26th April, 2004 – 6:00PM IST

Moderator: Good evening ladies and gentlemen. I am Prathiba, the moderator for this conference. Welcome to the HCL Technologies conference call hosted by SSKI Securities. Mr. Mahesh Vaze of SSKI Securities is your call leader today. For the duration of the presentation, all participants' lines would be in the listen-only mode. After the presentation, we will have a question-answer session conducted for participants connected to the SingTel bridge. After that, there would be a question-answer session for participants connected to CyberBazaar India. I would now like to hand over to Mr. Mahesh Vaze of SSKI Securities. Thank you and over to Mr. Vaze.

Mahesh Vaze: Hi, everyone. This is Mahesh Vaze. I cover software services for SSKI Securities. I welcome you all on behalf of SSKI to the third quarter earnings call of HCL Technologies. Today, we have with us Mr. Shiv Nadar, Chairman and CEO, Mr. S. Raman, President and COO, and Mr. S. L. Narayanan, Corporate Vice President Finance. Without further ado, I would now hand over the proceedings to Mr. Nadar.

Shiv Nadar: Good evening everybody. I know it is a holiday for many of you. Thank you for joining us. I welcome all of you on this call to discuss our performance in the quarter ended March 31, 2004. This is Shiv Nadar, and I am joined by my colleagues Mr. S. Raman, the President and Chief Operating Officer, and Mr. S. L. Narayanan, Corporate VP Finance. Our financial performance this quarter has been largely in line with our expectation with further momentum in the top line and an expansion of operating margins. After the two successive quarters of double-digit growth in our software services business between September and December 2003, we grew more modestly in the most recent quarter, but that should hardly be a cause for concern given that we are in a continuum that looks very promising. It may be worthwhile to reflect on the fact that about a mere nine months ago our annualized revenue run rate was under 400 million, whereas we are now at about 600 million. Along the way, we have rationalized our cost structure, propelled the JVs on a fast track, and integrated the PSO operations in a way that has unleashed significant synergies whereby our profitability is fast moving back on track. The sequential and year-on-year profit growth should bear adequate testimony for the vastly improved financial footing on which our company rests today. We continue to stay focused on improving our profitability matrix, not withstanding the weakness of the US dollar, which is expected to decline further as forecasted by several knowledgeable sources. Considering that almost 70% of the IT exports from India are dollar denominated, there are some very critical consequences as industry's invoice receipt keep fetching fewer dollars, while the resources deployed to generate those dollars are mostly paid in rupees, and that is set to become dearer. Of course the impact of a rapidly appreciating currency is certainly worrisome, but if we look at historical parallels elsewhere in the world, several economies - companies within those economies have grown on the back of steadily appreciating national currencies. We have done a lot of retrofitting of cost to align with new price points prevailing in the market and the anticipated dollar levels. Indeed, we have taken the effects of a weak dollar right through the last year and yet improved operating margins. But there are certain finite limits even for unlocking productivity gains. It is very conventional to do the obvious and keep beating down the costs. Beyond a point such an incremental approach and in fact become counter productive. As I said earlier, we stay focused on increasing our profit per employee. To achieve that super ordinate objective, we will need to reinvent the corporation significantly. Many of you are well aware that HCL Technologies has its origin in a very strong product-engineering base, and I believe that we will have to soon explore ways and means of building a product IPR led business and reduce the dependence on pure T&M contracts. We need to look to alternate revenue streams that enable us to leverage certain intellectual assets that are uniquely HCL Tech, and which cannot be easily replicated. We have lately started making certain small investments in IPR development, and my colleague Raman will make some brief comments on our progress in this area. Now, I will hand you over to Mr. Raman.

Mr. Raman: Good evening to all of you in Asia and good morning to people in United States and Europe. In the past, I have discussed with you our efforts to strength our vertical focus in line with the widening of our software services practice areas. We continue to make good progress with our market penetration efforts in product engineering verticals, our traditionally strong areas like semiconductor equipment and FABs, and aerospace and auto, in addition to other verticals like banking, retail, and insurance. We recently showcased an e-diagnostic tool to International Sematech, a global consortium of leading semiconductor manufacturers representing a significant portion of the world's semiconductor production. During the demonstration, end users from Austin, Texas in Southern US could remotely access equipment of a semiconductor equipment vendor located at Peabody, Massachusetts, in the North East. This demonstration of e-diagnostic competencies were demonstrated to people listening from all over the world including Taiwan, Japan, which are developed as per Sematech guidelines, which is a nonprofit consortium of semiconductor manufacturers, and this is a significant milestone in HCL's endeavor to create IPRs in e-manufacturing roadmap. Unplanned downtime of semiconductor manufacturing facility is costly. With secure remote diagnostic framework implemented by HCL Technologies, OEMs can provide their customers significantly reduced downtime by having content experts diagnose problem from anywhere in the world. We expect these and several other tools (we are augmenting the capability in terms of IP creation) to help the semiconductor equipment industry as a whole. We will be increasing the productivity of the equipment themselves. We are also confident that these competencies will have widespread applications for remote sensing and troubleshooting across the whole host of industries like automobiles and telecom. In our aerospace vertical, HCL has won the mandate of software verification and requirement testing for secure communication control system for a new generation of helicopter under development by one of the world leaders in air borne satellite communication and navigation systems. In an engagement for a company that designs and manufactures electronic and electromechanical products for aerospace and defense application, HCLT will undertake advanced verification to stringent standards. In the banking space, HCLT is designing and developing regulatory solutions for an existing BFSI client in UK. The project would support the bank to comply with the revised requirements of international accounting standard 39 that deals with revenue recognition and measurement of financial instruments. The solution would be implemented for retail banking including mortgages and personal loans. The company has also commenced a project in the area of credit risk management for an existing bank client. The project involves development of a credit risk engine and requisite data feeds. Once implemented this solution will enable the bank to meet the emerging regulations under the BASEL 2, credit risk. Our customers are able to gain today from HCL's deep vertical industry domain knowledge. We stay committed to know our customers business in a manner that makes HCLT an enduring partner which brings value in an appropriate manner. We are also growing rapidly in our enterprise solutions, infrastructure services, and BPO by cross selling to our existing customers in different verticals, and this further strengthens our presence in enterprise area and thereby our percentage of revenue in enterprise area significantly. We have won some significant deals covering implementation and maintenance for packaged based applications, and this application implementation involves multiple locations. I now hand you over to S. L. Narayanan.

S. L. Narayanan: Thank you Mr. Raman. Good evening to all of you in Asia and good afternoon to people in Europe and US. Most of the data points set out in the release, I am sure you would have seen them already and I shall take them as read and spare you the effort of going over them yet again. I will just stay brief and highlight some of the important points. We have kept our opex under strict control and managed some small gains in our EBIDTA margins in spite of having a drop in utilizations. The sharp appreciation of the rupee against dollar has given us some gains on forward positions. We have completely hedged our receivables to ensure minimal impact of changes in the relative strengths of the currencies. An out of the ordinary development in this quarter has been the fact that one of our investing venture funds has made a profitable exit in one of the portfolio companies which has meant distribution of realized gains to investors in the fund. Our other income includes approximately $700,000 as a result of this profitable exit. We have deferred the liquidation of some of our investments to post April 1 to take advantage of lower effective tax rates available on double indexation. The unrealized gains on portfolio investments as on March 31 amounted to Rs.45 crores. The treasury investments and liquid resources aggregated to about 2120 crores, 59% of our balance sheet size on the same date. With that I will conclude and I will throw open the floor for Q&A.

Pratibha: Thank You very much Sir. We will now begin with Q&A interactive session, and I would like to hand over the floor to Lucy to conduct the Q&A session for participants connected to the SingTel bridge. After this, we will have a Q&A session for participants connected to CyberBazaar India. Thank you and over to Lucy.

Moderator: Thank you Prathiba. We will now begin the Q&A session for participants connected to the SingTel bridge. Please press *0 our Pound 0 to ask your question.

One moment please for the first question. Mr. Bhuvnesh Singh from CSFB, please go ahead.

Bhuvnesh Singh: That is fine. Sir, if I heard correctly in the opening remarks you were mentioning that we are moving into the IPR-related work, we have started some attempts over there. Can you give us management's long-term vision on that? How do we think that our business will move in IT services and how much proportion of business can we get from IPR and product related stuff in say five year time or whatever long-term you think?

Mr. Raman: This is Mr. Raman answering the question. As a policy of our company we never compete with our customers. What we are trying to do is to make, give an assured value for our customer, and what we do is we have demonstratable IPRs with which they can build something which is needed for their business. One of the IPRs which we have developed as a part of our engagement is Jones Apparel Group. Are you there?

Bhuvnesh Singh: Yes sir.

Mr. Raman: Jones Apparel Group is a multibillion-dollar apparel manufacturer cum distributor who owns the branch like Polo, Nine West, etc. What we do here, the group CFO uses always along with his CEO this dashboard which tracks real life parameters of his company down to the account receivable, inventory, and what are the comparable standards, benchmarkable standards, that competitors are following on day-to-day basis and minute-to-minute basis, okay. This is an IPR, which we have evolved over a period of time, which may be rolled out to other companies. This is an example, because it is visible to New York stock exchange people, so I can divulge that for you. So similarly we have got saleable IPR units, which build customer value and services. So, what it brings is our depth in the chosen verticals enhances internally, and also our customer sees the long-term value in engaging with us in a surer means, not only pure software but business and other endeavor in their market place. That is why we quoted the example of e-diagnostics. It helps the semiconductor manufacturer who are our customers to address the needs of their customers, okay? In fact, they are putting to effective use of their equipments and investments, which today any semiconductor FAB today is no less than 3 to 4 billion dollars to start with, okay, and it goes as high as 20 billion dollar in a range. Those investments, they have to make it productive as early as possible and continue to sustain that yield. So we are helping our equipment manufacturers, who in turn supply this one. These are the examples, but we have many more like that in the anvil.

Shiv Nadar: Okay. What this means is we instead of rendering services on purely T&M basis, where in that case we get paid for the work that we do, you know, this is like, when you write out a statement of work after statement of works to conclude a job you get paid on a T&M basis something. Here we go one layer prior to statement of works and say that the work itself will be revolving around an IPR that we built. So the rate that we would get will be for a complete solution instead of just staying with T&M basis itself. We are enhancing the value in this manner. If you were to ask me what is that we could get three years from today, we will be able to gauge it in about a year's time, but that is surely the way by which we are moving virtually in every vertical as well as every horizontal technology area that we are doing, and all these have been given as goals to various people across the organization and they will come to a conclusion somewhere towards the end of next year. End of next year meaning, our year ends in June, end of next year. But if I were to put a number for you, something like 5% in the subsequent financial, that means, 05-06 coming out of this is a reasonable goal, but try and realize this that 5% will drop down straight to the bottom line.

Bhuvnesh Singh: Okay. Sir my second question pertains to basically our relationship with Deutsch Bank. Could you give us some idea that what exactly is the status of the DSL Soft right now, and how much dilution do we expect when we basically buy back the stake from Deutsch Bank of DSL Soft?

Shiv Nadar: Deutsch Bank has an initiative to shift a large quantum of work to what they call lower cost locations, it is an initiative called smart sourcing. Through this they will be constantly endeavoring to shift work to lower cost locations like India and Singapore, and we are one of the central players in that initiative, and we do this work them. They have a fairly large sized operation. So in the future year, we have good growth, which will come through from Deutsch Bank. You are aware that we have the arrangement with them on the right of first refusal and that is operative for the next four years after we conclude the buy back of the balance 49%. So we expect continuous growth and steady growth in that business, which we do with them. Finally, we have to depend on how well we deliver solutions. So far we have been delivering well and that is the hallmark of our existence. So, we do not anticipate any major changes in the growth pattern there.

Bhuvnesh Singh: Sir, how much dilution do we expect in HCL Tech equity when we buy back the stake?

Shiv Nadar: That, you know that we have to wait for six more months.

S. L. Narayanan: It will be done a relative valuation Bhuvnesh.

Shiv Nadar: It is a relative valuation.

Bhuvnesh Singh: Okay, but do we have any broad number which we are looking for sort of dilution or it would be just seen on later.

S. L. Narayanan: We will have to do it only after September. As a point here Bhuvnesh, it is nether accretive nor dilutive because, you know, to the extent that we issue shares, we will not have the minority interest going out at the bottom line. So either which way it is going to be, you know, quite indifferent.

Bhuvnesh Singh: Okay. Thanks sir.

Moderator: Next question is from Mr. Mic Dillon, Arete Research, please go ahead.

Mic Dillion: Hi guys. Just wanted to ask a quick question about US growth. If I back out the numbers, it looks like there was about a shade over 3% sequentially in the quarter. I am just wondering whether you feel that the political environment in US has been having any effect, and if so, how you expect that to play out over the next couple of quarters, would you expect this growth rate to accelerate or decelerate? Thank you.

S. L. Narayanan: Mic, I did not get the number, you said 3%, how did you get that?

Mic Dillion: Yeah, what I took was the 58.7% last quarter and 59.1 this quarter and just multiplied it by your Indian revenues, I realized that there might be a disconnect there depending on which way you do your accounting.

S. L. Narayanan: No, see the numbers here are based on a convenience translation. See, the overall revenues grew by 8.9% in dollar terms, but since we do our US GAAP financials in US dollar and we do not do the Indian GAAP in Indian rupees. We have been doing a convenience translation using the quarter end exchange rate. So in that sense, you know, what you see as a rupee revenue growth may not be truly representative.

Mic Dillion: Yeah.

S. L. Narayanan: So the truth is somewhere in between. 8.9% is in dollar terms and it is somewhere around 4% in rupee terms, so if we were to do like for like Indian GAAP on a weighted average basis, it will be probably somewhere in between. So I just wanted to correct that observation.

Mic Dillion: Yeah, okay. Taking that do you expect to see US growth accelerate or decelerate as you go forward, meaning would you expect taking the midpoint there, sort of 6.5%, is now what you expect growth to be in the US in forward quarters or would you expect that to be….?

Shiv Nadar: We expect that to be larger.

Mic Dillion: Larger, okay, thank you.

Moderator: Participants who wish to ask questions, please press *0 or pound 0 now. At this moment, there are no further questions from participants at SingTel. I would like to handover the proceedings back to Prathiba.

Moderator: Thank you very much Lucy. We will now begin the Q&A interactive session for participants connected to CyberBazaar India. Participants who wish to ask questions, please press *1 on your touchtone-enabled telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. To ask a question, please press *1 now.

Our first question comes from Mr. Anantha Narayan of Morgan Stanley.

Anantha Narayan: Thank you and good evening everyone. This is Anantha from Morgan Stanley. This is a followup question on the IPR-led business model. While the long-term benefits are fairly clear, should we expect to see any accelerated investment in this area in a short-term, and can that impact profitability?

Shiv Nadar: We have been investing in this area quite regularly. I do not know whether you have had an opportunity to see our infrastructure business, have you been able to visit our facility?

Anantha Narayan: Yes Shiv. I have.

Shiv Nadar: Okay, Anantha, this entire infrastructure business if you notice is centered around only the IPRs that we have built. They are all services very strongly interlaced with IPRs, and in the infrastructure business we develop the IPRs and then venture into the business. That is what gives us the leading edge. That is how, you know, when we, if you have seen the names of customers, if during a visit, the kind of work that we do for them, and the kind of customers that we have added in the infrastructure business, it is all completely IPR-led business. That is the reason why that area will turn out to be highly profitable and that is the reason why Gartner, you know, kind of forecast that we would be a leader in this business. And similar to that we are interlacing IPR with all our businesses, that is why, you know, I do not want to make a long-term statement. We have been doing this continuously, and now we have set goals and we believe that in year 2005-2006, at least 5% additional profitability in terms of margin should accrue to us through IPRs in which we have invested so far, which we would enhancing during the course of this year.

Anantha Narayan: Thanks Shiv and if I can ask one more question on the BPO front, can you give us some more details of the robust growth that we have seen in this quarter, namely what type of business, what type of customers, areas, etc.?

Mr. Raman: We have now started, you know, putting our head down and growing our existing base. During this period, there were only two customer additions, no more than that. We just expanded on our existing base. Our existing base is good, you know, our approach, we had one of the two possible approaches, create a base of 20 to 25 customers and then grow them, or alternatively grow, you know, a small number and take a large piece of growth, both are very valid approaches. We chose the approach of picking about 20 customers and growing maybe 10 out of them. That is what is taking place now and perhaps that is what will take place during the course of the next 12 months when we will be very selective in addressing new clients, but grow our existing clients because there is plenty of growth opportunity available there.

Anantha Narayan: Right. And finally if you could just clarify on couple of things, one is, what is the extent of the forward cover you currently have, and secondly the reason for the lower tax rate in the quarter.

Shiv Nadar: Forward cover I can tell you. So far as forward cover is concerned, it is, see, a global company does not treat forward cover as a fundamental base by which it handles it. You have to see any global company how it addresses. It takes an addressal of a balance sheet and a forecasted balance sheet and see that in the increments or decrements of any of the receivable or assets or liabilities, see how well it is balanced towards the currencies from which such growth or decrements may take place. And there are more elegant ways of handling it rather than simple forward cover. Forward cover is only one such way by which we handle that.

S. L. Narayanan: Yeah. To give an answer, I mean, we are reasonably fully hedged on dollar receivables. To the extent we have offsetting positions, we have matched some of the receivables and payables on Euro and Pound Sterling, and of the balance, you know, we are taking a 50% hedge because it is quite possible that, you know, those currencies may move either which way. So one way to do it is completely hedge everything and also be, and very often that 100% hedge proves to be a very expensive decision. As regards to dollars, you know, we are completed hedged.

Anantha Narayan: And feel on the tax rate for the quarter?

S. L. Narayanan: Yeah, basically, you know, we have got you know most of the income now coming in terms of long-term capital gain, so as a result of which the tax provision has gone down.

Shiv Nadar: Tax provision I hope you understand it includes not only business profit but also treasury profits.

Anantha Narayan: Sure, thanks a lot.

Shiv Nadar: In this quarter we shifted some of them to gain double taxation gains in treasury into the AMJ quarter for saving tax.

Anantha Narayan: Thank you very much.

Moderator: Thank you very much Sir. Our next question comes from Mr. Supratim Basu of ICICI Securities.

Supratim Basu: Yes hi, good evening gentleman. Couple of quick questions on your revenues breakup and how the various segments are kind of shaping up. I notice that your R&D service and product engineering business have actually done relatively better this quarter, just comparing it on a rupee basis for convenience sake compared to your application services, do you actually have any comments to offer on that?

Shiv Nadar: Sorry. They have done better in terms of profits, or in terms of…, they have always better than….

Supratim Basu: No, no, what I am saying is that revenue growth in R&D services and basically your technology development services and software product engineering has done better this quarter compared to application services which kind of slipped back into single digit, you know, slipped back into low single digit growth after we saw two descent quarters, so is there anything happening on the application side which we should aware of?

S. L. Narayanan: No, no Supratim actually, you know, one quarter aberrations, in fact I have always maintained this, you know, do not look at this on a quarter to quarter basis, on continuum all these accounts and verticals are looking fairly good and we had some ramp-ups happening in the technology service business, which is why that has grown at a faster clip.

Supratim Basu: Right, okay. Secondly at a company wide level if I exclude your forex gains, and you know, just look at EBIT at a net of forex gains level, I notice that, you know, bulk of your gain and EBIT that has happened in this particularly quarter has come from your BPO division, whereas your IT services division has been flat, so what is actually driving the different dynamics in these two businesses?

S. L. Narayanan: Yeah we have had a fairly strong margin improvement in software services in the last two quarters, you are right, it has not grown at a same clip. But if you look at the breakdown, it is still not a small number, I mean, may be fully driven by foreign exchange gains, but what is important here to note is we have been able to achieve some tangible savings in SG&A, and this will come back on track. This is just one quarter where you know the margin improvement has not happened in software services, otherwise your observation is right.

Supratim Basu: I mean, I was actually going to make a comment that you know the EBIT could have actually fallen this quarter hadn't it been for the drop in SG&A expenses, is that a number that you can actually hold on to as you go forward over the next three to four quarters?

S. L. Narayanan: At least for the next two quarters we can hold this on.

Supratim Basu: Okay. One final question related to your accounting, I think this is really the first quarter where this whole convenience based translation has thrown your revenue numbers into, you know, fairly sharp relief because of what happened with the rupee at the end of the quarter. This also from, you know, rupee translated perspective does not really present a very accurate picture of what the numbers are for the quarter, so do you actually have any plans to rectify this in terms of moving towards the Indian consolidated GAAP accounting?

S. L. Narayanan: Yes, at some stage we have to do this because we have been historically doing US GAAP consolidation in US dollars, and we have been using convenience translation, but at some stage we would be moving to Indian GAAP consolidated. Then those numbers will be far more representative.

Mr. Raman: What we will do is, after this fiscal year is over, we will present to the shareholders both US gap consolidated as well as Indian gap consolidated, so in a continuum you will be able to take a view on both.

Supratim Basu: Okay excellent. Thank you and good luck guys.

Shiv Nadar: Thanks.

Mr. Raman: Thank you.

Moderator: Thank you very much Sir. Next in line, we have Mr. Manoj Singla from JP Morgan.

Manoj Singla: Yeah hi, good evening Sir. My first question relates to the margin side, if we compare HCL Techs this year's, margins are definitely on the lower side and this has been because of some historical issues, acquisitions what we gone about, I just want to understand that how much can we increase the margins by, because if you look at the gap between us and some of the peers, they are lower by 7-10% on the EBIT level, so I am just trying to understand what are the various levers that we have to increase margins and how much can we expect the margins to improve by over the coming let us say two to three years?

Shiv Nadar: If we just stay only in the organic front then definitely you could catch up with peers. If you see just our technology business where we have not done anything nonorganic, then that part of the business would be the same or probably better than anyone of the peers. But we are on a growth phase if you see our revenue growth over the last 12 months it is almost 50% or so if you take same quarter to same quarter. I want you to remember where we came from. We were a technology services company which three years ago decided to get into a diversified set of businesses which we have gotten into and stabilized them fairly consistently. Now it is the time for margin improvement which we would do, we are quite confident doing it, not necessarily only in margin improvement base but we would do it by applying technology into it. This is what would we believe in a longer run give us a best return for investors.

Manoj Singla: Yes Sir, but just pressing on that point, given the current portfolio of offerings that you have which includes BPO, infrastructure management, what would be your realistic assumption, let us say in two to three years, how much margins could you go up?

Shiv Nadar: How much in three years time to go up is crystal gazing. We do not even want to predict the next 12 months, because there are certain determinants which we do not have any hold on at all, such as foreign exchange rates, we have very, very little hold on that, but on organic basis can we get down to that level, the answer is, yes.

Manoj Singla: Okay, okay, that is very helpful. Just one last question from my side, if you look at the past let us say two to three quarters, we have heard of quite of a few of the middle management HCL Tech leaving us, some of the heads of our various subsidiaries. Can you throw some more light on why this is happening, whether this is voluntary or involuntary and how do we hope to address this?

Shiv Nadar: I do not know of any key voluntary dissociation. I do not know which one you are refering to but….., nothing significant, because our middle management pool is very very large.

Manoj Singla: So you don't see that there is any problem at all in the middle management?

Shiv Nadar: No, none at all.

Manoj Singla: Okay thank you Sir, thanks.

Moderator: Thank you very much Sir. Participants are requested to restrict to one question in the initial round. Next in line we have Mr. Trideep Bhattacharya from UBS.

Trideep Bhattacharya: Yeah hi, two questions, one on, if you could comment on the pricing scenario that you are seeing in the market place, and then probably I will ask the second one after that?

Shiv Nadar: Pricing scenario has stabilized and we do think there is some scope for enhancement.

Trideep Bhattacharya: Okay. Let me rephrase it, do you think in, let us say in FY06, sorry FY05, which is the next fiscal year, we could see some pricing improvements on the base of FY04 that we are likely to see, I mean, just directionally?

Shiv Nadar: Yes, in dollar terms, yes.

Trideep Bhattacharya: I see, and secondly, what are your assumptions or what is your thinking on the salary hikes that you might have to give in the coming year?

Shiv Nadar: When we project, and when we are confident about enhancement in margins, very evidently the cost is factored into them. So we go into a larger base, the incoming base is not at a very substantially high cost level. So overall there would be increase in salaries, yes. There would be increase at the experienced people level, the answer is, yes. But overall as a percentage will there be any substantial increase which is not offset by price increases or other productivity increases, the answer is, no. We do not believe that there will be an impact.

Trideep Bhattacharya: I see, and my last question is, if you look at all your acquisitions that you have done over the last two years, would you say that right now all of them are kind of back from investment phase and now to like, you know, now they….

Shiv Nadar: Yes, not only all acquisitions, we can also add all new initiatives like BPO.

Trideep Bhattacharya: I see, and finally any thoughts on increasing the dividend payout as the cash balance continues to be very high?

Shiv Nadar: We are leaving the cash balance where it is, and you know, we have for the last, I mean, this is possibly the fifth quarterly dividend that company is declaring at this level, and sometime when the fiscal year closes for us in June, we will relook at where our dividends, quarterly dividends, you know, we will be…. Number one, let me restate this. Number one, we will continue with quarterly dividends, you know, we are not very much in favor of one-time dividends. Two, we will reconsider enhancing the quarterly dividends itself because outlook is reasonably good.

Trideep Bhattacharya: I see, and finally any further acquisitions on the anvil that one can anticipate over the next one year or let us say….

Shiv Nadar: We can visualize normally for six months' period, and in a six months' period there is nothing in the horizon. I responded on this question last time also that in a six months' period if there is something on the horizon we can tell, but in the six months' timeframe there is nothing in the horizon.

Trideep Bhattacharya: Thanks a lot and best of luck for future.

Shiv Nadar: Thank you.

Moderator: Thank you very much Sir. Participants are requested to restrict to one question in the initial round. Next in line we have Mr. Lakshmikant from HSBC.

Lakshmikant: Yeah hi, good evening gentleman.

Shiv Nadar: Good evening.

Lakshmikant: I will have a lot of questions and may be I allowed just one.

Shiv Nadar: You can go ahead and ask your questions.

Lakshmikant: Okay, you know, if there is a lot of, you know, if I look at HCL Technologies software services business, there was a point in time when your gross margin was comparable to our peers, you know, in the 45+ range, but you also had a high SG&A because of which our operating margin was lower. I see that you have made considerable progress in bringing down your SG&A from, you know, 23 odd levels to 14%, which is more comparable to your peers, but at the same time your gross margin also is eroded by about 10 percentage points with the results that our operating margin again is more or less where it was, what exactly explains this?

Shiv Nadar: Because we are aggressively seeking new business, one.

Hello.

Lakshmikant: Hello.

Shiv Nadar: That is because we were aggressively seeking more business.

Lakshmikant: When you say aggressively seeking more business, you know.

Shiv Nadar: New business.

Lakshmikant: New business, is it fair to say then you know whatever growth we have seen in the last four quarter in the HCL software services business, a substantial part of that would have come from initiatives like Jones Apparel etc.

Shiv Nadar: No, that came in eight quarters ago.

Lakshmikant: Okay, no, no I am saying in terms of the substantial part of the growth in software services business. I was just trying to understand what explains the 10% reduction in the gross margin in software service business year over year?

Shiv Nadar: There was a genuine drop in the billing rates both in the technology side as well as in enterprise side.

Lakshmikant: Okay.

Shiv Nadar: So, there is a genuine drop in the value of the dollar.

Lakshmikant: Okay.

Shiv Nadar: These are two constituents of that.

Lakshmikant: Okay, fair enough Sir. The second question I have is, you know, I would imagine your BPO business has achieved break-even somewhat ahead of most of our peers would have been thinking about and all my analyst community. Do you think that there is sustainable break-even or, you know I mean, is it fair to assume that from here onwards BPO business would be profitable in operating level.

Shiv Nadar: If I were to take next 12 months, that is normally the timeframe in which we try and take outlook, definitely, it is a very good profitable business that is why we went into it. If we just look at it, the quarter itself it threw out cash of almost $2 million. It is a fairly decent thing to achieve given the fact that you know 12 months ago it was in a very much preoperative phase. I am also sure there is a very good middle management in the organization which sets itself goals which are reasonable, achievable, for which you have to leap slightly higher than the rest, and then get there with a lot of dedication and commitment. Just putting the heads down and work. And, from whatever the results that there are, they seemed to have achieved it quite well.

Lakshmikant: Sure sir. Just one more question, there has been a relatively muted growth in this quarter in your software services business. Is that, should we take that as more of an aberration or, I know you don't like to talk about the future but if we have to look at this quarter versus what you have been able to do let us say over the last four quarters, would it be fair to say it is an aberration or, you know, there are more systemic issues which might take a little longer?

Shiv Nadar: ________ different prospective to you, try and judge us in any continuous 12 trailing months, any TTM basis when you take that, that is the more reasonable way of judging us.

Lakshmikant: Yes. Sir, one final question for SL.

Shiv Nadar: Tell me how many of you have children that go to school, you know, at least you judge them once in a year. So, ________

S. L. Narayanan: …..and they also grow steadily, they don't suddenly become five feet. There is lot of joy involved in watching them grow like that.

Shiv Nadar: Anyway, we grew right in front of you.

Lakshmikant: S.L. one final question, you know, you have had I think about 70 odd crores increase in the receivables I guess in this quarter, which is you know proportionately much higher increase compared to your sales increase. Is there anything to be worried about there or is it a very normal thing.

S. L. Narayanan: It is very very temporary. In fact, one of our business units the cut over to SAP happened and it is because of that you know there is six-day increase in the DSO average, which will be back on track.

Lakshmikant: Thanks a lot gentlemen and all the best for the future.

S. L. Narayanan: Thank you.

Moderator: Thank you very much sir. Participants are requested to restrict to one question in the initial round. We take our next question from Mr. Sujeet of UBS.

Sujit: Hello. Good evening gentlemen. This is Sujit here.

Shiv Nadar: Hello Sujit, how are you?

Sujit: I am fine sir. How are you?

Shiv Nadar: Good.

Sujit: I just have two questions. One is on salaries again, we have heard from most of your peers that they are needing to give 3% to 4% increase to their onsite employees and almost 15% to 17% increase to their offshore employees. Would ….

Shiv Nadar: They must have been underpaying them very heavily. You know, it is all as relative to what base that you are measuring up to.

Sujit: Okay. So, you don't think.

Shiv Nadar: We have been around for a long time, and we pay quite well.

Sujit: So, you don't need to make these kinds of adjustments this year.

Shiv Nadar: 15% to 17%, no, not necessary.

Sujit: Okay, okay, excellent. And my second question was a little bit follow-on on your IPR commentary you made, you said in FY06 5% incremental profitability should start accruing from this, 06.

Shiv Nadar: 05-06, yes.

Sujit: Yeah. My question was.

Shiv Nadar: Sujit, I will just answer to you, this question in a, to give you an anecdotal reference, this happened a good five-and-half years ago, okay. When we were doing Y2K business, we were not application guys. We were at that time completely technology guys. Couple of our clients, one of them I think was First Chicago Bank, the other one was Halifax, and they wanted us to do some work, and our guys very reluctantly picked it up because both the contracts involved working only at assembly level. Assembly levels, they were hardly any tools available in the world, which is 100%, which would sift through millions of lines of codes and point out the code, which would need to be modified. This is just for two organizations. Now, what people would have done when you do for just two contracts is put more number of people on the seats and charge by T&M. We did not approach it like this. Our guys just looked at it and said, that is no way that we will deal with this, we will first write a tool, which will sift it through, wherein people pointed out that in such a case we should be in tool business not in the correction business. We said look, we just went into this business and when we use a tool, actually we will have less number of people who will be doing this work, but what the client was very impressed was that we had the capability to write the tool, which will assure them that all 100% of the corrections will be done. So, the contract came to us by value and not by number of people, and they would stay with us, and we actually handed the tool to them free. So in the future if they need it, they can use this. Those clients stayed with us all through, and they paid us far higher rates than what they would have paid anybody else. What it shows is that when we apply technology and when we create an IPR in any one of this fields, whether it is technology field, whether it is enterprise field, a client is tempted to pay you higher not because he respects your ability to generate technology but because they feel far more confident that the goal gets achieved in not within the statement of work which they define but in a much larger perspective for them. Sujit, you must have seen our entire infrastructural services business, come and see this, the underlying base is completely IPR-driven.

Sujit: Shiv, my question was that, we very well understand this strength at HCL and it has been there for many years. The question is, you said, now are you going to see the pay back coming through, what is it that was not happening which you are doing now to get this into your P&L basically.

Shiv Nadar: Like, for example, the entire infrastructural services business, which for the last, we built this four quarters ago, we built this eight quarters ago, now the business looked as if they were kind of stray events, then it took a tendency to become a trend in infrastructural services, and you all must be subscribing to Gartner and reading that. We are said to be leaders in that business. We have just started and we are in the forefront of the group that is doing this business. We are competing with only global leaders in this business. So, the overall profitability of the business that we would gain over a period of two years would be substantially larger, and the whole business is based on IPR. If you take the IPR away, there will be no difference from how we address that and anybody who throws manpower at least can address that.

Sujit: Okay, thanks a lot Shiv, and all the best to you.

Shiv Nadar: Thanks Sujit.

Moderator: Thank you very much sir. Participants who wish to ask questions, please press *1 now.

Shiv Nadar: I think we will terminate it at this time, and if there are any further questions, I will be happy to take them. We are happy to take one more question, if there is anything, I know that in between the line got disconnected, and you all have come here not listening to the exit polls, so should there be a question, I will be happy to answer one, and after that S.L. is there, Sujoy is there, and they will be happy to respond to anyone of your queries. Can we take one more question if there is any.

Moderator: At this moment, there are no questions from participants' sir.

Shiv Nadar: Okay, good. All of you ladies and gentlemen, thank very much for joining us this evening. Thank you.

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

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1. Please verify the proper nouns and their spellings, and the acronyms.
2. Please verify the names of the speakers and their order of appearance.
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