“HCL Technologies Earnings Conference Call”

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MODERATORS

MR. VINEET NAYAR – VICE CHAIRMAN & CEO, HCL TECHNOLOGIES.
MR. ANIL CHANANA – CHIEF FINANCIAL OFFICER, HCL TECHNOLOGIES
MR. RAHUL SINGH – PRESIDENT, BFSI & BPO BUSINESS SERVICES
MR. STEVE CARDELL -- PRESIDENT, ENTERPRISE APPLICATION SERVICES
MR. ANANT GUPTA -- PRESIDENT, INFRASTRUCTURE SERVICES

Moderator Ladies and gentlemen good day and welcome to the HCL Technologies Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing "*" followed by "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Vineet Nayar. Thank you and over to you, sir.

Vineet Nayar Good evening, good afternoon, everybody. Thank you so much for joining our third quarter analyst conference call. I am joined with my colleagues Rahul Singh; Anil Chanana, Steve Cardell and Anant Gupta, and they will help us understand Q3 results better. Just a quick opening remark that we are very happy with the results we have posted14.6% YoY growth on revenues; 24.6% growth on EBIT; net income up 17.1%; and EPS up 18.6%. However, when you look at the last 12 months which is an interesting way of looking at it, we posted revenue of 21.5% on the last 12 months growth rate. EBIT up by about 34% YoY and 38% growth in EPS.

So, that is the summary of the last 12 months and that is also the summary of this quarter. The high point of this quarter has been that both US and Europe have contributed growth of 20% and 17% respectively YoY. Enterprise Applications which Steve will talk about has been a dark horse and with performance of 4.8% and 4.3% sequential growth rate in the last two quarters has emerged as the fastest growing service for HCL in the last six months which is very interesting and Steve will explain more about it. Infrastructure and BPO are back in the growth mode. Media Entertainment, Healthcare, Energy-Utilities are the real growth drivers on a sequential basis. Manufacturing up by 22% YoY continues to be robust. Financial Services is down this quarter. Rahul will explain the reasons. Interestingly, the top five and top ten customers growing at 4.5% and 3.5% sequentially also indicate that while we are doing huge amount of bookings we also have successfully mined those accounts and done well.

The big news of this quarter has been that our focus on booking which we started in April-May-June and anticipated that there will be a significant amount of churn which will happen and we should be able to gather some of that has turned out to be true. Our win rates are higher than we had anticipated and therefore we are logging in $1.5 billion plus large deals across 14 customers in this quarter. If you look at the last six months of $2.5 billion across 32 customers, you will see a billion dollars coming out of Financial Services, $0.6 billion coming from Manufacturing. In geographies, you will see $1.4 billion coming from Europe, $1.1 billion coming from US and what is very interesting is that because we had sharply focused on the last three years on increasing our emphasis and focus on 'Fortune 500' customers, it is $2.1 billion out of the $2.5 billion is actually deals from 'Fortune 500' and G2000 customers. 70% of the booking in the last six months is actually from new accounts. So the way we see the tea leaves on the back of all the macro and the news we are hearing is as follows: We believe that our customers are in a better position than they were before, they are more profitable, they have higher visibility to what is happening. However, their response to IT spending is a lot more penetrative and they are seeking answers to faster ROIs and better response in ROIs on any investments they are making, and that is creating churn, number one or storm number one, within the IT budgets. Number two, their attempt is to run the business IT budgets and move into more and more change the business IT budgets. So, even if the IT budgets are flat does not mean there is no action taking place. So, a significant reduction in RTB budgets is happening which has been driving the vendor consolidation and a lot of RTB budgets is attempting to move to CTB budgets which is driving the CTB growth rate and which is what you saw, the EAS. So, a lot of actions which are happening in the customer side is less to do with overall IT budgets and more to do with what is happening within those budgets.

On the European side, the first time outsourcing is where the big growth driver we are seeing and that because of the fact that we invested early on in Continental Europe, we are seeing success of that happening because their buying patterns are very, very different. We as a company believe that we have achieved our goals of booking which we wanted to achieve with $2.5 billion in our pocket and now we would like to achieve in the next six months delivery excellence and therefore we are going to redistribute on investment which is in sales to focus on accounts management and making sure that the deals we have won, we create a 'Wow!' as we have promised to our customers, which is exactly what we have done in three years. We did that after 2008 in 2009, we did that in 2010 after the big booking in 2009 and we are again going to focus in the next two quarters in account management and making sure that the account people who have won the accounts, deliver the account and we create a 'Wow!' and again, win the No. 1 in customer satisfaction as we had last year. And therefore, you are going to see less booking announcements from us and we will focus on converting the current booking into revenue and profitability. So, with those open remarks let us get into the details of each of the business lines and what the leaders have to say to what we are seeing. So, with that I hand over to Anant.

Anant Gupta Good morning, good afternoon and good evening. I am pleased to share that from this quarter's perspective we achieved a billion dollars of annualized run rate in the Infrastructure Services business. The revenues for the quarter crossed $251 million, up 17% YoY; EBIT was up 36%, up 8.3% YoY, partly short of what we forecasted but driven primarily because of increased SG&A in the quarter given the significant bookings that have happened.

If you look at the demand environment, we continue to see deals from sourcing advisors to flow in. In fact, the deal sizes have increased in size. Invitation from Continental Europe increasing from 40% to 50%. A key part of the strategy really has been the localization of our service delivery model which is leveraging the near shore centers. So, we actually opened up a new delivery center in Norway and expanded our centers in the US, in Finland and in Poland.

The other key thing which we are seeing is while there is a lot of conversation going around, transformation around the business, what we are seeing is customers wanting a simultaneous transformation, consolidation and standardization at least for the infrastructure layer so that they get the maximum mileage of their new outsourcing programs which they are moving.

If you look at the RTB services, I think the other key aspect and Vineet did share that, that the RTB spend is partly going down and that is coming on the back of a confidence that the RTB services which are getting contracted will allow our customers to actually unlock capital from their RTB budget and actually make those investments in transformational projects.

If you look at some of the key significant openings we have done in terms of partnerships, we opened a Global Centre of Excellence in South Africa in collaboration with Cisco. This is again largely deleveraged our methodologies and remote infrastructure management and to see if we can apply that into the African subcontinent in the next couple of years as the market opens up over there.

If you look at some of the partner ecosystem which have always been a key part of a strategy, whether it is Microsoft or VMWare, the virtualization enabling our customers to move in the Cloud journey are around the Big Data, our partnership with EMC has actually moved to a platinum status.

If you look at some of the market share and some of the things we are seeing around which is driving our growth. If you look at the last two quarters, we booked an excess of a billion dollars and the pipeline continues to remain healthy across all geographies. We have seen increased win rates in deals against traditional, multinational incumbents and in the last two quarters the growth has been led by two engagements greater than $300 million in size. The wins we see it largely coming in from the Media and Entertainment, Manufacturing and BFSI which is driving the order book and increased conversations with CIOs around Cloud Enablement, Big Data and Multi-Channel, although they are not really fueling much of the revenue growth but at least conversations around how we can help them on these three aspects. With that I will hand it over to Steve.

Steve Cardell

Great, thanks, Anant. So, just to talk about EAS, as Vineet mentioned, we have had two strong quarters of growth; this quarter 4.3% QoQ coming off, the previous quarter 4.8% QoQ. I am really seeing two different trends in the European versus the American marketplace. So, for European customers, the primary focus has been cost reduction and so we have seen quite a lot of consolidation projects where clients having multiple instances of SAP or Oracle in different markets, looking to consolidate them on to one platform and reduce run cost as a result of doing that and we are doing a number of Pan-European projects on similar lines.

And then in terms of the newer technologies, we are seeing a project activity in North America. So the four trends that I spoke about last time, will continue to be top of mind for at least the next two quarters.

Big Data is really preferred in verticals where it is high volume transaction and is time-critical, so major users are smart grids for utilities or point-of-sale information for retailers or supply chain information for distributors, manufacturers. The second one is the In-Memory computing. So, SAPs Hana product and Oracle Engineered Systems witnessing a strong push on those In-Memory solutions, supporting Big Data offerings. We are starting to see that big enterprise software players have also become more focused on their cloud offering, particularly in ASAM and in the mid-market. Probably the one that is delivering most real-term revenue at the moment is Mobility. So, the establishment of existing processes delivered through mobile platforms and the development of new processes are enabled by mobile platforms. So, in North America where we see companies have more profit to spend, we are seeing some of these more discretionary and exploratory projects going on. One of the trend this quarter I would say in terms of verticals, growth was fueled by Life Sciences, Utilities, Travel, Transportation and Aerospace and we continue to see more buoyancy there than in some of the traditional sectors. With this I hand over to Rahul to talk about Financial Services and Business Services.

Rahul Singh Thanks, Steve. I will talk about Financial Services. So, we closed this quarter with revenues of $251 million and while the revenues were 2.9% down QoQ over last quarter, it should be noted that on LTM basis the business did clock a 20.7% growth over the previous 12-month period. The growth has come from all lines. So, we are seeing multiple service line businesses in financial services in Apps and BPO and specifically, when you look at the deals I think Vineet spoke about the fact that we booked deals of $2.5 billion in the last two quarters, at company level. More than 40% of those deals were booked in Financial Services. So, I think that is an indication of the growth that one could see over the next couple of quarters. If you look at the Financial Services demand environment, the recessionary environment continues especially in the US market leading to focus towards cost cutting and some of the products which HCL offered in Financial Services which are targeted towards run the business, tend to do well in this kind of environment. The money is then reinvested in the form of change the business initiatives. So, we are seeing initiatives in Financial Services in terms of new technologies, analytics, mobility, multi-channel continue to be areas of growth for our customers and also on the regulatory front, therefore we are trying to capture market share from customers by focusing some of the CTB initiatives on regulatory spend that customer may have.

In terms of growth drivers, perspective continue to be in terms of focusing on large deals. As I mentioned earlier, almost 8 to 9 large deals were closed in the last six months, aggregating to over a billion dollars of TCV and our solutions tend to now focus on in terms of fully loaded services. We are partnering with the companies trying to develop offerings which are more robust and offer full solutions from a customer perspective. With that I like to hand over to Anil.

Anil Chanana Thanks, Rahul. So, now the numbers. If you go to the overall company Profit & Loss account, this quarter, it was a 2.5% QoQ growth in revenues and 8.6% QoQ growth in net income. Compare to corresponding quarter last year the revenues were up by 15%, EBITDA by 25%, net income by 17% and the earnings per share were up by 19%.

If you look at the margins at the bottom, the interesting part of the performance in this quarter has been that we have been able to protect our margins in spite of the headwind on account of currency, which is explained on the next slide.

So, moving on to revenue growth, it was 1.9% QoQ volume growth for overall company; however, if you look at just the Software Services, in this quarter it was 2.8% QoQ growth in the Efforts Billed. It was on top of 4% which was recorded in JAS’11 and 4.9% which was reported in OND’11. The currency, primarily some of the Asian currencies and GBP gave a push to the revenues by 0.6%. In terms of the margins the currency had a negative impact at a EBIT level, of 91 basis points and outside that there was operating efficiencies of 75 basis points. About half of it coming from SG&A and another half coming from factors like improved utilization using tools, processes, increased offshoring and a number of other factors which came in there.

I would also like to highlight that we are investing in SG&A as the need arises. We have stepped up our investment in SG&A in last 2 quarters. So, we keep on adjusting it depending on how we see the business.

Moving on to cash position, we are cash positive by $12 million. So, the cash available is $398 million, while the total loan funds, foreign currency and others put together is $386 million.

Going forward, in terms of the conversion of net income to cash, this conversion ratio is at 95% if I look at last 12 months period and at two years rolling average, it is in excess of 100%.

Moving on to the receivables, overall receivables went up by five days from 76 days to 81 days. The billed portion went up by two days and the unbilled went up by three days. What has happened? If you have seen our numbers the fixed price projects contributed 42% of the company’s revenues in JAS’11 when we began the year. In the current quarter it was 49% so it has increased 5% over the last two quarters. Now, what it comes with is that there is a milestone billing in the fixed price projects. So, unless you achieve that milestone you cannot bill the customer though we continue to spend the efforts, so that is one. Secondly, what happened is that some of the customers shifted into the FPP mode in this particular quarter while their own internal IT Systems or their vendor systems who are providing them the procurement services were not active into the new regime. So, we face certain delays in getting the purchase order and the master services agreement in place and hence the confirmation that we will provide them the services. So, it has led to some sort of delays particularly the unbilled part I would call it. However, in spite of this the net current assets as a percentage of revenue continues to be the best in the industry which is 13.3% and our Return on Capital employed is at 21.3%, again one of the top two IOP’s.

Moving on the hedges position, our hedges this quarter increased by $180 million, so it is at $1.3 billion vs $1.2 billion last quarter. $211 million are balance sheet hedges and $1.1 billion being the cash flow hedges. Almost $600 million are hedges for less than or equal to one year. We continue to follow the layered hedge policy, where we hedge 40% of our respected inflows over the next one year. The booked rate forward for Rs. 53.95/US$, for less than one year it was Rs. 50.81/US$ and more than one year it was Rs. 55.29/US$. The range options were between Rs. 50.35 to Rs. 52.06/US$. Then, we have a mix of forward and options which we have used.

Moving on to next slide. At the end of March, the OCI is -$31.2 million and the breakup thereof is provided depending on M2M rate, rate after taking into account the premiums and after discounts. However if you take the quarter end closing rate which was Rs. 50.87/US$, it will turn out to be a positive number.

Looking at the tax provision, the tax provisions this quarter was at 25.1% and within the range we had guided between 25% to 26% for this year.

Going further, in terms of options, the options outstanding are at 3.1% of the capital of the company. 1% is at market price and 2% is at below market price. So, the ESOP charge associated to it is about $4.2 million which came in this quarter and the same charge is likely in the next quarter. With that I will hand it over to the operator for question-and-answers.

Moderator Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Ankur Rudra from Ambit. Please go ahead.

Ankur Rudra Can you throw a bit more color on the recovery and performance in the BPO business and how sustainable we should expect this to be?

Rahul Singh We had embarked on an initiative to optimize the BPO business profile about 24 months back and guided that by JFM’12 quarter, we will be having a breakeven business. So, this has been achieved through a collective set of initiatives which we have executed over the last 24 months but the BPO business was largely focused on a single vertical and single service line on the call center side. So, one of the biggest strategy which we adopted is in terms of turning around the markets that e have started doing deals in other verticals such as Financial Services, Insurance, Banking and so on and so forth and also moving out from single service line which was call centre-centric to more transaction processing-centric. So, today, when you look at the total BPO it is about $50 million of revenue per quarter. Roughly, 35% of that business actually comes from the newer businesses which we have been focusing on. So, number one was that we refocused the BPO into newer areas and now it is contributing towards improved margins on an overall basis. Number two is that we have also downsized and ring fenced the businesses and accounts which were poorly performing so we either squeeze accounts to smaller values or exit the accounts. We believe a combination of growth of business along with containing and controlling costs & losses in some accounts has resulted in the margins coming back to break even. If you look into the future, I think this calendar year we are going to continuously focus on retaining the margins at a zero EBIT level. So CY2012 we would like to retain the EBIT at zero or close to flat breakeven and then as we embark into the future, we will look at improving the BPO closer to industry margins and company margins going ahead.

Ankur Rudra And then Vineet, the statement you made earlier in the call about you wanted to focus on executing the contracts. That sounds great, but if I tie this with the commentary from TPI earlier this month, they were highlighting the restructuring activity will go on over the course of this year, in fact, might accelerate towards the second half. Should we assume that you would not participate like you have in the last six months?

Vineet Nayar I think we will not participate in the first half of this year but we will definitely come back and participate in the next half. What I think is that if you look at the amount, the kind of brands we have announced, some of them we have announced, some of them we have not announced, we want to make sure that we do a damn good job in executing them and therefore most of our hunters who have won this deal will be redeployed in making sure that the transition goes completely smooth. That is about four to six months activity and then they will be back in the market in about four to six months activity. So, we used to spend a substantial amount of our SG&A in hunting and that is being switched around and we will be substantially spending on farming so that we can convert all these contracts into profitable revenues for us. But I think if you look at the TPI data, they have said in H1 the contracts are going to be very poor and they are going to bump up towards the end of the year, and that is the way we are also timing our cycle.

Ankur Rudra From a margin perspective on SG&A should we see some leverage over the course of this calendar year?

Vineet Nayar I do not want to comment on it. We will see. It is very important for us to realize that the market dynamics is changing on a quarter-by-quarter basis. Frankly speaking, we did not expect even when Steve came in two quarters ago that we are going to deliver such a stellar performance on the Enterprise Applications. So instead of committing a certain number to you, we will just say that we will play it by the year. This is what we think we need to do right now but we will play it by the year. We will see what needs to be done.

Ankur Rudra The next question was actually on EAS. I think I asked this question last quarter result as well. The strength we saw in EAS in the last couple of quarters, difficult to strike out any visibility and whether that will remain in the next few quarters?

Steve Cardell So, I have two comments to make on that. One is that we have had a very good conversion ratio over the last couple of quarters. So, we view that we have a strong position in the market and when deals are available, we win more than our fair share of those deals which we have already seen in the last six months. The second thing that we have seen increasingly over the last 12 months is both reduction in the purchasing cycle and a reduction in the project cycle. So, in other words, we are seeing deals come in the market quite quickly and convert quite quickly, but whereas projects maybe used to be 12 or 18 months, companies are cutting them up in to 4 months or 6 months discrete projects so that they can manage their discretionary spends more carefully. That provides for us less long-term forward visibility however we see good momentum at the moment and we will watch to see whether that continues.

Ankur Rudra And just a final question on Financial Services, could you comment if you have seen any specific delays towards the end of last quarter and is there any ease on the regulatory pressure and spending on that side?

Rahul Singh No, we have not seen any change in what we are forecasting in terms of revenues for this quarter. There are minor blips which are there which contribute to the 2.9% QoQ decline. So far the regulatory environment is concerned, regulatory environment continues to be very tight, so a lot of money is going towards regulatory change. But when you talk to the CIO's, etc. you do get a feeling that some of that may drift a little bit into future quarters.

Moderator Thank you. The next question is from the line of Viju George from JP Morgan. Please go ahead.

Viju George The BFSI sector has sequentially declined in revenues in this quarter. Now, I know you explained at the good part of $1.5 billion deals has come from Financial Services segment, but do you think getting businesses from existing customers has become much more difficult in this sector than a quarter back, what is your outlook for this besides the deals that you won?

Vineet Nayar Let me go ahead and answer that. I think you are absolutely right that BFSI sector is restructuring itself to a lower cost sector and because of which the existing spends with existing projects are being reviewed with a very sharp eye especially on transformational budgets or discretionary budgets and therefore, the growth overall in BFSI so far has been muted. However, I truly believe that one of the ways they are achieving, restructuring of their cost structure is number one, open the doors to new innovative vendors and look at their RTB spend, that is the reason we won those deals, number two, those vendors are getting a shot at their new CTB budgets because they are moving the RTB budgets to CTB budgets and that is driving the CTB growth rate and that is one of the reasons we are trying to move our sets of people who won the RTB into account management so that whatever savings we get from RTB, we catch the CTB also. So, that is what our attempt is. So, I think in the way to grow in BFSI is not going to be standstill, it is going to about two strategies. Number one, when vendor consolidation protect an existing base and see when a disproportionate amount of CTB as RTB spends go down and it comes to CTB.

Viju George Your onsite volumes have declined about 4% I think sequentially. Anything to read into this or it is just a quarterly blip, anything to do with visas here and your hiring for this quarter has been very muted especially in IT Services. Just want to get these two understood properly.

Vineet Nayar I think there is no trend on onsite. This is as Steve was talking about the project business, and the project business with shorter cycle time and the onsite/offshore ratio will keep moving, so there is no commentary there. On hiring, I think the HR folks are doing a pretty good job which in our company in terms of the hired significant amount of freshers starting in April-May-June. So, if you look at April-May-June and July-August-September, our hiring was running way ahead of our revenue growth numbers and then our utilization started increasing in October-November-December to March and that is what we are doing and then you will see the lateral market open up in April-May-June and we will see a lot of lateral hiring and then once again starting October-November-December the trained freshers will come under the cycle. So next two quarters you will see lateral hiring. So, I think they have converted this into some form of a model and art which they execute pretty well and which is what we have seen. So, on a trailing 4 quarters basis, we would see the revenue and headcount growth have kept track of each other.

Viju George Just one small thing about the SG&A expenses. Since you mentioned that the hunters will go slow in chasing your businesses and you probably focus on executing better. Is it fair to say therefore that your SG&A will continue to maybe decline or rationalize as a percentage of revenues going forward because you are just sort of changing spends away from hunting towards farming in the next couple of quarters?

Vineet Nayar Yeah, but we are increasing the spend on farming and reducing on hunting. So, I do not think the SG&A should go down.

Viju George As a percentage of revenues?

Vineet Nayar I do not think so. I think we will keep investing. We are a very sales-oriented company. So, I think reducing SG&A will be a very difficult thing to do in HCL.

Moderator Thank you. The next question is from the line of Divya Nagarajan from UBS. Please go ahead.

Divya Nagarajan On your utilization rates you mentioned that you did have freshers come in, in the first half of the year and you have since pushed it up over the last couple of quarters. What are the comfortable rates that you are looking at in terms of utilization including and ex-trainees?

Vineet Nayar We are not guiding that.

Divya Nagarajan Let me put it a little differently. Your 79% ex-trainees probably close to near all-time high or at least in the last five, six years. Is this a space you are comfortable being in?

Vineet Nayar I think the utilization will go down going forward because of the fact we are bringing in laterals.

Divya Nagarajan And given that hiring in the last couple of quarters kind of slowed down and you are looking at opening up the lateral hiring space in April, how quickly do you think you can respond to your business requirements in terms of lateral hiring, how is the market looking in terms of supply especially in the three to eight years kind of a bracket?

Vineet Nayar I think the supply is looking better than it has ever looked before and I was a bit afraid when HR was executing the strategy but they were right in terms of supply now is far better than it was two quarters ago. So, supply is not a problem and number two is most of these projects take four to six months to ramp up after transition. This transition people we already have and I think we should be able to populate the requirement without a problem.

Divya Nagarajan You do not see any supply shortages for your immediate next three months kind of?

Divya Nagarajan None at all.

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

Mitali Ghosh My first question is just on margins this quarter. Anil you mentioned that you got about 75 basis points from efficiency, but I am just wondering that last quarter you had a couple of seasonal items of the customer meet as well as the one-time employee bonus. So, I am just thinking that would not that have contributed something to this quarter and hence shouldn't margins have actually been much higher given your jump in utilization as well as offshore?

Anil Chanana As Vineet mentioned, the SG&A, particularly the 'S' part is an investment continuing in HCL. Something or the other will keep on happening. So, either it was the event or something else we are doing. So, I think the focus is on driving the sales and driving to capture the momentum which was available. OND and JFM have been very good quarters in terms of wins. So, these all translated into wins. So, all that investment has gone there.

Mitali Ghosh And the employee bonus, that is not something that was released this quarter?

Anil Chanana Employee bonus has come in as a one-time thing out.

Vineet Nayar Mitali, you must remember when we do this kind of billing, a lot of people earn a lots of bonuses. That is what Anil is not trying to say. Overachievement bonuses are at an all-time high, there are a lot of rich people in HCL.

Mitali Ghosh So just on the second thing on margins wanted to understand that going forward given that you have won such a large TCV, how is that likely to impact margins in terms of transition costs and ramp ups over the next couple of quarters?

Vineet Nayar We do not have any margin concerns, Mitali. We have said that all these deals have been sold at our current margin profile and we have guided for a long-term margin profile for HCL and with all these deals we are confident in maintaining them over a 12 months period. Obviously, QoQ variations will be there but on any trailing 12-month, we will be happy to maintain these.

Mitali Ghosh Which is roughly at that 14% EBIT kind of level, right?

Vineet Nayar That is correct.

Mitali Ghosh And just in terms of the wages there have been sort of contradictory kind of signals in the industry. I am just wondering that while I know your wage hike only comes in June. Any thoughts on what you are expecting next year, just broadly some commentary?

Vineet Nayar I think we are fortunate that we can wait and watch which is what we are doing. So, we do not have to give a commentary. So, it is better to wait and watch and see what happens in the industry. We fortunately have a three-month window to take a concerted decision based on A) what the industry does and B) what is the impact of what it does.

Mitali Ghosh So even in terms of whether there will be a hike or not is something that you would prefer not to comment on it at this time?

Vineet Nayar That is absolutely correct.

Mitali Ghosh And finally, on the deal wins, just wanted to understand, you mentioned that large part of it has come from Global 2000 including Fortune 500 customers, is there a number of how much has come from just Fortune 500?

Vineet Nayar I do not have that number but I hope that you recognize that G2000 is bigger than Fortune 500. So, from a cut-off of that is the reason we take G2000.

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

Sandeep Shah Just to BFSI, you said that it is coming through vendor consolidation and we had some fantastic TCV wins. So, this vendor consolidation is largely happening from the incumbent global vendors or is it also a churn from some of the Indian vendors?

Vineet Nayar I prefer not to answer that question.

Sandeep Shah Is it difference in a trend of late versus what it used to be earlier?

Vineet Nayar If you allow me let me pass that question.

Sandeep Shah And secondly, just here why the BFSI clients are now opening those for new vendors, why this is happening?

Vineet Nayar I can tell you what the clients are telling us. The clients are telling us which is something which I have said for a long time in these conference calls or whenever I get an opportunity meeting you face-to-face. Our run the business offering today is a very robust industrialized delivery model which has leveraged a lot of infrastructure tools and processes and gives a lot of predictability to our customers, gives them a lot of dashboard, gives them a lot of visibility. And that level of maturity we have also seen in a lot of global vendors. I can tell you for example one of the Financial Services deal which we won, the last three were IBM, Accenture and HCL and the compelling factor in all these three cases, it was a neck-to-neck fight is that for all of us "the run the business" a was very tool-driven, IT driven, the way we were offering the services. The current delivery model in those customers, especially, in this customer was not process-driven and in most cases it is because of the customer was wanting more comfort with T&M, and T&M was distributed across multiple buyers and the whole relationship had been built up with multiple stakeholders whereas the new vendor like us comes in will suddenly look at their entire landscape and will horizontalize the entire delivery model and bring about tools and processes which will result into a substantial saving for them. From a customer point of view he will say why did the existing vendor not do it and the fault of that could potentially lie with the customer himself when the way the relationship was built. But, that is one of the reasons. One is industrialize delivery of high maturity. Number two, T&M kind of contract which are now moving to more process-driven, horizontal services and number three, if you can combine that with a business process, so, if you can combine the application support and maintenance and infrastructure support and maintenance along with the business process, which is the reason we combined in Financial Services all these three services under one head. You make a very interesting proposition to the customer, which is unique and different. So, I believe these are the three reasons other than complete disgust and dissatisfaction maybe with an existing vendor. These are three or four reasons why we see a churn in the Financial Services sector but the new trend is that the Financial Services which I think I reported to you last quarter also, the new trend is that the Financial Services sector which had closed its door to new vendors has in the last six months opened its door to looking at business models and new vendors and taking decisions in favor of new vendors and I hope it turns into a storm.

Sandeep Shah Just a follow-up, of the more than $1 billion TCV signed in the last two quarters, is it in the Financial Services, it is largely skewed towards new customers or even it is fairly distributed to existing and a new customer?

Vineet Nayar There were at least six new customers in that list of ten. So, you can say about 60% was new.

Sandeep Shah In terms of TCV also?

Vineet Nayar Yes, I would think so.

Sandeep Shah And just last question is the onsite efforts have actually gone down and there is a decline in the onsite volumes also with more new deals already in the kitty, we should expect this to go up with new projects to start up and this will lead to some incremental revenue momentum in coming quarters?

Vineet Nayar Yes, I think that is a fair expectation. I think we must be very clear. I think the arithmetic is if you start on day zero, the revenues by the time you end the year comes down to 50%. So, if you start with 100, the month 10, 11, 12, is actually 50% of the base zero revenue and the rest you have to book and bill and bring it together. So this booking gives us a head start in filling up either the 50% gap and also fund some of the growth.

Moderator Thank you. The next question is from the line of Dipesh Mehta from SBI CAP Securities. Please go ahead.

Dipesh Mehta My two questions; first is whether in last two, three quarters of deal wins, whether we have seen any kind of delay or deferment? Second is on the balance sheet, we have mentioned certain asset reclassification, whether it has any impact on reported operating cash flow?

Anant Gupta I think largely if you look at the two markets, the market which is around renewables and churn from contracts, which will expire and hence need to be renewed, I do not think there has been any sign of delay because there is actually a drop dead date for when the incumbent service provider will need to either continue their services or exit the services for most of the new ones and given that a significant amount of those renewables, they are pretty much determined by a fixed date and when contracts do get signed, decisions were taken and transitions kick in. I think in the CTB largely there could be deferment and that largely is driven by shorter ROIs and depending on quarter-on-quarter performance of businesses including the fact that what savings do get accrued from the RTB side, which kind of releases capital for doing short-term high ROI kind of transformation projects, so there is some level of uncertainty around some of the CTB programs.

Anil Chanana I think the second part of your question was with reference to the reclassification, which has been done of the lease hold land we hold as well as the advance we have paid for the Nagpur land. So this is just a balance sheet item with no cash flow impact at all.

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

Yogesh Agarwal Anil, this is for you, so the OCI last quarter you MTM at around Rs. 53, now this time it will probably be around Rs. 50 – Rs. 51 but the losses have gone up. So can you just help me understand that?

Anil Chanana Actually, the losses have gone down, the OCI. OCI was a much higher figure last quarter, which was about 73 million and this quarter it is at 31.2 million.

Yogesh Agarwal Because the last presentation shows $19 million losses total in December end 2011 and now it is up to $31 million.

Anil Chanana I am sorry, in fact none of us are able to correlate to that $ 19 million, but we can definitely discuss off-line. But I mean, so it is actually more than half but it is at the quarter end closing rate of Rs. 50.87/US$ so it is day-to-day changes.

Moderator Thank you. The next question is from the line of Vishal Desai from Violet Arch Securities. Please go ahead.

Vishal Desai Just a quick question, in terms of the industry growth that has been mentioned of late of around 11 to 14% and given that the overall deal traction that you all are seeing is pretty strong. How do you place yourselves in terms of the overall growth that you all can see going forward probably in FY13?

Vineet Nayar Okay, it is a pretty long answer. I personally do not believe in the loss averages, I truly believe that the Indian IT, the top four or five vendors are very small in their footprint on the global IT market and we have different business models and looking at the trillions of dollars are being spent differently and therefore to aggregate and try and see a common thread in commentary is going to be a bit difficult, because each one of us has a different strategy, a different approach to market and may be approaching the segments differently and therefore the commentary varies from vendor to vendor and therefore putting the aggregation together and saying the NASSCOM growth rate versus non-NASSCOM growth rate, I am not sure it makes sense. At HCL, our approach has been to ignore any of these averages and just focus on the fact that if the market segment which we are focused on is going to deliver growth. If it does not, then get out of it and find some other. If it is then focus on increasing win ratios and the growth is the result of that strategy and that is simple and short is what we are focused on to. I do not have a comment on the industry average growth rate.

Moderator Thank you. The next question is from the line of Shashi Bhushan from Prabhudas Lilladher. Please go ahead.

Shashi Bhushan Just one question, the last time when we started execution and project ramp ups in FY10 after deal wins during crisis, two things have happened; one our margin profile changed; and second, our free cash flow volatility increased. So is there a possibility of may be a similar trend this time as well.

Vineet Nayar **O**n quarter-on-quarter, yes, there is a possibility predominantly because in any large deals, early on the margins are lower, later on the margins are higher, but our internal computation shows that on a 12-month average, we should be able to hold what we have been doing because that is the premise under which we have sold, because there is lots of other deals which we sold which are coming to an end of what I call 18 months, 12 months or that is a honeymoon period on which you can start bringing about certain changes in improving that margins. So, I am comfortable, on quarter-on-quarter you will see some movements, but on a 12-month rolling basis, currently whatever we have seen, we do not see any concerns.

Shashi Bhushan Not even on the free cash flow volatility?

Anil Chanana If you look at the presentation and we have presented on a last 12 month basis as well as on a two-year basis, we have been 100% achieving that the operating cash flow to net income ratio or exceeding that.

Shashi Bhushan Just one more question on BPO. Our employee addition has been entirely laterals. I can understand that there is a shift in the nature of work, we are going to do or target in BPO. So, as you mentioned that steady-state margin would be in line with the company’s margin. So, what would be the timeline which we are aiming to attain that margin profile?

Rahul Singh So, we are not guiding by when that will happen. But like to answer your question about lateral hiring. Yes, that is correct because as the profile of our client base and the services that we are offering is changing, we have to resort to a certain amount of lateral hiring to kind of bring the services up to what the expectations of customers are.

Vineet Nayar I have another request from all of you which is that we were reporting BPO historically separately because it was a turnaround story and Rahul and his team have done a phenomenal job of doing that but increasingly, we are selling BPO as an integrated part of IT. So, we will keep reporting BPO, but I would advise you because it is a very small portion of our revenue to look at the integrated margin profile of the company and not worry about when and how the overall margin of BPO will trade at the company level because$ 200, $250 million is immaterial revenue profile of the whole company.

Moderator Thank you. The next question is from the line of Sandeep Agarwal from Edelweiss. Please go ahead.

Sandeep Agarwal On BPO, if you see this quarter the net employee base has actually declined and also in spite of that revenue growth is very robust. So, can you throw some light why this revenue growth has come in spite of a net decline of employees, is it just because of tools or what you have done in this?

Rahul Singh As I explained there are two things happening. The profile of the client base is changing. Service clients that we are offering are different and the second thing is the net decline is versus last quarter. So if you look at last quarter there was a spike in terms of hiring that happened last to last quarter. So, the levels that we are at right now is similar to the levels we were a quarter back.

Moderator Thank you. The next question is from the line of Radhika Merwin from PUG Securities. Please go ahead.

Radhika Merwin Just a couple of thoughts. On the IMS space, we have seen the margin go down this particular quarter. Just want to go back and context what happened the last quarter around. You said that there was a softness in India business because we were renegotiating certain bids because of the rupee depreciation. So are there any renegotiations that have happened on the bid, why we are seeing the IMS margins decline in this particular quarter?

Anant Gupta If you recall in the last quarter we talked about the growth rate of the IMS business and part of the softness is coming from the fact that we kind of put a pause to some of the very large engagements which were in flight in India largely because of sharp movement of the currency. I think I am happy to report that this quarter we have been able to successfully get the issues out of the way and we should see those revenues flow in, in this specific quarter itself. As far as some of the margin blips, like I said earlier it is largely on account of an increased SG&A spend to support the huge pipeline that has been booked and that is why we have a slight increase in SG&A's spend for Q3.

Radhika Merwin And just one on the fixed price contract as they mentioned if you see they have gone up by this whole year on a YoY basis, what is the way forward, what is the thought process now, where do we see just percentage stabilizing, are we looking at still using this as a lever to drive margins, just some color on this?

Vineet Nayar I think it is too early to say. We did see an opportunity of ramping up of our fixed price, especially on the discretionary. So, the overall fixed price will vary depending on percentage of discretionary and how the customers are moving on discretionary. So, directionally, our attempt is to go more fixed price as it results into higher margins because we have more control on how we deploy the resources and where we base those resources; however, I think the market will determine it and we will go with the flow because at this juncture we cannot be choosing what we will and we will not do. This is not an important element. Our preference is fixed price but it does not mean that we will not be happy if the volumes grow up but the fixed price components go down.

Moderator Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain Just if you can share a bit on the BPO revenue being flat for sometime and the employee count down by 10% despite large lateral additions. What exactly is the situation of recovery and what is the business flow in the segment?

Rahul Singh I mentioned earlier that we are changing the profile of the business that we are doing. We are moving from call center to more transaction basis and therefore that is reflected in the kind of headcount that is required and that is the reason why we have done more lateral hiring because we have to get that kind of resource pooled into the company.

Rahul Jain And going forward what exactly would drive this?

Rahul Singh Going forward as well as I explained earlier 35% of our total turnover today is coming from the newer businesses; both clients and the service lines that we have, and that is a growing percentage overtime.

Moderator Ladies and gentlemen, that was the last question. I would now like to hand the floor back to the management and Mr. Nayar for closing comments. Please go ahead sir.

Vineet Nayar Thank you so much for joining us today evening and thank you so much for following HCL over the last quarter. We will be back soon talking to you over this quarter in road shows and talking to you next quarter. Thank you for my colleagues also to join this call and have a great day.

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