"HCL Technologies Ltd. Q2 FY09 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good morning and good evening. I am Melissa, the chorus call conference operator. Welcome to the HCL Technologies Limited Earnings Conference Call. Please note that for the duration of the 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 the conference call, they may signal an operator by pressing (*) and then (0) on their touchtone telephone. At this time, I would like to turn the conference over to the management of HCL Technologies Limited. Thank you and over to you, sir.

Shiv Nadar: Thank you. This is Shiv Nadar, and welcome to all of you for joining a earning conference at this time. I would begin covering this point on corporate governance and it is unusual to start earnings call on corporate governance that is, we are doing it for the specific reason. You know, since we spoke to you, there have been lot of the events worldwide that have swept across, you know, starting from Japan all the way into California, in the entire corporate circles raising serious questions of governance. Had governance been alright could the entire banking system have collapsed the way it did. The entire housing sector could have collapse the way it did, probably something was seriously wrong and you must have heard this again and again over the television and the other channels and as this strong wind was blowing, it did not spare India either. We thought that it will be a good opportunity to share with you, some of the things that we had been doing in HCL all along, besides some of the special initiative that we've started now. I don't know whether all of you are aware, HCL Technologies was constituted in 1999. When it was constituted in 1999, it was meant to go for listing in, actually the United States. That time the board consisted of people like Robin Abrams, Ambassador Rick Burt and the Chief Financial Officer was [Jennet Ink], there was Mr. Subramaniam has continued and Mr. Vineet and his senior was on the board, who was the person from HCL Perot Systems. So even right from the beginning, it had majority of independent directors and right from inception it had audit committee made up of only independent directors and had compensation committee as we started itself. So, let me just touch upon some of the things that we are doing. One of HCL's primary objectives is to create it and share it, the corporate culture of integrity, transparency and accountability, for efficient and ethical conduct of business without obligations towards it shareholders as far as its other stakeholders. The compliance framework that we did was to meet all the statutory requirements, effective governance standards and practices towards improving transparency. The implementation of this was done by the board's constitution, the way it was constituted and it's existed, as far as the composition of the committee. We have taken a few new initiatives because a corporation exists, to serve its four constituents the shareholders, the customers, the employees and the country we serve. So, I would just outline how some of the governance standards are being met with. Now what comes up as adherence to the Narayana Murthy committee or Kumar Mangalam Birla Committee or the Naresh Chandra Committee or Clause 49, these are basically the frameworks. We work, you know, in complete adherence to Clause 49 of the listing agreement and this of course is certified by the statutory auditors. We also have compliance the way you see the principle of corporate governance and your shareholders. The board currently consists of 75% of independent directors, as there are many occasions when the 75% was higher than that. I used to be the only insider director as you would call or a Executive Director. And Vineet actually join the board less than a year ago. Till then it was only one director who was non-independent director. We had a compensation committee since FY'99 all the way. HCL, you know, because of his history had been voluntarily disclosing, the financial results using US GAAP right from the beginning. Indian GAAP of course was compulsory and also we have been releasing our results on a quarterly basis and our accounts have been audited by Big 4 auditing firms. Financial statements have always been unqualified. We have very strict norms of no trading window for 14 days and we make sure that it is abided with. The compensation committee is now chaired by Robin Abrams, who an independent director and the committee looks after the appointment of corporate officers for the company and also reviews the HR function of the company. We have earlier on this was informal now we formally work with the nomination committee, which does succession planning for profession such as CEO, Chief Operating Officer and Chief Financial Officer. Just to make you aware that this had been existent as a practice in our company and Vineet coming up as CEO was planned more than 10 years ago. There is a risk management committee which comprised of CEO and other independent directors and they are responsible for identifying, evaluating and mitigating operational, strategic and external environmental base. They will interact with the internal audit and risk management teams of the company. Now, we have introduced a new thing which is retirement age of directors which has been fixed as 75 years and the tenure of independent directors has been kept as nine years which would be from the current year. So this is to give you a broad governance framework but you know, it's very important that finally when it comes to implementing a governance framework we have to be responsive to the needs of shareholders as they arrive and defending customers' interest or employees' interest. You're aware that recently there has been a lot of question marks on the value of assets which are held in the balance sheet. So to make it just abundantly secure what we have done is that we continue to get the audit done of all the assets of the company and the assets of the company like cash and the cash equivalents had always been audited monthly before internally and quarterly by the statutory auditor. Now, we have introduced that it will also be reviewed by one more Big 4 auditor, which is a new practice that we have introduced just to be doubly careful and this has already been implemented for this quarter, what you see is already implemented. Also we have enhanced disclosure norms that, you know, you could make out where exactly the money is lying. So, we are making our governance standards, more transparent and tighter as we are gong along. Now, I'll turn it over to Vineet to give you all the operational details.

Vineet Nayar: Thank you. We have three sections of presentations to follow. I would talk about the state of the business. Then I have R. K. Ramakrishnan with me who will update you on the Axon integration status and then we will have Anil walk you through detail analysis of the BPS how revenues have moved -- how do revenues look without Axon, including Axon, without acquisition and all kinds of cuts and analysis as we have always done in the past. We are using the presentation format from now onward, so that the communication is lot clearer. So going to the next slide, the highlight of this quarter is in Indian rupees, 37% year-on-year growth and 5.1% sequentially. Net income has grown by 12.1% year-on-year and 4.8% sequentially. Under US GAAP in US dollars, it is 11% Y-on-Y growth and 1.4% sequentially constant currency basis, it is 12.5% Y-on-Y and 8.1% sequentially. Going to the next slide, are the highlight for OND is deals worth of $1 billion plus have been awarded during this quarter. It has been the biggest quarter yet for us. We've successfully concluded the Axon integration and we have announced 100% dividend in quarter two, this is the 24 consecutive quarter of dividend payout. One of the thing which Shiv mentioned on corporate governance is just not about boards and how boards are run, it is also about affirmative actions and how you demonstrate good governance which is in form of dividend payouts and we have demonstrated that over the last 24th quarter and after Anil I'll come back and address the dividend history of HCL and why it is a very positive thing about HCL, thing is to demonstrate growth for HCL. Europe, as I will explain to you later Continental Europe is an interesting geography of our performance. Enterprise application growth is largely driven by Axon, there is a de-growth in the enterprise application services without Axon, which again points out to the fact which I was making that the enterprise application business if it is not transformed, will start de-growing and you'll see that same sense in some of the other results which you saw and we are hoping that with Axon integration, we would be able to change the rules of the game and I will share with you some details of the final. Infrastructure services on constant currency continuously demonstrate a huge growth 14.8% growth quarter-on-quarter on constant currency. Financial services is because of the BPO acquisition you're seeing a large growth, but it has grown quarter-on-quarter, Life Sciences, Hi-tech and Manufacturing. So why these are catalyst for growth, you would also see growth originating from other areas from booking. So let's go forward into slide 12 and look at topline revenues and growth. The core software has grown by 8.5% year-on-year growth but has a negative 1.4% and that is because of the currency fluctuation, infrastructure at 7%. So while these are the real results, I would appreciate when you look at the core business, if you look at the constant currency. So P&L is to be viewed under US GAAP dollar but from an analysis before the business, it is best to look at constant currency rather than these numbers because there is a huge amount of head wind on GBP, euro to dollar conversion here. Constant currency reporting hence, if you really look at it and I already covered it, that you see a significant quarter-on-quarter growth instead of 1.4% quarter-on-quarter growth you get 8.1%. So, there is a head wind of almost 7% to 6.6% or 6.7% because of the currency impact. And these are the rates which are there. The segment growth in constant currency, again if you go back to those slides, you would start seeing the US and Europe being dominant enterprise application and infrastructure services growing once again. Now, these numbers you would have seen in the release, so I didn't want to spend too much. But let's talk about the trends we see and I think this is going to be a critical section for you. And I think the important factor out here is to look at what are the headwinds we all are facing and what are the tailwinds, which is helping us grow. And I think the section is all about candid conversation to see the truth in the face and then trying to see what we and management can do and have done to demonstrate higher growth. So what we did was because this whole factor of the fact that is, is there a need to be concern, what is happening, what is not happening, so what we did was, we constituted an index, learning from the stock market index. We drew the areas which we were very interested in, areas of growth, which has a combination of geographies, market segment, size of customers and say these are the 20 customers, who represent what HCL wants to do. So these 20 customers do not represent the state of the market. These 20 customers represent an index of what we say what we is happening in the market from HCL interest point of view and this index may be different for somebody else. And if these index is performing well, then our customers are growing well and we will see a growth trajectory coming back and therefore we needs to be prepared for that growth. But, what we are seeing and the slide we shared in some form in last quarter results also, what we're seeing out here is that the top 20, 10 of these index 20 are G500 customers by the way. 75% of the index 200 are experiencing a negative top line growth and also negative net income growth in the last quarter, this is October - November -December quarter from Feb to January, February, March quarter -- I am sorry this is this quarter versus last quarter and some people define their quarters differently. Now when you see a 75% drop in revenues and net income you are concern, but the reason this index is very important, I believe that we will be able to spot the trend a flattish growth or the recovery coming in better, it may not be an economic trend, but I think we would be able to spot the trend that meant for to react to that situation separately. Now, if this is a reality at our customer, obviously what we should be selling to them, has to be hugely different compare to what we were selling to them a quarter ago, because if you were sitting in one of the board your language is completely change and if we don't take cognisance of that, I think we would not be able to win in the market. The second trend is the response from the customer. So this true there is a significant cut back on the overall IT budgets and most of you have written about it. It is true, discretionary spending is on hold it is true, there are significant negotiations for higher value for money spend. So I would not say there are rate discounts, but I think there is a flight to value. And you know, there are what I call interested parties trying to say that there is a flight towards size, that means big size. And I would differ in my argument, because most of the customers know for a fact that neither Satyam was small, neither was Enron neither was Merrill Lynch and neither was Lehman. So the flight is towards value and the flight is not towards size. And therefore the customer are negotiating higher return or higher value for the money spend and that is the reason they are also putting their projects and new initiative through a more thorough return in investment lands. So unless you can give business benefit realization, which is what we presented to you as an AXON capability which we are now spreading all across HCL and unless you can underwrite and guarantee and invest in it people are not willing to do transformation projects. Focusing on fewer provider relationship, vendor consolidation is the biggest thing which we have seen in last quarter and I am asked extensively about impact of Satyam and I would believe it is from a vendor consolidation point of view, it is insignificant. Predominately because the vendor consolidation initiative we have been noticing for the last two quarters, all you have to do is if you look at the names of the customers we have declared in this quarter release and I must appreciate that, you know, I requested our customer on a one time clearance to give us clearance to declare the name, so that you get comfort of what's happening. The question you need to ask is who were these customers doing business with; they were not doing business with Satyam. So the vendor consolidation initiative which is happening has a far reaching consequential, far bigger then any impact with Satyam, potentially could have. And I believe that -- now of the vendor consolidation initiatives, maybe able to manage this economy better. Then the whole issue of CTB, RTB which I was talking about for all this time, people are looking for Run the business, Run the business integration is where we are winning most of our orders and I will talk more about it. And change the business is going to be driven out of the savings, who have run the business. And the last point which I have strength, which we have seen is people are increasingly converting their fixed cost into variable cost and they want more variabilization. Now what they want is, therefore they want more uncertainty at their end -- sorry more certainty at their end, so that they can flex based on volume and they want to transfer some of the risk to the vendor. And I believe that it's high time it gets done, predominately because I have been saying from 2005 that we had been operating in quite isolated zone where we don't have any risk, we've been T&M basis, we do not promise and to deliver any value to our customers and the value which we delivered on time and material is a end kind of the effort, which may, may not happen, but now the customer had demand the increase value and they're demanding to the converted to fixed cost into variable cost. And these would be what I call flights to quality. So I talk about flight to value then you will be flight to quality. How many projects can you execute? How much value can you deliver? And how much certainty you can provide? And therefore flight to quality is going to be a critical aspect of going forward. So that was trend two. Trend three; I guess you guys have written you know significantly, which is the currency headwinds. Now even if you see HCL as on 31 December '08, we're declaring $511.5 mn and on constant currency it is $ 545.3 mn. So constant currency growth at 8.1%, you know actual currency at 1.5%. You can understand what havoc of 6.7% the headwind of currency is doing. Can we do something about it, I believe no. You know so, it came in so surprisingly, we can't, we just have to brace it and hopefully it should reverse over a period of time. But we have to constantly keep doing business as we do it. But that's a trend C which we are seeing, which we have to respond to. Now, I believe that it is not the environment, but the way the company pulls its capabilities together and response to that environment, which will make a distinction between high performance management teams and you know average performers. And HCL strategy so far has been you know what we can summarize is in seven buckets. I believe that when we talked about you know we talked about Blue Ocean Strategy, we said very clearly we do not want to compete with anybody else. We do not have a view of, if anybody else's business is better than us or not better, we believe that we have a few strengths. And we have a lot of weaknesses. As long as we can play to our strengths and not compete, focus on not competing on somebody else's strength we will win a disproportionate number of cases, which will beat to our strength, because there is always a limit to the amount of competition you can go for. Shiv will talk extensively about corporate governance and my view is that corporate governance is all moved, you know all the noise which I see in newspapers is all focused towards shareholders. I think beyond the shareholders there is a customer and there is an employee and there is a society. The companies will be evaluated for the culture of transparency and trust they have with reference to their employee for sure, especially in our industry which is very employee driven and to the customer the amount of responsiveness we define when customers are unhappy or they are facing problems. So the culture as a core differentiator will become center stage, that's first. We will also believe RTB, CTB integration will be self-funding transmission that's the second strategy which HCL is pushing very, very fast. Fund the CTB through run the business savings. Third trend which we see is vendor consolidation. We are targeting vendor consolidation. And I will show you what we are doing? How we are doing it? We are targeting vendor consolidation with easy migrate and therefore we are winning at disproportionate number of them and the names in the press release are only sample cases. And they are lot more those customers have not agreed for us to share the names. We also believe it's unique, because we did focus on vendor consolidation and said we can get vendor consolidation through superb horizontal capabilities. So we are one of the rare companies in the world-world dedicate sales organization for horizontals. So unlike everybody who have horizontals, who are only horizontals are SAP, infrastructure BPO are only verticals, we have horizontals. Continental Europe has been a big focus for HCL. Emerging verticals, we were very clear there are verticals where somebody else has strength we will not be able to compete. And therefore we focused on creating new verticals, Life Sciences, Media Publishing Entertainment you know insurance as a vertical. And lot of in aerospace's as a vertical. We focused on micro verticals and you will see them as engines of growth. And then we constantly believe that we need to accelerate front end investments. So you saw our Capex this quarter was about the same as last quarter. We would have to increase our investment this is the time at HCL we believe we need to accelerate because this is the time we have reached the best and anybody who invest smartly will come out ahead of the rate when all this settles down. Now that is good English but what is the truth points of HCL strategy. The proof point on culture is you're already aware of our employee first and trust to transparency which is extensively taught in Harvard and in London Business School. The RTV CTB truth point is we signed a billion dollar in October-November-December so whatever we're saying is working with customers. The vendor consolidation we announced our easy migrate offering which is not focused on Satyam. We have not won a single deal, where, you know, when Satyam was a vendor and that has been migrated to HCL. You can check the names in the investor release to see which vendor were they dealing with and I am going to present 8 case studies to you, so that you understand what we do. There is a dedicated organization you have seen a strong infrastructure performance and hopefully we will be able to show you, the same in HCL AXON. HCL AXON we will talk about it going forward. We have $17.8 million of HCL AXON in the current quarter, contracted revenue for next quarter is $95 million, Continental Europe is $200 million wins in OND '08 is demonstration of Continental Europe, this is booking numbers, emerging verticals these are the proofs anywhere that we are also gaining foot holds and defensive sectors, which is government, energy and utility there, I'll show you couple of slights to show you that. Our front end investments, you know, this is a proof point and some of you were with us in the investor meet in Florida, there are 600 customers who flew in paid their own flight bill, paid there own hotel bill and decided to spend those days with us at their own costs and that is a real demonstration of the fact that they believe that we are instinctively creating value for them. And the fact that we continue aggressively investing in sales training and hiring and that's the proof. So where is the $1billion deals signed up, now unfortunately I can't put the logos. So this is a way it expand up there was a $350 million deal, a $145 million deal, a $100 million deal, a $65 million deal a $50 million deal and $50 million deal. So I will walk you through some of these cases to try and give you and example of what we want, our attempted at HCL is to push the envelope of transparency and share as much as possible with you as we can. However, it is very important that we do not push it to such an extent it will make us uncompetitive, because of too much information sharing. So please, allow us the luxury of balancing our wanting to push the envelope of transparency more and more to you and at the same time safe guarding our interest on competitiveness. So let me walk you through select cases and saying what is happening in the market. So these are the cases, which we won in this quarter, so there is a leading publisher of $350 million over seven years, Oracle ASM Mainframe, end-to-end, infrastructure support, open technology, existing customer of existing large Indian service provider. The deal was hugely complex, because operations were across 103 countries. All countries, we have to do reprizing and there was a complex very complex third party integration, which we had to undertake. HCL was chosen because we collaborated with a customer to develop the solution, so I again I said it was collaborations. Innovative ideas on CTB (Change the business track), where the competition did not focus on change the business. All they were focus on run the business and all they were focus on how can I discount the rate to run the business? Now, this is where we change, this is a point I was making that realization for HCL on per person only increasing on constant currency and the reason it is increasing is that we are redeploying the discounts we give and change the business projects. So it is how you price

and if you priced that and you can get change the business you can earn back all the discount you gave, which is what we have and we did a comprehensive due-diligence with therefore we had an idea of the customer, which are competitor and did not have because all they were doing is making proposals out of India. So once you understand the landscape, the kind of proposal you put together not only it is more beneficial for the customer, but you end up maybe more money. Same is true for the leading manufacturing of copier $100 million deal in our existing customer of EDS, competition was with a big global major not there was no Indian IT firm that survive in the last tool. It was an infrastructure management of midrange disaster recovery support and services and there was an R&D deal also our head of engineering work to be done for this customer. There is a hostile transition involved, predominantly because the existing vendor may not cooperate. And we had to build a virtualization and consolidation of data center was a big thing. Again, it was high on complexity. So most of these large deal which we are winning are because they are high on complexity and we have built those capabilities on complexity, and look at the innovative pricing, how could we win it, because we did device based pricing model. When you do device base pricing its very difficult to find out how many FT's, tools process where you deliver, all the stuff comes into play. Let's look at the third case which is a leading phone manufacture, again, hugely complex 76 countries 273 sites across 48,500 users, multi-lingual will support. So we adopted a core sourcing model again this is again sought against the global major, you know, one global major I see yeah, everybody was a global major there. The business case was improved service from day one of the engagement, how did we do it, huge amount of due diligence, got ready had a team in place way ahead of going banging and we guaranteed service improvement from day one. Why? Because we understood that the existing vendor was giving him pathetic service and his claim to fame was the fact that, I would be able to give you a discount and we said, we will be able to guarantee SLA's and guarantee this performance from day one. And if we don't admit it, this is the cheque on the table. And that approach work pretty well, again an innovation. Let's look at the leading provider of HCM Software, again legacy modernization, we had a product which was built on legacy. The product was not doing well. We went to him identify that this is not going to work, can we? What we did in Boeing, took their flight control at this time which was on legacy and modernize it to open system. So we did 5.5 million lines of code with zero defect. To be said, why don't we convert that into a product offerings. We took that product offering to this vendor, this customer and to six other customers and said, what we did for Boeing on converting legacy into open systems with zero defect, large lines of codes, would you allow us to do it? We won it, again it was a competitive bidding, but few only because of product engineering capabilities and the fact that we have done it before. Leading media company, you know, this is my favorite brand and you know, it's -- I'm very,

very excited about what we're doing on e-commerce in the media platform. It's a big, big move, if we succeed and you know, some of you should come and look at our publishing and media lab, which we have created in Noida. It is really a thought leadership and people are getting blown up. So this is a platform development. We looked at our digital platform. We looked at how they are creating e-commerce. We came up with very innovative ideas of how they can potentially consolidate that increase their revenues, again our product engineering approach, our culture, once again a culture and extensive due diligence, investment in understanding the customer business made all the difference. Leading provider of data center networking solutions $50 million plus again engineering, single face to the customer for also line, thought leadership on Oracle and Web-based transmission services and our knowledge of landscape.. So a lot of questions have been asked as to how do we win, how do we lose, and I think hopefully these six case studies would have given you a better understanding that all of those people who say that HCL wins on price do not understand what HCL does. And I hope that continues and that's the reason you're not going to see the slides with you but only, you know, in my presentations. Let's talk about where did we win and this is the group of very interesting slides. Global MNC is contributed to, this is YTD H1 win. This is the H1 analysis 64% by deal numbers and 69% by deal wise go with Global MNCs and that is our sweet spot. We do want to compete only in that global MNC. US was 69%, watch this Continental Europe was 16% of our win in H1, UK was only 7% and Asia was 8%. This is interesting. This is the Blue Ocean that I was talking about, where are we winning? Media publishing entertainment 36%, manufacturing 35%, retail 12%, financial services 10%, Life Sciences update here and there. So that what is happening on the YTD analysis. Now is that the trend going forward? No, and this is a very interesting slide, so what I did together is that, I put all our funnel together, because I knew you will ask me all kinds of questions to what is the wind looking forward? This is the way our funnel looks today. I'm not going to give you an extent. This is all which will close before June'09, whether we win it or we lose it. So Media Publishing Entertainment continues to dominate, Manufacturing is there suddenly Government is coming 10%, Financial Services continues to be small, Utility is coming 6%, PTL Travel Transport is 6%. So I hope I'm communicating to you that our growth is not depending on FS. We have verticalized significantly two emerging verticals. Our focus and defensive sectors are very large thanks to AXON and if about 20% of our revenue are our deals are in future in the defensive sector and we have just about started with AXON, it augurs well for the way, HCL is growing. It also should give you an indication of how we think, how we plan and how we are demonstrating good success.

So with that I come to an end of my presentation and hand over to R.K. to talk about where are we on HCL AXON Integration.

Ram Krishnan: Thanks, Vineet. AXON was the last deal which we completed in the last month and you were all a part of the discussions and the presentation which we did in the third week of December. It is very important for us to indicate to you, where we are with respect to this integration, because this integration is extremely important to us, to make sure that the full benefits are realized by this acquisition. So I'll give you some indication of what is really happened in the last one month, where are we in terms of integration and how we are proceeding, okay with the integration. As we indicated last month, we have a track record of success and we have good capabilities having done acquisitions in the past and having created reasonably good process for acquisitions and integration of the acquired companies in a rapid manner. So we put together now the integration team which consisted of both erstwhile AXON and the HCL leadership team together, so the joint team really worked on integration which structured the integration very neatly, tried many tracks and some other tracks have given in the slide which is given the revenue track really looked at revenue related aspects, what kind of benefits which been really bring by bringing the capabilities together, the organization and cultured tracks. They looked at organization how do we bring the organization together, what kind of a combined leadership team should take charge of this organization. The DNA track looked at the IT part of it, the backend system, the back office work, finance accounting and various other areas and the delivery was the most important because this was very critical to the success of Axon, where we need to build the global delivery team. So the delivery team across the world both HCL as well as Axon delivery teams worked, met together to create a roadmap of how global delivery has to be built for serving SAP customers worldwide to HCL AXON. We went through the deal as we know went live on December 15, the Day1 activities were extremely well planned and we completed all the Day1 activities as what we had indicated to you in our interactions with you in the third week of December, the communications track with all the pictures which was required both from our external communications as well as an internal communications. There were leadership meets which was really done with Axon teams worldwide and Vineet personally addressed each one of those leadership meets across US, UK and rest of the other parts of the world. The revenue tracks started looking at how we really bring the revenues together between HCL and AXON global delivery integration as at what I mentioned whatever needed to be done. All the Day1 activities have been completed very successfully as what was planned. Some of the indications on what we really did in communication so we had developed a very - very detailed calendar. In fact, you will see some of those here which by dates clearly indicates what are we suppose to do on that particular date both from an employee perspective or from the customer perspective or from the shareholder, media or regulatory perspective and all of this was done with the clock work position and this really resulted in a good acceptance by employees of AXON who are newly coming to HCL force as well as I think the understanding with our shareholders, the media the regulator as well as customer who have been hugely successful by following this communication calendars to as per the client. Some of those things which we indicated to you last month when we created a separate brand called HCL Axon. This was a division which will be responsible for SAP business of the company. We also explained to you why this is important for us in this acquisition. We wanted to maintain Axon brand image of high end consulting company and they have created a excellent image for themselves in the global market and HCL obviously is a brand of -- with the global service capability multi-service and we did create HCL Axon and what you see here is the what we call as an integration slide which went live on the 15th of December so that everybody in HCL Axon for the log into the integration slide know what is really, know about HCL, know about Axon, know about how HCL and Axon came together and I think this really gave the confidence to the employees of Axon who came HCL fold and about how the integration will go forward. This was an external slide, okay, which was created again to give one example of how we handled the communication with employees and customers. The deal went live as I mentioned on 15th and that's what, what was communication from an organization and HR aspect. The level one organization has intact in place now are the combined leadership team of HCL and SAP are in place. They have taken charge of the operations of the company and the operation of the company are moving as per plan in all the directions which is sales, marketing, delivery as well as all the back office work. The IT has been completely integrated. Everyone has a HCL email id now. They know how to really collaborate together and all the systems for collaboration are all in place for people to use and get the benefits of both HCL as well as AXON.

Day 1 was widely regarded as success thanks to some all of you. You did cover this event as well as analyst call which was done and we had some good coverage from most of the people who attended us. The integration is expected to complete by quarter two. We are going on track. We are trying to do as per plan, we are very confident that the integration will be completed by quarter two at which point of time I think, what we will really see is regular operation of the company will began. We are on track in terms of all the tracks, the revenue, the organization, the delivery as well as the rest of back office integration. Thank you very much.

Anil Chanana: Thanks, R. K. This is the recap of how we have performed on IT services. I am on slide number 38. So, we signed I mean, a contract worth $1 billion was awared during the quarter, which is OND quarter the number of deals was 20 out of 23 are in excess of 100 million and five are in excess of 50 million. We have been ranked amongst top five in India out of the listed companies in best corporate governance practice. This is not a rating we have thought. This is by agency called GMI. There has been success in conclusion of AXON acquisition which R.K. just walked you through. We have announced an interim dividend of 100% in the consecutive twenty fourth quarter of dividend payout, and Vineet is going to talk about it in some times from now more. This is 8.1% sequential growth on constant currency basis and 1.4% on reported basis. The EBIT is up 18.5% Y-on-Y and 1.4% sequentially. Now moving onto slide 39. I am going to talk about where this revenue increase came from. And this revenue increase on reported basis is $6.8 million, which is 1.4%, this has been a volume lead growth in IT services which is outside of AXON, which contributed 14.3 million of clients and which is converts to 2.8%. This is on top of 1.8% which we recorded in this quarter. The acquisitions for the year, which is AXON Liberata Financial Services and CPS put together, brought in 37 million and hedge accounting gain the additional on top of, what it was last quarter was 0.9 million. What to cover was the cross currency headwind where we lost $33.8 million of revenue, lower number of working days in OND quarter lead to 9.3 million reductions in the revenue, and there was a reduction in volume in BPO reason is on of client decline like 2.3 million loss in revenue. If you take the Core Software, I mean, I am just the highlight point here is the acquisition of AXON which contributed 17.8 million, which is 4.8% of revenue in Core Software. If I move to infrastructure, there the growth is very interesting 7% increase in revenue volume giving 12.8% increase and exchange eating 7.7% out of that. We move to BPO, where the growth of 11.3%, but this is coming mainly from the Liberata Financial Services and CPS which this quarter the numbers included in the revenues of this quarter is 12.6 million for Liberata Financial Services and 6.6 million for Control Point Solutions respectively. Moving to the next slide, the revenue growth in constant currency and basically this is saying that 8.1% growth where it came from. The Core Software at 3.6%, the infrastructure at 14.8% and the IT services at 5.6% growth. I moved on to now the realization, the next slide. The realization has in constant currency is up offshore by 1.5%, onsite is down by 1.2%. But if you look at the reported numbers, which is the second last column,

the OND numbers are lower than what they were in JAS. So, that currency impact is coming. I move onto the EBIT margin now.

The EBIT margin for the company has a whole has been 18.6%. Overall there was no change. There was efficiency gain of 114 basis point, the exchange net -- net added 129 basis points. The lesser number of days for which we continue to pay on a New Year basis took away 144 basis points, and acquisitions had a negative impact of 93 basis points. The interesting analysis is in terms of IT services, where the EBIT margin has sort of expanded from 19.2% to 20% up, there being the efficiency gains in core software, the exchange 210 basis point. And another interesting point is the acquisition, the Axon acquisition this quarter took away 70 basis points for core software, and going forward additionally it will be a impact of 200 basis points. When you look at BPO there was a negative headwind of 460 basis points, mainly coming from the acquisition which is 330 basis points, the lower number of days and so on and so forth. I now move on to the position of where we are in respect of the Forex hedges. First, we are at $1.58 billion which is lower than $2 billion we were as of June '08. This quarter we didn’t book anything new to cover our revenues, and if you look at the mix in terms of hedged and unhedged, I mean not a right accounting term, the hedge refers to the -- where we are following cash flow hedge accounting and non-hedged being where we follow mark-to-market accounting. So the hedged covers the cash flow hedge accounting covers 1.3 billion in INR 185 million in mark-to-market. There is a loss of $207.5 million which we’re carrying as part of the other comprehensive income which will get adjusted from the revenues, from the EBIT as in the net income after providing for the tax effect over the next seven quarters, and I am going to walk you through the model, a process which we’ve constructed for reference. Going to the forex gains and losses, as I said, the mark-to-market covers 185 million and this quarter we had a 29.1 million of forex loss, that 9.5 million of that came from HCL EAS. We had completed the acquisition on 15th of December. The payment to the Axon shareholders happened slightly later, and we had, at that time, covered that so that we should not be having a negative surprise. And so, there was a movement in currencies there led to a 9.5 million of loss. The other highlighting point here is the 48 million of hedges which US and INR hedges which were earlier classified under hedged cash flow hedge accounting are now being treated as mark-to-market hedges. I’ll now take you to the tax provision; the tax provision you will find at 14 million which is much higher than 9.4 million which was in the earlier quarter July to September quarter, but there is a big element of realization of Treasury income this quarter when we moved away our money from the mutual funds which were invested and put our money more in safe with the banks in fixed deposits, and I am going to talk where exactly they are. And here also, if you look at the business side of the income, what is the other income, the effective tax has remained almost the same, while on the other income it shot up, we had lot of these as short-term, sort of, capital gains etc, which were coming in. Going forward we are anticipating the tax rate to be for this year to close at 15% for FY'09–10 at 15% to 16%, '10–'11 to peak to 28% and depending on how the growth comes forth and the SEZ units are able to, sort of, deliver out that growth. It could come down faster than what it is indicated herein. I now move on to the funds and treasury; there is 146 million which is cash and cash equivalent, which includes bank balances and also the deposits, the fixed deposits with banks of 259 million, the bond of 6.6 million, the FMs of 4.3 million which are going to mature in the July to September ’09 quarter. The interesting part here is the, this money, the treasury investment have all been reviewed by the Big Four accounting firms separately and we intend to carry on with that practice going forward where we will get our major items, our crucial items in the balance sheet reviewed by another big four firm apart in addition to our statutory auditors. If you look at the treasury income and other income, they were to jump from 12.7 to 26.6, however, 17.8 out of that 26.6 is more coming because of the redemption of mutual funds which happened in October to December quarter. I move on to the bills receivables fee. 79% of our receivables are within 60 days, and 11% are within the bucket of 61 to 90 days, and it’s 10% which is beyond 90 days. I move on to the Axon acquisition and I want to explain you so that you can understand the accounting impact going forward. We paid to Axon shareholders 678 million; we incurred 10 million as expenditure, the total was 688 million, which has been allocated to goodwill 550 million; the intangibles 122 million and the tangible assets 16 million. This is a provisional allocation which has been done this could change, but this gives you a good sense of how the amortization of intangibles will happen. The intangibles consist of the customer relationships, the orders in hand, brand value and so on and so forth which will get amortized over different periods. And in the table below what I have done is tried to put together how much will get amortized over what period, so, for the next two quarters we have given the numbers and then going forward. In terms of funding, the total is 688 million which is equity of 103 million and debt of 585 million. The current cost of debt which is excluding any hedging cost is 4.14%. I will move to explain the stock options which are outstanding and the dilution impact which will be coming due to that. These are the options which vest still 2011 at market price are 3.7% of the capital of the Company, and below market is 1.6% of the capital of the Company. Now, I move on to the capital expenditures, for the full year, we are anticipating 125 million out of about which 64 million has already been incurred for the first half. And also based upon certain key items in the balance sheet being the current liabilities where there is a substantial movement which has taken place from 508 million to 727 million, the major impact therein is because of this unrealized losses on forward covers which are sitting in part of that and when you look at the shareholders' equity you will observe that the shareholders' equity has come down from 1.2 billion to 1.04 billion, and this is net of the hedged losses which are here as part of as negative in other comprehensive income. This is a very interesting slide and is a very, very busy slide, I wish I could forget. To walk you, I think, I can sort of separately walk you through this as well. Here is what I have tried to do is take the impact of Axon acquisition. So the first column is FY'08, how HCL numbers look like which was 1.8 billion in revenue, and 281 million in net income after forex gain and loss, and I took July-September period number, and then OND numbers and the break up of it with the impact of Axon, the added impact of 4.7 million which is on account of hedges. So 511.5 million has been the revenue. The EBIDTA margin is 22.5%. The net income margin is 14.9%. Now, I move on to break growth without Axon, putting Axon as if this consolidation has happened from October 1, 2008 and then we could perform our numbers how OND (October to December) performa would have looked like if Axon would have been consolidated. The interesting thing here is the EBIDTA margin number which is 20.8% versus 22.5% which we are currently showing. Then if you look at the net income margin, it is currently we are showing is 14.9%, but becomes 13.2%. Similarly, quarters going forward, I have taken the hedge impact which is above 30 million per quarter for JFM and AMJ and their varying amounts between the quarters for '09-'10 but the average is again around 30 million. And shown that how the margins move and also taken on top of it the impact of amortization of intangibles and the tax rate which I have given you the guidance as to how they look like.

Vineet Nayar: This is a theoretical assumption.

Shiv Nadar: This is basically theoretical assumption basically arrived and this is based on just taking the OND numbers as a base, and trying to show how the future looks like. So this is what I had to cover. Thank you so much.

Vineet Nayar: So let's go to the final presentation on dividend policy and summary. The recap on dividend policy is the fact that the HCL is amongst the highest dividend players in its peer groups. HCL's dividend policy has matched its operation performance, I will show that to you. HCL increased its dividend to rupees 3 per share in June and maintained it in September which is consistent with our EBIT performance. What has changed recently, number one the total IT outsourcing flow towards HCL is significant. HCL has made strategic acquisitions for long-term transform gains. HCL continues to invest in business. $63 million of CAPEX investment, $125 million for the year. We will continue to invest in business to gain market share. We believe this is a great opportunity to push our market share ahead. We believe it is in the interest of long-term shareholders, value creation to be driven by above. We believe that value will be created by continuously investing and, therefore, in addition we see a hedge loss of $210 million over the next seven quarters, which we had seen in October also. But it is actually becoming effective from JFM, which is going to impact our cash flows. We see utilization of cash now from acquisitions of 691, and we see cash deployment of $25 million due to transition of large dues as explained to you, they want benefit from day one. You would see some amount of cash, positive investment in cash in business. So, given this, we have proposed the dividend of Rs. 2 per quarter. We believe that our outlook to business is positive, specially post Axon integration and even with Rs. 2 per quarter HCL continues to be amongst the highest dividend payer amongst the peer group, and that is predominantly because we continue to be consistent with our policy of the fact that if you have excess cash it should be in the hands of the investors rather than in your own hands, and we will continue to drive that. This is the graph which shows you that if you look at the right on the curve that how EBIT has been growing and how as the EBIT went up to 98 we went up to three bucks a share. So, if you take the financial year, last year financial year, our total dividend was Rs. 9 a share and even if we maintain Rs.2 dividend for the next subsequent quarter it will still be Rs. 9 for this financial year, and therefore we have our dividend policy has been consistent with our EBIT increase and it has been the 24th quarter, still we have given dividend. So, the market should be pretty happy with it. And on the last slide I wanted to make on the fluctuations of constant currency variation is we have taken January to December ’08, on actuals it was $2 billion if it was at the current FX rate it would have been $1.87 billion. So there would have been on the EBIT a $70 million drop just because of forex. So keeping this forex headwind into consideration we have lowered the dividend from three to two, but keeping our business traction in mind and the deals we are winning, we have decided to continue with two rupees a dividend. So, thank you very much for listening to the long presentation. We will be happy to take questions now.

Moderator: Thank you, sir. Ladies and gentlemen, we will now begin with 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 is from the line of Mr. Vikas Jadhav of Motilal Oswal. Please go ahead.

Vikas Jadhav: Hi. Congratulations to the team on the excellent numbers actually and really great show. I just, you know, after all this probably there would be very few questions but I had a slightly different question. I recollect the phase of HCL where it says from focused to lead to dominate. It had been on this transformation journey from 2005. So I just wanted to, you know, get some insight in this changing environment. Although, you know, HCL has been doing quite well. Do you feel there is any necessity for you know, the way you want to go ahead?

Anil Chanana: So, Vikas if you remember in 2005 itself we had started saying that because if you would go on mute I think it since starting 2005 itself we had started saying that the business fundamentals of this business is dramatically going to change and the only way HCL will be able to win if there is a dramatic change in environment or HCL dramatically changes what it serves and how it serves the customers. And if everything was equal then why should any customer look at HCL because HCL was not the biggest of the vendors and therefore on one side, we started a huge journey of transformation, our services, our proposition in the market and other side we waited for sometime kind of event to happen outside the market for us to move ahead. If you go into the history of HCL, HCL became number one computer vendor only when Unix came in and therefore there are some, you know, disruptions in the market space which we search for and using those disruptions we pull ahead, I mean, that's the whole strategy which has worked in the past and I am hoping it will work in the past. So I would say that we have to stay consistent with what we started in 2005. The today's environment is more reason why we should be consistent with that approach because it caters well to that and we will watch our relative growth very carefully. We as a company have always in our one-to-one meetings with you, shared that we are always focused on market share and relative growth and with some of you we have shared the charts of how we monitor our own performance, and I believe that's the way we will monitor our performance. We will -- the focus is already over, we are some where between lead and dominate, depending on what verticals, what geography and what services lines.

Vikas Jadhav: Sure, sure. Thanks a lot and congrats once again.

Vineet Nayar: Thank you.

Moderator: Thank you, Mr. Jadhav. The next question is from the line of Mr. Yogesh Agarwal of HSBC. Please go ahead.

Yogesh Agarwal: Yeah. Hi, Guys. Just have a quick one. You have speak out impact of lower number of working days both from the margins and the revenue front, just trying to understand was these lower number of workings days some extraordinary event this quarter which you do not expect to be repeated in the next coming quarters?

Vineet Nayar: Yeah. I mean, you are right, I mean, this is you know the quarter-on-quarter number changes. The most of our billing falls in that bracket where it is T&M billing is based on the number of days or number of hours. So as a result of which this the number of working days impact correct.

Yogesh Agarwal: Okay. So if it was a year-on-year comparison then this line item would not happen?

Vineet Nayar: That is true OND-to-OND there is no change. The two days was less in the same period last year also.

Yogesh Agarwal: All right and thank you.

Moderator: Mr. Agarwal, do you have any more questions?

Yogesh Agarwal: No. Thank you very much.

Moderator: Thank you. The next question is from the line of Mr. Samad Masood of Ovum. Please go ahead.

Samad Masood: Thank you. Great. Thanks for the detail presentation. I am afraid, I wasn't access the slide, so this might have been covered. But I was looking at the growth with Europe seem to have decrease with the proportion of your business and also the growth in software services, things are quite good considering Axon, the Axon acquisition. I just wanted to ask how many months of revenue been included for Axon is it a full quarter and also if you could explain why it seems the proportion Europe has plunged of revenues, if I am correct in my norms exact?

Vineet Nayar: So what has happened is that, you know, we shared this data. The GBP has and euro has significantly depreciated against US dollars, so when you give your number in U.S dollars, all the European revenues get discounted by that 15 - 17%. So the best way to compare this number is what I call constant currency, and I'll give you the numbers in constant currency, if you can write them down. So for the company the quarter-on-quarter growth is 8.1%, quarter-on-quarter on constant currency basis. Europe has grown 14.7% quarter-on-quarter and U.S has grown 5.8% quarter-on-quarter. Enterprise applications services has grown 20.4% quarter-on-quarter in constant currency basis and infrastructure services has grown 14.8% quarter-on-quarter. Your second question?

Samad Masood: Thanks. Thank you. I understand the constant currency and our calculation and you have access to that I just wanted to check if this wasn't something that the fright from currency fluctuations. And I also just like to ask, you mentioned about HCL, there was a very impressive talking start about HCL strategy on the strength and weaknesses and I'm afraid, I hope and ask if you can list some of the weaknesses at HCL?

Vineet Nayar: So let me first answer of the questions, the other questions you had talked about is in terms of how much it was a Axon revenues. We have $17.8 million of Axon revenues in our P&L. So to answer to your questions of HCL weaknesses, I think there are significant weaknesses within HCL.But the trick out here is to try and focus only on strength. So do we have the BFSI practice as large as somebody else? The answer is no in, in what I call, in Legacy Application. So our Legacy Application business in some of the mature verticals is significantly smaller compared to some other competitors. Our Enterprise Application Services outside Axon was a significant weak spot compared to our competitors. Our BPO engine today compared to some of the young BPO companies where the HRO and F&O capability who are doing exceptionally well. We are significant weaker in that area compared to them. So there are, I believe that you know whatever $2 - $2.5 billion we had a very small company compared to and IBM or Accenture. And there are lots of areas of weaknesses at the same time what we have focused on is to find out five or six areas of huge strength and just be in that business that's, that's our attempt.

Samad Masood: Thank you. Thank you very much.

Vineet Nayar: Thank you.

Moderator: Thank you Mr. Masood. The next question is from the line of Mr. Anthony Miller of TechMarket-View. Please go ahead.

Anthony Miller: Yes. Thanks very much. Firstly, my message is to congratulated the company before on its on the quality of its conference call, I thank you to really take the price there and well done on the clarity and dissemeniation and I think you have set a standard which I hope the other clients will follow and across that you will continue to do so.

Vineet Nayar: Thank you so much.

Anthony Miller: Just moving -- you're very welcome, well deserved. Now for the tricky questions. I'd like to understand a couple of things, a couple of things about both Axon and Liberata financial services. There are four things I'd like if you would please to comment on, firstly the level of attrition in both those companies and whether that has changed since aquisition? Secondly, whether you have won any new deals in both those organizations? Thirdly, whether you have lost any existing deals or any existing clients in both those organizations? And fourthly, whether you've moved any existing work offshore with both those organizations? Sorry it's a big detail, but if you can help me there, I'll appreciate it. Thank you.

Vineet Nayar: Fantastic questions. Thank you for asking. Let me be specific. Let me take company-by-company. Let's take HCL AXON which is the biggest investment we have made. The attrition, I'm not talking about attrition till 30th of December. I'm talking about attrition till few hours ago. In middle management and senior management is zero. People below, I don't have the data but till 31st December there was no attrition but post that I don't know. But middle management and senior management zero. New deals, we have won four of them which have not been impacted in revenues and they are we had shared that we are chasing 100 deals and into $2.2 billion in pipe line which is HCL Axon combined. Four of them we have closed. We have not lost a single existing customer. Not one existing customer to anybody. We have had an extensive conversation with all our customers and we have fortunately gained their respect and gained their confidence. We have not moved any customer off-shore. We have just signed a pretty large deal of an existing Axon customer who has given us an additional order. We were doing blue printing and we were doing implementation in that customer which is amongst the Axon top five customers or top ten customers, I think top five customers. He has given us an additional large order to manage operations for SAP which is ASM, where HCL is very strong. So that's one of the four orders we have done. So we have not moved any work off shore which is that is not our intention. We don't intend to do that, however our move is to try and sell ASM services which is application support and maintenance services off shore to existing AXON customers and sell blue printing and implementation services to existing HCL customers that is what we have, so does that answer your question on HCL AXON.

Anthony Miller: It does really, thank you.

Vineet Nayar: Okay. On Liberata and control point I don't have specific answers for you but I do believe that we have red matrix which we track how the acquisition are doing, attrition is not one of the red matrix. So I would believe that attrition is not a course of concern should be in a single digit if the attrition has taken place at all. But attrition is not one of the red items which is therefore I don't remember the number whereas HCL AXON it is big number. We have not won any new deal. No we have not lost any old deal and no we have not moved anything off shore because we are right now in the business of transfer of knowledge of the platform gaining the understanding of platform let us remember why we did this acquisition. We did this acquisition because we want to reengineer the platform convert that into a service offering and take that to market and I think that is going to take some time. And therefore right now we are only in the business of understanding, appreciating, doing knowledge transfer, making up a mind as to what is the next step, we need to do how much investment would the next step required. So we are in very early phase so these acquisition are different to the AXON acquisition, AXON acquisition should be starting producing results much faster.

Anthony Miller: Just to clarify on Liberata financial services, so that mean you are not actually bidding for any business at present.

Vineet Nayar: No we are bidding , we have not won. I believe if that the platform would need some modification before we start winning significant because otherwise Liberata you know that platform would have been winning orders in the past also. Right, so there is some changes in the platform which we need to make and some changes in the pricing and offering for us to start winning and I think that investment. So yes, we are participating in the market but we have not won anything so far.

Anthony Miller: Okay. It's very complete answers. Thank you very much.

Vineet Nayar: Thank you.

Moderator: Thank you Mr. Miller. The next question is from the line of Mr. Surendra Goyal of Citigoup, please go ahead.

Surendra Goyal: Yeah. Hi good evening. You have had some excellent deal wins in this quarter and just likely ramp ups ahead one would have expected a good increase in headcount as well, given that utilization seems to be running at normal or usual levels. Could you please explain the same and also what is the typical duration of this deal? Thank you.

Vineet Nayar: So, first is I had explained in last quarter and I would like to explain this again you know my philosophy which we have adopted in HCL is slightly different. We have just in time hiring which is what I think is more appropriate for this environment there are so many people available on a short notice of seven days which you can hire that there is no point of increasing your bench. #2 we have rightly or wrongly I believe we believe at HCL very passionately a policy of no HCLite left behind that means we will not ask people to go. And therefore one of these things which you have to be responsible for is that you hire when you need, rather than hire and than fire just because you did not get the business so that's the second reason. Third is that you would see the hiring you would see the hiring next quarter because you know some of the deals are getting you know catching up into growth next quarter and but the true value of these deals will certainly ,I mean will start appearing toward the next few quarters not necessarily next quarter most of these deals are three years to seven years that is one deal which is seven years which I said would be the biggest but other than that most of these deals are between three to five., So average of four and half five average of five because of the larger deal would be as good idea for you to take.

Surendra Goyal: Sure, thanks. And just one more question, Anil what is the breakup of revenues in terms for various currencies. Thank you.

Anil Chanana: Surendra you can sought of assume it as you meant exactly a most similar to what the new breakup in terms geo-mix and you can assume GBP and Euro type fifty-fifty type.

Moderator: The next question is from the line of Mr. Sandeep Shah of ICICI security, please go ahead.

Sandeep Shah: Yes, sir. Thanks for the comprehensive presentation. Just one thing in your presentation, Vineet you have mentioned that there will be self funded transformation and does that mean that we are ready to now offer up front savings to the client?

Vineet Nayar: Yes, that's what I suggest what I said. So let me explain this. So what happens is that there is a large transformation deal. There is a cost for knowledge capture, which is called transition and then there is a cost for moving onsite work offshore or moving from existing vendor employees to your employees. And that results into a bulge and that bulge, is the bulge refund. So let say the current spend of the customer is 100 per month and let say our offer to him is 90 per month. So there is a saving of 10. Now in addition to that, he has to spend let say 1000 upfront to do the transition. So he refuses to spend that 1000. We have to fund it which is what I said, it will be about $25 million which would be funded in H1 itself. Now US GAAP the way the accounting works is that the even if the customers had paid us the $25 million, we can't account for it. We have to account it over a period of the contract. So now what we our doing is we have deferred that 25,000K bucks which we were talking about over a period of the contract. So that is one part. The second is now that I'm saving 10 bucks per month for him, some part of this I say that I will not pass on to you. So let me do this arithmetic again, instead of 90 lets theoretically say I could have offered him 80. So instead of offering him 80, I offer him 90 with guaranteed transformation projects worth 10 bucks per month and it is very simplistic way of presenting to you and therefore out of the savings instead of passing on 80 to him, I pass on 90 to him and construct deal that the 90 includes 10 of self-funded transformation projects for him.

Sandeep Shah: Okay. So on an average can you just give us like as a percentage to a total deal, what percentage this would workout, it would be roughly 10 to 15%?

Vineet Nayar: So first is this is not relevant in all deals but you are right if in the deals we are doing it at 10 to 15%.

Sandeep Shah: Okay. And how you will fund this like we are ready to leverage the balance sheet or this would be for internal accruals?

Vineet Nayar: Yeah. So yeah that these are separate discussions. The fact that we will do this is a decision which is business decision. The fact that how will we fund it is the question of how will we fund everything, how will we fund Capex, how will we fund acquisition how will we fund this it is all put together to the funding ---

Sandeep Shah: So why are being loss we had now net negative cash, that's why?

Vineet Nayar We have it now?

Sandeep Shah: Net negative cash?

Vineet Nayar: Yeah. Yes, we will leverage. I mean we have already, I'm sorry, so sorry when we took the loan for AXON, we have already said in detail of the fact that we truly believe that as long as the cost of fund which in this case for Axon the short term fund is about 4.2% for us is lower than the treasury return. There should be no reason why we should not leverage our balance sheet. Yes we will continue leverage our balance sheet.

Sandeep Shah: Okay. And of the 20 deals

Shiv Nadar: Can I, can I add something here?

Sandeep Shah: Yeah, yeah.

Shiv Nadar: This is Shiv Nadar. You know the company is even today generating in access of $2 million per day of EBITDA. So the amounts that you know you talking about front end investments in some of these deals that they are doing. They are pretty small. I just want to put it in perspective.

Vineet Nayar: And I also want to put in perspective that this is a normal industry practice. I mean you will not see it in the Indian IT services players but IBM, Accenture, everybody, this is now become a minimum condition norm for total IT outsourcing deals.

Sandeep Shah: Okay. Of total deal won this quarter which we have announced roughly twenty deals, how many deals in terms of value also it has come through this kind of offerings?

Vineet Nayar: I don't have that answer of the.

Sandeep Shah: Okay. Just, this is the question to Mr. Anil, this $13.6 million worth of unrealized loss which we have bifurcated under Forex hedge. What is does that mean because you said 7.3 million has been transferred from OCI

Anil Chanana: You're referring to the mark to market?

Sandeep Shah: Yeah, you have given…

Anil Chanana: Yeah. There are certain hedges which have been, which were earlier we we're accounting for cash flow hedge is are now being treated as mark to market hedges and which have sort pushed up slightly the -- the mark to market. It was a $48 million of hedges which have been booked and which have lead to 7.3 million of loss this quarter. So 29.1 million include 7.3 million.

Sandeep Shah: Yeah. But that is come from OCI. So, 13.6 of unrealized loss, how --what is the nature of that?

Anil Chanana: That is basically the mark-to-market of the forward covers.

Sandeep Shah: Okay. Is it like cancellation?

Anil Chanana: We are following mark-to-market accounting.

Sandeep Shah: But this is the not a cancellation of the existing?

Anil Chanana: No, no, no, no it's nothing no cancellation.

Sandeep Shah: Yeah.

Vineet Nayar: Yeah, Anil if I'm right it is basically the way the auditors have accounted for the $210 million.

Anil Chanana: No, there are two streams, there are two tracks rather. One track is the cash flow hedge accounting and the second track is the mark-to-market accounting. So mark-to-market accounting recovers our mark-to-market at the end of every quarter

Vineet Nayar: Okay.

Vineet Nayar: So this is that 13.6 earnings because of that.

Sandeep Shah: Because of the currency

Vineet Nayar: Because of the currency fluctuation

Sandeep Shah: And just a last question. The depreciation excluding intangible amortization. This has been absolutely declining. Any reason for the same?

Anil Chanana: The depreciation figure being declining||

Sandeep Shah: Yeah.

Anil Chanana: In the model.

Sandeep Shah: Yeah.

Anil Chanana: See that model which we've built. Basically is, I mean this very (multiple speaker).

Prahlad Rai Bansal Yeah the increase in depreciation cost has been offset because of the strengthening of dollar against INR because most of the investments in India so actual depreciation cost stage in INR, so when restating whatever increase in cost in that were offset rises.

Sandeep Shah: Okay, okay. Thanks and once again congrats for a good presentation.

Anil Chanana: Thank you.

Moderator: Thank you Mr. Shah. The next question is from the line of Mr. Ritesh Rathod of UTI Mutual Funds. Please go ahead.

Ritesh Rathod: Yeah, hello sir. And this total unrelated $1 billion deal, what sort of performance guarantee amount you would have given in terms of bank guarantees to your clients which -- like if some non performance occurs, the client can invoke those guarantee, those penalties and guarantees. What amount or what percentage of the total revenue?

Vineet Nayar: We don't give bank guarantees or performance guarantees to our customers. That's not a industry norm.

Ritesh Rathod: Okay. So is there any penalty for the performance because it's of more of transition cost and transition?

Vineet Nayar: Yeah. Penalties are there in all our contracts whether it is T&M contracts or whatever it is. So there are the adequate checks and balances built for performances in all contracts old and new.

Ritesh Rathod: Okay.

Vineet Nayar: Therefore these, the new contract we've signed are not any different to the other contracts we have signed in the past.

Ritesh Rathod: Okay. Okay and that's from my side. Thank you.

Vineet Nayar: And I just want to point out that these contracts we've been signing starting with 2005 with Dixon, Scandia, Autodesk. So these are just the fact that billion dollar new contracts have been signed it's a good news but signing this kind of contracts is old news.

Moderator: Thank you, Mr. Rathod. The next question is from the line of Mr. Shantanu Mishra of ETIG. Please go ahead.

Shantanu Mishra: Good evening, sir. My question is related to this EAS, I just want to confirm when you have given this EAS, does it include the Axon revenues from the Axon?

Vineet Nayar: Yes please. It includes Axon revenues and also it includes currency.

Shantanu Mishra: Okay, So in that case I mean as for from my calculation I mean the revenue comes out to with $63.9 million and if I remove $17.8 million, worth have been contributed by Axon? You know the HCL revenues from the HCL side is actually 46.1 which is 16% lower than the September'08 quarter.

Vineet Nayar: It is on a constant currency basis, you are right. It is 46.2which is about to a 11.9% quarter-on-quarter drop and I had covered that in my opening remarks to indicate that the negative drop in enterprise application is a reason HCL made the Axon acquisition because I do believe that the kind of services HCL offers and I also believe the kind of services some other vendors may be offering, may not be of relevance to the customers and you need completely new skill sets to be able to meet the increasing demands in the enterprise application services. I'm confident that you will see growth in the enterprise application services as we integrate Axon into HCL. I had made these remarks in my opening statement that enterprise application services negative quarter-on quarter growth even indication that service was broken and we had to fix it which is also the point I had made for BPO services three quarters ago.

Shantanu Mishra: Okay. If we can ask one more question, actually quarter-on-quarter basis how the Axon revenue has grown in constant currency terms?

Vineet Nayar: Sir, we don't have the data. I have only projected that Axon contracted revenue for next quarter is $95 million.

Shantanu Mishra: Okay.

Vineet Nayar: And let us see what happens.

Shantanu Mishra: Okay, thank you very much.

Vineet Nayar: Thank you.

Moderator: Thank you, Mr. Mishra. The next question is from the line of Mr. Apurva Shah of Prabhudhas Lilladher. Please go ahead.

Apurva Shah: Yes, hi thank you, ma'am. In your presentation, I saw that you expect to lose something like $200 million on foreign exchange contracts over the next seven quarters, so I just want to understand, what is this -- what assumptions this is based on and whether this entire amount will be booked into P&L account?

Anil Chanana: Yeah, this is based on the mark-to-market rate as on 31st December. So that is the basic assumption and it will be spread over the period of the cover. It goes into the respective covers for the respective quarter in which the inflows are supposed to be coming. So the rate which is – which is applied here is INR 49.48.

Apurva Shah: But will this amount go up if the rupee doesn't depreciate any further?

Anil Chanana: Answer is yes.

Apurva Shah: And will the entire amount come to the P&L?

Anil Chanana: Yes.

Apurva Shah: Okay, thanks a lot.

Moderator: Thank you, Mr. Shah. The next question is from the line of Mr. Ed Caso from Wachovia. Please go ahead.

Ed Caso: Hi. Good evening this is Christ. Could you comment on the pricing environment specifically what pressure, if any, is occurring with your service offerings?

Vineet Nayar: Presently, pricing environment is quite bad, and rightly so, because our customers are facing, as I've commented in the beginning significant downward trend in their revenues and profitability. And they are coming to us rightly so, saying that we should contribute and help in reducing their spend on IT and therefore I think, there is an across-the-board pressure on reducing IT cost. I am seeing this at least for the last four quarters. Some of these customers have already achieved what they wanted to achieve along with us working on a win-win model, and therefore they are not coming back to us. But some customers, where we could not improve the contract and there is a significant higher pressure are coming back to us and that is driving two kinds of behaviors. One, that they are able to negotiate without for any other vendor and come to an agreement. Second behavior which is driving is of vendor consolidation, new RFPs coming out, and I saw 38 of them getting decided last quarter itself where people have gone ahead and changed their vendors, because they were not happy with the value being delivered at the price at which the vendor was charging.

So, the customers are seeking higher value for the price they pay, and therefore they have become very sensitive to Return on Investments and some of the deals I announced, whether they are device-based pricing, output-based pricing, guaranteed savings, is the way HCL has been able to handle for the last four quarters. This quarter also on quarter-on-quarter basis we have shown you an increase of realization per person, and that is largely happening because we also believed that we should help the customer reduce his overall IT spend. However, we can remove a lot of inefficiency which exists between him and us, which is T&M has a lot of inefficiency. The way we run our projects causes a lot of inefficiency.

The number of hours we work is very inefficient. The cities and towns and countries, we work is very inefficient. So, we tell our customers that if you are flexible in changing some of these conditions we'll be very happy to co-operate and reduce your IT spend, and we create a win-win partnership. So, yes, we continue seeing this pressure from customers, and so for we have handled it pretty well.

Christopher: Great. Thank you.

Vineet Nayar: Thank you.

Moderator: Thank you, Mr. Ed Caso. The next question is from the line of Mr. Manik Taneja of Emkay Global. Please go ahead.

Manik Taneja: Hello. Good evening sir. Thank you for the detailed presentation. I just wanted to check up Liberata, I think you've already answered that, you've not got any new client wins over there. However, just wanted to check if there has been any loss of clients or loss of deals over there?

Vineet Nayar: The answer is no.

Manik Taneja: Okay, thank you.

Vineet Nayar: And, operator we'll take last two questions, please.

Moderator: Sure sir. The next question is from the line of Mr. Ashwin Mehta of Mangal Keshav Securities. Please go ahead.

Ashwin Mehta: Sir, what would you say would be the average ramp-up period in terms of quarters for the deals that you've signed, would three to four quarters for steady state be a good assumption? And -- yeah?

Vineet Nayar: Six months.

Ashwin Mehta: Six months. So, during that six months, we would be incurring expenses for KT and transition to offshore?

Vineet Nayar: Yes. But under US GAAP, those expenses are not booked.

Ashwin Mehta: Okay.

Vineet Nayar: They are booked over the period of the contract.

Ashwin Mehta: Okay. And in terms of our past deals, have we seen a similar ramp-up duration of around six months or are we seeing some delays there in terms of the anticipated ramp-ups because our past deal wins also have been pretty healthy?

Vineet Nayar: Same, same.

Ashwin Mehta: Okay.

Vineet Nayar: No change, I mean, there is a higher urgency at the customer end. But I don't think you can do it in less than six months.

Ashwin Mehta: Okay.

Vineet Nayar: So to be clear, I am answering the question of when do we reach steady state?

Ashwin Mehta: Yeah.

Vineet Nayar: Right. Correct.

Ashwin Mehta: Okay.

Vineet Nayar: I mean the only thing which has changed, I guess, started in the deal in 30 days' time or in 15 days' time. Initially we used to get 60 to 90 days to get started on a deal.

Ashwin Mehta: Okay, okay. That has changed. So in terms of urgency of starting the deal you are saying is there from two or three -- 60 days to now 15 to 30 days?

Vineet Nayar: That is correct.

Ashwin Mehta: Okay.

Vineet Nayar: It won't extend, by the way.

Ashwin Mehta: Yeah.

Moderator: Thank you, Mr. Mehta. The last question is from the line of Mr. Surendra Goyal of Citigroup. Please go ahead.

Surendra Goyal: Yeah. Hi, again. Couple of questions, firstly one for Vineet and then I will follow up one for Anil as well. With upfront payments and performance guarantees, are the risks in business model going up?

Vineet Nayar: So, first is there is no upfront payment. Secondly, there is no performance guarantee. So, I want this to be absolutely clear. We do not pay our customers upfront. Those deals have not been done by HCL. Those deals have been done by somebody else, including with Citibank.

Surendra Goyal: Sure.

Vineet Nayar: We do not give any performance guarantee, right? That is not HCL's way of doing business, because it is consistent with the way IBM and Accenture does it.

Surendra Goyal: Okay. And secondly, in the last slowdown Axon's margins declined by around 500-600 basis points over a year, and given that we seem to be clearly in a slowdown, what is the kind of margin decline that we should be building in over the next 12 months?

Vineet Nayar: Right now, I think we have already given a projection of the margins which Anil gave. I think we are going to see similar margins. There is no reason to see margin decline. The only reasons for margin decline is only because of amortization and because of interest cost and therefore Anil has said that our overall margin for the company will go down by 200 basis point at EBIT level post amortization and including interest, it will incrementally go down by 300 basis over the OND numbers.

Surendra Goyal: Sure. And Anil, just one last question on the short-term $600 million loan, are you planning to replace it with the longer-term loan or do you plan to replay the same shortly and related to that, can we assume the INR 2 per quarter dividend to be sustained going forward?

Anil Chanana: Just to answer your question, Surendra, in terms of number one, the replacing of the loan, yes. The answer is that we see loan will be replaced with a longer term loan.

Surendra Goyal: Sure.

Anil Chanana: But we have to match it what sort of A) We are getting returns from the treasury. So it may make sense to use the treasury funds instead of the -- I mean the borrowing these expenses. So we will take the decision as we go along. There's still a lot of time there.

Surendra Goyal: Right.

Anil Chanana: In terms of the dividend and I think, Vineet will answer that question.

Vineet Nayar: So on dividend our policy is that, you know, we have always shared with you our strategy of excess cash is best in the investor's hand. There should be a change in dividend policy only if there is a material event. We have taken everything into consideration of what we see right now, and therefore, we believe that if there is a material change, we will come back to you and explain why we have changed the dividend policy, otherwise we continue to be consistent with what we have done for the last quarters.

Surendra Goyal: Sure. Thanks, thanks for taking my questions.

Moderator: Thank you, Mr. Goyal. At this time, I would now like to hand the floor back to the management of HCL for final remarks. Please go ahead, sir.

Vineet Nayar: So, I just want to make, you know, this issue clear about the upfront payment versus transition cost, what happens is that HCL incurs the cost of transitioning and knowledge transfer, which is HCL's cost which we don't bill to the customer. So, it is HCL's investment. We do not write a cheque to give to the customers and the logic for this is when we are transferring, transitioning knowledge to HCL, the customer is not gaining anything out of it. So the customer runs his business as usual and we takeover the knowledge from the customer at our cost. What is our cost is our cost of people. So, in the course of three to six months, when the knowledge transfer takes place, the customer retains his people, keeps paying his people. HCL deploy its people, learns the knowledge, transitions and starts operating, let's say, 60 days after the contract and starts adding 70 days, 80 days, 90 days and start adding more and more people and reaches a steady state in six months' time. So our billing will start maybe 60 days down the line, partial billing, and reaches the full billing six months' down the line. So in this process, what we are billing on run the business we bill to the customer. What we are spending for knowledge transfer, because it is not helping the customer do anything, we do not charge to the customer and that cost, we amortize it. That cost normally is anywhere between 10% to 15% of the total deal. We amortize it over the period over the deal. This is the standard practice, which we have adopted since 2005, and this is the standard practice, which is adopted by all of the global majors. The reason I highlighted this is because suddenly, we are seeing a very large amount of deals going towards HCL, and therefore I wanted to highlight this aspect of doing large deals, but there is no inconsistency in the way it has happen. This is exactly what we did in AMD. This is exactly what we did in Dixons, which is exactly what we did in Autodesk. So there is no change. With that, thank you so much for being with us and look forward to talk with you next quarter. Bye, bye.

Moderator: Thank you, sir. Ladies and gentleman, on behalf of HCL Technologies Limited, that concludes this evening's conference. Thank you for using the Chorus Call Conferencing Service and you may now disconnect.