

**HCL TECHNOLOGIES**  
**Q3 FY '05**  
**EARNINGS CONFERENCE CALL**  
**April 25, 2005**

Moderator

Good evening ladies and gentlemen, I am Pratibha, the moderator for this conference. Welcome to the HCL conference call hosted by SSKI Securities. Mr. Surendra Goyal of SSKI Securities is your call leader today. For the duration of the presentation all participants' lines will be in the listen-only mode. After the presentation the question-answer session will be conducted to international participants connected to the SingTel bridge followed by question-answer session for participants connected to India bridge. I would now like to hand over the call to Mr. Surendra Goyal of SSKI Securities. Thank you and over to Mr. Goyal.

Surendra Goyal

Thank you Pratibha. Good evening everyone. This is Surendra Goyal from SSKI Securities. I welcome you all to the HCL Technologies earnings call. We have with us Mr. Shiv Nadar, Chairman and CEO, HCL Technologies, and Mr. S. L. Narayanan, Corporate Vice President – Finance. I would now like to hand over the call to Mr. Shiv Nadar. Over to you sir.

Moderator

Sir the instructions will be given at the Q&A session. Right now Mr. Surendra Goyal has done the introductory remarks.

Shiv Nadar

Good evening to all of you and thank you for joining us in the conference call today. With me on the call is S.L., Corporate Vice President – Finance. As you know already, we have made a key announcement as regard to change in leadership in HCL Technologies. The new incumbent were Vineet Nayar, who is recently been named as President, is someone already to known to many of you. He takes over at an exciting moment from Mr. Raman, my longstanding colleague and fellow founder of the HCL Enterprise. Raman steered this Company as President and COO with commendable ability for the last three years. On behalf of the Board and my colleagues across HCL Technologies, I place on record our most sincere gratitude for the stellar role Raman played in guiding the company during its most turbulent phases.

The future holds great promise and the HCL quest for greater glory is never ending. We will pursue the opportunity on the basis of strong strategies, continue to take well-calibrated and well-understood risks, and improve what we deliver to our customers

besides employees and shareholders. While we embark on the next stage, we are also at crossroads on how to structure our organization to take the thrust forward.

With this in view we have made these organizational changes. Raman will now take a more strategic supportive and advisory role as Chief Technology Advisor. He will continue to be a full time director on the board and help me in evaluating strategic decisions. As he moves over from an extremely taxing operating role to an advisory role, we are confident that still will continue to benefit from his knowledge and experience in the same measure as in the past.

Vineet joined HCL as Senior Management Trainee in 1985 after completing his engineering and business school education. He held many key positions in sales and marketing and came on to an entrepreneurial track to create and head our Infrastructural Services Division. I am personally very pleased with his elevation. This demonstrates in ample measure the abundance of management and leadership depth that HCL has been endowed with.

As a near term agenda we have embarked upon major changes in direction in our company about four years ago when a contraction of the market place and downturn in technology business was visible. We had just started enhancing the depth and width of our product engineering services, our main stay at this time, firming up of our strategies to make serious entry into application development and management space. It was clear we had a difficult road ahead; in addition we started on DCO and remote infrastructure services, which are pretty large green field initiatives, while doing so we adopted both organic and non-organic growth strategies.

I had an opportunity to review the progress three weeks ago in one of our management retreats. We have largely succeeded in what we have set out to do. The results would be most compelling visible if we looked at our revenue and EBIDTA growth on quarterly moving average for every set of preceding 12 months. Our revenues in operating profits have grown at very impressive rates and S.L. will touch upon these key trend lines.

I know that I may be belaboring an oft-repeated point of mine, but it is important to look at a business over a continuum. Such an approach has paid off for HCL, since we have avoided the distractions of the short term pressures, and kept a single minded focus on the long term and in doing what is good for the overall business and our competitive positioning in the marketplace.

Now I will dwell briefly on some key developments in our partnerships. We at HCL have had a good fortune of being part of great affiliation with Hewlett-Packard, Toshiba, Nokia, CISCO, Perot Systems, and in the recent years we have added other prestigious names in Deutsche Bank and British Telecom. One of the hallmarks that HCL has seen an innate ability to put a human, financial, and other resources to good use in creating sustainable partnerships to mutual advantage.

We have already acquired the minority stakes in the JV companies from Deutsche Bank and British Telecom. During the last three years both HCL and DB have contributed to the building of DSL into variable vehicle of enduring mutual benefit. The JV has

successfully leveraged HCL Deutsche competencies and integrated service offerings, enabling DB to achieve a lower cost of ownership without compromising DB's renowned standards of quality itself. I know that many of you had raised concern, and rightly so, when we had kicked off this rebalancing exercise around 3 years ago. However, I think it is now evident to all of you that our stand has been vindicated. Not only do we have a very large software services practice in BFSI, we are also well positioned to build our expertise to expand our footprint. With this Deutsche Bank is our largest shareholder outside the promoter category along with being our largest client. I am absolutely confident that our relationship will grow from strength to strength. We can proudly add that we have a service line which is matched only by a few of our competitors. We have steady growth over the last seven quarters, and our EBIDTA margins have reached healthy levels.

In the quarter ended March 2005, company performed quite well on going acceleration in the BPO and infrastructure businesses. We continue to remain confident on the prospects for the coming year. Several of our customers have indicated higher spends on IT for calendar 2005 and our plans are tailored to gear ourselves for the emerging requirements of space and talented people.

We have continued with a robust headcount addition in the recent quarter and added about 1785 people. Our hiring remains strong and we are positioned quite comfortably for the coming quarters. With offshore efforts in excess of 80% of total volumes, I do believe that HCL is very advantageously placed in the industry. In the coming years, I expect more and more customers to push for offshore based delivery and our business model is well placed to deal with this exigency.

I am pleased to report that HCL Technologies has taken possession of 21 acres of land at Bangalore to cater to a plan for expansion in the BFSI and aerospace vertical where we see opportunities for sustained growth. We have also begun work on 46 acres software development park in Noida and we hope to complete it in 2008.

In the BPO front, we are very pleased to report that our BPO business has now crossed well over 100 million revenue run rate. You would have noticed that we have grown our revenues by more than 17% in the current quarter. We think this is quite predictable since the base is reasonably large now. As I had indicated sometime in 2004, this growth comes without much addition to the number of clients, and our existing clients are all ramping up at pretty impressive rates. Here again our partnership with BT is an important part of the success story. I am very pleased to note conclusion of the BT transaction last year. It is a great step forward. This marked another successful conclusion of the carved road for HCL. To my knowledge, no Indian company has successfully implemented such a transition. I just want to bring to your notice, we ourselves were a department in our parent at one time and had to go through the change of becoming a service provider from an internal department.

In the recent quarter we added another important asset to our growing BPO capability. We successfully completed negotiations and signed the agreement to acquire property, assets, and business of a company named "Answercall Direct". It is located in Armagh, about 50 miles from Belfast, Northern Ireland. We gain a modern world class, 48,000 sq.

ft. running facility with all equipment and infrastructure. It is built on land with a 125-year lease. The current processes and about 100 employees will transfer to the roles of HCL. I am pleased to report that the transitioning process is well underway. With this acquisition, we become the largest BPO Company in Northern Ireland and one of its top ten employers. The entire HCL management team is of UK nationality. It is an outstanding testimony for our ability to manage in a transcontinental multi-cultural context and all of us should be proud of what has been achieved.

HCL infrastructure business practice has bounced back into growth chain, as I had pointed out to you in the past, this business is an evolutionary stage where the revenue mix and client is shifting in favor of services and in favor of international clients. The global portion of the business continues to grow driven by some very impressive clients. Even in the latest quarter we have managed to add some important names. We are confident that the business will gradually transform into a sizable component of our overall revenue and act as an important differentiator in the market place. It is already having its impact.

Our cash book generation remains buoyant and we have declared another quarterly dividend of Rs. 4 per share for the quarter. In line with our policies and as a reflection of our outlook for the coming quarter, we have declared the third quarterly dividend of Rs. 4 per share for the current fiscal aggregating to Rs. 128 crores or about \$29 million. With this we would have distributed 370 crores in the current fiscal and this is in addition to the previous four quarters where we have distributed the equivalent. I will come to that and give you the amount a little later.

The strength of our balance sheet can be better appreciated by looking at the following statistics that relate to the period effective from June 2003 when we closed the year with about 320 million of net liquid resources. Since that day we have spent capex of 119 million, paid dividends of 151 million, invested in \$12 million in buying out minority, and yet we have 400 million of net cash. It shows robust cash flow and a robust balance sheet. With this I will now hand you over to S.L.

S. L. Narayanan

Thank you Mr. Nadar. My greetings to all participants on this call. I will spend a few minutes dwelling upon the key financial highlights of the latest quarter.

We are happy to report yet another quarter of consistent growth, in fact our seventh successive one. I am sure that the predictability in our business directions will only improve even further in the coming quarters.

Detail matrix for the latest quarter are there for you to see in the release, but I might suggest you to evaluate the sequential numbers from a different but more constructive perspective, and that is by looking at the last four consecutive quarters up to March 31, 2005, the growth over the previous year in terms of revenue and EBIDTA stand at roughly 40% and 73% respectively, and our scale of operations today with about 22,000 plus employees puts us clearly in the reckoning of the most serious contenders for leadership in the software services space.

The BPO and the infrastructure business have shown continuing buoyancy in revenue growth this quarter and we are sure that the growth rate for the software services business will also accelerate from the next quarter. Our growth in software services has been driven primarily by volumes which have expanded by about 3.5%. You would have noticed that we have augmented the headcount in software services by a sizable number, which has had some impact on capacity utilizations. Overall, we should see an increase in utilizations in the coming quarters.

There were certain one time charges in Q3 mainly on account of certain philanthropic initiatives that the management undertook in response to the call for support from all quarters, otherwise we are fairly stable on margins, and we are on track to achieve the 50% EBIDTA growth on a full year basis as per our original estimate given in the October call. I would like to add here that we increased our EBIDTA by about 47% in the previous fiscal and we will continue to report a 50% jump in the current fiscal as well.

With the increased profitability, our cash flows have also improved. Our debtors are currently at about 68 days, though I do believe that there is still some scope for improvement there. As has been promised to our shareholders way back in March 2003, we have consistent with our quarterly dividend policy and we have stepped up the dividends as and when the cash flows have supported such a decision, and the balance sheet continues to look strong and liquid, and we face the coming quarters with a lot of confidence. Over to the moderator and we will take the Q&A now.

Moderator

Thank you very much sir. At this moment, I would like to hand over the proceedings to Salbia at the SingTel bridge to conduct the Q&A for participants connected there. This will be followed by a Q&A session for participants connected to India. Thank you and over to Salbia.

SingTel Moderator

Thank you Pratibha. We will now begin the Q&A session for participants connected to the SingTel bridge. Please press 01 to ask the question. The first question is from Mr. Pratik Gupta from CitiGroup, Singapore.

Pratik Gupta

Hi! Congratulations on the quarter. I just wanted you to elaborate on the software services division in particular, because it seems like your BPO and infrastructure services business is doing alright, the software services business has been relatively has been under performing the rest of the company and you said that going forward you expect the growth rate over there to accelerate; I was wondering if you could just elaborate just a bit more on that, is it because of greater traction from existing client or is it from some new client addition do you expecting, and also which particular verticals and services within software services you are expecting the growth to come from?

Shiv Nadar

I need to answer this on one of the points which I dwelt on. What we do in the software services is quite different from the rest of the industry. We were one of the earliest to verticalize and therefore our investment in bringing about vertical solution takes a little longer to create people of that capability. Any one of you if you go to investment banking group in Bangalore and see it, you will sight not a software company but you will see an investment bank. This is the concept of vertical. Someone who is talking to us should be able to see themselves mirrored within our organization. Creation of that is what has taken time; however, to put this firmly in the picture for you, what is the moving 12 months growth ratio that we are showing over the last 8 quarters? If you see that, you will find the 30% number. What is the growth rate which is over the last 12 months number in terms of moving 12 months? You will see a 30% number. What is the growth rate during this period even if you take 9 months period? You will again see ..., I will give you an exact number, in the 9 months ended, it is 26.2, which I believe is slightly shy of 30. But is a 30% number an acceptable level? That is what we aim for. When we projected that our growth on top line would be about 40% and then the growth in EBITDA level would be somewhere north of 40%, this is what we felt we would be able to achieve with that mix.

Now, having said that, is it sustainable going forward at a 30% growth level in software services in the next 12 months?

I do not see any reason why it should not grow at the similar percentage level. All indications internally are that it would.

But are there likely to be some quarter to quarter lower growth numbers?

I want you to be indulgent because, that on quarter to quarter basis you may have, but treat them purely as part of growth on a 30% continuum. Then you would see the picture a lot more clearly.

Pratik Gupta

Right. So basically you are saying that this is just a temporary slowdown and you expect growth rates in the coming quarters to accelerate, but I was just wondering in terms of where the growth is coming from. Any particular verticals or any particular kind of existing customers which are ramping up or where do you expect the growth to come from?

Shiv Nadar

The growth is where we are seeing augmentation. One is in the application.., let me divide this into three spaces. The software services are made up of three horizontals. One is enterprise consulting, which is SAP implementation, Oracle implementation, Siebel implementation, then in the workflow area, Filenet, Documentum, and in the call center software area, you can just take Kana.

Pratik Gupta

Where is the maximum growth going to come from?

Shiv Nadar

It is going to come from the enterprise consulting space.

Pratik Gupta

Where is the next highest growth rate going to come from?

Then, the other two, application management and development as well as the technology services, both are running neck to neck. Businesses like Boeing in the aerospace vertical are going to shoot up the growth of those vertical. In the technology growth, I would expect the growth of semiconductor vertical to be robust. The aerospace vertical to be robust and embedded will continue to be robust. These are three verticals in the technology space. In the application development, management and development space, the BFSI vertical, if I were to call for capital market vertical, capital market and banking vertical. Then we have highest growth followed by retail. Did that answer your question?

Pratik Gupta

Yeah, this is fine. Okay. Thank you.

Moderator

Thank you. Next question is from Mr. Anthony Miller of Arete Research, London.

Anthony

Thanks very much. Good evening gentlemen. Question about pricing trend and salary trend, can you give us a view please on what you have been seeing with pricing in your company and what your outlook is? And similarly in terms of salary hikes that you might have planned?

Shiv Nadar

Okay, let me. I have to go by vertical for you, for me to respond to that question. But if I broadly divide them into software service, to BPO services, to infrastructure services. BPO services and infrastructure services, there is no pressure coming on because of salary. Actually we are still improving our deployment ratio in these two. Going forward I can definitely see for 12 months that is not likely to have any impact because if anything you may see improvement in margin because of higher deployment in both these places. If I were to come to software services, we have noticed actually a decline in

per person cost, that is because of the size of the people rising is resulting in such a phenomenon.

S. L. Narayanan

Anthony, this is S. L. Narayanan here. See, basically what is happening is, you know, as our applications business is expanding, the base of the pyramid is also expanding and we can make do with a lot of fresh recruits. So on a sympathized basis, the person labor cost has actually fallen year on year.

Anthony

And the pricing?

S. L. Narayanan

Pricing so far in anyone of these three businesses, we have not noticed any changes, which are meaningful.

Anthony

Okay, are you seeing any opportunities to increase prices with the new clients?

Shiv Nadar

Actually, in our business it is very-very important to earn the trust of a customer. Let me describe this to you better. Now, if I were to look at one of the strongest points of HCL, is it is 80% offshore and 20% is what the onsite quantum of revenues that it is getting from its clients. Now, if you put it next to any company which is larger than HCL in this space, you will find a sharp difference. It may be 50 to 40% is the offshoring ratio, 55-45%, is the offshoring compared to the onsite ratio. We believe that it has a strategic vulnerability because if the client starts pushing more work offshore, then they would have decline in profitability. HCL is not exposed to this, but what is the price that we pay for it. The moment we take a large part of work offshore, the client's dependence on HCL is very high. So, under no circumstances we can treat customers as captive. We do not to fall into that trap though a lot of work which has come to us, if we go up and increase the prices let's say by 5% percentage points, that is, 500 basis points, frankly the customers will pretty much agree to pay because 80% of the work is already offshore. There will be a disruptive element involved in shifting. Whereas if the work is highly onsite, the level of disruption and shifting will be very low. Now, having yielded that kind of advantage to customers, whom we have very patiently built over the four years, we want to preserve the customers and then try and enhance the volume of work that we do for them or expand the number of service offerings that we can do. There is at least one customer who uses us for application management and development, one customer who I am the relationship manager of, I know the user application management development, they used one of the products which they have developed themselves, they use it for engineering, and they use it for BPO, and they use it for a center in Belfast, it has not yet started but it is going to start. And they are using our enterprise consulting

services. They are also using our infrastructure services. So when we widen it, the cost of servicing the client goes down.

Anthony Miller

I understand. Can I just clarify something you just said at the beginning of my question, you said that you expect BPO margins to increase, I have just noticed that BPO margin decreased for the first time in about 5 or 6 quarters, why was that?

S. L. Narayanan

Actually we had some cost coming as a result of the acquisition that we did in Northern Island. So we don't expect the margins to fall going forward.

Anthony Miller

Okay. Thank you very much.

Shiv Nadar

It is a loss making unit that we acquired, and that loss is built into the cost structure.

Anthony Miller

Okay. Thanks.

Moderator

Thank you sir. Participants, please press 01 to ask a question. At this moment there are no future questions from participants at SingTel, I would like to hand over the proceedings back to Pratibha.

Moderator

Thank you very much Salbiah. We will now begin the Q&A interactive session for participants connected to the India bridge. 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. Participants are requested to kindly use their handsets while asking a question. To ask a question, please press \*1 now.

First in line, we have Mr. Mahesh Vaze from Brics Securites.

Mahesh Vaze

Hi sir. Congratulations on a good quarter. On the infrastructure side of the business, you had the strongest quarter in the last 5-6 quarters or so, but the margins declined. So, I was just wondering whether there was some sort of one-time revenue this time where the profitability was lower, or what exactly happened here?

Shiv Nadar

Let me describe to you. This actually means relocating work to India. And when we take up the work and relocate to India, we tend to absorb the bubble. What would it mean is that there is period in this there will be travel cost involved for the customer on the customer side as well as they have to pay HCL. Infrastructure transition is more of less permanent in nature, so they are normally used to outsourcing contracts when such bubbles are absorbed by the incumbent vendor. So you would not see these revenues coming into our P&L for a period where we would be incurring the cost. At the growth stage, we have to continue to absorb this. As a matter of fact, during the last four weeks, we have won two major deals. Both of them were called for absorbing this cost going forward. It is a growth phase related issue. You know, I do not know whether you have noticed this, we were doing the board meeting today and the number of days which is used for training in the BPO business went down in the current quarter as opposed to the previous quarter. It is because there was a 12 week training involved in some of the processes which we are getting ramped up, which since I reached a peak during this quarter such training was not necessary. Now, this is totally part of growth related issue. It is actually a good news.

Mahesh Vaze

On the BPO services side, if one looks at some of your peers, they seem to be experiencing some sort of slow down in growth while you are doing a great job of growing, so you also must be observing your competition, what is it that HCL is doing differently which is leading to such great results?

Shiv Nadar

I think we are doing extraordinarily well. I do not know, others, how they run their businesses, but I suppose our management team both here as well as in Belfast is doing a good job. If I were to just give you one piece of information, when we took over the unit from BT, the cost was £21 per hour. This is being part of the department of a very large organization. Now, our own competition, you know, we do a scenario building of a different opex structure and a certain growth structure, and we believe that at certain price point we will get certain quantum of business. So we believe that £21 per hour has to be brought down to something like under £13 an hour. Now, this calls for several engineering tests. You know, this is like value engineering test that we have to do. We did all that, and then you noticed that the business size improved enormously and then the per client revenue improved enormously, and then the client also got the benefit of this, because these are value based services. There are lot of services which need to be delivered from the geography itself and thus the revenue grew and the profitability also

grew. So I suppose taking an approach which is very much value engineering based has helped us. I do not know how the rest of the people do business. I mean the fact that we are all engineers that probably makes the difference. SL is the only one who is not an engineer, even Sujoy Ghosh who is responsible for IR is an engineer.

Mahesh Vase

Okay. One small question for the non-engineer, SL just wanted to know the tax rate went up sequentially, so any specific reason and what is the kind of tax rate one should be looking at going forward?

S. L. Narayanan

See, this is something which, you know, keeps moving up and down, you know, as the year progresses, there is a lot of fine tuning that happens, reaches some kind of finality towards March and June, so there is nothing much that I can say here. There is no provision for anything extra., just to assure you.

Mahesh Vaze

Okay. Thanks a lot, and all the best.

Moderator

Thank you very much sir. Next in line, we have Mr. Pankaj Kapoor from ABN Amro.

Pankaj Kapoor

Hi. My question just pertains to the software services business, if you look at this quarter data, the share of revenues from the top 5 clients as well as from the top 10 clients has declined on a sequential basis by significant percentages. Can you elaborate on what exactly is happening in these account in terms of volume of business, are you seeing some slower ramp ups in these accounts, and going forward how you think this will behave.

S. L. Narayanan

Pankaj, hi, this is SL here. I think the last quarter it was an entirely opposite set of circumstance. You know, we had growth disproportionately loaded in the top 5 and top 10 clients, and we view expressed at that time was small set of clients are ramping up, whereas the underbelly of the client base is not growing. Again, you know, this is something which we constantly battle in terms of driving the growth across the whole universe. So there are some quarters where you know the growth is pronounced in the top 5, top 10 category, and in other quarters, you know, there is this bit of a consolidation and also it gets impacted when some part of the work gets offshore. So there is a seaming drop in revenues. In fact this happened in one of our top 5 clients this quarter because of a migration of work into offshore. Apart from that, you know, there are no specific reasons, I must say that, you know, over a longer term there are new entrants

coming into the top 5, top 10, top 20, categories, and there are some people who are exiting out. Like you know, some time back we had Convergys in our top 5, slipped to top 10, and then to top 20, and as they beefed up their presence in India, it is not in the top 20 anymore, although we still do some work for them, but three years ago we did not have Jones, BT, and DB, and they have come in, and you know, very recently we have had other big names which have come in. Boeing is already at \$1.2 million a quarter, so this is, you know, constant state of flux and it is very difficult to pinpoint any particular reason, nothing event driven.

Pankaj Kapoor

Just looking at this issue slightly more generalistically, are you seeing any kind of a slower ramp up happening in your larger accounts, because other vendors in the space in their recent results have spoken of this kind of event happening, so are we seeing something similar or you are seeing a robust volume growth in all your top 10 clients.

Shiv Nadar

If I were to answer to you in a slightly longer term basis. See, most of the software services clients have not become clients for other services, like BPO business, call infrastructure business, but they are all becoming for enterprise consulting services they have started work with HCL because of the capabilities which we bring..... you know, three years ago this practice had 0%, and today we have 2500 people who are in that space. So, I take it that the growth will take place because of the range of services that we offer.

Pankaj Kapoor

Any comment on the pricing environment, because this quarter we had about close to 4% of volume growth, but in dollar terms the revenue has grown about 2.6%, so are you seeing some kind of change in pricing, and is it because of any change in the mix or are you seeing any kind of pressure on the billing rates also?

Shiv Nadar

No, pressure on the billing rates, definitely not. However if you are asking whether it is likely to go up, as already described our company's policy, we go and seek more business to be obtained from the customer for the other services, rather than take an increase in rates, we believe we can do a few things to improve the possibility within ourselves rather than going and seeking a price increase. The reason I mentioned to you, we are already 80%. We do not want anywhere to behave like customer's captive unit. Can I just say something here? You know, I want to make a statement which is what we believe in, that is the best way to describe it. I am personally, the relationship managers for Cisco, I am personally the relationship manager for Accenture, and both these people have their own organization in India and people do come and ask me do we have a center? Should we put up a center ourselves? My answer to them is always please have your own centre because that will keep us on our toes. We will possibly render the best possible services, and have to be better than you for you to give us work. Now, I have

said this to Joe Forehand who is Chairman and CEO Accenture, and I said this to John Chambers who is CEO of Cisco, and they are very happy with what we do, and they expressed it in as many words. They are our best references. You know, our orientation is that we would do what is best for the customers. I do not know whether this answers your question.

S. L. Narayanan

And Pankaj, the other point is, you know, the, you made a point that you know, efforts have gone up by 3.5% but dollar growth is only 2.6%. It is more because of a shift in mix, it is more of offshore. The pricing decline has been very marginal otherwise.

Pankaj Kapoor

And just one final comment from you in terms of how you are seeing the environment, the pricing environment specifically, in terms of a specific service area in ADM business and in non ADM business? Is the pressure different in these two streams?

Shiv Nadar

We have four non-ADM businesses.

Pankaj Kapoor

Right, in each of these, if you can just give a small comment on?

Shiv Nadar

I would say that so far as the infrastructure business is concerned, since it is very new concept for most people. There will be definite scope for improvement, and the improvement will start coming in by customers paying for the transition. That has not yet started but it will come. So far as the BPO business is concerned, we believe that the pricing scope, pricing increase scope is high. New businesses that will come in will come in at a higher price level, we are very confident of that. Product engineering, the kind of work that is coming to us now is upper end, which is whether it is in biomedical engineering or whether it is in semiconductors, whether it is in aerospace, that is because this is a different kind of work, we are able to extract better rates and they are also very long term in nature, something like 20 years because the life of the aircraft, you know, we are going to sustain this work. So that nature of work will come up with a better rate. And in the application development space, in the maintenance space, we expect the quantum to be stable, and in the development space to increase. And so far as packing implementation is concerned, my own belief is we are only constrained with resources.

Pankaj Kapoor

Fine, thanks a lot.

Moderator

Thank you very much sir. Coming up next is a question from Mr. Sanjeev Kapoor of Share Khan.

Sanjeev Kapoor

Yeah, this is on the BPO front. I just wanted to know if I go through your press release, you spoke about, you know, the permanent employee addition into the BPO sector, if I look at, you know, your 400 odd, 500 around people you have added, is there something like 10 people which are already there in the, which are there?

Shiv Nadar

Temp people are there in Ireland.

Sanjeev Kapoor

Hello?

Shiv Nadar

Temporary people are there in Ireland.

Sanjeev Kapoor

In the high end?

Male Speaker

Ireland, North Ireland, Belfast.

Sanjeev Kapoor

Okay, so just going through the employee addition, you know if you look at the growth in the BPO sector which is 17% and if you look at the employee addition, you know, it looks to be quite low. Is there something which I am missing out? Or was there some employee addition which happened last quarter was quite high?

Shiv Nadar

That was more to do with new processes being undertaken where people are receiving training. That should have been the cause.

S.L Narayanan

Also utilization would play a part and the other one is on pricing as well. If you look at our pricing 12 months ago and now, the effective throughput is actually much higher.

Sanjeev Kapoor

Okay, thanks a lot.

Moderator

Thank you very much sir. We have our next question from Mr. Ajay Mathrani of DSP Merrill Lynch.

Ajay Mathrani

Yeah, Hi! Thanks. My first question relates to the competition that you face in different businesses. Could you discuss whom do we face in say BPO, infrastructure management, technology services? Has there been any change in the amount of..., past couple of quarters? And how has the win rate changed, again over the same period?

Shiv Nadar

I will start from product engineering. In product engineering, if we are talking about semiconductor space, avionics space, embedded systems, at least in... there is very little competition. But in the rest of the spaces, in product engineering there is definitely one competitor out of India. I do not want to take names.

Ajay Mathrani

Okay.

Shiv Nadar

And if I go to ECS, which is enterprise consulting services, almost everyone in the top five would be competitor besides the niche companies like Hexaware. If I take application development maintenance, which is the widest of the lot, I suppose all the top ten companies would be players in that. In the BPO space, as of now, everyone seems to settle into their own niches, and you know when you go there to compete may be, we do not compete with small players at all. Let me put it that way.

Ajay Mathrani

Okay.

Shiv Nadar

We would compete with may be one or two large players because if somebody is moving work, they will ask how long these guys have been around, and anyone less than 15

years, they will be, if they want to go to somebody less than 10 years, we do not want to go near them because that is a very immature customer. And over time, they will come back to one of the bigger people any way. That is the kind of experience. In infrastructure of course, we do not face any Indian competitor.

Ajay Mathrani

Okay.

Shiv Nadar

Globally, we face HP. We more or less all the time land against them.

Ajay Mathrani

Okay, and any change in them? And how has our win rate been? Has there been any change in that in any of these businesses?

Shiv Nadar

No.

Ajay Mathrani

Okay in the release, I also noticed a loan origination and tracking solution piece that you mentioned. Just wondering how do you plan to go to market with this, one? And two, you know, is this one off or part of a broader initiative that we would see rolling out later on?

S.L Narayanan

See, this is something which we have been doing quietly on the side for some time. In fact, sometime back we also mentioned that, you know, remote diagnostic tools have been successfully demonstrated at the Sematech Symposium in Boston.

Ajay Mathrani

Right.

S.L Narayanan

We have in fact CXO dashboard, which has been developed for the retail companies. In fact, it is highly user friendly, report driven software, which helps the senior management to track shipments and scheduling and design development, and obsolescence. So there are several products which have been, you know, developed over the last couple of years, and the other significant one which I can name is the touch screen kiosk application, which we have developed indigenously. So, at the moment, you know, the lot of these

IPRs which are being assembled together, we believe at an appropriate time, these things will mob into fairly substantial revenue earners for us.

Ajay Mathrani

Okay, but as of now, the embedded in the current services we do largely..?

S.L Narayanan

Absolutely, in fact, the remote diagnostics tool is something which we give as an add on for our existing customers because in the semiconductor area downtime can be absolutely, prohibitively expensive because each piece of equipment runs into 10s of millions of dollars. So, if we can give this kind of added utility to our customers, their customers are going to feel extremely happy if there is a remote troubleshooting device that can sit seamlessly into their factories. So, at the moment, you know, we are making sure that we do not run head to head with our customers because if there is any kind of, you know, impression that we create that we are trying to create IPRs in the same domain, we would be doing a lot of damage to our existing business. So, whatever IPRs we are creating, we are making sure that it complements our customers' products and helps our customers to serve their customers better.

Ajay Mathrani

Okay, thanks a lot.

Moderator

Thank you very much sir. Next question comes from Mr. Trideep Bhattacharya of UBS.

Trideep Bhattacharya

Good evening gentlemen, congrats on a good set of numbers. Three questions actually. First, where do you see Boeing contract reaching? And how do you see this scale up in coming quarters? Just a qualitative feel will do.

Shiv Nadar

We would be on a peak, somewhere in the middle of next year and would sustain there. The number of people that could be working on it, you know, we are not allowed to say that, because if we look at it, so many jobs have come from America to here.

Trideep Bhattacharya

Right. The second thing is, SL, the onsite-offshore shift for the top 5 clients that you mentioned, is it broadly done or should we expect some more impact of that on your revenues in coming quarters?

Shiv Nadar

No, I think, we should be at these stable levels.

Trideep Bhattacharya

I see. The third thing is you talked about one-off items like loss due to Northern Ireland acquisition, etc.. Could you quantify what is the total margin impact because of the same?

S.L Narayanan

My guess is, it is probably...

S. L. Narayanan

I can give you, it is \$1.2 million. There are events which caused that. One is the loss in Ireland. The second is loss in Armagh. We have done some philanthropic work related to Tsunami, all totaling up to 1.2 million.

Trideep Bhattacharya

I see. Finally, like you know, I think, you mentioned that in some of your infrastructure services contracts, you have taken the initial call. Do we see, in coming quarters, revenues coming in without any incremental adding to cost, leading to margins being improving. Is that the way we should look forward or...?

S.L Narayanan

Trideep, I think something happened in between. I must request you to repeat that question.

Trideep Bhattacharya

Okay, can you hear me clearly now?

S.L Narayanan

Yeah, better now.

Trideep Bhattacharya

Okay, what I was saying is that, like you know, you mentioned that in your infrastructure services revenue stream, you took on some of the initial cost and like, you know, while the revenue billing has not come through. So, in the subsequent quarters, within this revenue stream, will there be a case where you will have the revenues coming in but cost is anyway there. So, like, you know, leading up to an increase in margins?

S.L Narayanan

Yes, but I do not know how visible margins will be to you because we just signed off a deal of 9 million per year, five years, and extendable to another five years. That will be implemented during next year, next year you will see the revenue of 9 million, but there will be some period of cost absorption. We won one more of not as large as that, but somewhere around a third of the first one. One is from US and one is from UK. Though absorption cost will just keep coming as a business grows, if we grow dramatically in any period, you know, we can give an indication to you.

TrideepBhattacharya

I see, and finally...

Shiv Nadar

But it is growing very well. Both the deals, we won against HP.

Trideep Bhattacharya

I see, finally SL, the other income came down in this quarter. When, which quarter do we see the final fourth quarter impact or rather...

Shiv Nadar

October, November, and December.

Trideep Bhattacharya

Okay, thanks and best of luck.

Moderator

Thank you very much sir. Next in line, we have Mr. Parag Gupta from J. M. Morgan Stanley.

S.L Narayanan

I think we may have to stop with this last question because it is 7 o'clock.

Shiv Nadar

Can I just give you one, you see, we have already given the total carry forward of the other income which is not recognized. It is of the order of 26 crores, and because we also

count our foreign exchange gains on a similar basis, that we only put it when it actually happens to us not on a mark-to-market basis. There also we should have anything from four to five million, but it is just good conservative practice to do this.

Moderator

Would you like to go ahead at the last question sir?

S.L Narayanan

Yeah, one last question.

Moderator

Yes sir. The last question comes from Mr. Parag Gupta of J. M. Morgan Stanley.

Parag Gupta

Good evening everyone and thank you for taking my question. Could you give us some sense on the attrition rates that you are seeing primarily in your BPO space?

S.L Narayanan

The BPO attrition for people who have spent more than a year is about 13% annualized.

Parag Gupta

That is 13%.

S.L Narayanan

Yeah. I am qualifying this by saying that, you know, this is with reference to agents and other people who have spent more than 12 months in the system. It is extremely high if you look at, you know, people who are less than a year, because the highest attrition happens between the third and the ninth month because people come thinking that this is a good carrier, and some of the people who don't, you know, take to working night time hours, they churn out. But even that...

Shiv Nadar

..... This industry survives because of that. Because the cost level does not go up, it comes down. And it keeps it at extremely steady rate. So if the, you know, around 35-40% people turnover annually is what is best for the company. So, everything else in BPO business has to be organized around that. Your recruitment machinery, your training machinery, your space, all this is built around it. That is why you are seeing the profitability pretty robust. I may just add that even the attrition which is with reference to

people less than one year old, even that attrition has dropped substantially from about 6% per month to under 4% per month. And as Mr. Nadar said, the trick is to be able to live with this reality and build a business model that prices this into the price.

Parag Gupta

Right, and what will be your attrition in the software services business.

S.L Narayanan

It has again come down, it is about 10.6% now, annualized.

Parag Gupta

Right, thank you very much.

S.L Narayanan

Thank you, and thanks everybody for calling in and Sujoy and I would be happy to take the call anytime tomorrow daytime hours. We would be happy to provide any further clarifications that may be necessary. Thanks and good night.

Moderator

Ladies and gentlemen, thank you for choosing WebEx 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.