“HCL Earnings Conference Call”

April 15th, 2008

MODERATORS: Mr. Shiv Nadar – Chairman and Chief Strategy Officer, HCL Technologies

Mr. Vineet Nayar – CEO, HCL Technologies

Mr. Ranjit Narasimhan – President & CEO, HCL Technologies BPO Services

Mr. Anil Chanana – EVP – Finance, HCL Technologies

Moderator Ladies and gentlemen good morning and good evening, I am Rochelle, the moderator for this conference call. Welcome to the HCL Earnings conference call. Please note that for the duration of this presentation all participant lines will be in the listen-only mode and this conference is being recorded. After the presentation there will be opportunity for you to ask questions. Should anyone need assistance during this conference call they may signal and operator by pressing * and then 0 on their touchtone telephone. At this time I would like to hand the conference over to Mr. Shiv Nadar, the Chairman and Chief Strategy Officer for HCL. Thank you, and over to you Mr. Nadar.

Shiv Nadar Good evening and good morning to those of you from the US. Thank you for joining us in this quarterly results announcement conference call. The result have been lying with you and I hope you had sometime to go over these results. I thought I would give you a perspective of what has happened over the last three years. You know three years ago this was a very important quarter, important month, I had been working with the Mr. S. Raman since a time HCL was incorporated. He had been a fellow founder of mine. And he had risen to become President of HCL Technologies. And he was retiring and it came a time in which Vineet took over as President from him. Vineet has joined the company in 1985. And it is the first timer who took over as the President. Our results of that trailing 12 months of the time, that is about half a billion dollars. And now three years from that point, I am very happy to see that in a single quarter we are absolutely close to half a billion dollars, it $485 mn, a good growth rate, 33.8% year-on-year. And if you take last 12 months' revenue it is about $1.8 billion, it is actually $1.77 billions. Our EBIT has grown very robustly you know you must see that it is not only just meeting the forecast , the forecast was made at a time when we could not have at all foreseen the sub-prime crisis or the way the capital market part of the BFSI was shaken up. Despite that, despite the strong change in the value of the Rupee vis-à-vis US Dollar or any other currency or the volatility in it, to come up with a double-digit growth on EBIT has been a very significant performance. It is another major milestone that our EBITDA crossed $100 millions. At a $108 millions on a base at shareholders equity of $1.4 billion in a shareholder's net worth of $1.4 billions, it gives a run-rate of about

31% of EBITDA on net worth. And the cash return, you know we are very fundamental people in our company, we put a lot of emphasis on cash flows. And for a cash flow, for the cash profit on the net worth it's an excellent ratio. You know it talks about, it shows the robustness of the company, and its profitability and the areas in which it is and then how resilient the management is and the organization that a difficult quarters several of them at a stretch is shrugs off and performs so admirably. I am very pleased, we are all very pleased and to take you through the details, I will turn it over to Vineet Nayar, CEO of the company.

Vineet Nayar Good evening and good morning to everybody. It is exactly three years ago that I talked to you, it actually feel a lot more then 3 years but if Shiv said it is three then it is three. We had defined a strategy which was around what we called the Blue Ocean Strategy. The Blue Ocean thinking was about brining new parts, new services, new geographies, new way of doing business and doing it in a new way to drive growth. And that was the articulation and the strategy and we had also said that we will drive efficiencies using innovative business models like employee first and value centricity in our whole proposal and investment into SOA, APO, and infrastructure services. The origination of this idea really started in when I was running COMNET 7 - 8 years ago when we started looking at businesses like the VSAT and the Cisco business and Star businesses. And those star businesses were very-very attractive because they provided a significant amount of growth. And then those Stars business became "cash cow" and after becoming "cash cow" they became "dogs". When we saw that movement of that business we quickly realize that unless this company is not innovating and getting into new businesses faster than the way if the business the stars are becoming cash cow and cash cows becoming dogs, the only way to survive is to beat the cycle and to be a more innovative. And I think that is what we are doing or attempting to do in HCL Technology and the results are there for all of you to see whether we have been successful in doing that or not. So, as we said that the big news from our point of view other than the overall approach of the 34% YOY increase is the fact that we gave a guidance of 35% YOY increase in revenue at the beginning of the year , we are going to stay with that guidance. The second news is that we have signed $542 millions worth of deal spread across 11 customers, 5 out of which account for $500 millions. And we feel that this is the biggest quarter in terms of booking, these are signed deals there is a lot more in what I called the handshake stage. This quarter has been the biggest from the fact that of what we have signed as contracts. 32 new client additions, is the highest in the last four quarters. This is the fourth consecutive quarter for margin expansion, this time we expanded by 90 bps. This is the fifth consecutive quarter of decreasing attrition we have come down from 17.7% to 15.2%. And this is also a quarter where we have registered a double-digit growth on quarter-on-quarter EBIT expansion. On the Core Software, the revenue are up by 36% year-on-year and EBIT margins have expanded by 89 bps. On infrastructure our revenues were up by 43% year-on-year and I would spend a little bit time on that. And on 9 month basis it is actually 52% up on year-on-year basis. And EBIT margin against has improved by 84bps.Let me talk about, how was this done and what is the slice and dice of this. The one peculiar thing which you are seeing because of our Blue Ocean thinking was that we created runs of business as a proposition which was centered around infrastructure management and then we converted infrastructure management into a cash cow and created the star by merging infrastructure and application and got into total IT outsourcing. So, infrastructure which was heading towards cash cow, we converted that back into a star, so run the business is one of the biggest growth drivers to what we see in HCL. Along with that our strategy of focusing on SOA and APO which for the first time is crossing $50 million in this quarter, also reflected which actually did not exist three years ago also reflect our ability to drive change the business by coming from the top by having vision and direction and disrupting the market space by saying that killing the legacy application is the better way of approaching this market space. So, because of this suddenly when we saw recession or the word of recession being uttered in US, we saw an opportunity for us to push forward with our sweet spot, although our overall strategy was that we want to de-risk US and move toward Europe and Asia, we suddenly saw high growth in US. So, this US CQGR while you see is an 8.4% CQGR in your notes what is important to understand is last quarter we had grown US at 8.9% quarter-on-quarter and this quarter we have grown US at 7% quarter-on-quarter so two great quarters of US growth. Europe last quarter and total CQGR growth rate of Europe is 7% and it is 4.6% quarter-on-quarter this quarter, it is because of two things 1) there are some customers in Europe which are stagnant in their revenue growth, 2) secondly the pound was not very nice to us in this quarter. The Asia Pacific is where I want to spend a little more time. The material centric services, right or material dominated services, which is largely a non-material was very high at a percentage of HCL three years ago. And we took a conscious decision on moving that percentage down within the overall COMNET framework and increase the service cushioned up. I am happy to report that the percentage of this which we have been reporting as less then 5% of our overall revenues was actually 4% of our overall revenues last quarter. That has come down to about 2.6% of our revenues in this quarter. There is a negative 26% quarter-on-quarter reduction in our material revenue. And therefore, when you see the 5.2% quarter-on-quarter increase in our revenues it is despite 26% drop in our material-oriented revenues. If we exclude the material-oriented revenues from our Asia Pacific revenues you get a 9.4% quarter-on-quarter increase in Asia Pacific on back of a 9.1% quarter-on-quarter increase in Asia Pacific last quarter. And on the CQGR basis Asia Pacific without the materials centric revenue comes to 9.8% over the last four quarter. So, that explains to you as to what had happened from the geography point of view. Let us go to services and see the interesting trend there also. Engineering Services at 9.9% is on the back of a 7.8% quarter-on-quarter increase last quarter and a 7.5% quarter-on-quarter increase this quarter. So that remains robust. The Enterprise Application Services continuous to be a challenge which I shared with you, couple of quarters back has grown only by 1.6% quarter-on-quarter but as you see that we have taken the necessary steps forward by signing the global partnership with SAP and also by signing the CRM partnership with Quadrant. And not only that within this and I think it will take us another one or two quarters to fix this. The way you have to look at HCL is that once we fix this the Enterprise Services, which is a high growth segment for everybody else, our growth rate you know it is an opportunity for us to grow. And that is the way I see, it is a great position to be in that you can grow despite your Enterprise Service not growing at the rate for which everybody is growing. But the SOA market which we have not shared with you so far, but there was lot of questions around it, use about $50 millions in revenue and the CQGR growth rate over the last four quarters which is SOA and APO, is 13.7% CQGR growth rate. So that is the growth rate on that but we do not intend to share these numbers as split numbers going forward, but since there were lot of questions on how our SOA-APO strategies going ahead, I just wanted to share that with you, it is going gang buster it is actually growing faster than infrastructure. Our Infrastructure Services has to be viewed without the material oriented revenues as I thought about. If you remove the materials and look at the service revenues only for infrastructure the CQGR is actually 15.2%. And we have grown quarter-on-quarter at 11.8% on a back of 8.3% quarter-on-quarter growth last quarter. But if you add back the material revenue into infrastructure which is the way we have represent it so far, the quarter-on-quarter growth rate is not good; however, the overall nine month or nine month is 51% and quarter on quarter year-on-year growth rate is 41%. The Custom Application is where the true story is because we said that we will go the integrated way, the Custom Application CQGR of 8.8% and this quarter growth rate of 7.3% is backed by three things (1) the infrastructure-oriented driving the application total IT outsourcing (2) the SOA and APO driving the application and (3) the Financial Services driving the growth in application. So that is where we are. Let us talk about industries and there is some very interesting trend on a year-on-year basis which is happening. There are three places where we have gained market share on being on the verticals, the gain market share means their percentage within HCL have improved on a year-on-year basis. So Financial Services which is grown by almost 50% year-on-year has grown from 27.5% of its revenue in HCL to 28.4%, it is grown by 1% in it as a percentage of HCL revenues. So, despite what is happening there we have grown in Financial Services, in life Science is also we have added 1% year-on-year, in Telecom also we have added 1% as a percentage of share of the overall market, overall HCL revenues. However, the Financial Services has grown only by 2.1% quarter-on-quarter, because it is on a back of 9.3% quarter-on-quarter growth last quarter. And the CQGR growth rate of Financial Services continuous to be 8.4% which is very healthy. The Hi-Tech outperformed all our expectations because of some of the deals are coming out there. We have grown 8.9% quarter-on-quarter in Hi-Tech in this quarter. And the CQGR is about 8.1% which is very interesting. The Life Sciences has grown only 2.7% quarter-on-quarter this quarter because it is on back of a 15% quarter-on-quarter last quarter. The CQGR on life sciences is 12.8% which is again very healthy. Interesting to note on our client that the top 20 customers have grown 7.7% quarter-on-quarter which is higher then the 5.2% company average and are growing at about 8%, 8.6% CQGR which again is higher than the 7.6% CQGR average of the company. We have added 11 million dollar customers, which is the highest addition in this quarter.We have also added as I said largest number of customer, there are two of this 11 out of 10 million dollar customer. And that is very-very healthy. So there are two other points which I have also make before you ask questions is with reference to the growth in application revenues, we have been able to growing with no net addition to man power. And I just want to explain at that for one bit. There are three reasons why that has happened and that is actually a very encouraging story because if you map our HCL realizations there are two stories of HCL which are very critical. The EBIT margin has expanded from 17.3% to almost 18.4% over this period of time. And that has happened because realization per person has increased. The realization we had anticipated that we need to add 12,000 people to meet the 35% revenue growth, actually we will be able to meet the 35% revenue growth, with only 9000 approximately, 9000 people. Give or take a few hundred here and there, which means that our service mix is improving. Because of service mix improving our realization per person is improving, despite a higher percentage of offshore so that is one story. 2) The second is our utilizations is improving, so in this quarter our utilization has gone up a notch. The 3), the third is that the Penstock initiative which I had announced a few quarters ago as an IP, which we have created has started suddenly setting in the market space. And we have now one of the contracts, which we have announced as Penstock as part of that, which has a high cost associated with it because we are charging off the development of Penstock we are not amortizing the expenditure, so it does not come with high margins but it comes the revenue has been accrued because of Penstock. And the last reason for you not seeing the manpower growth is there were about 2500 to 2600 people who were added in the last quarter, who were added towards the end of the quarter. So to summarize there were three reasons while you see the increase in revenues of 6.5% and you see that despite no increase in net headcount is because of utilization increase, because of products like Penstock selling and because of the facts that headcount addition last quarter was towards December which we are funding now, which we are capitalizing on it now. So having said that for further explanation of the results I handover to Ranjeet to give us perspective of BPO and then Anil will explain to you in detail how do these numbers add up.

Ranjeet N. This was the quarter of consolidation for the BPO division. We managed to sustain our high levels of profitability in spite of pressures on margin from Rupee appreciation and wage inflation. Our attrition during this quarter was one of the lowest in many years and during the quarters there was net headcounts addition of 1300 people which will get converted into additional streams of revenues in the coming quarters. The contracts in BPO typically multiyear contracts of long duration we do not take any project-based assignments or any contracts of short duration. Hence the performance of the BPO is best judged over a long duration and not based on any particular quarter. Ever since our inception the degradation has been growing faster than the industry growth rate on a trailing 12 months' basis that is from April 2007 to March 2008 the revenues of BPO have grown from $166 million to $221 million that is a growth of 33% higher than the industry growth rate of 29.8%. The BPO industry in India had grown from $8.4 billion to $10.9 billion during the same period that is April 2007 to March 2008 this is in spite of the fact that the entire growth of the degradation has come from organic growth whereas the industry growth includes inorganic growth. So, we managed to achieve this growth higher than the industry growth rate with sustaining these high levels of profitability. Yeah now I leave Anil to explain the financial part of it.

Anil Chanana Thanks Ranjeet. Good evening, good morning everyone. I will now talk about 7 line items. 1) We will see where the revenue growth came from. 2) Then we will look at how the EBIT margin expansion which Vineet talked about happened. 3) We will talk about the treasury the funds on the treasury and the treasury how it performed this quarter. 4) We will talk about the hedges and the outstanding covers there. 5) We will talk about the capital expenditure, how the tax has been charged as a percentage of EBIT profit before tax has been. And the lastly about the employee stock options, the charge on account of that. I will first take up the revenue analysis. I mean the perspective is that we grew by $23.9 million in revenues and $8.5 million in EBIT. So this was a revenue growth of 5.2% and EBIT growth of 10.6%. The depreciation of Rupee against the US Dollar by about 1.8% increased the growth in Rupee terms when you look at the numbers which are in convenient translation terms to 7.1% in revenue and 12.5% at the EBIT level. On net income we grew 1.1% sequentially in dollar terms and 2.9% in Rupee terms. Moving on the revenue we had positive factors giving us 6.6% revenue growth. We see the revenue growth net-net up by 5.2%. There were a volume growth in all the three business, Core Software recorded a volume growth of 5.3%, Infra recorded a volume growth of 8.5% and BPO recorded a volume growth of 4.5%. Now there was a higher realization per billed person this added $4.1 million which is 0.9%, this is after taking into account the weakening of the Pound against the US dollar which had a negative impact on the BPO revenues by 1.4 million. There was no, very marginal insignificant impact on account of hedge accounting incrementally in this quarter.The one off like material revenue coming down which Vineet talked about in the infra side took away something like 1.1% of the revenue. The change in mix in favor of offshore in Core Software took away 0.3%. So, net-net we grew in revenue terms by 5.2%. If I go to the service line wise, Core Software as I talked volume growth was 5.3% realization was 1.6% which added to the growth. And the change in mix took away 0.4%, net-net 6.5%. Infra, the volume growth was 8.5 the reduction in the material revenue and the one time was there took away 5 million in dollar terms which is 7% of infra revenues so the net growth there was 1.5%. If we look at services revenues in infra it grew 11.5% quarter-on-quarter. If we take 9 months' period the services revenue this year versus the last year corresponding period last year it was a 52.5% growth Moving on the BPO the volume growth 4.5% the lower realization on account of weakening of the Pound took away 2.6% of this growth as a result BPO reported 1.9% growth in revenues.I will now move on to the EBIT analysis. There was an overall EBIT expansion by 88 basis points.

The negatives here have been the one time the infra, 10 basis points, the increase in depreciation by marginal 1 basis point. The positives have been the higher realization, higher realization to some extent also coming with higher cost so that gave us 7 basis points. The SG&A leverage gave us 28 basis points. The change in mix gave us 26 basis points, 21 basis points in infra and 5 basis points in Core Software. The exchange rate gave us 22 basis points, this was in Core Software, the dollar rupee. The higher utilization gave us 16 basis points, so we had 99 points on the positive side, we had 11 points on the negative side, leading to a net impact of 88 basis points. I don't want to take your time to go through each of the service line so, with the overall perspective on the EBIT side. Moving on to the treasury side, we had $12.4 million of treasury income this quarter opposite $12.3 million last quarter of the funds under treasury at the end of March $531 million. The realization here was 8.5 the return here was 8.5% we still have 19.1 million which is standing as unrealized gains yet to be brought to the P&L account. I will now move on to the hedging position. We have total hedges of $2.7 billion which includes 2.5 billion on US INR terms and the balance is with respect to GDP, Euro and other currencies. We continue with our policy of covering us for the next 10 quarters in Dollar-Rupee terms and about 4 quarters in respect of GBP and Euro. If you look at the, you will find there was a, below the EBIT line there was an exchange loss of $6.8 million. Essentially this is a fiction which we have to carry on because at the end of every quarter the mark-to-market our forward cover, so notional sort of loss. If you take the perspective of last 4 quarters and look at the numbers so my total exchange income in something like you know on a 88.9 million including for the JFM quarter. Just sticking to the JFM quarter we had 63 million of other comprehensive income which now stands at 14 million. A 7.4 million we took to revenues and we recorded mark-to-market loss of 6.8 million. Last quarter, what was taken to the revenue was almost the same it was 7 million. In the balance sheet as mentioned we have other comprehensive income of 14 million as well as we have unrealized foreign exchange gains of 37 million which are yet to be realized for standing there. Our forward covers average book rate at the end of this quarter is Rs.41.56 for the Dollar-Rupee and we have mark-to-market applying them the rate of Rs.40.79 which is as it, I had to take the covers on 31st March, 2008, when the pot had moved to Rs.40.11 and the market premium also had moved up. I will now talk about the capital expenditure. For this first 9 months period we have incurred $103.8 million. During JFM we had incurred 46.7 million. We expect to incur between $125 to $130 million for the full year. Moving onto tax, the tax as a percentage of profit before tax this quarter came to 9.8% so this is within that range of 10% which we have indicated to you. Some of you also will have a question as to what happens after March 2009 when the STP there is a sunset there. We will, depending upon the growth rate if I assume growth rate like 20% my effective tax rate could be 23% and if I take growth rate at 30% it will be 21%, so you can assume it will be between 21% to 23% for your model purposes and as the proportion of business out of the SEZs increases the effective tax rate will continuously go down. For the year 2008-2009 which will carry that April to June 2009 quarter, our effective tax rate is going to be 14% to 15%.In terms of employee stock option the charge this quarter was 5.5 million and we expect the same charge next quarter as well this is all I had to say. Thank you.

Shiv Nadar Thank you Anil. You know very crisply said all I have to say after talking for almost 30 minutes. So he probably preempted lot of patience of yours, but I will turn back to the moderator and you can take it away.

Moderator Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. Anyone who wishes to ask a question at this time may press * and then 1 on their touchtone telephone. Participants are requested to use only handsets while asking a question. Anyone who has a question may press * and 1 now. The first question is from the line of Mr. Nitin Padmanabhan from ICICI Direct. Please go ahead.

Nitin Padmanabhan I was just looking through the deal wins that you had this quarter and the previous quarter. Deal wins has been pretty robust. I was just wondering going forward is it that we could expect a significant ramp up in terms of is it that you would see us going back to those 9% kind of growth rate is that what we could expect or is it that it would, that these would take some more time to ramp up keeping the environment in mind.

Vineet Nayar So the first is that we are in a quarter we are giving guidance for June 30th and our guidance is that we would grow this year, current financial year at 35%. And when we come back and talk to you about July we will talk about next year. Right now I do not want to make a comment on next year growth.

Nitin Padmanabhan No but are we seeing any sort of delays in ramp up any sort of postponements by clients, what will be the environment like, what are client saying.

Vineet Nayar So we are seeing three trends in the market. Trend 1) is where people have frozen their budgets at the same level as last year. We are only seeing two customers say that to us. Most customers believe, as I truly believe that the answer to reduction of SG&A is to make higher investment in automation and that is was hearing most customer say so that is where the rest of the customers belong. Now let us take the second bucket of the customers who are increasing their budgets by anywhere from 10% to 40% year-on-year. They are uniformly saying that we want more offshore and less onsite. So whatever offshore onsite percentage is it is going to undergo a change that is a uniform thing we are hearing. 2) there is a larger emphasis on outsourcing, run the business the whole infrastructure, application operations that whole story is going to become more robust and more prevalent across the segment. So all the excuses are vanishing now and more and more people are looking at how run the business in the offshore. And 3) is the competitiveness of the India IT service providers is increasing because offshoring is back in fashion and your ability to offshore and transform, not only offshore is becoming significantly more important today. So that are the three trends we are seeing. What is the overall impact of these three trends is too early to say but I think when we come back in July we may want to make some very specific statements on our estimation on all the three trends and how it would impact this year.

Nitin Padmanabhan Overall when we look at the clients for freezing or the slowdown or whatever we see where are we seeing it largely is it in the Retail BFSI.

Vineet Nayar We have seen frozen only from 2 BFSI clients, we have not seen anybody else talk about any freeze. Offshoring is across the board and increasing outsourcing we have seen from BFSI retail and hi-tech.

Nitin Padmanabhan So retail continues to be robust is what you are saying.

Vineet Nayar No the response has not increased to be robust. We have not heard any negative news we have only positive news in terms of them wanting to increase more. Now you must understand that I have said three trends one of the trends is increased in off shoring. So that you may treat, it will be revenue negative and EBITDA positive.

Nitin Padmanabhan Okay fair enough, fair enough. Thank you.

Shiv Nadar Thank you.

Moderator Thank you sir. The next question is from the line of Mr. Kunal Sangoi from Edelweiss, please go ahead.

Kunal Sangoi Yeah my question is pertaining to the headcount, if you could explain the decline in the technical headcount in core software; there is a decline of our 211 people?

Vineet Nayar Yeah, so I explained this in my opening remark. I said it is happening because of the three reasons. We hired about 2,600 people last quarter, most of them joined in December so we had adequate manpower to be able to take care of growth this quarter. Number 2, we brought about a significant growth in utilization in the offshore in this quarter, which Anil explained to you. And third is, that we had been working on IPs and those IPs like the penstock or like the capital stream might be our product revenues, they come with their associated cost but their product revenue they do not need the same number of people. Now, so that is the explanation for the current quarter, but you have to see it from the overall perspective also and when we started the year we had said that we will hire 12,000 people for 35% growth. We are sticking to the 35% growth, but we will be able to achieve it with a less number of people, which means the realization per person of HCL is going up, because of changing mix of HCL business and also increase output-based pricing, device-based pricing, product-based pricing all the stuff, which we talked about is helping us achieved the same growth rates with less number of people and this quarter has to be seen from overall perspective of the training.

Kunal Sangoi Yeah, thank you.

Moderator Thank you Mr. Sanghvi. The next question is from the line of Mr. Sumit Poddar from Birla Sunlife, please go ahead.

Sumit Poddar Thank you very much. This is regarding how sustainable is the EBIT's margin expansion that we have seen in this quarter? Could we see this happening quarter over quarter, I mean what could be the best case scenario as such?

Vineet Nayar The best case scenario will be the same EBIT margin as you know what you are seeing in this quarter, in the next quarter. Predominant because, we put in a significant initiative starting 1st of October, to go after some initiative, which are big to achieve, the results which we have achieved and I believe that that initiative will sustain an AMJ. And the EBIT margin, so what I am saying is the EBIT margin for AMJ you would see at the same or about the same level as this quarter, no expansion, at the same time no significant dilution. I don't know what the dollar is going to do to us, so you know I am-

Sumit Poddar Right, assuming everything, I mean dollar remain same, I mean do you see any kind of uptake as far as EBIT margins are concern?

Vineet Nayar Not for AMJ quarter, not for AMJ quarter and for the next year, we will comment about this in July.

Sumit Poddar Okay, and how about the pricing environment I mean, the pricing or realization that has improved for us is majorly because of change in mix or what was the composition, are we seeing like to like price increases or what is it for HCL?

Vineet Nayar So, I do not believe there is a price increase, I mean that's the wrong thing to do. I think what is happening is our offering is changing, and the way we our offering is changing, so I had talked about big deals, being a accretive and on realization per person, you are seeing that in our revenues. I mean I think for 4 or 5 quarters you kept on asking me that question, are you seeing that in numbers, you seeing the product revenues come in, you are seeing output based pricing, you are seeing the device based pricing, you are seeing transformational deals where we are doing risk reward sharing, so all these are contributing to a higher realization per person.

Sumit Poddar Okay, that's great thank you so much and all the best.

Vineet Nayar Thank you.

Moderator Thank you Mr. Poddar. The next question is from the line of Mr. Vincent Lin from Goldman Sachs, please go ahead.

Vincent Lin Hi this is Vincent Lin sitting in for Julio. I just wanted to catch two housekeeping items. First of all the CAPEX guidance for the whole year, I didn't quite catch any number for capital expense?

Anil Chanana The full year CAPEX is going to be between 125 to 130 millions.

Vincent Lin Okay, great. And what about the employee's stock option charge?

Anil Chanana The employee stock option charge will continue to be at the same level as this quarter.

Vincent Lin Which was, I am sorry well, what's that number for this quarter?

Anil Chanana Please give me a second I will give you, it's 5.4 million.

Vincent Lin I am sorry, 5.4 million.

Anil Chanana 5.4 million, that's it.

Vincent Lin Got it and then lastly, just one clarification on the if you dissect at the 5.2% revenue growth for the core software sector, I think you said that 5.3% came from volume growth and that was about 1.6% positive impact on the realization, and what was the final item?

Anil Chanana The final item was change in mix, in favor of offshore and which took away 0.4%, so net –net it was 6.5%,

Vineet Nayar This is just moving offshore from onsite, so revenue reduced.

Vincent Lin Got it, okay that's great thanks.

Moderator Thank you Mr. Lin. The next question is from the line of Mr. Surendra Goyal from Citi Group, please go ahead.

Surendra Goyal Yeah hi, good evening. Management comments on outlook are fairly positive, however FY'08 revenue guidance, is still at 35% YOY and that implies around 2% to 3% QOQ growth in the next quarter, is that the message being conveyed?

Vineet Nayar The message being conveyed is that the years guidance is going to be 35% and whatever computation for the next quarter comes out is the guidance reviewing.

Surendra Goyal Okay and any particular reason is next quarter expected to be slightly weaker than what we had this quarter and if so any reasons for the same?

Vineet Nayar You will need to read the Financial Times and Wall Street Journal.

Surendra Goyal No, I just thought possibly you could comment on it, so clearly there were couple of clients, named out there, so if that…………..

Vineet Nayar We have set very clearly that there were two customers in our top 10 customers, who have frozen their IT budgets. And that means there is no reduction on IT budget, but they would not grow on calendar year to calendar year, because of the fact that they would not grow, we would see lower growth in revenues because the based, you know the date of the zero growth on them. Number 2, we have said that we are going to see increase offshoring. So we continue to be bullish about everything, but at the same time when the customers are moving offshoring, we would lose revenues, as we lost 0.4% in this quarter. We would lose some more in next quarter, so these are the two factors, which are impacting the negative impact on revenues. So therefore, in the near term you will see some yo-yo on quarter and quarter, before this whole thing stabilizes and then the reason the management is positive about the outlook is pronounce, positive is a wrong word, I would say we are not negative on the outlook, it's because you personally believe that the Indian IT story is going to get heard a lot more in the short and medium term, then it was before our word was uttered in US.

Surendra Goyal And one more question on infrastructure services. Like this quarter growth rate was impacted, I think because of the change in the mix, because services have grown around 11.5% QOQ. So, is that kind of mix change over behind us going forward, do we expect acceleration there or it will take few quarters?

Vineet Nayar It will take only 1 quarter more, so you will overall infrastructure will exceed of 40% year-on-year growth for the current year and we are doing some housekeeping, housekeeping is wrong word of rebalancing the portfolio in infrastructure, which is going to take the current quarter, which we have already declared and the next quarter, starting July, August, September you will see infrastructure back in Twenty20 cricket.

Surendra Goyal Okay, great thanks so much.

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

Sandeep Shah Yes sir, about the two clients you just spoke about in the top 10, within the BFSI, these clients are significant clients for the IT services or are they infrastructure management services?

Vineet Nayar For both.

Sandeep Shah They are for both, okay. And will this have some negative impact on the margins because you said that on a calendar year basis, these clients may remain flat to achieve that they may degrow in coming quarters?

Vineet Nayar There will be no negative impact on EBITDA for AMJ quarter.

Sandeep Shah Okay, okay thanks.

Moderator Thank you Mr. Shah. The next question is from the line of Vijay from UTI, please go ahead.

Vijay Yeah hello, sir what's your revised hiring guidance?

Vineet Nayar Our revised hiring guidance is 9000 people for the entire year.

Vijay How much would be the product revenue, as you said your hiring has gone down because of the products coming in. So, what would be the percentage till 9 months and what is related amortization you have booked in for the 9 months?

Vineet Nayar We have not booking any product amortization, we are expensing-all

Vijay What would be the expense?

Vineet Nayar Yeah, we are not sharing those numbers.

Vijay How about on revenue that side?

Vineet Nayar We are not sharing those numbers.

Vijay But would it be a very big chunk like more than 5% percent?

Vineet Nayar No, no it would not be big chunk, we have said that anytime, anything becomes material, which is greater than 5%, we will share that with you. That is a consistent policy we have adopted and that is one of the reasons I shared the $50 million for SOA-APO supports with you, this is less than 5%, whenever it exceed 5% we will definitely share with you.

Vijay Okay sir, thank you.

Moderator Thank you Mr. Sharda. The next question is from the line Dipesh Mehta from Khandwala Securities, please go ahead.

Dipesh Mehta I just want to understand the hedge treatment given to revenue line and the EBITA Line for the other income?

Vineet Nayar Hedging treatment and given to the revenue in and-

Dipesh Mehta Other income.

Anil Chanana So what we do is, you know we have 2.5 billion of covers in Dollar-Rupee terms and then we have covers for other currencies. I mean we try to follow the cash flow hedge accounting, which means the gains or loss doesn't carry to the P&L account, further goes through the other comprehensive income in the balance sheet.

Dipesh Mehta So what was the number pass to the revenue and other incomes?

Anil Chanana The other incomes numbers in the revenue 7.4 million has gone opposite 7 million last quarter and in the other income side this is a negative of 6.8 million, which is on the face of the profit and loss statement.

Dipesh Mehta And, what was the last quarter it was?

Anil Chanana It was positive 1.5.

Dipesh Mehta Okay, thank you.

Moderator Thank you Mr. Mehta. The next question is from the line of Vikas Jadhav from Motilal Oswal Securities, please go ahead.

Vikas Jadhav Hi, congrats on good set of numbers, Just I was curious on thing, this quarter we have not seen any addition of MSD clients, any specific reason of the clients are going for broken deals thing, can you please clarify on this?

Vineet Nayar Hi Vikas.

Vikas Jadhav Hi.

Vineet Nayar And you will always notice. I think there is an error there Vikas; there must be an error there.

Vikas Jadhav Okay, not an issue. Secondly, I had one more question actually; you know off lately we have been seeing lot of revenues actually coming from FPP even in the morning Infosys had significant increase in the revenue from FPP, so in light of US slow down our client are pushing for FPP product that also gives flexibility for the vendors, any thoughts on this?

Vineet Nayar I think very good question Vikas, what is really happening in the industry is that when the clients want answers and solutions to cost reduction, the way the Indian IT companies, at least HCL is approaching them and saying that if you can convert it T&M contract to FPP, then we will have the flexibility of reducing the cost and pass on some of that benefit to you, because our interest is to increase margins, their benefit is to reduce cost and this is a great opportunity for us to change our business model of away from T&M company and to FPP and that is what you are saying.

Vikas Jadhav Okay, thanks great set of numbers.

Vineet Nayar Thank you.

Moderator Thank you Mr. Jadhav. The next question is from the line of Santhana Krishnan from ….. Capital, please go ahead.

Santhana Krishnan Hi, I just want to know in case HCL gives details about the developments revenues and maintenance revenues on quarterly basis?

Vineet Nayar Well, Santhana we do not split the revenues on those lines.

Santhana Krishnan Okay, is it possible to give anybody details about the IPs that HCL technology has, I mean I just try to search in the website but I could not get any details there?

Vineet Nayar Yes we could. Do we have your number? So I will give you a broad answer and then somebody can call you and walks you into details of this. So there are, so the IP stack for us is split into three categories. The first category is the IP stack which runs the business and that IP stack is called, we have our own tools, our own sniffers to be able to draw our data and do analysis of the data. So that is our own what I call the sniffer tools, the second is our own event correlation engines, event correlation engines are driving security events across the world and correlating them or application transactions across the world and correlating them. Those are event correlating engines, well both these engines drives towards what we call our dash board, which gives the visibility to the CRS what's happening to run the business. So that is all to run the business. The IPs on change the business, we have IPs and we are able to sniff and draw it and make a diagram of all the application, which exist in customer environment and map them around a process, so we have a tool which can map the process and application and the infrastructure there. We have a tool, which can show you transactions which are happening business transactions, which are happening across multiple applications and multiple infrastructures and multiple geographies simultaneously, which helps within our SOA and APO initiative. We have tools to do APO, Application Portfolio Optimization on an automated basis. So that's the tool from the change to business side. Then we have productivity tools, like the asset methodology for transition and transformation, which helps us in run the business better. And we have fixed tax in the technology business, which are the reusable components we use them to drive higher margins in products, which are basically reusable. So in broad categories these are you know the IP tools and methodologies, which I think, actually talked about three years ago that we would invest in and once again a reminder to everybody that we have charged off all expenditures quarter on quarter basis as and when we invest in these IPs, we are not capitalizing anything on this.

Santhana Krishnan Thank you.

Moderator Thank you Mr. Krishnan. The next question is from the line of Mr. Harmendra Gandhi from Lehman Brothers, please go ahead.

Harmendra Gandhi Hi, thanks for taking my question Vineet, can we draw the conclusion that apart from too large BFS clients, which we have mentioned, things are fine I mean the other customers are not seeing any freezing of IT spend or reduction in IT spend?

Vineet Nayar I can say that I was with them with all my large customers in the last 15 days, now I am almost making a habit before I come and say something to you, I better ask them. As of what they have told me within the last 3 days to 15 days is a fact that there is no freeze of budgets in their portfolio, you are right.

Harmendra Gandhi Okay, so we can draw a conclusion that it's a short term, there maybe a short-term weakness in quarter-on-quarter growth, but as and when other deal ramp up things will make up for this, probably.

Vineet Nayar I am only giving you guidance for AMJ right now and when I will come in July, I will talk about the next year.

Harmendra Gandhi Okay, thanks

Vineet Nayar Thank you.

Moderator Thank you Mr. Gandhi. The next question is from the line of Dipesh Mehta from Khandwala Securities, please go ahead.

Dipesh Mehta We acquired capital stream during the quarter, what was the contribution from the company?

Vineet Nayar What are the revenue contributions?

Anil Chanana Actually, it's got consummated towards the middle of the quarter and the contribution to revenue was 2.2 million.

Dipesh Mehta And that is part of, in your reporting segment it is part of which segment, Core Software or?

Anil Chanana It's part of Core Software.

Dipesh Mehta Okay, thank you.

Moderator Thank you Mr. Mehta. The next question is from the line of Mr. Nitin Gupta from Karma Capital, please go ahead.

Nitin Gupta Yeah, good evening, a very good set of numbers congratulation for that, just wanted a small clarification that days sales outstanding has increased by 9 days on the year-on-year basis, could you please provide some clarification on that?

Vineet Nayar Now, you are converting this conference call into my review. Yes, it is gone up and I think we are not happy with it and there is no particular reason other than the fact that this quarter was a tough quarter to keep our eye on the ball on revenues and customers and I think we lost our eye on the ball on days outstanding. So sir, we will try and improve on your expectation. Thank you very much.

Nitin Gupta Thank you.

Vineet Nayar Operator last two questions please.

Moderator Sure, the next question is from the line Mr. Anoop Upadhyay from SBI Mutual Fund, please go ahead.

Anoop Upadhyay Good evening sir, I have two questions one is on infrastructure services side. I wanted to understand the kind of rebalancing that we are trying to do in that particular service and what is the aim of doing that in the final state for service mix that we are trying to achieve? And secondly, the HCL strategy has been to focus on certain micro verticals as I perceive it different broad verticals. So within the financial services, the broader financial services sector, is there any kind of pattern among different micro verticals in terms of the IT budgets or the kind of a spending propensity?

Vineet Nayar Okay, question number one on infrastructure services our material income was 4% in the total company revenues, we have brought it down to about 2.5% -2.6%, we want to bring it down further, reason for that is two folds, 1) we want to expand the margin in the infrastructure services business. 2) the material income was making the cycle of the infrastructure services go up and down very large, as you are seeing I mean there were too much of explanations, which we were doing. 3) as we are seeing a significant traction for infrastructure orders coming into global market and we want to focus on that and what we will do next year, I will comment on that in July, the couple of strategies I want to share with you in July timeframe. With reference to micro verticals, if you split the BFSI into insurance, we are seeing significant traction in insurance. There is no noise in insurance other than the offshoring noise. In retail banking, there are seeing the significant opportunity. We are using IT to drive eBanking and other initiatives and driving SG&A down, we are seeing no noise. We are only seeing increase offshoring and increase outsourcing. In capital market is where you know all uncertainty is there and all capital market is driving the uncertainty in high-tech because of the capital equipment purchase and driving uncertainty in other sectors like retail and things like that. So, we have to watch the capital market situation a little carefully and as that develops it may emerge to be a very large opportunity for us, if they see that IT is a cost driver in savings or we may see it as a damp if they freeze their budgets.

Anoop Upadhyay Thank you.

Moderator Thank you Mr. Upadhyay. The last question is from the line of Mr. Shekhar Singh from Goldman Sachs, please go ahead.

Shekhar Singh Hello sir; just wanted to understand this thing like say two of your clients you mentioned have frozen their budgets. Now, considering your value preposition how does it matter if they have frozen IT budgets because like it should at least, the amount of their spending can remain constant, but they can increase offshoring, they can increase this price contracts and all those, just like even those existing clients, which you mentioned are not growing, they should also be growing?

Vineet Nayar You are absolutely right in terms of, there is an opportunity to grow but it needs some effort. And so, what’s really happened was that their response to the crisis was freezing the budget, which caught us on the wrong step, right we were walking with them in a particular direction, so there were certain proposals under discussion, there were proposals under review, we were growing at a certain track. Now, all that has to change and we have to park a new kind of proposal and we have to work with them in a new way. Obviously, that whole cycle is destabilized I mean you know how the sale cycle really works. So, whatever investment we had put in sales on ground on these two customers is no more valid and a new set of initiatives have to be taken and they have to be convinced that these are accretive to their business and we will help them to reduce cost further at the same time their budgets being stagnant, which is what the process we are in. So, I am not saying that overall for the entire year there will be no growth. I hope not.

Shekhar Singh So, it is like a brief pause which has happened nothing more than that.

Vineet Nayar Sorry.

Shekhar Singh So, it is like a brief pause which might have happened but it is not like a full stop.

Vineet Nayar For the time being let me say that and I will be able to give you a very specific answer in July.

Shekhar Singh Okay sir. Thanks a lot.

Vineet Nayar Thank you.

Moderator Thank you Mr. Singh. Ladies and gentlemen that was the last question, at this time I would like to hand the floor over to Mr. Shiv Nadar and the management for their closing comments.

Shiv Nadar Thank you very much for joining us this evening and I hope whatever data that we gave initially has been taken down by you. Anil had given a lot of data on the phone, those of you who wish to have them please let us know and we will make sure that you receive all of that. Thank you again and thank you very much. Bye, bye.

Moderator Thank you very much sir. Ladies and gentlemen thank you for choosing the Chorus Call Conferencing Facility. Thank you for your participation and you may now disconnect your lines. Thank you.