“HCL Technologies Limited Q3 FY’09 Earnings Conference Call”

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Moderator Ladies and gentlemen, good morning and good evening. This is Rochelle, the Chorus Call Conference operator. Welcome to the HCL Technologies Limited earnings conference call. Please note that for the duration of this presentation, all participant lines are in the listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity for you to ask questions. Should anyone need assistance during this conference call, they may signal an operator by pressing * and then 0 on their touchtone telephone. At this time, I would like to turn the conference over to the management of HCL Technologies Ltd. Thank you, and please go ahead.

Shiv Nadar Good evening. This is Shiv Nadar, and I have with me Vineet, Anil and , Ram Krishna and we will be talking to you in turns. To start with, this is possibly the happiest occasion on which I am talking to the investors, the investors and analysts, you know you all would have read about HCL being announced as the best employer in India, the #1 employer in India and amongst the best, you know amongst the equals in Asia. For someone who founded the company, there couldn't be a happier moment or a greater recognition.

When this company was founded in 1976, it took quite sometime to gain the recognition, that we created modern computing in the world along with Apple. The days of mini computers and mainframes kind of went and receded to the background and became both of us in computing days. And in 1978 early, when we shifted -----Micro Processor based systems, it was a terrific achievement as we realized later. Afterwards, we had quite a few technological successes and inventions whether it was multi-processor UNIX or relation database or client server architecture, a whole of that is in the 80s.

Now, seen that having walk this path where we've got to now is something which takes time to get. You know after 33 years getting there, I know this how difficult it is because when I have visited Toshiba, when I visited NEC, when I visited Hewlett Packard and I found these organizations truly belonged to their employees. And because when you are a large organization which is scalable built on the base of quality and founded really on hope when people, the assets of organization, walk out of the door everyday. We know what it means to hold on to become the best employer in the most trying circumstances. Our company now employs 54,000 people globally and to get in these tough circumstances, it's been a terrific achievement. The company in turn belongs to all of you, so thank you very much for walking the path with us. With this, I will turn you over to Vineet and he will talk about the financial and other achievements during this quarter and going forward. Thank you, I turn you over to Vineet.

Vineet Nayar Good evening ladies and gentlemen. Thank you for being with us today. In the next 15 minutes, I wish to cover a summary of our performance so that the key messages of the performance is well understood. I also wanted to share with you our perspective of what is happening in the market, what we are seeing. I also want to make a few comments of the trends we are seeing in the market and how do we translate them into a strategy so you will see some strategy thoughts originating out of HCL on how did we see the market move, how did we respond and why is it that we believe that we posted a good quarter result, and what would be the strategy going forward. So you would see that in form of trends and strategy going forward. And after that, R.K. will talk in detail about our status update on AXON integration, how that is going. And after that, as usually we do in the quarter, we will walk you in detail on the revenue analysis and where the growth or degrowths have happened and where the profit growths and degrowths have happened. So, this whole conversation is expected to last about 35 to about 40 minutes.

So, going to the performance snapshot, I think the big news out here is that we are at about $564 million which is 18.2% year-on-year and 11.3% quarter-on-quarter. This includes the AXON acquisition and my view would be that the cash available in the company has to be used for acquisition and we have used it effectively. How effectively that has been used, you would see in the subsequent comments I make. And therefore, it is important for us to see the 11.3% quarter-on-quarter growth and 18.2% year-on-year growth in form of a choice we made rather than excluding acquisition or including acquisition.

However, it is important to look at what happened to the business outside acquisition you know from an analytic’s point of view, not necessarily from understand at the company point of view. The way we run our business as our head pointed out in our last conversation was that we reverse merged the HCL SAP practice into AXON. So, the AXON business which we shared with you was running at about $17.8 million in the last quarter and $40 million was the rest of the EAS. So, the EAS revenue last quarter I think was about $40 million, that’s about $17.8 or $18 million. We reverse merged the 2000 odd SAP practice of HCL into HCL AXON and that became HCL AXON. So, we integrated the whole thing into one practice and we merged it and we were running it under one practice. And that in turn left very little in the EAS outside the HCL AXON and therefore we have reversed merged that with the EAS practice so that the whole practice became one. The EAS practice is largely HCL AXON. That practice which was $40 million run rate almost a year ago became about $138 million in this quarter and that is driven by acquisition. And when Anil comes up, we will talk in detail about the impact within EAS.

So, if we look at outside EAS because EAS revenues, we recognized that it has come from our acquisition and it is in line with what we expected. Outside EAS, the rest of the business has de-grown by 3.6% in dollar terms and 1.6% of that is because of exchange of 2% in constant currency. The IT services has de-grown by 2.6% in dollar terms and 1.5% in constant currency. And we will go and explain each one of these numbers in great depth and detail, but I think the big overall headline news which HCL wish to give is the second. The first was that using our option to do acquisition, we delivered a growth of 18.2% year-on-year. The second big news is outside EAS, if we keep that out for a minute, the degrowth in volume has been only 0.7% and that too has been contributed by BPO. The IT revenues volume degrowth is flat, there is no volume reduction in IT. And we will walk the statement in great details when Anil comes up. So, that’s the second big headline, no volume reduction in IT. How we did it, I will explain to you in detail when we talk about the impact which we have had on our quarterly run rates.

Before I go there, let's talk a bit about margins. In dollar terms, the margins are up 19.7% whereas I talked about revenues being up on 18.2% so obviously there is an EBITDA operating margin expansion year-on-year. So, EBITDA dropped including acquisition was only 47 basis point quarter-on-quarter despite acquisition. So, that's the third headline news that we have been able to manage our margins pretty effectively and use some efficiency levers faster than we anticipated and could integrate this better and the margin expansion dropped could be restricted only to 47 basis points including AXON acquisition.

If you look at the EBITDA outside the EAS, we will walk in detail, it is 91 basis point expansion and that is led because 210 basis points improvement in efficiency which we have been able to achieve. Realization has declined by 3.3%, again this is 1.6% is because of the exchange and 1.7% is a real drop in realization. This is outside EAS. And that has resulted into a margin decline of 119 basis points. So, yes, the pricing pressure has been there and I will talk a bit about that. But the result in impact has been negative 119 basis points but because of the cycle time reductions and 210 basis points improvement in efficiency, we had been able to make good 119 basis point drop and delivered a 91 basis point improvement outside EAS on EBITDA. And that 91 basis points made good about 130-odd basis point drop in margins in EAS and therefore we could restrict the drop in overall margins only to 47 basis point. There is a spoiler to the party and that is the negative impact of FOREX losses and treasury for which we had booked last time that's the fourth headline which has eroded about 6.1% of the revenues from between EBIT and our net income and we will talk in detail about that.

Let's talk about order books. I think the order book situation is worth about $760 million. At the same time last year it was about $1.5 billion of large deals we have signed. So, when you look at our client matrix of number of $1 million clients and $2 million and $3 million, you are seeing expansion there. What we are reporting out here is only large customers, large contracts. And we have been giving you names of them and we have been giving you the profile of the kind of deals we are doing. So, this is not total booking, this is booking in last quarter. So you will see that we have done another $250 million across 11 contracts this quarter, which is lower than the last quarter, which is obvious. These are 11 new contracts. But what is interesting about these 11 new contracts is the fact that 6 out of these 11 contracts have come because of the AXON acquisition. There is an SAP component in 6 of these 11 contracts which speaks well about the fact that the acquisition strategy is really working.

There have been lots of questions in terms of how does the revenue of these large deals span out, and we attempted to answer that question and here is the answer. So there is $1 billion worth of deals we announced in financial year 2008 which is the last year. $188 million worth of revenues will accumulate in financial year 2009 out of the deals we had announced in financial year 2008. So $1 billion, 18.8% of that will be revenue which we anticipate will be recognized based on the run rate we have seen in this quarter, we anticipate will be recognized in this entire calendar year of 12 months. The $1.5 billion deals we have announced so far in this year, we anticipate that $43 million of those deals will be recognized as revenues in the current financial year which is FY09 predominantly because you know as I explained to you last time the deals start days are delayed. So, $43 million would be recognized this year and we expect that again 18% of $1.5 billion will be recognized in the next financial year, actually 18% of $1.5bn plus whatever we book this quarter will be recognized in the next financial year is our anticipation. So, when you look at the fact that there is no volume degrowth in IT services, it is largely because there is a degrowth in existing customers. Actually it is quite severe and I will explain that a little later. But we have been able to make that good by this $188 million which we have recognized which is basically we have been able to make it good by the new bookings and new large contracts we have been able to do, and a lot more on that. So, I hope I have answered the questions which was being asked on when does the revenue get translated?

Now, to break this $188 million of the 18% from next year quarter-on-quarter will be very difficult because different projects will take off at different periods of time so therefore it is not possible for us to give a projection, neither it is possible to give a projection of how this $43 million will come into place. Please allow us to restrict ourselves to the current data point which I think is a progress we made in declaration of more data.

I think from a recognition point of view, the big event on Best Employer, I think the Best Employer is also a recognition that it is a very healthy company. In the time of slowdown, if the employees come and vote for you in strength and call you the best employer because it's based on the voting of your employees, then it also reflects the healthiness of the company within and that is largely because of the fact that the volumes have not gone down and we have been doing just-in-time hiring. Therefore, we did not have to lay off anybody and the volume is being stagnant so people are not as concerned within HCL as they would have been concerned outside.

We also have been getting other recognitions for our philosophy and therefore the brand is building. But the biggest two ones which are very critical for you to understand. One is the Boeing; I think it is the Gold Award, Performance Excellence Award of 2008. It's a very, very prestigious award given to very few of their partners not only for the quality of work we are doing but also the big impact we are making on their business. The Gartner report on infrastructure utility offering of SAP applications is a very interesting report. You should read it predominantly because it indicates the direction in which HCL is going ahead from here onwards. And I always used to talk about our Blue Ocean thinking and you would see more of this in the coming slides and the coming quarters. So, that's the snapshot of the performance.

Let's look at post-AXON acquisition, what is changed. And this really tells you as to why this acquisition was so critical and important for us. So, financial services dependents have come down to 23% which was very important for us. And defensive sectors like energy, utilities, and public sector and aggressive sectors which are aggressively investing which is Media Publishing, and Entertainment are two critical sectors which are critical for us both combined add up to more than 10%. Now, media, publishing, and entertainment we were already there. So, you know that from 5.7% has come down to 5% and Reader's Digest revenues are yet to kick in so you would see expansion in that. However, what is interesting is 1.5% of energy, utilities, and public sector has gone to 8.9%. So if you see the recent Gartner report which has come out and I will talk about some other reports also, it says that the calendar year 2009 revenues will go up by 0.8% which is the global IT spending. However, the growth drivers are for the next three years, they predicted only to be energy, utilities, and public sector Government undertakings. And therefore with 8.9% in this segment, we certainly get a head-start. And when I share our size of funnel across the board, you will suddenly see we are now increasingly participating in this defensive sector.

The second aspect of horizontal portfolio is again very interesting that we started the journey where the BPO had a very large component of voice and we explained to you over the last few quarters that we wanted to reduce our exposure to voice-based BPOs significantly. We are happy to report that we have now gone to about 6.5% so out of 10% there is an acquisition revenue, which is I think about 3.5% approximately and 6.5% is old revenue of voice. So, from 11.7% to 6.5%, it's a journey downwards but I think this is the trend line which we wanted and we have been able to absorb this dip in BPO and we think that the voice-based BPO should go down further to about 5% of our revenue. It is the level at which we would be comfortable. And hopefully the platform-based BPO which is now 3.5% of the company revenue which was 0% should increase to more than 5%. So that's the trend line which we want to see in BPO.

The interesting fact is that the enterprise application which is going to be the big growth driver for us and I will explain that that the $7.5 billion which R.K. talked about last time and how that fits into our strategy is now certainly about 25% of our revenues, and custom application is about 28% and engineering is about 20%. So we have three services in the 20s and I think the way infrastructure services are growing and don't be fooled by this quarter's growth, it is robust growth segment of HCL. So I would see that in a some period of time, you would see four services in the 20s from HCL and that is a very, very bold and healthy statement from an HCL point of view. So when you evaluate HCL and its growth strategy vis-à-vis somebody else, please keep in mind as to how many companies would have four service lines out of five in their 20s. And if you can get the BPO platform-based services to grow, it will be a very interesting balance of portfolio we will be able to achieve or integrated towards delivering one single solution. So, that was my comment on what I call the diverse, the fact that we are diversified and derisked.

Now, what is HCL's perspective? It is important in such calls to give HCL's perspective because this is the only time in a quarter we talk about and therefore we have ventured out to give you a perspective. So, there are a couple of perspectives I wanted to share with you. The first is, with a reference to trends we see, customer business is under pressure. You have seen this before, 80% of our customers is showing negative top-line. Our customer response strategy remains the same as I reported to you last quarter, cutting budgets and doing everything. The IT outsourcing deals are declining. Now, this is a disturbing trend which we are seeing for the first time. So, what we do is we track using data monitor data deals announced by 45 IT-ITES vendors on a TCV basis and TPI report is also expected to come I think today or tomorrow and I think they will say the same because I have multiple conversations with them. On a TCV basis, there is a 44% reduction. In JFM $6 billion worth of deals were announced which were $10.7 billion in OND. These are indicators and $12.6 billion in Jan'08. This is the way we track and this is concerning for us. And I have mentioned to some of you that I am concerned about new deals coming into the quarter and I am concerned about the total TCVs signed in this quarter. When the TPI report comes in, I think they will indicate the same thing. Now, if that does not change in April, May, June, then I will be concerned. But we should wait for what happens in April - May- June.

The nature of requirement is changing, so we looked that about $3.2 billion of 40 RFPs which came in over the last six months. And we looked at what are the top five demands of these RFPs. Interestingly, aligning ourselves to business which is the business aligned IT, we will talk a bit about that next quarter, integrated operations, enterprise application continues to be a big part of this demand the very fact that 6 out of 11 had an SAP component in it. It's interesting, although those revenues have not kicked in but whenever they kick in, we will see growth there. Multi-location delivery is a critical element in integrated services. So, these were elements we saw as trend line.

What is our perspective tool, how do we make sense of these trends? The way we, at HCL, look at it is that there are two quadrants, there is an efficiency of IT spend in terms of how efficient is the customer in their IT spending and whether the customer business is growing or degrowing. Most of the people in the quadrant which is the right-hand quadrant here, these guys were G100 customers, large Fortune 100 customers, Fortune 50 customers who were very efficient in their IT spends, IT intensity was very large. And when they were in positive growth trajectory, what they did was they largely outsourced in a discreet fashion, and therefore they had multiple vendors who were outsourcing discreet services and this is where they work. If you look at the quadrant on the left side where the IT efficiency was low, these were, you know we had come to Bombay and presented this two years ago, these are those G100 to G500 customers who were inefficient. So, that's the difference between the efficient and inefficient. So, the way we start looking at them is how is this quadrant's behaving. So let me give you the first cut of what each of these quadrants are behaving. The way we see is the most of the customers are in the negative growth territory. So let's talk about the highly efficient customers in the negative growth trajectory. What we are seeing in this trajectory is vendor consolidation, fortunately, some of these we are winning, huge amount of pricing pressure, discreet services, not much of total IT outsourcing and significant budget cuts. Because when they are going negative, that is what they are doing. And therefore most of the pressure on pricing and realization and everything is coming from this quadrant. And depending on how much business we have in this quadrant, that is a significant pressure coming in. So if you look at HCL's performance of top 5, top 10, top 20, there is one customer who has hugely cut the budgets. And because of which we have seen a significant reduction, not a significant, I think about 2.5% quarter-on-quarter reduction in currency in the top 20 customers originating out of one customer, significantly cutting budgets. And this whole thing has been continuing. So this quadrant overall is negative for us and I think is negative for all, everybody else. But the interesting quadrant is the left quadrant, in the negative growth trajectory, people with low efficiency. And these are the kind of deals you are seeing us announce and this is something we had explained to you two years ago that we want to focus on the G100 to G500. And here where they are low in efficiency and suddenly there is a negative business growth, they have woken up and their response is total IT outsourcing, because they are not that big that they can have multiple vendors so they are going to total IT outsourcing where they are going for integrated deals, they want savings from day one and there is a huge amount of HR sensitivity because these are smaller companies, more aligned to their employees and therefore they want you to retain those employees, your HR policy should be very, very pro-employee. So, that's in this trend. There is another trend which is low-efficient companies which are in the positive growth trajectory and they are aligning themselves around the business. They are talking about Application Portfolio Optimization. and here is where most of the enterprise application services SAP deals are coming, now in positive growth customers who are low in efficiency. People who are positively growing and are high in efficiency and this is very important are talking about Service-Oriented Architecture, Utility Service, Cloud Computing, and disruptive innovation. Smaller in number, very small, this is the lowest smallest quadrant of all, but this is the trend line and this is very important. Now, once you understand the way we are looking at this segment.

Now let me tell you how the world is moving from HCL's perspective. I think yesterday the green quadrant which you see was very critical, this is the positive growth and highly sophisticated, highly-efficient companies dominated the buying behavior and dominated Indian IT industry and dominated HCL's revenue also. Their pattern was discreet spending, multiple vendors, and ability to negotiate. Today and from yesterday to today, that moved to one negative growth territory. And in the negative growth territory, it moved to that G100 to G500 which is inefficient in IT industry. And this segment is dominating the IT spend today. That's our perspective and that is the reason HCL is winning unequal share of its market because we focused on this segment first and our integrated service offering is larger.

However, what I am worried about and what we are investing today is for tomorrow because the total IT outsourcing strategy we already have in place. Tomorrow, I believe they will move to the positive growth trajectory and their demand will be around enterprise application, which will be the low efficient companies will go into SAP implementation, change their legacy into SAP, and the high efficiently companies will go into cloud computing and we have seen a lot tenders coming out around that. Therefore, HCL has to get ready for the tomorrow services and therefore they are significant investments to be made in that area. And therefore, when you look at reports from Gartner coming in, I hope that gives you an understanding that we are not only consolidating and winning today, but we are getting ready for tomorrow. So I hope this perspective helps you understand overall HCL strategy.

We continue to share with you customer case studies and the kind of deals we have done. So this is an interesting deal where this company is hugely present on the web. They have multiple digital platforms. We are consolidating them. It's a very complex social networking project which we are doing of consolidating 300 web presences into a one very sophisticated web platform and billions of dollars get exchanged over this enterprise based on their social networking site. So, that's the product engineering work which is moving away from embedded system development and ISV development into more social networking and end-customer, because this is not an engineering customer, this is an end-user customer. We have taken our product engineering services to the end-user segment which is a very interesting trend. And this is a third deal we have done of this fashion that we have brought in our product engineering capability to consolidate applications which is making a big difference and this is the concept I was talking for a couple of years.

Case study two, again you see industry experience in IS utilities. Again, this is an SAP deal. Case study three is also an SAP deal, both are SAP deals means SAP is involved as part of the full integrated legacy infrastructure and SAP we are doing. And case study four is very interesting which is basically consolidating on run the business, use iTool, we will use people's productivity and drive savings in core applications. So, that's the kind of deals we are doing.

To summarize before we go to R.K., I think we have seen a good quarter performance. I think flat on volume on IT is a good issue. BPO we are where I think we wanted to be. Our performance with new deals is good. I have already indicated that the existing pressure on existing revenue is strong; however, we had been able to make good with revenues coming from large contracts. Our EBIT margins at 47 basis points down is good. We have been able to absorb 130-140 basis points originating out of EAS (AXON Acquisition). So overall, I am happy with what we have done. So, let's go to R.K. and hear about AXON integration.

Ram Krishna Thanks Vineet. We are about three months since we did the acquisition. It's almost about three and a half months and we began the integration process in the first week of January. We have completed a quarter. We had indicated that the process of integration will take anywhere from six to seven months for us so we would be mostly done with the integration by the middle of this year. But the interesting fact is that the integration has yielded us some amount of business growth. And as Vineet did mention, 6 out of the 11 large wins which we've had in the quarter has been from the EAS segment, which means that amongst the multiple services which HCL will deliver, EAS will be a core component of the service and that is something which is possible only because of the integration which has been done of AXON with HCL SAP and SAP with our EAS practice which consists of all the package applications at this point of time.

This also is very relevant that in this quarter itself, we have been able to move up the enterprise application services' dominance in the company's revenue from 12.5% last quarter to about 24.7% this quarter and hence it becomes a dominant service, and this will definitely help us position ourselves into larger multi-service deals where EAS will be a bigger component. And obviously I think over the last quarters, since acquisition, there has been significant market recognition which has been coming to us and some of those are like IDC which talks about HCL will probably be a formidable player in the SAP services market, and PAC's report which really talks about that HCL AXON can be effect the Accenture in the SAP services marketplace.

How is the trend then on the enterprise applications, and obviously I think you would be noticing the reports from SAP and Oracle, their quarterly earnings reports as well. And there is definitely some amount of degrowth in their license sales. But the reports also say that the buying is still happening in defensive sectors. The government spending is still continuing, CPG spending is still continuing. Incidentally, even Insurance is spending now reasonable amount of money in the SAP space especially buy new licenses. And from a horizontal perspective, people are spending more in the CRM related area and analytics. For example, SAP, there is more license sale in the business objects where people are spending more on analytics.

From our perspective, how does it really fit in? I think we had indicated that our addressable market is still very large. There is a potential for offshoring to about $7.5 billion in SAP market itself, whereas, at this point of time, only $1.5 billion of them are addressed by the so-called India service providers. There is a huge market and even though there could be a small variation on the license sale and there has been a degrowth we do expect that the market being so large may not be impacting us significantly. However, we will talk about the deal flow from HCL AXON.

Going to the next, so I just gave you some details of integration what has really happened. I think the most important part of integration are two aspects, one is the revenue integration and the delivery integration. These are two very important aspects but of course the G&A integration from a back office perspective is we need to make sure that our housekeeping efforts are done quite well. Revenues integration is more or less completed. We have an integrated sales and marketing team in place right now. There are people from HCL verticals along with HCL AXON, people working together in making deals happen. How do we really see that integration really works well here? We are looking at this point of time, 25 plus customers of HCL who are being targeted for providing the AXON services and similarly more than 10 plus customers of AXON where we are trying to provide HCL services. And in 3 of those we have already had some success. The pipeline continues to be still very strong and while definitely there will be some pressure on existing customers we do expect new customers coming into this pipeline over a period of time. Delivery integration is done, we have today an integrated global delivery methodology right from blue printing through implementation and end of it application service maintenance, I mean this whole lifecycle of SAP services have been integrated through one single methodology and that is going to be the core of our offering going forward from now utilizing the erstwhile AXON's capability of implementation and blueprinting and combining it with HCL capability in the application services maintenance. G&A it is very well done, there is consolidated reporting as you can see right now that we have reported EAS as one single entity from an HCL perspective billing, commercial legal everything is all completed. What happens to new proposition, once the integration is all complete which we expect by June or July, we do expect some new proposition to come out from this entity, these are being worked on at this point of time, and we will come back to you next quarter with new propositions from HCL EAS with AXON being a part of that in an integrated manner. That is from me on the HCL AXON integration piece.

Anil Chanana Thank you RK. Now I will talk about the financial analysis. This slide is basically, I mean all of you must be having the financial statement so I do not want to spent our time on this, basically the message is on the EBITDA side there is a marginal de-growth from 21.8 to 31.3 and we are going to talk about, how it came and what were the levers in terms of what improved and what let it down?

So let's look at the revenue quarter-on-quarter so revenues have increased by 57.4 million which is at 11.3% increase quarter-on-quarter. As Vineet explained the EAS business has increased by 75.3 million. So if I remove that increase, there is a decline in the business outside of EAS which is 17.9 million converts into 3.6% of the overall company revenues. So of 17.9, 2/3rd is contributed by IT services and 1/3rd by BPO services. So of this 18 millions there was an increase in infra business revenues by 2.3 million, there is a volume de-growth of 3.4 so effectively one should be looking at (-3.4) and (+2.3), there is a realization drop by 8.7 million which is 1.7% of the revenue and the exchange impacted the numbers by 1.6% so which Vineet explained the growth was on constant currency terms was 2%.

If you look at IT services, IT services got impacted there is an increase of 64 million in revenue and outside of EAS a drop of 11.3 million. There is no volume de-growth, there is actually an increase in the infra business realization impacted as well as the exchange impacted the IT services business. Now let me take the core software and the infra site. On the core software outside of EAS we were de-grown by 12.2 million which is 3.4%. And a majority of that is coming from realization which is dropped by 2.2% impacted the revenue by 2.2%, the exchange has impacted the revenues by 1% and a marginal de-growth of 0.1%. If you look at infra, infra there has been an increase, net increase of 2.3 million which translates to 2.7% and exchange impact of 1.4 million so net-net we grew by a million dollar.

Now we would take the, there are two portions, upper is the company portion so we just stated in this slide here, and then the lower part is the BPO. So as I said 1/3rd of the decrease which has come in the overall company revenue is coming from BPO and as Vineet explained there has been a strategy to reduce the concentration of the voice based business which was about 10% of the company's revenues to 6.5% of the company's revenue. And so that is shown by the volume de-growth, there has been a realization impact by 1.1% and about 60% of BPO revenues are derived in Pounds Sterling and which has led to an impact by 4.8% on their revenues. So there revenues got impacted by 10.5%.

So this slide explains in terms of service offering and the verticals, in terms of reported currency in terms of reported numbers, where has been the impact. So if you look at service offering wise, we got impacted in engineering and R&D services, followed by the custom application services 4.5% drop quarter-on-quarter and 3.5% drop quarter-on-quarter. And that too primarily in the realizations and exchange put together and BPO is 10.4% which we just talked about. When you come to the financial services, you find that telecom so it's all that story comes from BPO, trying to reduce the voice component, translating into a de-growth in a telecom side of the business which is 14.5%. Financial services draw by 5.3%, the retail has not moved much and we have created a new vertical through the acquisition of AXON which is energy, utility, and public sectors which is a good 9% of the revenue.

So let me come to the EBITDA, how in terms of basis point our margins have moved. We have seen that our margins are down by 50 basis points. And last quarter when we were discussing our numbers I had presented details on AXON. How AXON acquisition is going to be panning out and it is going to reflect in the margins. And we had anticipated every 170 basis point impact in JFM quarter numbers alone on top of whatever the impact was in the OND quarter. However I am happy to report that this impact is only 138 basis points. And outside of this there is an EBITDA expansion. So we have been able to contain the dilutions through a margin expansion which is contributed by efficiency to 210 basis points and this 210 basis points about 180 basis points is coming out of SG&A itself. The Realization impacting the revenue and realization impacting the EBITDA by 119 basis points.

If you look at the IT services shows more interesting picture, so the decline in EBITDA is 105 basis points. The EAS dilution is at this level, IT services level is 140, and there is an expansion of 34 basis points. Again efficiency gave us 142 basis points and realizations here impacted us like 108 basis points. Essentially almost a similar feature has been presented in the core services and when you look at Infra, it has shown improvement in BPS, EBITDA has gone up by 241 bps. 241 basis points which is all is efficiency. And there is no realization negative impact here.

If you look at BPO the lower portion again there is expansion in margins here, by 230 basis points which is coming again from efficiency 343 basis points and they had a negative on account of realization of 113 basis points. The impact on account of FOREX on the EBITDA has not been material to be shown separately so we have not shown it.

I will take you now to the net income, when you see this EBITDA is very healthy at 21.3% but the profit-after-tax is 7.6% and what is leading to this. One of the major things which is leading to this is the hedging and the mark-to-market impact. We are going to talk in details in the following slide, the numbers are impacted by about 2.1% to this quarter.. The hedge and mark-to-market totally put together this quarter is at 40 million of course a 25 million which it was in the OND quarter. Treasury and other income which constituted 5.2% last quarter is constituting 1.2% this quarter, but here the 4% which has been taken away is more because of the we had realized one time gain when we moved our investment from mutual fund units to bank fixed deposits, so it was 18 million one time gain which I explained last time, which is not there this time. The other line item which we explained quarter-on-quarter how we are going to write-off the intangibles rather than carrying it on our balance sheet is impacting the numbers by 1.1%. So, from 0.4% negative this quarter it is 1.5% negative and there is an interest expense primarily that be arising out of the loan we have taken to fund AXON acquisition. So the extroneous has been the hedging the treasury and other income is more of at the last quarter we should be looking the profit-before-tax not at 17.9 but at less by 4% so from 14% we are down to 9.2% and the spoiler in the party has been the hedging.

We have currently as of March 1.3 billion of hedges, this position as of June 2008 was $2 billions, out of this we are following cash flow hedge accounting which we call hedged cover which are 1.1 billion in US INR and 8 million in GBP USD covers and the mark-to-market covers of the residual 200 millions. The booked rate was 41 which we have, the average has slightly moved down from 41.14 to 41.03 no Dollar Rupee covers have been booked in this period. And we have the quarter end rate last quarter December end was Rs.48.70 the mark-to-market was done at that time, at Rs.49.48 considering the premium because these forward covers we made to the future and this quarter ending the mark-to-market the rate at quarter end was Rs.50.70 the Rupee depreciated by 4% with the premium element added the mark-to-market has been done at Rs.51.69. The GBP and Euro covers, just cover a less then a quarter and therefore I am not talking about it, but we continue with this strategy of covering GBP &covering Euro.

In December when we reported our results this figure which is the OCI called Other Comprehensive Income, the negative balance which is adjusted against the shareholders equity in the balance sheet was $207 million, however it has moved up, inspite of 24.7 million being taken in this quarter on account of the cash flow hedge accounting, because of which 4% depreciation in the Indian Rupee. And which figure now stands at $225 million so we have this so called over hang for the next six quarters and this is how it is panning out assuming the exchange rate remains the rate at which the mark-to-market accounting has been done which is 51.69. So what we have taken to the P&L account this quarter is 40 millions hit, which is composed of 24.8 million coming out of the other comprehensive income, certain hedges about 23 million were declared ineffective which led to a negative impact on P&L by 5.3 million. The mark-to-market at 200 million of cover which was 162 million at that time is 6.6 million and the re statement of assets and liabilities which happens every quarter is another 3.1 million. So totaling up to 39.7 million is the hit you see in the P&L account which is divided into 24.8 million we mentioned in the line just below the EBIT line, earlier we were showing the hedging gains we were declaring every time the hedging gains or hedging losses and they were re-shown as part of the revenue, but so far as the billing is concerned, what exactly has been build to the customers to the end customers has been shown as a revenue and the FOREX impact has been shown separately so that you can see the operating of how the business is operating. And so you see a separate line below EBIT of 24.8 million and residual which is the 15 million, in terms of the other impact, other foreign currency, and foreign exchange impact.

Tax, we guided you that our tax liability, the estimated tax rate is going to be at 15% (a) we are moving away from mutual fund investments which were tax effective but I mean we and the other shareholders were not very comfortable with the moneys in the mutual fund units and we moved most of our moneys into fixed deposits or rather all of us, and practically into fixed deposits and that to in the schedule banks and in the public sector banks. The tax expense this quarter on the business income is 13.8% and on the other income that the full rate which is 33.8%. And we have also guided you, these are the same numbers as we have reported last time what is likely to be going forward tax rate?

This slide gives what our net debt position is, so we have in our treasury 412 million. We have loans of 680 million and we have a net debt position of 267 million. If you look at treasury and other income, the OND 26.6 before I was explaining 26.6 included about 18 million which was to realized when we moved from mutual funds to fixed deposits and in last quarters the interest expense over the part of the period this quarter, this quarter for the full quarter which is 7 million, so we have a net negative and it net treasury and other income of a half a million. Our return on treasury funds which are fixed deposits is 8.8% and we all know that a fixed deposit interest rate are coming down before this yesterday's quarter percent reduction I mean we were getting about 7% for one year but this will come down. And our interest cost is about 4.5% currently. So this is exactly where we are in terms of our funds position.

Capital expenditure we continue to create warm Shells and seating capacity which you will see when you go the section on the seats in the investors release and we have spent 36.4 million this quarter and our cumulative this year has been 100 million. On the high levels the current liabilities include the mark-to-market losses, forward covers which is 249 million as of March out of which 225 million is yet to be recognized in the P&L account as we get over the next 6 to 7 quarters while these rest 25 millions has already been recognized in the P&L account. The DSO has gone up by 1 day from 82 days as of December to 83 as days of March. In terms of distribution there is a slight improvement within both the 0 to 60 days bucket as well as 61 to 90 days bucket. We have 0 to 60 days it is 81% and 61 to 90 days bucket it is 10%.

In terms of dividends we have been maintaining quarterly dividends and we are a dividend paying company and we have been distributing whatever we have been generating if you look at 2006/2007 about close to 40% of our net income we distributed. 2007/2008 we increased it to almost close to 60% and this year I mean we have been at 66% in the 1st Quarter 42% in the next quarter and this quarter we decided to reduce the dividend from Rs.2 per share to Rs.1 per share. I mean there are lots of things which have happened in this quarter, I mean you saw that when we began the quarter we had in the OCI 207 million of negative. We recognized 40million of FOREX losses but still that thing is not, it is still chasing us and I see a figure of 225 million sitting there as OCI yet to be recognized.

Vineet Nayar The figure of dividend outlay is $15.5 million.

Anil Chanana On top of it the cross currency the GBP the Euro these currencies are depreciated against the US Dollar, they are very volatile. So the board decided to reduce the dividend to Rs.1 per share, thank you.

Vineet Nayar Thank you very much. Operator we open for questions and answers please.

Moderator Thank you very much. Ladies and gentlemen we will now begin the question and answer session. Anyone who wishes to ask a question at this time may press * followed by 1 on their touchtone phone. If you wish to remove yourself from the question queue you may press * followed by 2. Participants are requested to use only handsets while asking questions. Our first question is from the line of Ankur Rudra of Noble Group. Please go ahead.

Ankur Rudra Good evening and congrats on encouraging operating numbers, just one question on the RIM side what is the evolving demand environment there? And could you also highlight what is the capital intensity of this business, maybe in terms of capital employed as a percentage of the overall CAPEX for the group?

Vineet Nayar First is the demand environment and remote infrastructure management is very, very robust. You would see that in the subsequent quarters. So remote infrastructure management by the very fact that the base is very small of the industry and the fact that we were first of the block and people are wanting to reduce to run the business in that quadrant which I was talking about on the right hand side of discrete services in G100 customers, remote infrastructure management is amongst the most popular spend item and therefore it is winning a lot of business on the remote infrastructure management. So that continues to be very robust. On the capital assets I believe that it is not materially different I mean we need the same stock which we need for software other than the telecom infrastructure space. Let me do that analysis and sent it back to you.

Ankur Rudra Okay not a problem. Just this one more question on AXON could you comment on your view, you have indicated a number of contracts that you have won via AXON could you indicate the sort of ballpark size of these deals?

Vineet Nayar No I cannot comment on that because the customers are very sensitive to this information.

Ankur Rudra Alright and did AXON lose any large clients in the quarter or maybe because of previous assignments coming to a closure that maybe difficult to replace in the current environment?

Vineet Nayar So we have not lost a single AXON customer we have not lost a single HCL SAP customer in the last 100 - 105 days and that is one. Number two I am happy to report to you that we must be one of the unique companies who are reporting customer names in the deals. And that is a reflection of the confidence that they are having with us, but that is where the customers want us to stop rather then talk about size of the deals. Some of the customers are coming out like you see the Reader Digest and Xerox and some of those Nokia announcements but the other question I would not be able to answer.

Ankur Rudra Alright, thank you.

Moderator Thank you Mr. Rudra. Our next question is from the line of Mr. Julio Quinteros from Goldman Sachs. Please go ahead.

Vincent Hi this is actually Vincent speaking on behalf of Julio, just a couple of quick follow up questions, just wanted to see if you can give us the total revenue contribution for acquisitions this quarter?

Vineet Nayar So what I said right in the beginning was the fact that we have integrated AXON and HCL SAP service as one. We had indicated the expected revenues in the last quarter and we clearly indicated to you that we would not be reporting acquisition revenues because it does not make sense. The AXON and HCL SAP has now been integrated under one. The overlapping customers have also been integrated under one. We are not running a separate P&L for the old AXON customers we are running a global delivery model and the entire integration has been done under EAS. One of the reasons of going into great lengths in explaining the revenue profile of EAS and non-EAS is to help you understand that most of the EAS growth has come out of acquisition revenues and therefore we treated the non-EAS for the analysis purposes so that you can see the non-organic revenues in non-EAS revenues.

Vincent Okay got it. And then maybe I missed this but I did not see the discussion in terms of a realization trend for EAS. I think you provided lot of details for all that margin and realization trend on constant currency basis for all of the other segments, but maybe you can just discuss a little bit on the same trends but for the EAS business?

Vineet Nayar Actually the EAS business we will give you a detailed trend in next quarter because of the acquisition of AXON and the lack of historical data on AXON because we integrated them effective 15th of December there is no you know, I cannot say that the realization has increased or decreased and therefore comparing it with the old EAS $40 million run rate to the new EAS of $138 million run rate will be not an appropriate thing. Overall without getting into specific numbers I think they are seeing the same trend line as we are seeing, and therefore it would be fair to assume that they would have also been under realization pressures of about 3% to 4% as been the rest of the business, but I do not have data and statistics to support it, but we will come up with you know some very significant detail analysis for you when we come next quarter because at that time we would have two quarter comparison of the EAS and the acquisition will be behind us and you will be able to see it very clearly as to how we are performing. But my initial reaction without looking at detail statistics is that they are facing exactly the same pressures as the rest of the business is facing. And to be fair to them they earned back a lot out of G&A. We were expecting $170 million 175 basis points reduction because it was calibrated because contracts were visible but I think they earned back to EAS synergy so the efficiency drives which were there in HCL were also applied within the HCL AXON. And I think we earned back some of that margins that is the reason you see margins going down only by I think 130-140 basis points instead of 175 basis points.

Vincent Now and just last point for me, I know that you do not provide official guidance, but just wanted you to tell, you can comment on sequential growth trends that we should expect, maybe provide a little bit more color for next two quarters and most of your peers have appears to be sliding down, at least on sequential cost and currency basis or for the June quarter and expecting a sequential ramp up after that maybe you can just provide some more color on your expectations?

Vineet Nayar No, sorry we cannot provide that color, I think we will stay with our policy of stating our current quarter after the quarter has happened.

Vincent Okay thanks.

Moderator Thank you, our next question is from the line of Mr. Anthony Miller of Tech Market View, please go ahead.

Anthony Miller Hello again gentlemen, a couple of different pieces, especially just on a technicality if you will, the HCL AXON P&L, are all the revenues booked into sort of UK, Europe numbers or are they allocated according to the regional splits that you normally report?

Vineet Nayar They are into the US, UK revenues.

Anthony Miller Okay, so you do allocate the US revenues, to US line and the UK, Europe revenues for UK-Europe line okay. Can you give us an update please how much of your European revenues now come from the UK?

Vineet Nayar Let me come back to you with those numbers because we have Deutsche Bank as a very large customer,

Anthony Miller And can you can give an update please on the Liberata Financial Services?

Vineet Nayar Well, the Liberata Financial Services is one of the comments I made earlier is that we wanted to go into platform based services and that constitutes about 3.5% of our revenues today from Liberata Financial Services and from control point. Liberata Financial Services, there are two updates, number one we were to reengineer the platform, which we are already working, so that we can improve customer satisfaction and existing customers. I am also happy to report that we are in two deals with Liberata Financial Services platforms, one of them we are in the final two, which is fairly large, I do not know whether we will win it or not, but the traction on the platform was happening earlier than I thought it would have and I thought we would need to do something for year's time and then we will see market traction, but in the pension's market there is some interesting opportunities, which are emerging. It is too early to say and too early to declare victory, but I think when we come back with the next quarterly update, we will know whether we won those deals, we lost those deals, why did we lose them, or why did we win them, so interesting time in Liberata Financials.

Anthony Miller Have you lost any customers from Liberata Financials in the quarter just past?

Vineet Nayar No.

Anthony Miller And just finally on Continental Europe, you say any news there on progress in the major Continental European markets?

Vineet Nayar Huge progress, it is one of the five big bets we are taking and you know my colleague is telling me to answer to your question will be closer to 40% of our revenues will be from Continental Europe and about 60% of revenues will be from UK. Continental Europe, if you see we have open Poland with a huge success, we now opened Helsinki as a center. One big change of strategy which HCL is adopting is local employment of local employees because there is a huge amount of HR sensitivity, which is the point I mentioned in my slide and therefore it is very important to hire locally. And I think if my numbers are correct, we have about hired about 2600 people year on year between Europe and US, as the headcount increase and about 96% or 97% of all of them are locals. And therefore our go to market strategy is very clearly not based on off shoring, but based on cycle time reduction, which is what our proposition on business aligned IT is all about. And based on local hires, so valid center in US, which is 500 man seat, you will see that growth and demonstration to the US government and we need business locally and also Poland and also Helsinki and we already demonstrated Belfast and Frankfurt already. So, we are very sensitive to the real environments and we are responding to them with hiring locals.

Anthony Miller Right thank you very much indeed.

Moderator Thank you Mr. Miller. Our next question is from the line of Harmendra Gandhi of Nomura, please go ahead.

Harmendra Gandhi Hello, I just want to ask you one question, how are the terms and conditions of the deal you have signed recently vis-à-vis say the deal was signed one year back, I mean I understand HR sensitivity one of the thing you mentioned that probably you cannot, you have to take their people on board, but apart from that in terms of rates conditions, transition cost, so how has things changed?

Vineet Nayar I think other than the rates, because of the market has become lot more competitive than it was a year ago, rates are more competitive. The HR sensitivities are much, much higher, you have to hire locals, you have to be in the country. You cannot just build your business take on off shoring, other than that I do not think much has changed.

Harmendra Gandhi Okay, so in terms of margin profiles these deals will be similar to what you had signed one year back for you?

Vineet Nayar I think they are two separate questions, in terms of pricing profiles the deals would be lower in pricing, in terms of margin profiles, I think we have already demonstrated our ability to take out margins, I mean take out cost, I believe margins of these deals will be more or less exactly where it was a year ago up for the deals and making a distinction between pricing and margins.

Harmendra Gandhi So, pricing is lower but your confident on margins will be similar?

Vineet Nayar True.

Harmendra Gandhi And this AXON integration cost you think any other additional cost you think you have to incur apart from that has happened this quarter?

Vineet Nayar No.

Harmendra Gandhi Okay thank you very much.

Moderator Thank you Mr. Gandhi. Our next question is from the line of Nimish Joshi of CLSA, please go ahead.

Nimish Joshi Hi Anil, has there been any incremental write off of intangibles or goodwill, which has not been pass through P&L this quarter.

Vineet Nayar Nimish, everything has been passed through P&L, so what you see is amortization is what we had projected and this is exactly where it is.

Nimish Joshi Okay, because the intangible assets have gone down from $900 million to $858 and the amortization you provided is I think $8.7 million for the quarter, so this is $14.35 million odd gap?

Prahlad Bhansal Yeah this is because, a significant portion of our goodwill is in British pounds and which is depreciated from 1.53 at the end of the last quarter to 1.43 at the end of this quarter, so it is only the restatement of the numbers primarily.

Nimish Joshi Okay and so on the stock holders equity as well, so then I mean, somewhere the gap of $20 million odd if you reconciled the FOREX losses and the P&L, so is there anything, there is absolutely no write off in addition to whatever you have done in the P&L?

Prahlad bhansal Yeah, absolutely nowhere other than the intangible amortization, which is required on the customers relationships etc.

Nimish Joshi Okay and secondly the losses on the cash flow hedges, which you get, are these cash losses or is it just a notional loss?

Vineet Nayar Actually, you know the way it pans out is this is the quarter to which these hedges belong to, that is what the principle of cash flow hedge accounting is. So, there are two ways to look at it, one is that I get $1 million the bank is going to cut a cheque and give me 4.1 Crores, because at, which my booking was done. Instead of giving me a cheque of 5 Crores, so it is not that I am going to get a cheque and give it to the bank, but I am going to lower amount of money than, if I would not have taken it over.

Nimish Joshi Okay and last question is on, you have mark to market on the cash flow losses of around $225 million. Do you have any marginal collateral with bank for these MTM losses on FOREX?

Vineet Nayar Nothing zero.

Nimish Joshi Okay, thank you.

Moderator Thank you. Our next question is from the line of Shekhar Singh of Goldman Sachs, please go ahead.

Shekhar Singh Hello sir congratulations, on very good set of numbers. Just one thing like this FOREX hit, which you are taking quarter after quarter, can't we basically take a onetime hit, yeah this is a total amount, which is due for over the next 6-7 quarters at the current rupee-dollar rate and we just take that big hit in one quarter?

Vineet Nayar I do not know whether we can do it or cannot do it, but I do not think it would be appropriate for us to do it. It is judgment call we took about two years ago, the judgment is call has gone horribly wrong, so instead of taking onetime hit and putting it behind us. Then you know as management we can you know keep putting such errors behind us. I think we have to suffer the consequences of that judgment error, if the dollar remains where it is, if it heads the other way then it is different, but I do not think that would be appropriate action to take. But what we are doing is by being transparent, I do not know how many other companies you would see a similar presentation as you have just seen, by being transparent, we are sharing with the market exactly what the situation is, so that they can treat it the way they wish to treat it.

Shekhar Singh Because what is happening is like despite having almost like $500 million sort of EBITDA run rate and an enterprise value of $2 billion that is been yield by EV/EBITDA of 4. On PE multiple your stocks are looking expensive and I do not know whether others are actually looking in that way or not, but on the yield by EV/EBITDA is looking extremely cheap, so I was just wondering like if you just take that one off charge, then suddenly like these stocks are looking very cheap.

Vineet Nayar We run a business, I think we shift.

Shekhar Singh The second thing, which I wanted to know is like this amortization charge which has gone up this quarter, why is that?

Prahlad Rai Bansal Yeah this relates to the acquisition of AXON where we have made investment of $700 million, so out of the total goodwill a person gets allocated to intangible limit, retain to the customers orders in hand and the customer relationship etc, which is required to be amortized under US GAAP. So, this is relating to that amount.

Shekhar Singh Sir, lastly just wanted to know like with AXON and its strong focus on the public sector in the current environment that lot of government is spending, should we be expecting much bigger deal wins in days to come, I mean how is the deal flow looking like from the public sector?

Vineet Nayar I did not put up the slide on the funnel flow, 34% of our funnel is coming out of public sector and another 14% of our funnel is coming out of utilities. So, the very fact that almost you know 45% plus, close to 50% funnel profile has changed for HCL, it is the mark of the impact, which AXON is having. Now, not all of this funnel is SAP, most of this funnel is cross sell of HCL services, I am sorry 24% is Energy Utilities and 10% is Government, this is the funnel analysis about 34% is coming from this. Now, this 34% use to be about 1% or 2% for us and this 34% is not necessarily on the SAP, it is IT services, infrastructure services and I think you would see at least one large contract coming in next year, where I think we pronounced or elected to be the last. And that is the impact, which AXON is having in the rest of the revenues and I think this is very appropriate time, because there is a significant amount of spending happening in that area today. And AXON was losing those deals and actually it is very interesting, when we went into AXON, AXON has outsourced close to about $900 million outsourced is a wrong word, but AXON is partnered with some of our competitors equivalent to $900 million because they could not bring the legacy system to there, nothing we can do about the $900 and nothing we intend to do about the $900 million, but I am just saying that the cumulative partnership, which AXON has done over the last 10 years you know is about $900 million which is very interesting statistics. Now, obviously everything has changed, we are collaboratively going after the whole piece into these deals.

Shekhar Singh Sure and lastly just one more thing sir, last quarter you mentioned at some portion of the initial transition of projects might be capitalized, but just now I heard that as such you have not capitalized any portion of the cost is that correct?

Vineet Nayar Yeah, we have not. I think, you know I wanted to give you a number, For the infrastructure service, I mean we had said that that was one of the points, which I thought I could come back to you in terms of one of our business line where this is, the revenue deferment in the infrastructure business is about $24.6 million, which is that means we have billed the customers but we have deferred the revenue. This is the transition revenue, which is not allowed to be recognized, in our books it is recognized over period of the contract, even if we collect it and the deferred cost is only $13.5 million because as per US GAAP, you can only deferred the direct cost and you cannot defer the SG&A associated with it. So, if you look at this $24.6 million and $13.5, this is the point I was making last time that there is a large part of profit being postponed, because this US GAAP issue also fact that, you have to defer revenue and you have to defer transitional revenues and you have to defer the direct cost and therefore a lot of profits gets deferred. The current number is 24.6 and 13.5, 24.6 in revenue and 13.5 in cost term.

Shekhar Singh Great sir thanks a lot.

Moderator Thank you. Our next question is from the line of Sandeep Shah of ICICI Securities, please go ahead.

Sandeep Shah Yes sir, just looking at the last quarter numbers, which is 31st December 08, the cash flow hedge accounting, there is a gain of $4.5 million and if I believe, the last quarter the average rate was much higher than our hedge rate. So, how this gain was possible it should have been a loss?

Prahlad Rai Bansal Yes, if you recollect during April to June quarter we had cancelled large number of our covers, which were pertaining to the October to December quarters. And the covers we had cancelled were pertaining to dollar INR covers mostly. While we had certain other covers, which were GBP dollar covers where we were doing hedge accounting, so the gain which has come last quarter is mostly pertaining to GBP dollar covers.

Sandeep Shah Okay and what about the loss on the USD versus INR on the last quarter?

Vineet Nayar We explained to you, we had canceled those covers in April, May, June itself, so it covers for in INR Dollars for OND quarter.

Prahlad Rai Bansal Which is in the hedge accounting, we had the covers and there is mark to market accounting and last quarter also we had significant loss, below the line if you notice about $25 million.

Sandeep Shah Okay, so that loss is already taken in earlier quarters?

Anil Chanana That is correct.

Sandeep Shah And just on the large deal, Vineet you mentioned that of what we have won in the last 9 months, roughly 18% would be reflected in the next year?

Vineet Nayar Yes, which is based on the fact that out of a billion, we won last year $188 million would be reflected this year, so I am estimating that out of the $1.5 billion we have won, 18% will be reflected next year, because this was a request from analyst to clearly define us to what would happen. So, 18% is gestimate, $188 million is a certainty.

Sandeep Shah And this 18% is over and above the 43 million, which we will report in this year?

Vineet Nayar Yes.

Sandeep Shah Okay and Anil last thing is the mark to market is at 51.69 or 50.69?

Anil Chanana So, the mark to market rates as of March was 50.70. However, since these covers pertain to the future, we forward premium, which is prevailing as on 31st of March is added and then applied.

Sandeep Shah Okay thanks and all the best.

Moderator Thank you. Our next question is from the line of Shradha Verma of Research Advisors, please go ahead.

Shradha Verma Yeah, my question is regarding the cash and cash equivalent. Basically, how much of the portion of the cash reserves figures would you plan for acquisitions in future?

Vineet Nayar We do not have something like that, we are looking for acquisitions, I had already explained our acquisition strategy as an 8x3 strategy few quarters ago. I do not think we have any cash, which we are going to reserve for acquisition or not reserve for acquisition. Anil already explained that the cost of borrowing on a short-term is you know the way we did the AXON deal was about 4%, 4.5% and therefore whatever acquisitions we will do, will be on a short-term borrowing and then we will look for a long-term funding in financing for it. So, we do not have a budget with this much amount of cash, we are going to keep for acquisitions.

Shradha Verma Okay and another question for in case of acquisition, could you throw some light on the nature and the kind of acquisition that you would go for?

Vineet Nayar I had already explained it is nothing we just changed of AXON acquisition strategy. We believe that when everybody was doing discrete services, we said we want to move into total IT outsourcing, we went ahead and looked at AXON, predominantly because there is a significant trend of moving from legacy application to SAP applications, the very fact, we won 6 out of 11 deals had SAP is indicating that and we did not have the skills, we never, our EAS revenues, if you see quarter on quarter for the last few quarters have been stagnating or dropping and this is a two year old story, same is to with BPO. So, these two we have already fixed. I think we need to do an acquisition in engineering space, we need to do an acquisition in the Oracle space, we need to do an acquisition in the infrastructure space to try and move into our next generation strategy and there is nothing changes from what I had initially defined as on acquisition landscape.

Shradha Verma Okay thank you so much.

Moderator Thank you our next question is from the line of Ajay Nandanwar of Indea Capital, please go ahead.

Ajay Nandanwar Good afternoon sir, a quick question on your balance sheet of you know what is recognized in your FOREX hedges that how much is actually paid for and I think it is partly covered earlier. In this quarter it made from $24 million losses and $15 million losses in FOREX hedges, how much of this actually paid for in cash and how does it affect on your balance sheet you know whatever is 1000 or some million FOREX is outstanding. How does it reflect in your balance sheet?

Anil Chanana So, as I explained we have $1.4 billion of hedges, so what we are doing is we in fact, which is $225 fall is spread over 6 to 7 quarters and the way the cash flow hedge accounting works is that the impact goes into the quarter for which the covers have been booked. So, in the respective quarters, when we go to the bank and encash our dollars, which are our revenues, the bank will be giving us the rupees, Indian rupees in exchange at Rs.41 instead of whatever the spot rate is on that day, since we have taken forward covers. So, that is how this impact comes.

Ajay Nandanwar Okay and how about $15 million which is not cash, I mean it is not cash flow hedging?

Anil Chanana We have a combination of mark to market losses and restatement of assets and liabilities, so some of it will have an impact on cash flows and some of it will not have an impact on the cash flows.

Ajay Nandanwar So, what is accumulated you know which is, in your balance sheet, this non-cash flow-

Anil Chanana Well, non cash flow will be able about $25 million, which is already recognized in the P&L account.

Ajay Nandanwar But still sitting on the balance sheet?

Anil Chanana Correct, so $225 million yet to be pass through P&L, $25 million pass through P&L, so it aggregates to $250 million.

Ajay Nandanwar Also trying to understand on your balance sheet, what is the other current assets, what some sense, what those are?

Prahlad Rai Bansal Yeah, these will be various line items, I think one of the significant line items, which is happening is that we are accounting for the tax payments and the tax liabilities both on the balance sheet in the asset side and the liability side unless the respective assessments are over and in respect of tax payment itself, I think it is about $150 million, which is obtaining into that.

Ajay Nandanwar On both the sides?

Voice Yeah on both the sides and then there will be other respective items like deposits will be there.

Vineet Nayar In fact cents.

Ajay Nandanwar Sure, another question about your, that you mentioned about your sort of capital intensity of the RIM business, but you know this business sort of has debt capital intensity. How much CAPEX you know they anticipate during over next 12 to 24 months in RIM? And you know sort of not in the people first sitting etc, but more than facility sides?

Vineet Nayar So, in RIM there are two, so first is let us talk about normal RIM. The normal RIM is not capital intensive other than the fact that you have to create telecom infrastructure over and above the normal computers and you know facilities and air conditions and the telecom infrastructure, I think on a per hour basis is less than 50 cents in the additional CAPEX and I do not think that is material. I think, the materiality on the CAPEX is going to be, we are creating a data center in US, because a lot of we are ending up paying about $15 million per annum to various partners for hosting data centers, servers for our customers and we believe that if we have a data center of our own that could be a good cost out initiative and also a revenue initiative. So, we would be spending about $15 million over the period of next year on creating the data center in US. Other than that I do not see any you know difference between the software business and the infrastructure business. So, such opportunities keep coming and then if there is a deal where we have to buy the assets and price in the assets along with a deal on utility computing, for example the SAP business, where we supply the server, the licenses, and the services there will be some CAPEX required but nothing great to report about right now.

Ajay Nandanwar Which line of the balance sheet does this go into?

Vineet Nayar The CAPEX?

Ajay Nandanwar Yeah.

Anil Chanana It will be fixed assets, the property, plant, and equipment you are right.

Ajay Nandanwar What is your in general CAPEX outlook for the next two years?

Vineet Nayar We are not giving that guidance.

Ajay Nandanwar Okay thanks so much.

Moderator Thank you our next question is from the line of Kunal Dayal of Merrill Lynch, please go ahead.

Mitali Hi this is Mitali speaking. Vineet could you share with us that over the last couple of months, you know what are you seeing in terms of how customer activity has changed, are you seeing more deals slowing in or base of closure maybe picking up, you know any inflection points that you can highlight maybe?

Vineet Nayar Mitali, I am seeing a reverse trend compared to you know some of the opinions being expressed in the industry and I am seeing various analyst also talking about the same that the JFM deal pipeline has actually gone down compared to OND and there is a slight pickup in March compared to Jan and Feb, but I would not go by the data to say, suddenly the pickup has happened. So, first answer is the deal inflow is significantly reduced. Deal decisions in JFM is about 44% lower than OND, I would be concerned and there is a TPI report coming out today, I think they will more or less say about the same thing. So, I do not see and the existing customers in the quadrant, which I talked about, which is highly efficient, you know cost competitiveness, price discount continuous to be vendor consolidation continues to be a challenge. So, overall that is what I see in JFM and I am not seeing early indicators of the fact that why would something increase. Now, other than there is only one trend which I am seeing positive, which I had not factored in JFM, because we are early entrenching to the trend that Energy, Utilities and Government may buck the trend going forward and therefore, I am watching that space very closely.

Mitali Yeah that is interesting and in terms of you know the pickup that you have seen in enterprise solutions, which is typically discretionary in nature. Would it be fair to understand that this really relates like you mentioned earlier to more defensive sectors?

Vineet Nayar Yeah you are absolutely right, so we are seeing the same head win on pricing and projects withdrawal and discretionary spending coming down in existing projects of EAS. At the same time because there are defensive sectors, the head wins are a little lesser, but they are there. The new deals are largely coming in defensive sector, so most of our funnel in enterprise application is originating out of defensive sectors, you are absolutely right.

Mitali Thanks and just one last question, you know you have done decently well on the operating margin side this quarter, you know in the future quarters what should we expect in terms of the trend there, you know also making in what you are probably expecting on pricing?

Vineet Nayar Mitali, you know first is we do not give guidance, but I would say that the markets are very uncertain at this time that even if you wanted to give a guidance as to what do we give, what do we tell you. Life is changing every month. I think this sole telecom and there is lot written about it which has impacted us for this quarter. If you would have asked me in January that I anticipate BPO fall to this extent from this single customer, the answer would have been no. So, I think we are living in a time where we have to take a step at a time and management team has to be very alert that whenever there is realization drop or wherever there is a pricing drop, the levers have to be there that we have to improve the efficiency and try and bring the margins back in shape. So, we are in a very peculiar time right now Mitali, so guidance would be very difficult.

Mitali Right, I actually really was referring more to the cost side, which you mentioned you know how much room do you have in terms of efficiencies that you can further pull?

Vineet Nayar Mitali, in the beginning of the year I had said that we will be able to maintain our margins within 50 to 100 basis point that was my opening statement of in July end when we had come, I would say that I still maintain that statement, this is outside the AXON acquisition. So, we are running ahead of that expectation, which I defined and I think we have levers to be able to manage, so whenever we give a price discount, we know what are the levers we need to move to be able to maintain the margin, so I am comfortable to maintaining the margins to June outside the acquisition and when we come with the results in August, this time we will be coming in with results in August because of a new SAP implementation and we come with results in August maybe, you know we will give you an indication of what lies ahead.

Mitali Sure, thanks a lot.

Moderator Thank you. Our next question is from the line of Kunal of Edelweiss, please go ahead.

Kunal Hi, This is Kunal. Vineet you talked about government vertical which contributes about 10% to AXON revenues, which could be $30, $35, to $40 million annually, could you give us some sense where is this be working done in terms of geography whether UK government, US government and what kind of opportunities in terms of the broader market outsourcing opportunities from particular government sectors could be?

Vineet Nayar So, first is I think maybe I made a mistake, I think I said that 8.9% of the total company revenues comes from energy, utility and government. So, it is about 50 million a quarter, so where run rate is about $200 million a year, so that is the first statement. I think it is equally distributed between Singapore, we are doing work in UK and so I would say UK, Singapore, and US in that order.

Kunal What kind of opportunities you know in terms of the whole government, because I believe the spend is quite high, almost you know US government could be like closer to $53 billion in IT overall including hardware, but in terms of outsourcing, a broader sense on the outsourcing market, so from the government vertical?

Vineet Nayar We are late entrance into that market, so give us a time for us to be able to make assessment and give your firm comment on this, when we come back in August, maybe we will make a comment on your request on what do we see in government spending and our strategy towards it.

Kunal Sure, alright thank you.

Moderator Thank you. Our next question is from the line of Divya Nagarajan of JM Financial, please go ahead.

Divya Nagarajan Yeah, I just wanted your comments on the kind of pricing trends you are seeing across your business, we have heard industry leaders like Infosys talked about 6% to 6.5% pricing decline if FY10, are you seeing a similar trend or what is your view there?

Vineet Nayar Well, we are not giving guidance of going forward, but I think what you should see out here is that we have demonstrated 1.7% drop in realization, which is largely coming outside the exchange rate, which is largely coming from prices being down, so that is the empirical statistics takes, which we are giving to you and that is what is visible to us right now. I do not have data to be able to comment on what is going to happen in future because the customer behavior pattern in changing from customer to customer, from illogical to rational and depending on the competitive situation, I mean even if the customer does not want some competitors goes and you know starts the price war. So, I think it is not right possible for us to make a comment going forward, but the statistics had showed that 1.7% is the realization from this quarter and we have been able to do a good job of maintaining the operating margin.

Divya Nagarajan Right, what percentage of your clients have you already had renegotiation with?

Vineet Nayar You know, I don't know that who started this argument that the customer negotiates with you only once.I can tell you most customers are coming back and seeking in various ways and rightly because their business environment is deteriorating with everyday.

Divya Nagarajan Yeah, right and you believe that pricing decline could continue?

Vineet Nayar Well, I think so, yes. You know I do not believe the worst is behind us.

Divya Nagarajan So, what kind of a range in which do you expect the foresters come up to the report saying that offshore vendors can take up to 12% price cut?

Vineet Nayar I do not want to comment on that, we will live day by day and this is the time I think managements will get tested because they are going to get tested on factors and elements, which they never tested before, well the business as usual was great, we are growing it now to grow the revenues, to grow the business, and to maintain margins and to renegotiate and negotiate with the customers, all elements are up in the air, I do not think we as management across the IT industry and across actually the entire world as ever dealt with so many variable elements up in the air and so much uncertainty. I think this is a tremendous learning opportunity and very exciting times from the learning point of view.

Divya Nagarajan Lastly, on the volume front have you seen the worst of the volume declines already come through or do you think that is still pain or worst is behind us?

Vineet Nayar Same answer, I think I am not saying what I have heard some comments in the industry and that the worst is behind us, I do not think so.

Divya Nagarajan Right thanks and all the best.

Moderator Thank you Ms. Nagarajan. Our next question is from the line of Yogesh Agarwal of HSBC Securities, please go ahead.

Yogesh Agarwal Hi, I just have one question, if I may just, apologies for going back on the pricing and realization topic, I understand the total realization was modestly down 1.7%, but it also seems like that the percentage of efforts in onshore have gone up, which is understandable considering your ramping up deals and there is AXON there, but if I look at the offshore realization that has gone down materially, so am I reading it correctly that the efforts in onsite has gone up, which is actually giving stability to the realization per head?

Anil Chanana Yeah, so you are right when you say that the yes efforts have gone up and one of the contributors has been the EAS space and the impact in terms of the pricing is both, on the onsite as well as offshore, but relatively more offshore and less onsite less.

Yogesh Agarwal Alright great, thanks a lot.

Moderator Thank you Mr. Agarwal, Our next question is from the line of Pankaj Kapoor of ABN AMRO, please go ahead.

Pankaj Kapoor Yeah hi sir, just one small clarification, you mentioned about 18% of the $1.5 billion worth of deals that we signed this year to come in FY10 and you also indicated about $188 million worth of revenues from a billion dollar deal that you signed in FY08, and it came in FY09. So, this if I have to project it right does it mean that in FY10, we will have this 188 plus 270 coming in incrementally?

Vineet Nayar Incrementally, over FY08 yes.

Pankaj Kapoor So, roughly about $500 million worth of revenues for FY10, we already have a good visibility into?

Vineet Nayar Correct, over FY08. Not FY09, at the same time also remember that the depletion in revenues from existing customers is also severely more than it was between FY08 to FY09.

Pankaj Kapoor Fair enough, thank you sir.

Moderator Thank you Mr. Kapoor. The next question is from the line of Ashwin Mehta of Mangal Keshav Securities, please go ahead.

Ashwin Mehta You stated that in terms of incremental revenues almost 10% incremental revenues are possible from the large deals in FY10. Do you believe given this visibility that you have, the depletion or the leakage in your existing clients can take it to the negative zone excluding the acquisition impact?

Vineet Nayar I think anything is possible, we are not guiding for the future, we are laying down the fact the way they are in front of us, the depletion is much more severe than it ever was and the visibility from new contract is much more than it ever was. So how these two add up with that result into a positive trajectory or a negative trajectory it is difficult to say.

Ashwin Mehta Okay, just one more thing in terms of our FOREX debt we had raised debt for AXON has that also been translated in our other income?

Prahlad Rai Bansal Yeah, we do translate all our foreign currency, assets, and liability including the foreign currency loan into dollars and the exchange impacts are taken. However, you must note that we have made investments of about $700 million in AXON deal and this is the loan taken in connection with the AXON deal. While the acquisition was in British pound 60% of our investment relates to that part of the business, which is in US and the investment in US dollar and the loan in US dollars the exchange risk works in the opposite direction and to the large extent they offset each other.

Ashwin Mehta But would that have been taken in the balance sheet or would that have been taken in the P&L?

Anil Chanana To the extent it gets offset that is over the balance amount is gone to be P&L under the restatement of assets and liabilities, which is the net loss of $3.1 million dollar in this quarter.

Ashwin Mehta Okay, thanks a lot.

Moderator Thank you Mr. Mehta. Ladies and gentlemen due to time constraints that was the last question. I would now like to hand the conference over to the HCL management for their closing comments.

Vineet Nayar Thank you very much for staying for almost 2 hours, we appreciate your interest in HCL and look forward to talking to you in the towards the end of August when our annual result announcement is there, thank you so much. Bye-bye.

Moderator Thank you gentlemen of the management. Ladies and gentlemen on behalf of HCL Technologies Limited that concludes this evening's conference call. Thank you for choosing the Chorus Call Conferencing Service and you may now disconnect your lines. Thank you.