"HCL Technologies Limited Q3 FY18 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the HCL Technologies Limited Q3 FY'18 Earning 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 after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then and '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. C. Vijayakumar – President and CEO, HCL Technologies Limited. Thank you and over to you, sir.

C. Vijayakumar: Thank you. Hello, everyone. Wishing you all a very-very Happy New Year and welcome to HCL's Earnings Call for Q3 for Fiscal '18. This quarter has seen us deliver a strong broad-based and industry-leading growth. Our revenues grew 3.3% QoQ at constant currency and 3.1% in US dollar terms. This translates to 11.2% YoY at constant currency and 13.9% YoY in US dollar terms. Our net income grew by 11.2% YoY and our EBIT came in at 19.6%.

With this quarter, we have now seen an incredible 12-quarter high-booking performance. The highlight is that we are now seeing good momentum created by our Mode-2 offerings, predominantly led by our Digital and Cloud offerings. The senior leadership that we have dedicated for Mode-2, the competence that we have built and the subsequent credibility that we have created in our offerings in Mode-2 are helping us create unique value for our clients. This is helping us not only to displace long-term incumbents in the marketplace but also to cross-sell other services from our traditional portfolio. Overall, this makes us optimistic about the future.

With the record high booking performance, it also validates the success of our strategy and our execution. We are also seeing our Mode-2 deals scaling up in size both from scope and revenue perspective. These deals are also providing us with the strong differentiator for our Mode-1 services. We have also seen healthy growth to our clients' portfolio in various categories and a big contributor, our success has been the client partner program that we had rolled out five to six quarters back. We remain bullish about our performance and expect to close the year within the guided range for both revenue and margins and FY'19 looks very promising as well.

Now to some numbers:

This quarter we won 20 transformational deals, represented by a well-balanced Mode-1, 2, 3 services mix. Majority of these wins were powered by Digital, Cloud, Autonomics and AI-based offerings. One of the largest deals that we signed had a significant autonomics and AI component as a part of the solution set. The performance of our services was led by our Engineering and R&D Services had a strong 13.6% QoQ growth, Application Services at 1.6%, BPO at 5%, our Infrastructure Services declined 1.2% due to an expected decline in our India business. Very significant accomplishment this quarter is our Mode-2 and 3 services have exceeded 25% of our revenues in this quarter. Our verticals of Retail, CPG and Manufacturing had 6.6% growth and Financial Services grew at 2.8% without considering the DXC JV pact.

It is very heartening to see that over the last six quarters our Financial Services business has posted a market leading CQGR of over 3%. Americas grew at 4.9%, Europe grew at 1.9%, ROW declined 3.9% which has again contributed significantly due to the decline in India business.

At a corporate level, we covered several milestones last quarter. Our Red Ladder initiative was recognized as a Finalist at the 14th Annual CV Awards for Women in Business category Women Helping Women. Samuday, HCL's Foundation, biggest CSR project to create model villages in Uttar Pradesh was unveiled by Hon'ble Chief Minister of U.P. Shri Yogi Adityanath. HCL Foundation benefited more than 100,000 disadvantaged students in calendar year 2017, while in the US and UK HCL remained engaged into specialized programs in the Youth Employment and Training. In South Africa, we started working with the Nelson Mandela Foundation for creating eLibraries for disadvantaged students. Our Swedish operations were conferred with the key to the Heart of Gothenburg award by business region, Gothenburg, Sweden for being one of the most important international businesses established in 2016 and '17.

I will provide a quick update on our Mode-1 services followed by Mode-2 and 3: Our Mode-1 services as all of you would know are the core services in the areas of Application Services, Infrastructure Management, Engineering and R&D and BPO Services where we significantly leverage DryICE Autonomics platform to transform our clients' IT landscapes to make them lean and agile. Last quarter in the Engineering and R&D Services we delivered a growth of 13.6% QoQ in constant currency terms.

The growth is primarily driven by three factors – One, core organic business in our ERS portfolio has done well. We are also recognizing the synergies from some of the acquisitions that we have made especially Geometric, the PLM portfolio is also contributed to good growth in the last quarter. The IP Partnerships including a seasonally strong performance last quarter also helped us drive very solid 13.6% growth in the Engineering and R&D Services.

In Applications Services we delivered a growth of 1.6% QoQ in constant currency. Without the impact of DXC joint venture we grew 2.6% QoQ. This is primarily driven by an acceleration in our digital services across key verticals and also the overall growth in Financial Services vertical is a key contributor to revenue growth in the Application Services.

In Infrastructure Services we declined at 1.2% in constant currency. This is an expected decline due to our reduction in our India business. Overall, the deal wins in the Infrastructure business has been good and we do expect an uptick on the global infrastructure business during the first half of next year.

It is very significant accomplishment that I want to point out is we signed a very large engagement with the Fortune 100 global CPG company for a global digital workplace services deal. It is one of the largest deals that we have signed this year. BPO Services we grew 5% QoQ in constant currency, a big part of it is contributed to the acquisition that we did which is Urban Fulfillment Services.

Our Mode-2 services where we deliver experience-centric and outcome oriented integrated offerings across digital and analytics, IoT Works, Cloud-native Services and Cyber Security Services. A very good traction and call out in digital and analytics we have seen significant traction. This quarter saw us bring several strategic digital analytics contracts like digital transformation, automation and modernization engagement with the leading US-based railroad company, strategic analytics engagement for a leading global biopharmaceutical company. We were also chosen by a US-based telecom services provider to create 24th Century Enterprise by transforming Next-Generation Mobile Virtual Network Operator Applications based on modern application development frameworks. TIBCO conferred us with the 2017 Partner Excellence Award for Digital Transformation Solutions and Services. As a result of the accelerators and frameworks developed by HCL, many global enterprises have benefited from a quicker, more stable and wider adoption of TIFCO's digital platform solutions. In IoT Works, we continue to see collaborative intersections with Digital and Cloud which are giving us propositions and lot of differentiation and recognition in the market. This quarter, a Fortune 500 medical devices company has engaged our IoT Works team for Cloud-based IoT Solutions for diabetic products while leading global 2000 pharmaceutical and healthcare company headquartered in Japan has contracted us for developing a smartphone-based passive sensing platform. We have also been chosen by a leading US-based provider of supply chain communication solutions as a consulting partner for enhancing business operations with IoT and Digital. IoT Works and INRA have entered into a partnership to deliver INRA active grid management solution with the North American utility, again a first of its kind. The solution is designed for utilities that are responding to significant and rapid changes in the way electricity is being generated. In Cloud-native Services, the Cloud adoption is gaining momentum and is becoming a part of virtually all our deals. The kind of services we offer are value rich and are positioned more from a transformation perspective than just operations, for example, a leading UK-based gas distribution utility has contracted with us for migrating a significant application portfolio to AWS public Cloud and more importantly for modernizing the IP environment and driving agility and flexibility. Similarly, Global 2000 airline signed an engagement for strategic IP planning, modernizing data centers and execution of its Cloud first objective with an aim to bring flexibility, agility and an elastic cost structure. Our overall pipeline in the Cloud-native services remains quite strong. In Cybersecurity and GRC Services, the dynamic cyber security service framework continues to catch traction as validated by some of the strategic deals that we signed. We have been selected to automate risk and compliance processes for Fortune 500 Financial Services company as well as the Life Sciences provider to manage their security infrastructure.

On Mode-3, we continue to invest in internal IP creation as well as enter into innovative IP-based partnerships, targeting some specific growth opportunities. Last quarter we established a new IP partnership with the West Coast based technology major which now becomes a third strategic IP partnership. This partnership includes areas of remote management and provisioning software. This quarter we filed patents in various next-generation technologies such as Automation, Data Analytics, Blockchain Applications, Predictive Analytics and Encrypt Data Systems amongst others. Our Products and Platform offering are beginning to open doors for us in the market, for example, our Enterprise Quality Intelligence Platform (EQIP) which addresses the critical business need of providing quality metrics for meeting FDA guidelines, one of the large pharma deal this quarter.

In a large strategic IP partnership, we continue to invest and expand in three areas. Of the three areas that we invested this last quarter was software solutions for application release management and governance which is a very hot area from DevOps and application release management perspective. The second product was end point life cycle management which is again extremely relevant and a growing product especially in the context of cyber security threats. We also invested in forms development application for web and mobile categories.

We continue to invest in our employees both from reskilling and upskilling perspective. This past quarter we trained 27,000 employees, most of whom are reskilled with our Mode-2 and Mode-3 offerings. Our client partners who manage the top accounts continue to drive growth and are really driving significant cross-sell and upsell in our accounts which is reflected in the growth in all categories of our client base.

In closing, we have had a very promising quarter; our growth is strong, our bookings are up, our investments continue to deliver returns and our strategy and execution are on point. The future looks healthy and we intend to close the year within our guided range for revenue and margins. We continue to remain confident and optimistic for the future.

With this, I will request Anil to provide "Financial Highlights" and then we will go into question-and-answer.

Anil Chanana: Thanks, Vijay. Good evening, good morning, everyone. A very strong quarter as Vijay mentioned in terms of revenue growth, 3.3% and in terms of EPS have increased by 8% over the corresponding period last year which was OND 16.

I just want to take a minute to just sort of go through the last five years picture and it is very interesting that the revenues over the last five years have grown by 12% while in this last calendar year they grew by something like 14.1%. The headcount increase over this period has been 7% and the net income has increased by 18% over this period. There have been significant client additions over the last one year in 100 million plus, 50 million plus one each and 5 in the 40 million category, out of these three came in this quarter itself and a good increase in the 1 million plus, 56 numbers increased in the 1 million plus category.

If I sort of take you through the number, at a gross margin level there is a slight expansion by 30 basis points, at EBITDA level, there is 90 bps expansion and SG&A in value terms has slightly come down. This is the quarter where the travel, etc., does not happen so much and even otherwise we have been sort of controlling some portions of the expenditure in terms of travel, etc., The EBIT margin there is a slight sort of decline from 19.7% to 19.6% and this also incidentally has been the effect of cross-currency.

A couple of questions have been asked to me during the day and I thought I must sort of give the response to everybody. We have invested in IP deals and other non-organic initiatives over more than one year. How our ROCE is playing? Since March '16 we have been if I take on LTM Basis our EBIT margin has been 20%, a year before it was about 23%. ROCE in that year which was March '16 was 23.9%, in March '17 it came down to 23.5% and in the first nine months period it is at 23.8%. In spite of these investments, the ROCE continues to be very good.

The other question has been around the amortization expense. The amortization expense has increased by about 20 million this quarter. The reason for that is basically the amortization of the intangibles which we inherited from the acquisition we did, that is one element which basically have components -- the assemble workforce, the contract. The other element is basically which we have mentioned earlier is when we do the IP deals, whatever we are making the payment, we are amortizing the 100% of that payment. That payment is being amortized in the ratios of the revenue. Typically the OND is the good quarter so far as the licensing deals are concerned and so the number is high also in consonant with the revenue which we derive from these deals. So these are the elements which have led to an increase in the charge on account of amortization.

There has been another question basically relating to the difference between the profit which the US GAAP numbers which we sort of disclose as per the investor release and IND AS, there is a slight sort of difference between the two set of numbers in terms of net income. Historically there has been a difference between these two numbers and it evens out over a period of time. In FY'17 if I go back, our US GAAP profit was lower than the IND AS…in fact, the IND AS was higher by about Rs.149 crores. In this period of nine months, the US GAAP profit is higher by Rs.61 crores. This is basically the element of assembled workforce which under IND AS is required to be charged off input while under US GAAP it is amortized over a period of time. So just thought of highlighting this number when you compare the two numbers you will be able to see this. This is very much we talked about the financial.

I hand over to the operator for any questions.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. We will take the first question from the line of Divya Nagarajan from UBS. Please go ahead.

Divya Nagarajan: Two questions here; one, how are you seeing the budgetary environment starting out this year? I know it is a little too early for budgetary to fully flow in, but some color there will be appreciated by sector. Second, it has been a few quarters of some of the early IP deals. Could you give us a sense of the product improvements that you have been able to achieve and initial reactions in terms of either the revenue momentum or client feedback on that front as well?

C. Vijayakumar: I will take the first question which is from the client budgets. While still early days to get a good sense of the FY'18 budget, my sense is it is going to be largely flattish and it continues to be optimizing on some of the traditional spend which will get directed towards some of the changed business and transformation type of initiatives. This would be a very broad stroke. We still do not have a good sense from top clients from their budget perspective, but the indications are I would expect it to be flat. I will ask Darren to give you a color of the product improvements that we have made especially like some products now it has been six quarters.

Darren Oberst: Thank you, CVK. So it is still early days but now that we have a track record of several quarters of working with these products. I think we can begin to report if some of the progress that we made in both energizing and modernizing and beginning to innovate around some of these core products. Our focus is we have been looking at older products and one of the key elements, what is the roadmap that we need to build is systematically modernize these products and there are a few core technologies that we have been focused on. The first is around ease of installing the products and increasingly cloud enabling these products. So Docker as an example is a core technology that we have been deploying into the roadmaps across all of the products in our portfolio. Second key area is a lot of low hanging fruit is around UI and UX improvements. So similarly we have built a methodology again driving upon a lot of our underlying engineering experience, type of design work that we do with our clients to bring these capabilities both to improve user experience of these products, have been also bringing just modern UIs, so increasingly moving beyond in sick clients, job outlets are moving into forcing clients in HTML 5 and mobile clients. Third major area that we have been focused on is around openness and extensibility. So when you look at a lot of products that has been developed over the course of the last 20, 25-years, regardless of what the underlying implementation is if you expose modern APIs, you can then bring those technologies often times very robust, mature, scalable, proven technologies into any new legal system. So a huge proponent of rest APIs and building out comprehensive rest APIs across our product portfolio. These has been three key areas and if you think about it, it is taking in all products making sure that it is easy to install and deploy across a variety of different environments, whether it is Cloud or on-prem, will it be agnostic to that from a deployment point of view, making it open and extensible so you can bring it into new environments and then finally transforming the experience of UI and UX. Those are few of the key technologies that we have been deploying in terms of modernizing it. The second part of your question was around how clients have been responding to it. I think the response has been very-very positive as they started to see focus on the products, more energy around the products but then also long-term modernization right now.

Moderator: Thank you. We will take the next question from the line of Pankaj Kapoor from JM Financial. Please go ahead.

Pankaj Kapoor: CVK, my first question is on the deal wins you mentioned it was probably one of the best quarters and you also won a very large deal in the CPG space. So is it possible to maybe quantify the size of the deal wins that combine TCV in this quarter or give it a comparison like the way we used to give it in past to get some sense in terms of how it has progressed over the last couple of years?

C. Vijayakumar: Since the time we started giving guidance, we feel it is really not required to give the quantum of deal wins but if you want to get a qualitative flavor, in the last 12-quarters this is the highest booking performance. So I think that should give you some indication.

Pankaj Kapoor: Would I be in right in presuming that most of this would be in the IMS space and that is the one which is giving you confidence about recovery in the growth in that area from first and second quarter of next year onwards?

C. Vijayakumar: I think there are two dimensions to this. I think a few large deal wins at least a couple of them, one very large which I talked about and two or three mid size deals are infrastructure, but we have a fairly broad-based momentum across all services. We have a number of mid-size deals in digital offering, in core Application Services especially in Financial Services including the traditional businesses; we have had good bookings in our Engineering Services as well. So I would not say this is largely infrastructure, it is somewhat proportionate to our business side I would say.

Pankaj Kapoor: On this IP partnership, again, since now we have expanded our relationship beyond IBM to other partners as well, will you be able to now give some color or quantify their contribution and how it has been progressing?

C. Vijayakumar: I think we still think it is early days, large partner which we announce, we continue to invest, this quarter also we invested and last quarter we announced about the DXC IP partnership, this quarter we signed an IP partnership with the third strategic partner, it is a small transaction compared to some of the transactions that we have done earlier. Maybe I think we would honestly expect this portfolio to get a little bit more diversified before we are able to report some specific numbers. But what should give you all comfort is we have a very strong software product portfolio strategy, we are very happy to explain what the strategy is. The second is all the financial metrics continue to be very positive. The business case that we had on all these products we are performing to the business case. Our EBIT margins have been stable. As Anil mentioned, our return on capital employed has also been stable. So I think all these indicators should give you some sense that this is going in the right direction. Maybe just get a little more clarity on what is the strategy since we are acquiring so many products, how does all these fit together and what is our portfolio strategy, maybe I will ask Darren to kind of spend a couple of minutes to explain that, that should give you slightly broader perspective on this.

Darren Oberst: As you know, through these IP partnerships, we believe that it is first a compelling financial model, one, it builds off a lot of the underlying strengths and capabilities of HCL from services point of view, but that is not the end point of this strategy, our aspiration is to build a large scale software business really the capabilities from engineering and capabilities around the IP partners, but then also developing organic IP and really building out a complete value chain from the development of the products all the way through selling it successfully and bundling it into service engagements. So where we are today is still in the early innings of executing upon that strategy. Where we started, we believe these IP partnerships are very compelling entry play for us to enable us to build off a lot of our core competencies and strengths while working with partners that we can learn from as well as benefit from in the complete value chain that they have in these market segments. At the same time, we have been very aggressively investing and developing our organic IP portfolio, focusing on the core strengths of our services business around automation, around DevOps, and within all of our digital and application portfolios. So what we are doing and I think what will become increasingly apparent over the course of the next few quarters is we start to put all of these building blocks in place and really begin to bring to market both software as well as integrated solutions that combine software and services to our clients.

Pankaj Kapoor: So if I look at the growth of around 14% QoQ that we reported in the R&D space, is it some way to give a slice of that how much of that was because of the contribution or the growth in the IP business and how much of that was from our traditional Engineering Services business, so even directionally if you can give a sense that was there any significant acceleration in our core Engineering Services business?

C. Vijayakumar: From our core Engineering Services, if you take YoY basis it would be comparable to what we had in the last couple of years and the top up of that is probably from some of the acquisitions that we did in ERS and also from the IP partnership.

Pankaj Kapoor: The last question is on the BPO. So if I strip off the acquisition impact, it looks like there was a decline in the organic business on a sequential basis. So just wondering is it similar to what we experience in the first quarter, is there some client-specific issue over there?

C. Vijayakumar: I think it is primarily contributed by one client in the telecom sector who is undergoing some significant challenges and the associated impact on the revenue from that client.

Moderator: Thank you. We will take the next question from the line of Ankur Rudra from CLSA. Please go ahead.

Ankur Rudra: I just have a question on IMS. CVK, if I look at the business growth there, overall growth on YoY basis for the quarter has slowed down to mid single digit, obviously the lowest we have seen in a while perhaps more because of offshoring and India decline. But from a long-term perspective, could you update us how the infra portfolio breaks up between the services that benefit from Cloud adoption and the services which are under threat from Cloud adoption, so for example, Cloud migration cyber versus remote infrastructure management and so on and so forth?

C. Vijayakumar: Broadly, our infrastructure business has four broad components about half of the business is data center. So it has definitely certain headwinds from a revenue perspective driven by Cloud adoption. The second one is a good component of that is our digital workplace services. We see the intensity of workplace services, the expectations of end users from the workplace applications and end-user devices is increasing. The consumption is increasing like many end-users have multiple devices and things like that. I continue to see good long-term growth in end-user computing space. Network is the third component which is again very robust in terms of growth but unfortunately that space is a little bit more dominated by some of the telecom services providers than IT services players. The fourth component was security which we have largely called out as a separate service line and it has got extremely high growth potential. Does it help or you want to add some more?

Ankur Rudra: Definitely that helps, sir. In terms of the overall portfolio, how should we think about growth here – do we think that given it is a much bigger portfolio and 50% is still data center which has headwinds, will be difficult for it to match company average growth going forward?

C. Vijayakumar: Yes, we obviously we need to win more new logos and that will drive growth. Existing portfolio will have some pressure – one is due to automation, renewals and Cloud adoption. But I think we are quite confident that the market opportunity still is quite big and we have not really opened up in a significant manner, some of the markets like Germany and even Australia, penetration from infrastructure services perspective is very modest. So I think winning new markets and new logos is really the big growth driver. Existing portfolio will continue to have some pressure especially the data center portfolio.

Ankur Rudra: One quick follow-up. Anil, if you could just elaborate on the puts and takes on the margins for this quarter?

Anil Chanana: One was the currency impact which has about 10 bps and then there are some efficiencies which was gained through particularly the labor cost optimization which even otherwise is lower this quarter and then we had the headwind in terms of salary increase which also came in through this quarter. So this is broadly the…

Ankur Rudra: What would be the impact of the salary increase versus the rest?

Anil Chanana: About 50, 60 bps.

Moderator: Thank you. We will take the next question from the line of Sandeep Agarwal from Edelweiss. Please go ahead.

Sandeep Agarwal: You have mentioned that in this quarter the Mode-2 and Mode-3 services were like 25% of the business. So is it primarily because of some kind of inorganic contribution which has come because if we remember correctly then this is really a significant number compared to what we were targeting initially in this short span of time. So if you can throw some light what is happening there? Also this 25% obviously does not have the new deal win yet in. So this proportion can go up much faster than anticipated in next few quarters?

C. Vijayakumar: We had a good growth in Digital Services. If you see growth in Financial Services has been pretty robust and that is fueled by a little bit scale adoption of digital in a couple of accounts which has contributed to this. Cloud services has got two components, right – one is earlier like we used to provide infrastructure but now we also provide public Cloud services in aggregated manner to several clients. So that also causes an uptick in revenue. And of course we had good growth in the Mode-3 services. This is seasonally a very good quarter from products and platform perspective. So all of this contributed to an uptick which crossed 25% levels.

Moderator: Thank you. We will take the next question from the line of Sandeep Shah from CIMB India. Please go ahead.

Sandeep Shah: Just looking at some of your IP deals, now more than four or six quarters old, is there any of those deals where looking at the traction for the four to six quarters? Do you believe that the assumption of 10-15-years of amortization is aggressive or you believe that it is like looking at the current traction it is fairly more or less exact?

Anil Chanana: Sandeep, so far as the amortization is concerned, I think the deal period varies and typically the earlier deal is 15-year period and some of the deals had shorter period, we look at essentially the life of the product and accordingly decide how much we want for the contract. We typically sort of do it in the proportion of revenue. This is very much relevant over a period of time if this is a mature product we are able to sort of amortize more at the initial period than at the later period. So that is why I said even in this quarter you find immediate jump by $20 million from last quarter in the amortization charge, partly because of the typical M&A deals we had consummated at the earlier quarter and the full impact of which came in this quarter as also the revenue from the product, the licenses and the maintenance is typically high in the OND quarter seasonally for the product company this is the best quarter. So it is also in line with that. To give you another example, for the deals which were signed initially for which we would have completed something like maybe just a year, I would say one-tenth would have got written off. So we do sort of keep on looking at it and keep on measuring against what the original assumptions are and then amortizing it and you also see the return on capital employed, also is another testimony to the fact that these deals are giving us the return which are equivalent to the otherwise the business is generally giving.

Sandeep Shah: Anil, if you can give some color on the $1.1-1.2 billion worth of investment which we have done in the IP, what could be the balance average amortization period one can build in because some disclosures here would really help in terms of predictability of the revenues as well as in terms of the impact on the margins?

Anil Chanana: In the financial statement under US GAAP, we are required to provide a schedule of amortization. We keep on doing it of every quarter depending upon the revenues derived, etc., So that would be one of the guiding factors which you can take, and we can offline sort of talk about it as well. It is very much clear in most of the financial statements.

Sandeep Shah: I think that speaks more as a policy which could be 5-15-years, but I am just speaking about the one which we are actually partnering with where if you can give some color, because it is likely to be much higher than the five years?

Anil Chanana: No-no, it has value as well.

Sandeep Shah: For the next two, three years you also give amortization schedule?

Anil Chanana: Correct, the value. We can offline discuss about it.

Sandeep Shah: Just the second question in terms of deal closure, I think CVK said that there is a largest deal which you have closed which has angle of digital plus some IMS. CVK, is that trend has just started, do you believe that trend has more upside or you believe it is too early to call for going forward? Second question in terms of the risk of the data center operations. I think in your last analyst meet you also said, to defend that risk the percentage of your clients who would be moving to the Cloud would not be that big versus the people who are moving to the public Cloud or more SME kind of a client. Is your belief is changing which gives you a bit of jittery where you are saying that this could be a risk going forward?

C. Vijayakumar: I think the only thing that has changed by a big margin from that conversation and today is the way customers perceive security on premise and they perceive security on a public Cloud has dramatically changed. At that point, customers had security as a concern for moving to public Cloud environment. Today, there are many customers who are moving to public Cloud to enhance their security posture because the security environment has become so complex, it becomes so difficult for a lot of enterprises to invest and keep themselves abreast of all the security requirements. I think that is one significant change in the way customers are seeing. I would still maintain for about good Fortune 100, 200 even 500 kind of customers would have 30-40% of the environment could move to Cloud, the rest would remain on-premise but a lot of mid-size customers there is still a very strong traction of moving to public Cloud but there are still concerns about what would happen to performance, how would the latency be, how would applications interact and all of that, it is an evolving landscape. We should also call out that public Cloud providers are also launching an on-premise version of their public Cloud stat like what Microsoft is launching. So I think it is really moving target and it is very difficult for me to kind of provide a very firm view on where this will eventually land.

Sandeep Shah: Sir, to a second question about the deal momentums, can we say that more such deals can be signed where the clients' decision making is better in terms of IMS for a large outsourcing especially in US as well as in Europe?

C. Vijayakumar: We are seeing traction very similar to what it used to be but deal sizes are definitely smaller than what it used to be, I would say significantly smaller; 30, 40% lesser than what it used to be. So we have to win a lot many more deals to reach the same TCV levels and kind of create growth. Of course the reason deal sizes are smaller is the cost per management for a device or the expectations on automation and optimization is high, some components are solutioned with public Cloud in mind. So some of these things are bringing the deal sizes to be smaller.

Sandeep Shah: On the guidances, last time your comments were that you would be at the lower end of the guidance. Looking at your performance in Q3, your required rate for the fourth quarter is 1.6 plus you have also announced a couple of other IP partnership. Just want to know that this time we can be in between the guidance rather than at the lower end of the guidance? Second, I think those IP partnerships which has been announced in this quarter is it baked into the guidance or is it outside the guidance?

C. Vijayakumar: At this point, our position is we will be at the lower end of the guided range. There are some ups and downs. As we mentioned in the last quarter there is a steep decline in our India business, there is some headwinds due to our DXC partnership restructuring, and of course, there is some tailwinds due to some more additional IP partnerships that we have signed though the impact of that would be very marginal because we closed them only end of the year and that will have minimal impact into this quarter. So we would stay with the lower end of the guided range.

Sandeep Shah: The new partnerships has been included in the guidance?

C. Vijayakumar: Yes, but the impact of that as I said is very-very marginal.

Moderator: Thank you. We will take the next question from the line of Siddharth Vora from Reliance Life Insurance. Please go ahead.

Siddharth Vora: Anil, just one clarification. As you have explained about IP amortization so far, does it mean that amortization number will keep on varying depending how our IP revenues come out in the coming quarters?

Anil Chanana: It will vary because as I said OND quarter is good in terms of the licenses and the maintenance revenue, so therefore it will vary quarter-on-quarter.

Siddharth Vora: So if depreciation holds a certain value after achieving, your amortization number may keep on going up and down the way your IP revenues come?

Anil Chanana: Correct.

Siddharth Vora: In terms of the split 300 million which you have spent in terms of IP deals this quarter, do you have any split on this to whom have you done it with?

Anil Chanana: 50 million was DXC and then there are two partnerships – one was basically enhancing the existing partnership with IBM, a good amount went and the second as Vijay mentioned a smaller deal but I think now we are diversifying into three partners.

Siddharth Vora: CVK, just one clarification; you said that there we have had the highest amount of bookings during the quarter, at the same time you said that client budgets look flattish. So any disconnect between or we are gaining market share as it stands?

C. Vijayakumar: I was also quite clear in my earlier commentary that… and probably Rahul can also add a little bit more color there is some level of fatigue in some of the financial services clients with the existing incumbents. I think there is some wallet share gain that is happening there. While client budgets are flat, they are shifting the spend from some traditional services into investing in new technologies which we have seen has been the real strategy for many clients for the past several quarters. Maybe Rahul if you can add a little bit more dimensions from Financial Services perspective as well here that will help?

Rahul Singh: Yes, sure. Thanks, CVK. So essentially if you look at Financial Services there is a higher pace of adaptation of new technologies, correct. Both for existing accounts and for new accounts we are seeing that clients are looking at higher pace of new technology adoption. As that happens, technically deal size will become smaller because old outsourcing was largely around people and volume based people related kind of work. But while the new work tends to be more outcome basis and it tends to be smaller with faster delivery cycle. So I think that change is happening in Financial Services. So if you look at HCL's Financial Services, in effect what happens is that for our existing customers we are focusing on renewals which means that we are trying to get the share of the new technologies as they are spending more in that. So trying to move from what traditionally we are providing to what new services that they want. There protection of existing clients become important, correct. So as the customer moves from old to new, we want to retain the customer and therefore renewals become very critical for us. Very happy to share that our deal renewal continues to remain pretty good. So most clients are renewing transaction deals with us. At the same time as CVK mentioned there is a fatigue factor with existing incumbents in other accounts which gives us an opportunity to break into new accounts. We have been successful in that as well both in Europe and some parts of Asia as well where we have got some new wins because if they are existing incumbents perhaps concentrating more on Mode-1 old way of doing things, happy to bring in partners which can get higher Mode-2 and especially Mode-2 at scale which means that how do you digitize and how do you get into digital world for Financial Services at a very high volume...volume in the sense here means more transactions and more higher velocity of execution of projects. So it is a combination of that which is happening here. So the new deals tend to be in the new areas, new areas tend to be smaller deal sizes and therefore you need to do many more such transactions to continue to get the same volume in your business. I hope that answers the question that you have made.

Siddharth Vora Sure, that is really helpful, thanks a lot. In terms of the various IP investments which we do, do we take the sales and marketing force from our partners or we keep on incrementally investing in the same?

C. Vijayakumar: There are two components. The primary sales is the responsibility of our partner and also create some amount of cross-sell in our own portfolio of clients we have started investing in a sales team, which is also a part of our overall business plan for each of the product investments and over a period of time we plan to build up really strong direct sales team for product sales, which is very critical to continue to expand on our software product portfolio.

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

Shashi Bhushan: We have done some investment of $1.2 billion to forge partnership with three tech majors to get some growth. In terms of risk assessment what can go wrong, if you can cite few risks that you foresee in this partnership?

C. Vijayakumar: We have talked about this earlier as well. I think that the risk that we see is these relationships are quite complex, there are multiple businesses that we interact with, I think the relationship is an element where we need to be consistently focusing on risk mitigation. From a technology and from a market perspective may be Darren, you can provide a little bit.

Darren Oberst: In terms of what could go wrong, betting on the wrong products and the wrong technologies, before we enter into one of these partnerships we do a pretty expensive amount of due diligence, we drop on a lot of the expertise and experience across HCL what we do with our clients and one of the things we focus on is where we believe there is enduring value and enduring client needs and products that have been battle tested, but I think that is certainly a risk area if we are wrong if some of these the technologies become obsolete faster than anticipated, I think that would be one of the key risk factors. The second then would be in a risk associated with the partners themselves. Again, we have done a lot of due diligence on the partners to work with. There are large leading global companies that in most cases we have had very longstanding relationships with, but that is certainly another component of the relationship as will those companies remain vital in the market, will they continue to have in large sales and marketing presence and focus with their customers around these products. So again, I probably highlight those as two of things that could go wrong but also trying to give you a sense where some of the risk mitigation strategies and some of the things that we do before undertaking any of these investments.

Shashi Bhushan: Can you please explain what particularly you mean by saying that in traction with the multiple businesses as one of the risks because if my understanding is right it is mostly to do with one product that would be one division, right, I mean, if we are taking Rational Rose product of IBM then it is Rational Rose, why there would be interaction with the multiple businesses with IBM for Rational Rose?

Darren Oberst: I think that is exactly right. I think we were explaining in the context of just multiple products working within multiple divisions, multiple parts of ideas. So while it adds to the complexity of the relationship it in itself is a risk mitigation strategy because we are dependent just on one product or one division of IBM we actually work across in a multiple parts of their organization.

Shashi Bhushan: Is it possible that if we do some mess up with one of these products we might lose other contracts as well with say IBM?

Darren Oberst: There are multiple products, there are multiple partnerships with IBM, but as I said we work in multiple different areas, again, if something work to go wrong with a particular product, we do not think necessarily that would carry across the whole portfolio with the whole relationship with IBM, but certainly we take whole efforts that we can to make sure that we are doing a good job and we are selling off our obligations for each product.

Shashi Bhushan: What will be your growth in the quarter outside IP deal if we exclude contribution from IBM or DXC?

C. Vijayakumar: As a practice we do not want to call out each service line and each partnership and things like that. We would be comfortable to just call out the overall growth and you already have enough dimensions across for example verticals, across service lines, and you know where some of these IP partnerships and acquisitions are being consolidated. So I think I mean you have a fairly good visibility of what it could be, but formally we are not calling out organic and inorganic growth.

Moderator Thank you. The next question is from the line of Ravi Menon from Elara Securities. Please go ahead.

Ravi Menon: Just a broad question, Darren did say that the end point for the software strategy is not really to create some synergy with the services but go beyond that create entire software division of such, but do you think that somewhere closer to where we are now we should start seeing some new service propositions emerge from these IP deals?

Darren Oberst: Absolutely. As we have undertaken all these partnerships obligation number one is to make sure that we are transitioning and stabilizing and then undertaking a lot of the efforts that we discuss. Energizing that customer base modernizing the products and focusing on innovating them. That has been the core mission. But over the course of the last couple of quarters, we have also but then undertaking the efforts to take these underlying IPs and start to fertilize them across the HCL channel, bringing them into different solutions and service offerings and starting also to bring them together with our organic IP portfolio so that we can really bring dramatically differentiated propositions to our customers by combining all of these offerings together, but I think that is still early days, but absolutely I think it is something to look for and I would expect to see a lot more proof points of that over the course of the next few quarters.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I now hand the conference over to Mr. C. Vijayakumar for closing comments. Over to you, sir.

C. Vijayakumar: So in closing, as we spoke for the last one hour and shared all the details it has really been a very good quarter on all fronts; industry-leading growth, excellent bookings probably a record booking over several quarters, our execution and transformation into increasing our pie in the next-generation services in our clients have been very rewarding and we are very encouraged by the success that we have seen in our strategy. So we will continue to execute on this and the future looks quite healthy and we remain pretty confident of demonstrating continued industry-leading growth. Thank you all of you and look forward to talking to you during the next quarter call.

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