can answer all the infrastructure related questions you have, which I have been answering so far. So he has been joined on our call and he would speak to you after we have an overall perspective from BPO. So I am handing over the mike to Ranjit to talk about our perspective on the BPO industry.

Ranjit Narasimhan: Thanks Vineet. The BPO division completed one more profitable quarter. During this quarter our revenues grew by 31.9% on a year-on-year basis and the income from operation grew by 76.8%. In spite of difficult market conditions, we managed to expand our operating margin. Our operation continues to get growing international recognition. During this quarter we were awarded the National Outsourcing Association of UK, special award for Consistent Excellence for Outsourcing Practice across all disciplines. We continue to move up the value chain and during this quarter we have acquired two new clients in the KPO space. I pass it on to Anant to explain about infrastructure.

Anant Gupta: Thank you Ranjit. Good morning, good evening. I wanted to just give two perspectives on the way our business is growing. The first one obviously our pioneering position in the remote infrastructure industry obviously got recognized last quarter by four leading analyst report in the market. The first one, which Vineet touched upon which is the Black Book of Outsourcing where we were recognized as the Number 1 infrastructure player across all global players and you know one of the only Indian vendor in the Top 10. The second was a record in Europe again on the remote infrastructure management side putting HCL as leaders in the remote infrastructure management industry as far as that continent is concerned. With respect to our operations in the Asia Pacific, Frost & Sullivan came up with another survey where we were sited as leaders in remote infrastructure management industry in this part of the world. And of course a very important survey report on customer satisfaction which was released by IDC and Dataquest again where they positioned us as Number 1.I think really this has got to do with the innovation we have been building and that has really been in twofolds one is really the service model itself which we kind of introduced close to about 4 years back in terms of an alternate sourcing model which has been the remote infrastructure management model. And of course the collaborative course engagement with our partners, customers which really is the basic foundation behind the growth and the recognition that you are seeing in the industry. Obviously going forward we will be looking at some more innovative models and enhancing the service proposition and some of that is really been released in the press release about an integrated operations and management framework. And finally you know with respect to business performance in this industry we have seen now, with respect to HCL straight well quarters of consistent growth in this specific line of service which is obviously very heartening. Thank you. I will pass on the mike to Anil.

Anil Chanana: Thanks Anant. Good evening, good morning everybody. I am going to present the financial analysis on this quarter's results. First of all the revenue grew by 7.4% quarter-on-quarter. And I am going to talk about where this growth has come from. 6.6% growth company wide has been led by volume which is the effort base growth. And the interesting part is in the core software the growth has been 7.3% and the infra side the growth has been 8.4%. Higher realization gave 1.6% to the revenue line. The hedge accounting gave us 1.3%. You are aware that we have following hedge accounting in respect of hedges which are effective hedges. There are certain things which took away the revenue growth meaning one of them being the lower number of working days this quarter, which impacted it by 1.1%. The change in mix in favor of offshore from onsite, good for the EBIT margin but bad for the revenues, took away 0.8%. There was a reduction and took all non-effort base or one time revenues, which took away 0.2%. So net-net there was a 7.4% growth this quarter.This quarter we realized foreign exchange gain of 15.8 million out of which 7.3 million has been taken to the balance sheet as other comprehensive income. In revenue 7 million has gone. And in other income which we have seen the profit and loss account below the EBIT line there is a 1.5 million which has been added there. If you look at the, I talked about the higher realization, the rate was onsite and offshore year-on-year have gone up when I say rate the realization. Onsite by 8.3% and offshore by 8.2%. I now go to the EBIT margin and explain how the EBIT margins have moved what are the positives and what are the negatives there. On the EBIT margin there is a positive impact of 16 basis points. Let me first talk about the negative. The SG&A, the increase in SG&A took away 89 basis points, I am going to talk about it slightly later in detail. The exchange rate took away 107 basis points. The lower number of working days took away 83 basis points. So the total of negative was 279 basis points. However there were lot of positives, one of them being the higher realization which gave 123 basis point. The hedging gave us 100 basis points, the depreciation leverage provided us 3 basis points, efficiency gave us 69 basis points. So all the positive we had 295 basis points. Net-net it was 16 basis points positive. In terms of the SG&A you would see that SG&A year ago was 15.7% in July to September quarter it was 15.7%, but last quarter which was October to December it was 16.6%. There have been a 90 basis points increased most of this increases are accounted for are two factors, one being we had a Global Customer Meet in this quarter and which has the impact on account of dollar-rupee which also impacted the, means to convert your cost from rupee to dollars so the number of dollars increase in absolute term rupee cost increased.I now move on to one of the other lined item here in terms of

EBIT has been the Amendment in the Payment of Bonus Act, which was retrospective from April 1, 2006. We have a negative impact of 1.5 million which has basically in the direct cost-line which is there, which has been absorbed.I will now talk about the treasury income. The treasury income this quarter has been 12.3 million opposite 9 million which it was in the July to September quarter. You would recall that last quarter we had 10.3 million as effective as the income but we realized only 9 million. This quarter we realized 12.3 million. Two things are happening here, A) Our funds in the treasury have gone up, they have gone up substantially. This quarter I mean, there is an increase of something like 15% if I look at 6 months back, more than 25% increase in department as treasury to investment. Number second the treasury returns this quarter was better which is partly driven by the fact that we have diversified into fixed deposits. In this particular quarter October to December we have placed something like 290 Crores in deposits for about a year at the rate of about 9.2%. Still there is a 20.3 million which is there sitting in the balance sheet as unrealized treasury income.I now move on to explain the foreign exchange, hedging gain where it has been taken what we have currently as of 31st of December is like 2.3 million in forward covers in respect of dollar-rupee, we have 59 million GBP hedges and we have 62 million Euro hedges. The US dollar INR hedges are covering us for the next 10 quarters. And so far as GBP, Euro and other currencies are concerned they hedge up for the next 4 quarters our net inflows. I would also like to mention that we have no options, we are all have plain vanilla forward cover.I go on to explain the capital expenditure. The capital expenditure for the first 6 months of the current fiscal has been 57.1 million. For the last full 2006/2007 it was 84.3 million. In terms of I will move on to the tax, tax provision this quarter is 9.6% in line with 10% we have been guiding. In terms of stock options, no new options are granted. And the ESOP charge this quarter, net of tax has been 5.64%. The options which are outstanding total up to 7% which include about 4.9% which are at market prices and 2.1% which are below market, as we call it at par. This is what I had to cover. Thank you.

Vineet Nayar: Thank you Anil. And now we will open the floor for question and answers please.

Moderator: Thank you very much sir. Ladies and gentleman we will now begin the question and answer session. Anyone who wishes to ask a question may press * and 1 on their touchtone telephone. If you wish to remove yourself from the question queue you may press * and 2. Participants are requested to use only handsets while asking a question. Anyone who has a question may press * and 1 at this time. The first question comes from the line of Mr. Joseph from Jenny Montgomery Corp,USA. Please go ahead.

Joseph: Hi gentleman. My first question here is, I was curious as to how you are seeing the spending environment in North America. Any changes through your budgeting process are you seeing any changes compared on an annual basis?

Vineet Nayar: This is Vineet here and you know I wanted to comment on it, I just came back from US last night. And my perspective is slightly changed compared to what I shared with you a quarter ago. My view is that based on 16-17 interaction I have had with CIOs and CEOs of the company is as follows. The sentiments because of what newspapers are writing and the kind of reports which are coming out are definitely subdued. The sentiments are not good and some of the financial results of some companies there especially in retail are definitely are a cause of worry. But the fact that have we declared this as a US slow down, you know the jury is still not out. However, when I interviewed the CEOs on how do they expect to respond to this particular situation, I got some very interesting answers. And they said that in 2000 when the slow down was there their only focus was cost out by off-shoring to India. Now what their belief is, they believe that they will use IT to drive higher efficiency, higher performance within their organizations. And that was interesting for me when I also talked to the SAP leadership at the board level that SAP has registered one of the best quarters in SAP's history since 2000. That means more people have bought SAP licenses this quarter which is the October-November-December then ever before. So that means despite the sentiments of slow down, rather than the existence of slow down people believe or some of the people believe or large population of people believe that IT spending to drive efficiency is the answer to drive lower cost. So I would combine that with the fact that off-shoring offered the double Bank to say that we seem to be on a positive wicket. Now how would that turn out to be, I do not know. When I look at my deal flows and I look at the number of deals in play right now, I do not see a significant increase in the deals neither do I see a significant decrease in the deals. So I am not seeing any indicators there, but from my interviews with CEOs and CIOs I feel encouraged for the IT industry worldwide as a whole and also for the Indian IT industry.

Joseph: So just to recap, so from a budgeting standpoint you are not seeing any change in what you are seeing this year compared to last year it is about even with your ….?

Vineet Nayar: Yes that is true.

Joseph: And should a recession take place in the US are there any actions that you are taking to change the business or to change your approach to the business?

Vineet Nayar: Yes I think so and so there are three distinct strategies which we have adopted. In 2005 itself we had talked about a possibility of a slow down. And a possibility that we need to change the business model, so our adoption of output based pricing, our adoption of result based business model which has less to do with customer control of inputs.1.For example today typically in a T&M contract the customer controls four elements, he controls the bill rate, he controls number of people, he controls the number of hours those people work and he controls the productivity you promise on those people. So in an T&M contract you actually can do nothing. And therefore it was essential for us to either move towards output based pricing, revenue share, fixed price so that is strategy number one which seems to be working pretty well for HCL.2.To increase the percentage share of annuity business so that we sign longer term contracts and that is again we started in 2005. So I believe that we have a large number of revenue coming from annuity and that is the reason you are seeing some kind of consistency creep in into HCL results much more than what it was in the past. And that was annuity revenues.3) Is our participation and changed the business. Now unlike what I talked about you know maybe 2 quarters back I want to state very clearly that there is an assumption HCL is making today that if there is a US slow down then there is a certain aspects of change the business where the funding will go in. And HCL you will see over the next few months is going to announce some key initiatives on participating in a very large way on change the business, because we believe that some of the companies that are going to respond to this, with change the business.So these are the three things which we are doing to make sure that whenever there is a crunch on the IT budget we get positively impacted by it.

Joseph: Okay .and just real lastly hear quick. I think on the last conference call last quarter you guys talked about discretionary spending perhaps slowing the things a slow down in that. Can you just help us reconcile those comments where what you said today about there being actually a positive spin and the potential slow down in North America. How is the discretionary spending looking compared to where it was last quarter, thanks.

Vineet Nayar: This is exactly what I said in the opening, that in the last 3 months I have got a new perspective. So when we talked about it in the last quarter right, you know our assumption was that change the business with the discretionary spending will be the first to get hit. And run the business which is non-discretionary spending, the discretionary spending will not get hit. This is exactly what happened in 2000 and that was one assumption. My view today after interviewing the couple of CEOs and after looking at the results from SAP from Oracle, from Microsoft from some of the ERP vendors is that, need not necessarily be true now the jury is not out. So therefore in this conference call I started by correcting myself and saying that I cannot make that assumption. And therefore what you will see from us announced in the next few months is a response to that new thinking with in HCL and saying that we do want to go after discretionary spending, because there would be some kind of discretionary spending which would be necessary condition for CEOs to adopt to respond to the challenges they face. So overall the discretionary spending may still go down, but there are some kind of discretionary spending like the SOA implementation, like the APO methodology, like the ERP rollout, you know like the CRM implementation so that they retain their own customers. So a lot of people are going to respond to the slow down in a different way and therefore there is a certain level of discretionary spending which I believe will become attractive business. Thank you very much.

Joseph: Thanks

Moderator: Thank you Mr. Joseph. The next question comes from the line of Ms. Diviya

from JM Financial. Please go ahead Ms. Nagarajan.

Diviya: Yeah, hi congrats on a good quarter. My question relates to your BPO business, you have seen one of your client phase out through the last couple of quarters. We also seen fairly good additions in number this quarter. What is your outlook in terms of business picking up in the current levels. Could you give us a sense on the kind of growth you are likely to see from these levels?

Vineet Nayar: See in the last conference call in starting and I think 2005/2006 had articulated a vision that given the transformation we are undergoing we would be able to achieve a 30% revenue growth from 2005/2006 to about 2010. And so he had defined a long term vision of a 30% growth and you know year by year it may differ. Now the way we are today is I believe that the vision of 2010 30% growth still remains intact. Like whatever we may see the environment and despite the pressure we are facing from the Rupee. On the current year, I think we are outperforming the 30%, I think we will be closer to 35% this year, but overall guidance continues to be 30%.

Diviya: No I meant in particularly to your BPO businesses, which had a client crumpling down in the last two quarters and the growth level for that particular business going forward?

Vineet Nayar: I think I will answer that first and then see if Ranjit wants to add. What we want to do going forward is the fact that we want to give a guidance as a company rather than give guidance on a business by business basis. However, I will ask Ranjit to comment on the outlook for BPO business in general.

Ranjit Narasimhan: In fact last quarter we had mentioned that the 2nd largest client consequent mergers some company in US and they decided to move their business out of India and to some extent it focused that there could be a possible dip in the quarter, but we had taken necessary corrective action to see that there is not only a dip there is a marginal increase. And looking forward we would continue to perform though

Diviya: Ranjit I cannot hear you please?

Ranjit Narasimhan: Okay, last quarter, during the last conference call we had informed that our 2nd largest client a large telecom company in US consequent to merger with a much larger telecom company had decided to move the business out of India from all the three existing vendors consequent impact during this quarter and we had even forecast that there could be a possible dip in earnings during the OND quarter. Now we have not only made this up, we have had a marginal positive during this quarter. And overall during the entire year that would be an impact of the loss of this client, but we will continue to make efforts to ensure that we continue to grow fast.

Diviya: Is the client transition complete as of today?

Ranjit Narasimhan: Yes it has got completed as on 30th September so the entire impact has been factored in OND. So whatever OND result that we see today is inspite of the loss of this client.

Diviya: Okay. And if you look at the BPO cost breakup, the derived cost is actually reduced in rupee terms over the quarter, what has been the reason for the same?

Ranjit Narasimhan: This actually we have done a lot of cost control measure to neutralize the impact of the rupee appreciation and consequently there have been an expansion of margins.

Diviya: And what kind of cost control measures are you talking about sir?

Ranjit Narasimhan: Cost control measures including very strict control over the buffer, buffer is the number of addition people we maintain, just the number of people in the buffer we focus on enhancing realization with focus on moving up the value chain and of course a strict control over the operational expenses. And there is a continuous decrease in attrition, because in BPO normally any process that has 10 weeks of training before they become billable and last quarter we have had one of the lowest attrition in the last 2.5 years. And that has also contributed to the reduction in the cost.

Diviya: Sure. Vineet, the overall revenue growth has been pretty strong this quarter except for the enterprise application space which has shown 1% in dollar terms. Is this reflection on the uncertainty in the spending environments or are you expecting this to pick up over the coming quarters in the light of what we are have just discussed about discretionary spending in some areas going up?

Vineet Nayar: The first is that the enterprise application spending quarter-on-quarter is about 1% on a CQGR basis it is about 5% quarter-on-quarter basis over the last four quarters. However, as I said I wanted to you know talk about is, this is the second point I want to talk today. I think our strategy on enterprise application services was wrong. And we discovered that what we were doing was wrong and therefore we started a process of correcting it. There to try and see if we can drive this to be a very high growth service. Now I am at a liberty of sharing that with you today but within the next 30 days you would start seeing some announcements coming out from HCL, 30 or 60 days which will tell you of our renewed focus on enterprise application. At HCL we believe that if we want to sustain this growth rate from now to 2010 the performance of enterprise application is very critical and we also believe that if we continue – applications the way we do today which is manpower and funding and onsite resources and offshore resources it will not be a sustainable business model. Therefore we have to change that business model and we would be announcing some initiatives in that area which I think you would like when you hear about them.

Diviya: Thanks a lot and all the best.

Moderator: Thank you Ms. Nagarajan. The next question comes from the line of Mr. Pankaj Kapoor from ABN Amro Bank, please go ahead.

Pankaj: Yeah hi sir. Can you just give a sense of what are the different factors impacting the margin across the three lines of businesses?

Vineet Nayar: Yeah, I am asking Anil to do that please.

Anil Chanana: Pankaj as I had mentioned that there was a improvement of 16 basis points in the margin overall. And I will now take you through each of the business lines. In the core software's, again there has been a positive impact of 16 basis points. (Which is) Let me state the negatives first and then talk about the positive. The exchange rate took away 129 basis points, the increase in SG&A which I talked about has taken away 67 basis points the lower number of working days in OND quarter took away 115 basis points. So the total of negatives is about 311. However it was more then compensated by the higher realization, we talked about the higher realization which gave 146 basis points. The change in mix as I said it in favor of offshore which was a dampening on the revenue but positive on the margin was 9 basis points. The efficiency gain was 49 basis points and the hedging contributed to 123 basis points. So total of 327 basis points we are positive. In the infra side the SG&A was a negative which was the share of the global customer needs, 115 basis points. The utilization increased there which added 65 basis points. There was some sort of a one time revenue margins which has 56 basis points and there was a depreciation leverage of 10 basis points. So the total was 131 basis points positive and 115 basis points negative, so net-net 15 basis points. In the BPO we have got again a positive impact of 10 basis points, because exchange rate negative of 111 basis points, SG&A taking away 184 basis points. So total of 295 basis points being the negative. There was a higher realization which was 137 basis points, there was as hedging gain of 87 basis points. The efficiency gain of 71 basis points, there is a small depreciation leverage or something like 10 basis points, so this gave us positive of 305 basis points. So net-net BPO was 10 basis points. This helps…?

Pankaj: Yeah and secondly can you give some sense of annuity base that you spoke of – early in the call how much would be the share of those revenues?

Vineet Nayar: We are not sharing that information right now.

Pankaj: Fair enough! Thanks, all the best.

Moderator: Thank you Mr. Kapoor. The next question is from the line of Mr. Harmendra Gandhi from Lehman Brothers. Please go ahead.

Harmendra: Good evening and congrats on a very good quarter.

Vineet Nayar: Thank you.

Harmendra: I just want to ask you about this, EU interaction you had, so you said certain kind of discretionary spending may go up, but what are they saying about what can possibly go down if there is a slow down?

Vineet Nayar: I said that the discretionary spend will go down that I remain consistent. I said some kind of discretionary spends will go up. So for example, we saw a lot RFPs coming out right now which are saying that can you take all my legacy applications and change them to a standard platform therefore reducing the total cost of ownership. An accrual manufacturer CEO, I met him. He has about 18 warehouses worldwide, he sees $160 million saving accrual to him per annum, if he can find the system which he can quickly implement an integrate all his warehouses so that he has one instance of inventory. So that again this would result into some kind of discretionary spending. If we see retail companies, retail companies most of them are under significant pressure, because this Christmas has not been as strong as the old Christmas. So their response to that is to try and see if they can create new services using CRM so that they can get customers on web and create new class of revenues to be able to respond to the scenario. So the way I see this is that if you see opportunity to threat in the discretionary spend itself overall it will go down but there are certain kind of discretionary spends which will go up. So if HCL is intelligent about this and can not only A, be in that part of discretionary spend but more important offer it to the customers in a form which would make sense to them to buy in this environment, I would believe that we have a winner on line. So the past statement I had made was discretionary spend overall will go down. I am correcting that statement based on what I has said last quarter to saying this, that there are certain sections of discretionary spends which I will believe will become very attractive for the IT industry if approached correctly.

Harmendra: Okay! And do you think this will be the, what would be the proportion of that compared to the total discretionary spend?

Vineet Nayar: I have no idea Harmendra, we are too small a company, the discretionary spend is too large the opportunity is too large so I am happy to you know put my hand in that Ganga.

Harmendra: Sure definitely. Other thing is Anil you mentioned about this forward covers, so it disproportionately high US Forward cover as compared to Pound and Euro and what happens if some forecast that the USD will appreciate against the Pound more than against the Rupee, so what happens in that circumstance?

Anil Chanana: So let me give you a perspective. You see Harmendra when we look at the Dollar Rupee, if there is appreciation of in the 1% appreciation in the Rupee it leads to something like 40 basis point impact on EBIT margins, however when it is appreciation of the Rupee against GBP then our margins get impacted only by 10 basis points. So I mean we are sort of a taken a I mean you know we are forming the hedging- policies, they are very proactive one and very I mean it is working fine, I mean you know this is 63 million of you know unrealized gain which are there right there.

Harmendra: Okay thank you.

Moderator: Thank you Mr. Gandhi. The next question comes from the line of Mr. Nimish Joshi from CLSA, please go head Mr. Joshi.

Nimish: Anil what is the rationale in classifying foreign exchange gains in the revenue line and below the EBIT line because the seven million seems disproportionately high compared to last quarter and there seems to be a certain shift of forex gains from other income line to the revenue line this quarter?

Anil Chanana: Okay, let me explain, this is basically what we are till last year, I mean I am just getting into some history. Till last year we were following the policy of marking to market at the end of every quarter all the forex exposure be it in terms of forward covers we had taken or be it in assets & liabilities. However U.S. GAAP allows us to follow a cash flow hedge accounting. Ultimately what we are trying to cover is our revenue and so we decided to follow cash flow hedge accounting, it has stringent norm. It has I mean qualification norms. All my Forex covers which I take do not fall in that category, just to give you an example if I cover let say I cover Dollar to Pound and Pound to Rupee, this will not be treated like a effective hedge so far a U.S. GAAP is concerned. So all the effective hedges whichever whatever they are, they get accounted on a cash flow basis meaning they do not get into the profit and loss account till the time the money is realized and that is what we wanted, so there is a 63 million which is sitting in my balance sheet on unrealized gains on Forex which will get realized over a period of time and so 1.5 million which you see there in the other income line is basically is two components ineffective hedges means when the ineffective meaning which have not been able to pass the test of hedging under the U.S. GAAP and then there is a restatement of assets and liabilities which happens at the end of every quarter, so both put together is a 1.5 million of gain there. Your next question or observation I will call it was a 7 million taken in revenue is very high. Last quarter was the first quarter when we decided to follow the cash flow hedge accounting. What we, when we started following the cash flow hedge accounting, the gains which would have gone into the revenue line would have been much higher. However what we did was to take the opening rate as of 1st of July as the basis so even if I mean I had taken a forward cover with Dollar, Rupee at less as for a moment at 44 Rupees. However, I reset it as a lower base, so the gain which went in that quarter was 1.5 million, the gain which went in to on the revenue line this quarter is seven million. So the incrementally is five and a half million has gone into this quarter in the revenue line, which is the way it should be following the U.S. GAAP. I hope it clarifies?

Nimish: Yeah, okay, thank you.

Moderator: Thank you Mr. Joshi. The next question comes from the line of Mr. Julio Quinteros from Goldman Sachs, please go ahead Mr. Quinteros.

Julio: Hi guys, I just wanted to go back to some, I jumped on just a little bit based on my missed first commands, but I wanted to go back to the question about the 16 to 17 conversations that you had, I think I got the part about discretionary being down but there been some opportunity for share shifts towards offshore, is that more or less how you are trying to characterize that and then secondly within those conversations that you had are overall IT budgets going down or up?

Vineet Nayar: Sir, I made that comment in the opening remarks that there is nothing I discovered in my conversations which indicate any change in the environment of IT budgets going down or up, that was the first point which I made. The second point which I made was that run the business efficiently which is not business as usual but running the business which is combining infrastructure and operations, off-shoring it and running it more efficiently at a lower cost , seems to be high on more agendas than I have ever seen before. So that is the second point that I made. Third point I made was of the discretionary spend that when slow down, does happen and if it happens, my belief is that discretion spend will come down but there will be attractive opportunities on some kind of discretionary spends and if they are offered in a particular way.

Julio: Sure, sure the next part, yeah next time, okay, great, thanks.

Moderator: Thank you Mr. Quinteros. The next question comes from the line of Mr. Ed Caso from Wachovia, please go ahead Mr. Caso.

Ed Caso: I thank you for taking my question. I was sort of curious more on the supply side. Are you tracking to your original expectations for both gross and net hires and what are you seeing on the wage front and what kind of offers wage- higher offers are you giving to the incoming class for the next year from the fresher's that you gave this year?

Vineet Nayar: That is an interesting question and I have, you know a different answer. The net hires we had projected was about 12,000 and we have tracked on net hires but the gross hires we had projected at 25,000, I thing it would be less than that because our attrition for the last four quarters is going down, quarter-on-quarter and it is showing a very, very healthy sign, which is interesting, which is the interesting problem to have. On the campus side, we continue to, what we call with the program called back to school where we are intending to train more and more people in their third degree, third year of engineering, so right now 4,956 people are under training with us who would join us a year from now. Their compensation when they join us is at 3 Lakhs per person so which is higher than the compensation at which the 2007 batch had joined us.

Ed Caso: And what percent roughly is that? Is that 10% higher or 20% higher?

Vineet Nayar: It is about 12 to 15% higher.

Ed Caso: So, is it fair to say that wage is on average are generally rising about the same rate that they did a year ago?

Vineet Nayar: That is true, okay, and I did hear some industry remarked that the wage increase has dropped at least I have not seen that. I believe that for hiring good quality talent as you grow higher and higher in the value chain and as you try and experiment with doing more value work and less body punting work, you need better talent and therefore I would believe 12 to 15% wage hike will stay for sometime.

Ed Caso: Thank you.

Moderator: Thank you Mr. Caso. Ladies and gentlemen, the next question comes from the line of Mr. Nitin Padmanabhan from ICICI Direct, please go ahead.

Nitin: Yeah. I had a couple of questions; one is if you could give us some sort of idea on the kind of wins we had this quarter and what the kind of engagements were? And the second one was with reference to the HCL Technology Hub that we were talking about, what we will see going forward and how do we see it planning out? And the third was with reference to the collaborative transformation. We talked about the deal with Misys collaborative engagement with Misys to sell across other locations. I believe Wipro has a similar thing with Misys or is there something different in a way what we do all this different in terms of the geography?

Vineet Nayar: Okay, so let me answer with the first thing which is wins. You know, I thing we had already announced $290 million or $300 million win this quarter which was the biggest you know so far we had announced. No, actually Dixon was the largest in that, so this is the second biggest deal. This deal is very interesting because not only in-fortune 500 landscape but in this deal we are doing exactly what I was talking to you. We are suppose to do a complete reprocess architecture of their applications using SOA, after we do an SOA, we are suppose to re-implement and upgrade some of their SAP structures and after we do that, we are suppose to off-shore there, run the business which is the SAP and the IT infrastructure and some of the legacy apps. So it is a complete change the business using SOA, using APO, using some parts of net weaver and ACP technology and run the business using off-shoring and that what win is. There are multiple other win that, you know announcing wins is no more in fashion because everybody has started announcing them, so there were multiple other wins which is what the reason for driving the revenue is, but the way you can track what is happening in HCL is if you go down and look at the number of million Dollar customers, $10 million customers, you will interestingly see a 9 increase in million Dollar customers and the 4 increase in $5 million customers and 2 increase in $10 million customer and that there is where you get a sense of how that is growing. One very other interesting statistics although you know which I measured internally may not be very relevant for you but let me share with you is a year ago, 84% of our business used to come from million Dollar customer and 16% of our revenues used to come from less than million Dollar customer where we were piloting or where we had body shopping or you know we are doing some kind of small projects, that has now moved to 89% coming from million Dollar plus customers, which is the point I was making about having higher predictability revenues having longer term contracts, so that is with reference to the wins we had. The total new client relationship we have added is 29 and the number of customers we deal, multi service clients is 57 and right now we have not taken the $100 million clients up but I think we will have to create a new category above $100 million shortly, the way we are expanding our existing relationships also.

Nitin: Yeah.

Anil Chanana: Your second question with the reference with technology hub, it was set up with two purposes and let me talk about collaborative transformation and then come back with technology hub. The collaborative transformation concept is as follows: Like when we started remote infrastructure management, we said that if we can take a big piece of the market and deliver it in a new way, we can create leadership, while a lot of people went ahead and copied what we did and in the end the market recognizes after the leader and that was what you saw in the black book of outsourcing. Can we create a similar new market space in collaboration, that is in an isolation and when we saw that we said that if we collaborate with some of the customers, then I will take Misys to explain the concept, but that is not the only one. So if I say Misys we are involved in their core product development, we are involved in professional services, we are involved in tech support and we are involved in go to market and we are involved in combining the Misys product with two other products which you will see an announcement in the next few weeks and creating a completely new proposition in the market space. So it is not a reseller agreement with Misys. We are not interested in re-seller agreements and we have enough you know to fill up our tank. We are more interested in collaborating and co-creating a completely different value space. I do not want to talk on behalf of Misys too much but if you take the Misys product, it was re-engineered to adopt some of the new standards which is coming in. I think Misys has a significant upside on revenue. Same is true with the computer associated you know deal we had announced which is still in the diligence state right now, where we were collaborating together to get into the security market space on the revenue share basis, so you will see under the collaborative transformation bandwagon more announcement coming from HCL and what you should watch out for if not a go to market or a resale arrangement but how we are coming together for core product development of creating new landscape or products which do not exist and how we are getting into a revenue share arrangement in that product landscape, that is what I mean by collaborative transformation and if we can do that enough and innovate in that area, I believe that could be as large a growth area for us as Remote Infrastructure management. Having said that let me put a caveat. The caveat is that the business model is not proven till date, we are positive about it. We are investing in that area but I will keep you informed quarter-on-quarter and see where it goes, but at HCL we believe in innovation as we believe there should be at least one big idea out there which potentially could add billion Dollars of revenue to HCL and which we will call a billion Dollar idea and you saw our infrastructure to be a billion Dollar idea, our BPO to be a billion Dollar idea, total IT outsourcing to be a multibillion Dollar idea and believe collaborative transformations to create another billion Dollar idea for HCL.

Nitin: Right, just another one, the $300 million deal that you said, on the, if I look at the total number of clients on the chart, there is not any increase quarter-on-quarter, why would that be?

Anil Chanana: No I do not understand where you are saying. Active client relationship has gone up from 244 to 256.

Nitin: No the $100 million plus client for December 31, 2007 quarter, it says 2 and the previous quarter it is 2 as well, so?

Anil Chanana: I wish customers given order and then give the revenue in one quarter, it does not happen.

Nitin: Okay, this is revenues, right. So you recognizes there only once you start billing revenues, right, okay, thank you.

Moderator: Thank you Mr. Padmanabhan. The next question comes from the line of Runjhun Jain from Tower Capital, please go ahead.

Runjhun: Sir, Thank you for taking my question. Sir most of my questions has been answered. Sir first thing is the treasury income which you said is how much in this quarter?

Vineet Nayar: Sorry, we could not, could you pick up the phone and ask the question again please.

Runjhun: Sir, I just want to know the treasury income you have reported in this quarter?

Vineet Nayar: Treasury income reported in this quarter.

Anil Chanana: The treasury income which is reported in this quarter is 12.3 million.

Runjhun: Okay, and second thing sir you said that your SG&A expenses are being increase in this quarter due to two reasons one is that of global customer meet, the second you mentioned was?

Anil Chanana: Second was the impact of dollar Rupee, the exchange rate.

Runjhun: Okay, and sir the campus offered you have made for next year?

Vineet Nayar: we cannot hear your question.

Runjhun: The campus offers you have made for next year sir? Hello.

Vineet Nayar: Campus, I just explain to you the campus offers right now we have made is 4,956 for next year, is still going on.

Runjhun: Okay, thank you sir.

Vineet Nayar: Thank you, we will take two more questions please.

Moderator: Thank you sir. Thank you Ms. Jain. The next question comes from the line of Subhashni Gurumurthy from JM Financial, please go ahead.

Subhasini: Hello, congrats on the great results.

Moderator: Mam, could you speak a little louder please, your voice is breaking.

Subhasini: Hello, can you hear me?

Anil Chanana: Yes, we can, please go ahead.

Subhasini: Congrats on the great results. My question was slating to the large deal which we are pursuing currently. Could you throw some light as to how many deals are we pursuing at the current moment and is that any change in the deal dynamics or the large deal space due to the U.S. slow down which we are witnessing?

Ranjit Narasimhan: Sir, we are chasing enough large deals you know, all the deals which everybody else has announced yes we are also chasing them plus we are chasing more, so there is no point of talking about numbers there but it is important is how many we win.

Subhasini: Okay.

Ranjit Narasimhan: Second is the deal flows are only increasing and the reason they are increasing is because India is new to total IT outsourcing, our market shares and total deal flows of total IT outsourcing in sub-billion Dollar category is still marginal. All put together, I do not think we have one more than 5 billion Dollar worth of total contract value which is still marginal compared to the 120 billion Dollar deals which are up for grab, so that is the reason you are seeing a large deal flow. Let our market share improve a little by net, that is the time I think we will have challenge on the deal for.

Subhasini: Okay, thanks, that is all from my side.

Moderator: Thank you Ms. Gurumurthy. The next question which is the last question for this evening comes from the line of Ms. Kanchana Vydianathan from Pacific Crest Securities, please go ahead Ms. Vydianathan.

Kanchana: Hi thank you for taking my question. I guess my first question is with respect to the pricing front, can you talk a little bit about you know what were you seeing this quarter in terms of you know when you were signing new contracts or even when the contracts were coming up for renewals , you know what kind of pricing scenario were you seeing and also during our conversations with the CIOs and CEOs, you know what kind of sense are you getting there, you know what is your expectation for 2008, do you think that you might face pricing pressure?

Ranjit Narasimhan: Okay, so let me give you a complicated answer rather than a simple answer. Let me state facts first and let me give you the logic later. The facts are that we have expanded our realization per person by 8.3% year-on-year this quarter for offshore and by 8.2% year-on-year for onsite, so that is the first that is the statistical answer which is all included which is new contract, existing contracts, things which came for renewal or not. Statistical question number two, the increase has been from 0% to 17% depending on customers. Now let me make it more complicated, I believe that the contract renegotiations depends on your negotiating power in a customer situation where if you are the sole vendor and are participant to the core of the customer then the customer will participate with you to make sure that you continue to be competitive and successful by increasing your rate or collaborating with you so that the realization goes up. If you are part of the three vendor or a four vendor bouquet with the customer then it really depends upon how the three to four other vendors are behaving, are they going for market share increase or are they going for margin increase and that determines the power of negotiation. The third group of set is where you are a periphery vendor and not a prime vendor, there you know you do not have a chance in hell to increase your rates at all so while we are negotiating with our customer increase a rate it is also important to change your business model and that is the reason output base pricing thing that is the reason total IT out sourcing contract that is the reason to be core to your customers are critical for us to be able to achieve the rate increase year-on-year aligning ourselves with the external environment condition and work with our customers so that he can be competitive and so can we be profitable.

Kanchana: Thank you, actually as a follow up to that of the number of customers you said you have right now, how many of them would you say that you are the sole vendor at this point?

Vineet Nayar: I don’t have that answer right now I would belive,I would find it very funny if I said I would be the sole vendor actually for anybody, it is quite possible for a large number of them I am the primary vendor and others are the secondary vendor but I will not believe there would be places where I am the sole vendor.

Kanchana: Okay, one other question with respect to the IT budget, you know looking at may be at top 20 clients or top 25 clients, can you give us a sense you know have these clients have they set their IT budgets for 2008 or is that still being finalized in this process or things are still up in the air and you really do not know what the spending would be like I mean I realize you having conversations but is that the case?

Anil Chanana: Yeah, America is also closed, most of the people in America are budgeting process is all closed, yeah most of the places in Europe it is in work in progress. Asia the discipline of budgeting is not very active and most of them follow the June cycles rather than December cycle, however there are few exceptions.

Kanchana: Thank you and one final question, I guess looking at your R&D and engineering services, you know I guess if you take a scenario that in the North America just gone into a recession you know how do you see that you know that offering getting impacted or benefiting you know with the offshoring trend?

Vineet Nayar: So, my view is it concerns me but when I see a CQGR of 9.4% that means a lot of people are spending a lot of money in R&D right now that means they are bullish about the outlook in the engineering spend. The only way the engineering companies would survive a potential slow down is to come out with new products or to reduce the cost of maintenance of their existing products. So we launch this concept to manufacture concept of about year and a half ago in joint venture with Celestica and I am happy to share with you that we have find some very significantly large deals which we have not announced because of the confidentiality clauses there, so we are seeing success because of that operations, at the same time we have also offered exactly the way we have announced the Computer associate deal, our revenue share arrangement on existing products so that we take over the revenue share on the product and maintain it from HCL and drive efficiently with this that with CISCO on the network management platform which is hugely successful project and then we went ahead and take that with many other customers. So it you know if you were to do what you were doing three to four years ago, I would believe that if there is a recession, engineering services will get impacted and that is true with couple of other services also. Our whole task out here is to try and be very innovative and try and beat the recessionary trend by offering services which the market needs with an assumption that there is a slow down and that is what we are attempting in all our service plans.

Kanchana: Thank you this is very helpful.

Moderator: Thank you Ms. Vydianathan. Ladies and gentlemen that was the last question. I would now like to hand the floor over to the management for any closing comments that they may have.

Vineet Nayar: Thank you ladies and gentlemen for spending an hour with us. We really appreciate the time you invest in listening to HCL and we look forward to your support and have a great year ahead, thank you so much.

Moderator: Thank you Mr. Nayar, Mr. Narasimhan, Mr. Chanana, and Mr. Gupta. Ladies and gentlemen thank you for choosing the Chorus Call Conference Facility. Thank you for your participation and you may now disconnect your lines, thank you.