# "HCL Technologies Limited Earnings Conference Call"

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MODERATORS

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**Moderator** Ladies and gentlemen good morning, good afternoon and good evening this is Rochelle the Moderator for your conference call. Welcome to the HCL Technologies Conference Call. Pleased 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 an opportunity for you to ask questions. If you should need any assistance during the 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 Mr. Anand Gupta. Thank you. And over to you, sir.

**Anant Gupta** Good morning, good afternoon, and good evening, ladies and gentlemen. First of all, apologies for the late start, we had some technical glitches. Welcome to the earnings call on the third quarter results. With me over here in the room are Anil Chanana, our Chief Financial Officer, Ram Krishna who heads Enterprise Application Services and Sanjeev Nikore who heads the Consumer Services and Manufacturing vertical. Vineet unfortunately will not be joining this call today as he is stuck up in Europe because of the closure of the air sky over there. He is on his way traveling from London to Frankfurt, will be able to catch a flight back to Delhi.

The sequence of the call is I walk you through the quick performance snapshot and the company overview followed by the infrastructure services before I hand it over to Sanjeev**.**

If you recall we started our transformation journey five years back in 2005 in the first week of April. And since then revenues have grown 8.6 times and EBIT also grown in equal terms roughly about 3.4 times. During the same period if you look at our client profiles of $5 million and $10 million plus client profiles grew 4X and our $20 million plus clients grew 5X. Today, we have an active client portfolio of about 404 customers.

Some snapshots of the quarter our revenues grew 5.1% Q-on-Q and 31.4% on Y-on-Y basis at $685 million. Last 12 monthly revenues close to $2.6 billion, up 25% Y-on-Y and the IT services grew at 24.6% and 6.6% sequentially. If you look at the margins it pretty much grew to 111 million, up 19.9 and 2.6% sequentially. Net income at 77 million, up 78.8% Y-on-Y and 20.5% sequentially. EBIT margins at 16.2, down 40 basis points on a quarterly basis and 20 basis points on a yearly basis.

If you look at the demand come we continue to see a broad-based growth all the different services and different verticals and Geo's, however, there is an increase growth, which we are seeing in geo such as U.S. followed by UK. In verticals we are seeing a much larger growth in manufacturing, media publishing and entertainment and life sciences. From a service perspective, run the business continues to be growing, it is a hot service line. And change the business is picking up as an independent project based delivery or merged with run the business engagements in the market. So we see a good mix of both outsourcing and trans-solution engagements happening in the market. Customers still focused on cost rationalization, be it for transformation or for outsourcing as quick early wins in the outsourcing engagement.

Looking at some of the key events during the last quarter we held our five global customer meet, the second one in U.S. meet had 1000 plus attendees over 600 customers attended the event, representing 376 companies, close to 50 plus analysts and including the former U.S. President Bill Clinton was at the event.

Another key recognition was HCL made to the WorldBlu List Democratic Work Places, outcome of the employee first principle which has been in the transformation journey over the last five years and core in the top ten on principles such as transparency, integrity, accountability and permanent and dialogue with employees.

This slide kind of puts different service lines between verticals and geo's that is how we performed over the last four quarters. Some of substance of this is we had an industry leading growth, 5% CQGR out over the last four quarters, well balanced between the different businesses, the service lines or verticals. Some service lines where in a much faster pace than the industry being engineering, and R&D services at about 10.8%, the infrastructure services is at 15%.

From a vertical standpoint media publishing grew at 15% Q-on-Q at the top of double-digit growth in the last few quarters, manufacturing at 9.8%. If you look at it from a geo perspective U.S. led the recovery followed by Asia Pacific, Europe largely negative in the quarter but primarily driven by Forex, the volume growth really was 1.4%, but the Forex impact really took it down to (-4.8%).

Moving on to infrastructure services, we had a historical quarter. Revenues crossed the $150 million milestone, which is up 78%, Y-on-Y and 15% on a quarterly basis. EBIT margins grew 64% and 21% sequentially. We had an industry leading CQGR for the last four quarters at 16.5, a slight change in the gross profit due to change in the service mix and I will touch upon that in a little while. And absolute EBIT margins grew sequentially by 80 basis points.

If you look at some of the differentiators where we continue to differentiate essentially around four areas, the first one really the HCL as you know from the previous earnings calls we announced the acquisition of a client data center in New Jersey, this is the center that is Green data center, has gone live, and we transitioned three customers into that data center. The second really being is this part alliance ecosystem with global partners. Essentially, if you recall we are participating in the end-to-end total IT outsourcing space. We have a very strong core which is the remote infrastructure management service which sits at the head but around that is what we have built services, which allow us to participate in the full gamut of outsourcing for the customer, so we are strategic partners to provide global data center footprint, Tier-3 plus as a very sought requirement in the global markets. Hands and Feet support, so while we provide services directly, in various countries that in order to support global customers we give hands and feet support services from set of partners to support us on 80 plus countries plus in places where we need to be technology refresh for customers again have a sort of partners where we were able to provide that.

Going back to the question on the gross profits we had a dip of 160 basis points in the quarter, 100 basis points came from Forex where 60 basis points came really from the change in the mix of business primarily the third party sourcing services which we have gone to the ecosystem of partners. Essentially, our strategy really is to tie in with the best of the players when their own businesses. And look at those services where they do not eat into our SG&A and therefore if you really see at our gross profits dip are absolute EBIT margins actually grew up.

The third key differentiator really is the cloud enabled service. As you all know there is a lot of talk in the market. While we have been quite about this we have actually been engaged with 12 customers and 12 engagements. Since July, last year, in helping them transform and create a private led environment. So starting at the base level or the base foundation, the entire data center virtualization data center transformation and then of course moving up to start under the platform and the application is what we have been engaged with.

The fourth really is the enterprise management platform. We used to manage the IT infrastructure. We had launched a service called managed tools of the service, essentially any tooling of ERP in the enterprise management space which was launched close to about three years back continues to gain significant traction of over 35 customers over there and we offered enterprise of cloud model again to select set of customers.

So looking at some of the trends and drivers, continued interest in total outsourcing giving world customers need to optimize costs and you see a marketplace where customers have not invested in their data centers for a period of time, clearly a little less reliable and less resilient, therefore customers bundling, Tier 3 quality data centers out of the outsourcing strategy. And given the fact that there is a huge lift in demand in the market we have preferred access to data center capacity which today in the marketplace is becoming a shortage.

Large scale system integration projects especially in emerging markets and into the bid markets we have seen large scale system integration projects showing traction and with the integrated proposition between application stack and the infrastructure stack we are seeing ourselves in a good spot in the marketplace. Emerging markets especially the Continental Europe, Middle East, these areas where we have made early investments, continued to show strong traction, we continued to see significant wins in there and conservative verticals like energy and utilities, and some of the other sectors which is strategically have been less prone to outsourcing. And finally of course, while there is an increase in the market from a market growth perspective, we see a much larger churn from global majors, so basically, market share moving away from global IT majors to players like HCL.

From a recognition perspective, Gartner rated us in the positive quadrant which is the top quadrant in the data center outsourcing space for North America while Forrester featured us in their managed desktop services in EMEA. And both is really based on some of the very large engagements which we have taken on pretty much, four quarters back, which we had announced then one being Xerox and second being the Nokia engagement. That is testimonies of our strength in the data center space and the managed desktop service space. With this I would like to hand over the call to Sanjiv Nikore.

**Sanjeev Nikore** Good morning, good evening, good afternoon, wherever you are. Thanks, Anand. I hope I am audible. So what I like to do is I would like to introduce you to some of the high growth verticals that I manage. The way that we manage the verticals is that you know a lot of verticals which are consumers facing that is media publishing, entertainment or retail and CPG or telecom, we have actually grouped under the consumer services group and then there is the manufacturing verticals that I manage. So I am going to talk about actually two verticals which have shown exemplary growth, one is media publishing and entertainment where we have had consistent quarter-by-quarter growth over the last four quarters and that has been the industry leading growth of about 18% CQGR. And I am also going to speak about manufacturing where it is a sizeable business for us and where we are seeing the dipping points right now.

So let me first talk about the media publishing and entertainment which is part of our consumer services portfolio and talk about some of the highlights. First thing is that we have achieved the annualized run rate of about 220 million in this business that means we have achieved significant scale and that scale has been achieved through consistent growth over last four quarters. Our customers today include four of the top five publishing companies, three of the top four music companies, the top broadcasters in USA, one of the top studios in USA and the world's leading lottery technology provider. So we have market clients here. Most of the big media houses as clients and we are rated as a Tier One service provider now by Gartner amongst all global companies. So we have definitely made this vertical work for us and I wanted to actually run you some of the services and solutions that we do in this segment. You know our services are fairly broad here and they range from media process outsourcing where we have recently had closed the deal last quarter with a BrandStar. We also do a lot of technology consulting, reengineering and legacy modernization services here because there is a lot of transformation work which is going on here from let us say print to online or a lot of digital transformation is going, As the companies transformed themselves from the old model to the new ways of working. We also see therefore a lot of need for platform based of product engineering services. And at the same time there is a lot of infrastructure which the companies have to manage and that is actually coming together with the back office applications. And there is a need for integrated IT operations. To support all that, we have developed a lot of IPs of our own in the area of digital asset management, in the area of retail supply chain, which we called Content 2.0 or CRM, which is a very critical area here for us. And the specific IP here is for gaming.

The trends which are bucking the growth in this segment are really related to a lot of pre media work which is now getting outsourced and this is a new driver for growth. We are also seeing a lot of work in the area of digital asset management, understanding where the digital asset is. Watermarking the digital asset. Credibility of that digital asset in the wide open internet world. And this we see in broadcast, we see in cable, we see in music, we see in studios, we see in the online world. And the other big trend is that most of the companies are now developing a model where they are distributing the service directly to the consumer rather than go through the intermediatories or a layered distribution network. You see that in music, you see that in film and you see that in broadcasting. So you see the growth of multi channel and that is posing a new challenge to advertisers, for example. And this whole digital convergence is actually bringing out new avenues for growth and new avenues for IT world. That is why the projects spending for these companies are actually increasing.

So what is our strategy for creating a sustained leadership here? We have attained leadership over the next one year but some of the things that we are doing here is we are leveraging all the service options of HCL completely, whether they are in infra or they are in business process outsourcing or in product engineering or in ADM. So what we are doing is most of the clients where we have a good foothold we are increasing our share of the wallet and we are doing a lot of cross-selling. And that is very much liked by our clients because we are able to give a domain flavor and we are able to understand the needs of the customer and market these services. At the same time we have a very sharp micro vertical focus so while we are talking about media we have micro verticals like publishing, information services, broadcast, cable, music and so our micro verticals are very sharply focused. And we have a huge amount of domain focus built around certain wide spaces, which others are not addressing. At the same time we have an equal focus on run the business as well as change the business. So the business is very risk balanced and this is a reason why this segment is doing so well for us.

I now move onto the manufacturing segment and give you some idea of what is happening out there. This segment or this vertical for us is now 730 million run rate annually and it has shown a remarkable growth of 9.8% this quarter. We have a dominant presence in the hi-tech area as well as in the online area here again in the software vendors who provide products for various companies. We also dominate the semiconductor, aerospace, medical devices and networking. So we are really strong in this area in terms of the fact that we have a number of anchor clients in each of these sub verticals and we have a clear proposition for our client in each of these micro verticals. Again the micro verticalized strategy is working here and we have come out with a number of services and solutions which are very innovative.

One of the innovative solutions that we have come out is engineering out of the box. So, so far we were focusing on product development as such creating a perfect product in the box, but today looking at the trends we are focusing now on customer experience for building the eco system around the product. We have also broadened our service portfolio by having ERP offering from our SAP stable, HCL Axon is helping us out there, also CRM solutions that we have built and we are equally strong in SAP, Oracle or Microsoft in each of these platforms in this vertical.

Along with that our infra offering has helped us to build an integrated IT operation in the need of the hour and we are supporting ITs in service delivery, into Agora or in actually manufacturing execution, dashboards like frames. So we have a strong offering in this market and we have seen a trend as you know from building a perfect product to the customer experience where we are gaining traction, we are gaining traction in supply chain optimization through our ERP offerings, in our manufacturing process, through our frame offering and then looking at how we can reduce RTB cost to our integrated IT office. So best in class capabilities in engineering, in ERP, in process automation, in IT operations are the ones which are fueling our strategy for sustained leadership and we have a very targeted go-to-market. Very focused strategy to world quipped name the counts who are industry leaders. That has helped us to build mega relationships and we see that is the traction which is helping us create sustained leadership. Thanks. I will pass on now to Ram.

**Ram Krishna** I will be covering the enterprise application services part, briefly. Looking at the financial performance, enterprise application services continues to be a significant contributor at 21.4%, on a HTM basis it is almost 22.3% this again underlines the success of HCL AXON integration with rest of HCL and is now on a positive trajectory. We have recorded a 2.5% sequential growth on a constant currency basis, back of 4.6% last quarter. Overall, in the last four quarters, enterprise application services have continued to grow at a CQGR of 1.4%. The growth drivers have been primarily due to releasing the budgets for cost reduction kind of projects, may be that in the RTB space compared to the CTB space, which are normally project spending. So that is something which has resulted in this performance during the JSM. We have also seen some additional work come because of the M&A activities. Many of our clients' organizations have done some amount of M&A which has resulted in multiple business processes within a company, multiple instances, which needed to be consolidated. And this is one more set of activities which has come in this quarter, which has resulted in the performance of this quarter.

Like last few quarters the overall demand for blueprinting and consulting engagements have been good, but mainly in integration and cost reduction kind of projects. And these projects again come in phases. They are not one long transformation kind of a project which results in multi year kind of engagement, but the customers are very happy to release transformation projects, broken up into phases so that the small phases which are released and it gets completed before we get out of the next phase.

From a trend perspective we have seen projects spending certainly increasing and this is good because discretionary spending is certainly increasing and we believe that this will become sizable and it will continue to grow if the economy continues to be stable and grow. When an economy continues to be stable and growing, the spend on change the business kind of projects are most of which will result into EAS related engagement, will be on increase compared to the run the business kind of engagements which will be more towards ADM and infra and rest of the engagements.

We have seen good demand in specific verticals and as Sanjiv just mentioned, our leadership position in life sciences, consumer services business has helped to cross-sell HCL Axon services into existing as well as open up new client base. This is again due to HCL Axon having its own leadership in these areas through a set of solution offerings or a set of products which have been developed specifically for these verticals.

We have been talking about integration, we did mention that we have completed 12 months or five quarters since we acquired Axon and the HCL Axon has been completely integrated and there is a complete alignment of HCL Axon and HCL safe organization which is a reason you see the new deals coming in, in consumer, media, entertainment, life sciences where HCL has got a leadership position and in a strong position where as Axon was not present in the past. So the cross working between HCL, HCL Axon has begun to work. And even this quarter when we have announced 13 deals, four of those deals have EAS as a central component and two of them are coming from existing clients and the other two are from new clients.

The differentiation of HCL Axon through specific solution offering after understanding the ten points of a specific vertical is continued to be successful to us. We have seen even in the last quarter; look at HCL Axon and they have rated HCL Axon aerospace IT solution for an outstanding performance and an industry contributor. And obviously this has also resulted in few wins for us this quarter, in fact Malaysian Airlines which we have won this quarter and they have announced has been primarily due to a specific solution which has been built for the aerospace industry where HCL Axon happens to be a leader in the MRO space. So we are continuing the strategy of developing solutions along with SAP after understanding what we call as white spaces in SAP, bring out specific solutions which by understanding the customer in a vertical is helping us to make a difference and win new projects. That is on the EAS. And I will pass on to Anil to take you through the financial analysis.

**Anil Chanana** This is Anil Chanana this side Good morning, good afternoon, good evening everyone. Our apologies for the delay. So let me walk you through the numbers. So the first slide I have here is the profitability statement in respect of IT services, which constitutes about 95% of the company's revenue. So this year we grew 6.6% sequentially and 24.6% Y-on-Y. The EBIT in the operating income grew 8.8% sequentially so there was a margin expansion as you can see here.

This has been a leading industry growth based on the results which have been announced so far. So on a CQGR basis we have done 5% quarter-on-quarter. If you go to the revenue analysis, there there is increase in revenue 6.6%. So it came 9.2% has been rebounding increase this quarter. And you would have seen that we have done additional IT services, the net addition has been 3,000 people. In this quarter the net addition has been higher than what the net additions which we did in the whole of calendar 2009. However, there was the exchange, which is the European currencies, normally the GBP and the Euro have impacted our revenue by 1.6% and the mix change took about 1.1%. So net-net in revenue terms we grew by 6.6%.

Moving on now on EBDITA basis there was a negative impact of 63 basis points. However on EBIT basis there was 40 basis points and enhancement So three components, one is the exchange rate, which on revenue had a negative impact of 160 basis points and EBIT had a negative impact 100 basis points.

The efficiency net of utilization had positive impact are 72 basis points and this quarter we had a lower amortization which this quarter gave us 69 basis points at EBIT level.

So I just want to highlight here the amortization which used to be about 8 million per quarter have come down to 4 million this quarter, more because we have customer contracts which came through the intangible loan account of customer contracts of about 70 million, which has been fully charged off through our P&L account in the calendar 2009. So now onwards you will find the run rate here come down from 8 million to 4 million and I am going to talk slightly more about it as we move further.

So in terms of receivables the DSO on an overall basis went up by two days which is from 82 to 84 days, however, when we exclude the unbilled part which is yet to be built to the customers we have the billing milestone is yet to be achieved the number is 64 days. So it is at the same level as it was last quarter.

This is a very interesting slide in terms of cash flow. So what is happening is in the first nine months the operations generated 250 million of cash. And while for the full last year we generated 206 million. This quarter incrementally if you look at we generated 62 million of cash. The operations generated.

If I give you really broad sort of a thing out you see the net income at 207 million, you see the depreciation and amortization at 83 million so both put together were a 290 million. And we had a payment of MAT which was 19 million in this period. And this for the whole of nine months period the working capital increase has been only 21 million to support this revenue increase, the business increase which has happened in this period. So net-net it is a 250 million of the cash which the operations have provided to the company. The rest of the items line items you can see in the investors' release are self-explanatory.

So I will move on to the next slide. 250 million of cash generated vastly use for acquiring fixed assets and though we were at about 220 million in 30th of June of net debt position today, that position has less than half so we are at 104 million.

In terms of the net treasury income it stayed where it was O&D quarters which was at 3 million. The returns came down from 6.9 to 5.9. The cost of funds also came down this quarter because of the changing mix of the loan portfolio.

I move on to the next slide. So where we are in terms of hedges? We have 458 million of USD/INR hedges. We have not taken any new hedges and these are the hedges which we took three years back and which is in the next two quarters will be significantly over. We have small quantum in terms of GBP and Euro hedges, the cross currency hedges.

Currently, our USD/INR hedges cover ourselves for the next two quarters, so therefore we have not increased its position and that is within our hedge policies.

I move on to the next slide. So where are we in the respect of hedges? The total hedge position is 468 million divided into cash flow hedges 374 million, where we have a P&L exposure of 36 million taken in the balance sheet but yet to flow through the P&L account, which in April to June will be 19 million and in whole of next year it should be 17.6 million. This is taken at the exchange rate as of 31st of March which was 45.28.

I just want to take this opportunity to also talk about the JFM'10 quarter where we have the Forex loss of 14 million. We had guided $22 mn, we had 21.2 million there against. And on the M2M hedges which were 107 million at that point of time, we had a gain because the rupee appreciated in this period, gain $4.3 million together with the positive impact on the restatement of our assets and liabilities which gave us 2.9 million positive. Net-net we had a positive pleasant surprise of reduction from 22 million to 14 million.

As I had talked about the intangible we will have $4 million coming up in April to June quarter and then annually it will be on the slide and the total which we had to amortize is 100 million, which goes up to 2014 and beyond.

In terms of tax, the taxes on the business income part were 17.6%, on other income, it is 30%, so effectively it was about 18%. We have guided you that FY11 we will have 18% and going forward in FY11 we will have 18; in FY12, we will have 26 and thereafter 24, we will take a look at it at the end of the year and there were any reason to cover we will certainly come back to you.

I also would like to highlight that we had provided last year 6.6 million on account of anomaly which is there in Section 10AA. We have not reversed it as yet since the Finance Bill is yet to be passed; so this reversal will come subsequently as the Bill becomes the law.

Going on to the dividend payout, this quarter 20% of the net income is being distributed is seen Re. 1/- per share, it is a 29th quarter of consecutive quarterly difference.

So, what we did was to tell you what we are doing in terms of IT services. So you can see the profitability, it is a very interesting slide, from 2008 to 2010, you can see how our gross margins have moved and how our EBIT margins have moved. And you would see that our SG&A spends, which was 72 million, went up to 77 million and then increased to 84 million. So we have been spending on SG&A and making significant investment, as a result of which we have created a platform which can provide growth to the company. And thus we are seeing in the results 9.2% volume growth. So, SG&A spend is providing us the leverage.

In terms of the gross margins, you see that this quarter we were impacted by the 100 basis points by the headwind on account of exchange. So, this is presenting a good picture.

Going on to the overall company. Overall company again present interesting picture, seen almost similar results though you see a 40bps margin reduction in EBIT here we have been investing in the BPO business. We told you, we are investing in the BPO business only

EBITDA level, we have a 2.3 million negative figure this quarter and a reduction in the revenue in the BPO business. In the BPO business, there has been a significant impact of the currency which is about 2 million, which impacted our margins, number one. Number two, we are re-acting the client portfolio, on an instance, we have to now come up with a new BPO in order to sort of come to what we have guided you, we are making those changes in that business.

And I wanted to take two minutes of yours and explain you what we are doing to that business and what we should be anticipating out of it at a very broad level. So, three years back, if you look back, the BPO business and infra business used to be of almost of a similar type. $45 million to $50 million in revenues. The Infra business used to have a margin of 6% to 7% and BPO had another 15% plus level margin.

We were very happy to grow the BPO business since it was coming A), B) we were also delivering it well and the margins improved. However, there was not much of a growth there since it was more of TRN based. And then, I mean, we were always conscious as to the number of people we would be hiring, 10,000 people delivering 7% or 8% of the company's revenue.

So, you see now the infra business which has now reached 600 million annual revenue, a 15% EBIT margin, however our emphasis is to create a business because we see a lot of value in the business services side and therefore we want to make it a growth engine for the company. So, what you will see between 2010 and 2015. So this investment of 2 million which we saw as a negative figure this quarter will continue for next couple of quarters A), second is you will see a further drop in the revenues. Currently, it is about 52 million and I would like to reset it to about 45 million. It may happen in one quarter; it may happen in about two quarters and then we will once we have re-hedge this it will put it on a different normal we will then grow this business.

Other very interesting feature of this is, you see the net debt position which I talked about, which had gone up to 67 million going down to 104 million. The DSO which was 68 days as of the end of June coming down to 64 days as of end of March. So, we are managing the business efficiently and I talked about 29 million of cash being of working capital investment having been taken place in the business in these nine months period to support the enhance level of business.

With this we will hand over to the operator to answer any of your questions which you may have. Thank you.

**Moderator** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Balaji Prasad of Goldman Sachs. Please go ahead.

**Balaji Prasad** Firstly, I think remember last quarter Vineet had mentioned a window of movement towards total outsourcing its closing and now the outlook seems to be positive or improving, can you help us understand how we should interpret the continued interest in the total outsourcing deals?

**Anant Gupta** I think with reference to the total outsourcing which Vineet had mentioned previously was respect to the size and the scale in terms of the mega deals that we had seen in similar period or the year before. So in terms of deal much larger size. In terms of total outsourcing we continue to see the trend. We see spot the $25 to $50 million sweet spot of TCV continues to be there. And depending on additional layers of service which are getting added these deals could be larger. So the reference really was more to deal than the 200 million north of this kind of engagements.

**Balaji Prasad** Okay. You are saying that the deal size are coming, but in terms of number of deals what kind of difference that you are seeing from before and now?

**Anant Gupta** It is definitely lower than the quarter that we saw the O&D quarter of '08 we saw we will be 2 billion, but it is back to I would say we had 13 decisions in this quarter. There were reasonably the win side engagements. We have seen the deal pipeline picking up in this kind of range of TCVs.

**Balaji Prasad** My second question is on your European business. When could we expect to see the kind of growth rate that you are posting it from U.S. business? Would it be a one to two quarters story or would it be a five, six quarters narrative when could we expect to see that that part of the business recover?

**Anant Gupta** Yeah, actually, if you see this quarter in constant currency terms we did 1.4%, last quarter also we did well in Europe, UK is doing fairly well, Continental Europe again though the base is very small but we have made the investments we have created the platform, which are coming from Europe, in general the proportion of the total deal is lesser, but I think hopefully this remain constant I should see increase the flow over a period of time as the things stabilize.

**Balaji Prasad** I understand that. My question was also what could this period of time be, there is any clarity that you could provide us?

**Anant Gupta** I would start off to say at least two quarters. Quarter-on-quarter movement could always be there but for it to become a trend like situation I think we will need about two quarters I would say.

**Balaji Prasad** Okay. My third question is on your employee call CI, it is more of an industry question. Someone who has pretty differentiate employee policy, it would be quite interested to have your thoughts on the wage hikes that you are seeing across industry and the attrition rates and how successful do you think that this could be controlling attrition and realizes productivity of employees?

**Anant Gupta** Actually three aspects from an employee perspective. One is with respect to the individuals the second one is with respect to the content of the job satisfaction aspect, and third really is the compensation. So in HCL, we are aggressively working in all the three. And if you look at our cycles for compensation that from July to June why we did one wage increase previously we will be looking at it aggressively and be competitive in the marketplace, company is doing well and therefore we see no reason why not provide to that.

**Balaji Prasad** When could we expect to see the next cycle of wage hikes?

**Anant Gupta** Like I said our cycle is July to June so we should expect it to be in July 1st onwards of the next financial year.

**Balaji Prasad** Okay. And would you have any internal ballpark number that you are looking at for this?

**Anant Gupta** We have been reviewing the situation as to what is happening in the market but we will be competitive in the marketplace and we are taking decision based on that.

**Balaji Prasad** Okay, thank you. My last question just on the custom apps business growth and all I heard that you say that discretionary spending is returning so how meaningful is this return in discretionary spending at least from your perspective?

**Anant Gupta** As we mentioned I think we are seeing some clients are having discretionary spending happening specifically for the projects. And this will probably get into a sustained state based on the economic recovery, we recovered as it is happening right now and continues to be stable and grow we expect that this will pick up and the trend will be much more faster. But of course, if the recovery does not happen and if there is some sluggishness in the recovery the spending will probably get again into a sluggish mode and then spending will happen mostly on run the business kind of engagements.

**Balaji Prasad** Fair enough. Would you be able to kind of say is in a stable environment or a stable state what could the kind of spending we could quantify it?

**Anant Gupta** No, we do not have specific outlook there, but as we said, this is the trend and the trend indicates that there is spending happening at this point of time.

**Balaji Prasad** Okay, thank you very much, good luck, gentlemen.

**Moderator** Thank you, Mr. Prasad. The next question is from the line of Divya Nagarajan of UBS. Please go ahead.

**Divya Nagarajan** On the cloud that you spoke about could you quantify in terms of the cloud deals that you have signed over the last few quarters what is the size of the deals, average size and duration please?

**Anant Gupta** Just a little bit to clarify on what we are playing in cloud space we are focused on the cloud new domain helping our global enterprise customers create a cloud environment for offering it internally to the business wizards. So from a perspective of actually provisioning infrastructure capacity of the cloud that is something which we are not pursuing. So in terms of contribution to revenue I would say it is marginal, but the real value is coming in terms of the benefits which customers are getting in terms of transformation that they get, for the infrastructure footprint that they have.

**Divya Nagarajan** Right, thanks. That is very helpful.

**Moderator** Thank you, Ms. Nagarajan. Our next question is from the line of Mitali Ghosh of Bank of America-Merrill Lynch. Please go ahead.

**Mitali Ghosh** My first question is on the manufacturing vertical where we have seen very good growth come back this quarter. Just wanted to understand what are the kinds of services that are driving this growth and also was there any element of pent up demand or should we expect that this vertical can grow in line with higher than company average going forward? Because one has got very mixed feedback on this vertical I think even HCL was quite cautious on this vertical even a couple of months back. So could you just give us a sense of the sub verticals drove growth and what is the kind of service demand that you are seeing there?

**Sanjeev Nikore** Basically, the growth is coming from a broad range of services, not one, which is engineering services, enterprise application services and infra services. All these services are growing in this vertical. Secondly, if you look at what is happening in this vertical we have seen the highest growth last month in U.S. in manufacturing, compared to even the last five years growth rates. And the growth is not restricted only to the United States, the growth is in the entire Euro zone, it is also in UK. So we are seeing kind of global growth returning back in manufacturing. The other point that you were asking was like can this be sustained and what is really happening and what are we seeing in terms of our views going forward? We are seeing projects spending coming back in this sector towards the end of the last quarter. We are also seeing more spending happening on platform based growth rather than in united platforms, engineering platform rather than just projects. So there is a mix of growth between platforms and projects. We are also seeing the emergence of software as surveys has got platforms like that which is purely growth there. Have I answered your question? Anything else you want?

**Mitali Ghosh** Yes, indeed, just in terms of maybe what are the sub verticals because it is a very broad segment, any trends there?

**Sanjeev Nikore** We are seeing growth across sub verticals like semiconductor, online, networking, we are seeing growth in aerospace, medical devices, industrial, these are the segments that we are seeing growth rates.

**Mitali Ghosh** Right. Secondly, on you touched upon the engineering services you are seeing demand in manufacture, and we are again seeing very strong growth there this quarter. If you could just give us a sense in terms of is this like a new product development or is it more maintenance sustenance kind of work. Just trying to understand how sustainable this recovery could be?

**Sanjeev Nikore** Yes, there is a lot of growth for new product development I said that the projects work for growth in re-platforming, so it is equally spread between CTB and RTB here.

**Mitali Ghosh** Thanks and just one follow up to this or in a sense connected. 20 clients have grown at a much slower growth than the overall company even at constant currency levels, so could you help us understand what the dynamics are here?

**Anil Chanana** Mitali, this is Anil on this side. What happening is that this number the numbers which have been reported for all the businesses put together but if I just take out the IT side, the IT Services, which is close to 95% of the total company's revenue, it sort of presented a unique picture, the top five customers grew by something like 6.2%, the top ten and 20 grew between 5 and 6%, so there has been economical growth. So we are seeing lot of activity in our existing customer base. And one of the things which the last two years deals we have won the top Fortune 10, Fortune 20, Fortune 100 companies that is why I alluded two things that we are seeing the growth from the manufacturing, it is no longer the ERS which we are selling, but also the enterprise application services as well as application development and maintenance services, which is fueling in this sort of a growth.

**Mitali Ghosh** Okay, thanks. I have more questions which I will come back. Thank you.

**Moderator** Thank you, Ms. Ghosh. Our next question is from the line of Pankaj Kapoor of RBS Equities. Please go ahead

**Pankaj Kapoor** First, there was a very strong revenue growth in the infra business but the margins have continued to decline at the gross level, in fact, this quarter, we saw 1.5% drop here. So I was wondering is it got to do something with the higher onsite delivery using our partner networks that you mentioned and how should we be looking at it going forward both at the revenue growth as well as the margin expansion in this business?

**Ram Krishna** Pankaj, you have very rightly understood. This is the usage of the partner system. Because when we are doing the total IT outsourcing we have to provide support and something like 86 countries. And for us to start creating that infrastructure is not always economical to do it. So if you see what we are trying to do is to control our SG&A which in value terms between 14 million and 13 million. And at the same time sort of if we try to outsource those services so whether it is data center services or disaster recovery services or handheld support so some of these are being outsourced. So far as EBIT or the operating margins are concerned are neutral.

**Pankaj Kapoor** Okay. Fair enough. And second question is on the software services part, again, if you can just help me understand what basically drove the 7% volume growth that we saw in this quarter versus a muted growth that we had in the previous few quarters? And what are you actually seeing in the market that can sustain this current kind of a level over the next few quarters? Thanks.

**Anant Gupta** You see the headcount increase, you see the net additions of 3,000 people which happened in the total IT Services segment, significant of which happened in the software side as well, you see that business growth in terms of coming from geo like U.S., Asia Pacific you see the out of the eight verticals which we report out of which four reporting more than 10% growth, one of them reporting 15% quarter-on-quarter growth. You see BFSI reporting 5% plus growth. So this is all translating into the volume growth this quarter. Overall in the IT Services side at 9.2%.

**Pankaj Kapoor** So sir, should we be looking at this level sustaining for the next few quarters or to the extent of the drivers backing them continue to be as a strong or you see that there is going to be some kind of normalization. And this could be some of the pent up demand which flow this number in this particular quarter?

**Ram Krishna** What I can describe which also Anand also explained, if you go back to September 2008 we saw a surge in the deal, which came at that time and people wanted to do the total IT outsourcing and then the deal got awarded, we won a very good share of it, more than a billion dollars and the deal pipeline then sank and then it is vanished over a period of time, it means reduced over a period of time. This year again we saw in September-October timeframe a surge in the activity there which we talked about. We saw it continuing there of January very and we are seeing the volume of activity, the pipeline only picking up in the month of March here. So we see increased volume of activity which is happening and some of it was also testimony to the fact that lot of customers 600 plus came to customer meet and they are there, they are ready to buy, hopefully the environment supports this.

**Pankaj Kapoor** Okay, thank you, sir, and all the best.

**Moderator** Our next question is from the line of Sandeep Shah of ICICI Securities. Please go ahead.

**Sandeep Shah** Yeah sir, just in terms of software services excluding the IMS part, if you look at the billing rate based on my calculation on the offshore front, it seems like a 3% decline on Q-on-Q. I believe the gross currency impact to some extent was lower than this, so is there renegotiation which has happened?

**Anil Chanana** Sandeep, to answer your question, in constant currency terms, we haven't seen any decline in the realization either onsite or offshore. In the onsite, there is a very marginal 0.2% or 0.3% sort of a reduction which is more because of a redistribution of revenues between US and Europe, so US growing much higher than Europe growing this quarter. But other than that, I mean we will be very happy to separately, sort of walk you through the numbers, but we haven't seen any change in the realization, the realization remains the same.

**Sandeep Shah** Okay. And second if you look at recently, the lateral addition as a percentage to the gross addition for the software service, I mean it's very high so how we should read this, is it more to do with the demand in the discretionary spend coming back or how should we read this?

**Anil Chanana** Sandeep, traditionally HCL has been a company which has been using laterals and we have been in the total IT outsourcing segment, we haven't use the freshers, haven't created that engine to sort of hire in 1000s and training in 1000s, but there is nothing which is preventing us to do it and we will start beginning it in a small way using more freshers. But this quarter was nothing unusual so far as the lateral hiring was concern, it was very much in line and maybe, I mean Anand you want to give a view of how much per se a fresher hiring, campus hiring we are doing this year.

**Anant Gupta** So if you are looking at some of the comments which mentioned in our policy has been largely around just-in-time given the diverse nature of the services and the demand, but from a fresher hiring perspective and from the calendar year we are looking at the hiring of about 5000 offshore site, which we hope to using the training engine and which is available with us to kind of improve R&D cost structure. As I just said, from a calendar year perspective, we are looking at 5000 HR which is then we will use our training engine to kind of put them back, so slight balancing between fresher and lateral we will be doing during the calendar year.

**Sandeep Shah** Okay. And just a last thing, can we give us some sense in terms of 13 wins in terms of what kind of services are coming into demand?

**Anant Gupta** It's a mix of you know I would say pretty much those services it would be infrastructure services Sanjeev mentioned about some elements of business services wherein we are in advance…..in four engagements, the enterprise EAS is a core of that, so it's really a broad based very similar trend which says that it is a well structure service line which is driving it.

**Sandeep Shah** Okay, thanks and congrats on good numbers.

**Moderator** Thank you Mr. Shah. Our next question is from the line of Ankur Rudra of Execution Noble. Please go ahead.

**Ankur Rudra** It's a question on the EAS side, we have heard a lot in the commentary so far discretionary spend space, stark difference in this EAS versus the other verticals, that of service lines and also compared to some of your other competitors. Can you just explain how, is it that the deal closure rates are a little bit slower this time compared to the last quarter and we would potentially see stronger growth going forward?

**Ram Krishna** We did mention in the last quarter itself that EAS has to be lived upon in a much more longer period than on quarter-on-quarter basis. So what one has to really look at it from an EAS perspective in the last four quarters since the acquired AXON and you know that we acquired AXON in December 2008 and we had the first consolidation of AXON revenues with HCL revenues and further from the JSN 2009 onwards and we have completed four quarters since then. In the last fourth quarter, you have seen the EAS revenues grew by 1.4% on a CQGR basis and that is if you really look at the EAS, the EAS has been stable and continues to grow at 1.5% on a CQGR basis, while this quarter it is 2.5, the last quarter, it's 4.6. And these projects have been indicated, have been short cycled projects which are really in phases and in certain quarter, the project may get complete and the next project may begin maybe a quarter after that and not in a same quarter or not in the subsequent quarter and that's why you will see the kind of fluctuation and generally I think it has to be looked upon on a longer period. And we are very satisfied with the progress at EAS, specifically after AXON acquisition. So in spite of acquisition of AXON, we have been able to grow the EAS business at 1.5% quarter-on-quarter as well as protect the margin over the last four quarters.

**Ankur Rudra** Sir, just to understand this better, is there a focus on winning slightly larger and transformational deals still there, is it the market for it is not there right now, could you mention in shot at least?

**Ram Krishna** Yeah as we mentioned I think the RTB kind deals are something which did happen in the last 3 or 4 quarters and in the last quarter, we are beginning to see project spending happening which are mostly their transformation kind of deals. We are beginning to see that and that's what we mentioned. And 13 deals which we have announced this quarter, four of them are in EAS space and many of these deals have a transformation component as a part of that engagement.

**Ankur Rudra** Okay. Thanks a lot sir, and best of luck.

**Moderator** Thank you Mr. Rudra. Our next question is from the line of Ashwin Mehta of Motilal Oswal Securities Ltd. Please go ahead.

**Ashwin Mehta** Yeah. I had one question in terms of our IMS, what would be the proportion of the hardware or third party sourcing revenues in our IMS and wanted to get a sense in terms of a repeatability of these revenues?

**Anil Chanana** So first of all I would talk about the material side of the business, the material side of the business is between 3% to 5% of the overall company revenue and it hasn't changed, it has remained over the years in that range. In terms of using the outsources, using the partner ecosystem, if it's something which is new, which is merged as we are started taking on very large assignments which are in multiple countries including the countries where we don't have presence of providing total IT sourcing and so it is there, it is between about 3% to 4% of the overall company revenue.

**Ashwin Mehta** Okay and in terms of these third party sourcing revenues that we are getting, what is the repeatability of these or these would kind of taper off post the transaction of these deals?

**Anil Chanana** I mean largely these are pretty retained contracts, so like this remote infrastructure management or operations management service which are either three year, four year, five year contracts. So even the data center hosting for example, when you migrate a customer from a renowned data center or an incumbent service provider into a partner data center, post that it is again a retained stream of revenues which last the life of the contract. So really the Hands and Feet support service which we make is like an extension of our any other computing services. So while we provide the hub-based services, the remote desktop management, and all the other services associated with end user computing Hands and Feet is just one extension of that service to make a full service offering, so that again is a life of the main contract.

**Ashwin Mehta** Okay. Thanks a lot sir and congratulations on good set of numbers.

**Anil Chanana** I just want to make clear that this is very much recurring in nature, because A) It has nothing to do with the transition, so it is not something which is only peculiar to the transition. There is a business as usual B) is that it is over the full period of the contract and there is nothing which is preventing HCL to take on HCL the provision of those services. So like data center, now we have a data center in the US on which we have sort of a started delivering service two to three of our customers and there is nothing which is preventing us to sort of a T&D services in-house to start with**.**

**Ashwin Mehta** Okay.

**Anil Chanana** I mean the option exists that all of the strategy really is not to do that from a perspective of wanting to do it, like I said earlier, it was working with best of breed who have a global footprint across various countries and then that's what we offer, but to the point, yes it's recurring and lives the life of the contract of the outsourcing engagement.

**Ashwin Mehta** Okay sir, that's help, thanks.

**Moderator** Thank you Mr. Mehta. Our next question is from the line of Yogesh Agarwal of HSBC Securities. Please go ahead.

**Yogesh Agarwal** Yeah hi guys, Anil, I just have one quick question for you. As I understand, you planned to keep let us say SG&A cost prior to compensate for the fall in gross margins, I am just trying to understand, will it at some extent compromise your ability to win new business or new clients or you are going to focus on mining the existing accounts more?

**Anil Chanana** So Yogesh, I am no where sort of alluding to the fact that we will not invest. What I am saying is A) We made the investment early in the cycle. So in the period of the recession, the people who cut back our investment HCL continue to do it. HCL continues to sort of a work on microverticalization and newer service offering, new geographies, continental Europe, hiring people, Middle-East market, near-shore centers, so all those sort of investment. We will continue to sort of invest more and enhance those investments. So, however, what I am presenting to you, as the result of the last 7-8 quarters, how they look like. But going forward there is nothing which is preventing us, we will continue to invest.

**Yogesh Agarwal** Okay great. And just another quick one, on the BPO you said revenues could fall from 52 to 45, will that all slow down to the bitter loss or you are going to cut cost and the loss will be 2 million only?

**Anil Chanana** I think the EBITDA loss I expect to be between 2 to 3 million that is what my expectation is.

**Yogesh Agarwal** Okay great.

**Anil Chanana** Within FY11 for that return with sort of neutral or sort of a positive figure that's appearing in it.

**Yogesh Agarwal** Okay great. Thanks a lot and a great quarter.

**Moderator** Thank you Mr. Agarwal. Our next question is from the line of Prateek Gandhi of Edelweiss Securities. Please go ahead.

**Kunal** Yeah this is Kunal, my question has been answered, thank you.

**Modertor** Thank you Mr. Gandhi. Our next question is from the line of Pinku Pappan of Nomura. Please go ahead.

**Pinku Pappan** I want to know if you are seeing more competition in your infrastructure services, some other companies like Tier-1 companies because all of them have started reporting seeing spurt in the infrastructure revenues and I want to know whether all these large contracts that are coming for re-bidding, so do you expect to see more of these other players in the bidding?

**Anil Chanana** That's actually a great question, when we started the infrastructure business it was largely remote infrastructure management which was the operations component and then therefore the competition mix was very different. And then we went into the fact that we are providing a total IT outsourcing model to the fact that we have a third party ecosystem to provide that. Essentially means we have really been competing with the global majors in the market space. So in fact the business as we see is actually turning out from the global majors and moving towards HCL. So from the competition perspective, yes we have been participating with or competing with the global majors and that's not something new, I mean the global outsourcing engagements largely have been a forte of the global majors and that's where we are actually looking at and taking some market share away from.

**Pinku Pappan** Okay. About your data center, you said you have transition-free customers, those are your existing customers or are they new customers?

**Anil Chanana** So like I said the data center in New Jersey which is an HCL owned data center is something which we are using as a strategic investment in the Cloud model that we have had of creating pilots going forward. So the objective of the data center is not to provide traditional hosting services, which we will continue to provide with our BrandStar Alliance ecosystem partners. The objective of this particular data center is on emerging areas as well as specialized services around disaster recovery and things like that. So the three customers, which have been migrated, one of the customers from whom we acquired the data center 18 months back and two are actually new customers which have been acquired in the previous two quarters.

**Pinku Pappan** So you are saying that those two new customers are only for certain specific services that you want to provide and not the general vanilla kind of data service center.

**Anil Chanana** We provide the total outsourcing to them, so some portions of that is hosted out of our data center and some of them continue to be hosted out of our partner ecosystem data centers.

**Pinku Pappan** Okay. And last question, can you give us an outlook on the emerging markets, what kind of trends you are seeing there and is this going to a driver for you in the next year?

**Sanjeev Nikore** It's emerging, this question refers to infra services or…?

**Pinku Pappan** No, in general.

**Anant Gupta** And so like we said, I think we are seeing growth coming from the US and UK from an overall perspective, and emerging markets the trend continues in specific sectors like manufacturing in continental Europe, you see, a larger traction. Overall there are global players in the market you know need to change. If you see Asia Pacific if you see any Asia Pacific which has been demonstrated significantly into last four quarters, if you see, not of 10% CQGR, I mean we will continue to see them grow as well going forward.

**Pinku Pappan** Alright, thanks and congrats on a great quarter.

**Moderator** Thank you. Our next question is from the line of Vipin Mehta of Macquarie. Please go ahead.

**Vipin Mehta** Hi, thanks for the question. Just one query regarding pricing, some of your larger players did talk about pricing power returning back in the second half of the fiscal year, I wanted to get your thoughts on back office strong volume growth that you guys have done this quarter. Thank you.

**Anil Chanana** A new normal has been created in respect of demand, in respect of pricing and so on. So with this we have a higher pricing power, but I think we are yet to see any signs of that of coming up.

**Vipin Mehta** Sure thanks.

**Moderator** Thank you Mr. Mehta. Our next question is from the line of Rahul Jain of Angel Securities. Please go ahead.

**Rahul Jain** Sir, my question is like BPO revenues are down like to 15% whereas the headcount decline is not corresponding to it. Is it that the mismatch is on account of ramped down in one large client in Europe as we are seeing lots of restructuring in that particular client across vendor?

**Anil Chanana** See, what we are doing is one statement is that the business is challenged, second is what we have done is, we have challenged the business. So here what we are doing is we are challenging that business and I am saying that it is not the way you need to go. So we are going sort of looking at the customer profile, we are looking at the voice, non-voice, the geography, I mean how it is delivered, what is the value add we are providing and so on and so forth. So (a) you are right, the decline is there in terms of manpower, the decline, however, has also taken place more towards the end of the quarter than middle or spread over the period of the whole quarter. I think the whole business line needs to be revamped and I think just part of that is we are revamping the client and revamping the service portfolio and so on and so forth. There is nothing to combine with a specific client. I mean the client is very happy in terms of provision of services whatever we are doing for them, because I mean it's not only the BPO but we have to provide the other services, I mean Anant if you would like to add something on this?

**Anant Gupta** I mean so it's you know like it's a focus strategy I think what service offering we have in that specific business per day and accordingly therefore looking at the best in guidance that we have and aligning them to what we believe as making the BPO and it is a more future ready business model. So there is going to be a significant transformation in the service offering that we offer today the conscious choice of looking at which engagements to really go after. But really the core objective and focus I am looking at it. So it’s something like if you go back to you know when infrastructure started in 2003, we actually to de-focus on something which we were doing and by de-focusing or deprioritizing in certain areas we were able to divert investment, management……and the investing to areas which we believe were future growth drivers and significant future growth drivers and strategic in nature. So we are doing exactly the same thing in BPO and that we believe will continue to try and build as we go along. And we hope to kind of look at sharing some of the golden market strategies with you all in the July, August, or September quarters.

**Rahul Jain** I mean just to follow on what you just said is like if you have less emphasizing on BPO business despite possessing couple of platforms wherein you know most of the peers are aspiring to have a BPO platform business, so don’t you think that is kind of future?

**Anant Gupta** We are not actually saying that we are not focusing on the BPO side. We said within the BPO portfolio we are re-looking at the kind of service deliveries which are there, it's kind of services which are being offered. So we fundamentally believe that whatever has traditionally been the forte of what has really moved to the BPO industry and if you take last couple of quarters not doing great across the industry, I think there is going to be a significant change in the model or the service offerings which BPO industry will have to offer and therefore we are looking at that aspect. So it's kind of reprioritizing what is being offered today within our existing portfolio of BPO.

**Rahul Jain** Okay thanks a lot sir, coming up sir.

**Moderator** Thank you Mr. Jain. Our next question is from the line of Sameer Bhasin of Matrix Capital. Please go ahead.

**Sameer Bhasin** Yes, I have a quick question. Previously management has commented regarding what the industry growth could be in this cycle around, I think around 15% or so. I was wondering if management can update as to what the growth rates could be, a year from now in longer term 12 months on a sustainable basis in this cycle compared to the previous cycle?

**Anant Gupta** Yeah I think as we have always maintained the growth rate will be in band of a top four players but historically will be around top of that and the last two quarters show that. So in our guidance going forward is we would be within the dial of the top four players.

**Sameer Bhasin** Well I was specifically asking regarding the industry, the NASSCOM is looking on 13% to 15%, some of your peers have guided above that, so that's what I am saying just in general what can the industry grow at in this cycle all along on the basis say 12 months from now.

**Anant Gupta** I wouldn't be able to comment on the industry growth, but from a HCL perspective like I mentioned earlier, the band which we are looking at is in the top four which the market is saying.

**Sameer Bhasin** Thank you.

**Anil Chanana** Operator, we will take only last two questions please.

**Moderator** Sure, thank you sir. Our next question is from the line of Nitin Padmanabhan of Indiabulls Securities. Please go ahead.

**Nitin Padmanabhan** Hi thanks for taking my question. One is you mentioned about shortage for data centers, is it more towards data centers or more towards data recovery centers?

**Anant Gupta** It is got to do with the actual data centers itself and data recovery is a subset of that I would say, so historically, if you see it's something like the semiconductor industry, there is a huge capital investments and by the time the clients are ready you know you see a trend which is decline in demand. So the data center emerging has been pretty much similar and the only additional problem that has kind of coupled in the last 6 odd quarters is the fact that because of the recession, a lot of companies have not invested in upgrading or keeping their in-house data centers up to that from a resilience, power and you know all the technology which goes in, hence we are more turned also you know susceptible to the failures. So there is a sudden additional increase which is coming in for third party data centers which is there. And further this is getting feel with the fact that newer technology especially the compute and storage technologies are consuming more power or consume a lot more square feet and also making some of the existing data centers not capable of supporting the new technologies, so all these three areas that continue to see an increased requirement for actual data center space in the marketplace.

**Nitin Padmanabhan** So just two more quick ones, one is it does mean that you are also seeing an uptick in realization for data centers with reference to our purchase. Second is in terms of renewals of infrastructure deals that are expected this year, is there anything you could quantify what the number or what is the size of deals that are up for renewal during the year?

**Anil Chanana** I think your first question, I think the utilization levels across the industry at least for high-end two or three data centers in most emerging markets is very strong. The utilization of, we are not turning our internal data center based on utilization model as a commoditized service. So we are not looking at utilization and how much square feet we have used, because fundamentally that's not the service we are selling to the market. So it's a highly bundled service, along with a very different portfolio of services like I mentioned. Coming to your second question about renewals, I am going to answer on the numbers over there in the terms of what is the quantum of engagements which are coming up. Historically, we have seen that the renewal rates within our business have been fairly good.

**Nitin Padmanabhan** No I was asking some big broader perspective in terms of the industry wherein the larger MNC vendors with lot of deals up for renewals and within the vendors prospective to really gain shares.

**Anil Chanana** Yeah so the early question in terms of where are we completing, I think we are really competing partly in this market, actually not partly significantly in this market with churn of existing contracts or existing players or incumbent players, is a big driver. And we at least expect to see that continue in to 2011, because historically these contracts have been on the, either the five year or a seven year model and based on this this will be the period where one would see the renewals happen.

**Nitin Padmanabhan** So is there any number to that?

**Ashish Chanana** I think the industries has various reports from TPI which talked about it you know these are fairly large, I think fairly large numbers, I do not have the exact number, but somewhere in the order of $50-60 billion of what will get renewal.

**Nitin Padmanabhan** Thank you.

**Moderator** Thank you Mr. Padmanabhan. Ladies and gentlemen, our next question is from the line of Sujit Parab of Enam Securities. This will be the last question. Please go ahead.

**Priya** My first question relates to what percentage of IMS related revenues for you are now contractual based and how do you see the growth for this particular horizontal for you over the next two to three years. The second thing is in terms of what I see percentage of EAS revenues is now M&A related assignments. And the last question, I think if you just help us on the intangible assets which come down from 45 to 42 billion or in the current quarter.

**Anil Chanana** I will take the first question which is on the IMS. So transaction based services is one model of our nonlinear outcome based pricing, so we have to extend from the voice based tool at our tickets. So today our nonlinear revenues are in the order of about 12% across the company, okay and so that pretty much is what is there in the infrastructure space. From a growth perspective, the fundamental belief is sufficient untapped markets, both in the developed world as well as the emerging markets. So if you expect to see, if you look at tractions for IMS RTB kind of business continuing at least for the next couple of years.

**Priya** Yeah, and this is you know the growth that we are seeing right now, do you think the gross margins could scale up back to 33%-35% ex-currency factor.

**Anil Chanana** I would sort of say it has come a long way from 6%-7% to 15%, it's a very good margin on this business. I would say that this should be taken as the margin.

**Priya** Sure and just on the M&A related assignments and EAS, how much percentage would there be and on the balance sheet with respect to the intangible?

**Anil Chanana** On the M&A, you are talking about as a service offering?

**Priya** In enterprise application related in one of your PPTs you did mention M&A related assignments being showing good traction in the EAS is, could you just help us on the quantum over here and do you see the sustaining over a period of time?

**Anil Chanana** Well this is, as I mentioned, this is M&A of our clients, it is not our M&A.

**Priya** No sure, I mean I am building with that only, I mean say two of your clients and you get related assignment over there with them, if you want some of them at both the platforms over there.

**Ram Krishna** Yes that is correct, and I think it is one such, I mean this is one of those I would say kind of an opportunity which is coming up at this point of time. It is not something very new we have done such kind of opportunity in the past. What we are basically indicating is that where is the project that was coming at this point of time and in order to give a flavor to where the project what was coming at this time, project was coming mainly for cost production exercises which is happening. Project was coming in clients which have gone through M&A and for multiple consolidation, that's what we exactly mentioned at this time. Okay so these keep coming as and when such kinds of things happen and some of our clients are maybe localize go through M&As yes they get in it into similar kind of engagement with us.

**Priya** So I just wanted to get you know what typically would be the size expectedly of one quarter to quarter or you know?

**Ram Krishna** Again I think as I mentioned again in a very generic term, these kinds of deals are also transformational in nature because it involves multiple instances to be consolidated, multiple business processes to be put into one or unified business process, they are generally long engagements, but clients still want to do it in phases. They would like to do it in phases. So all these projects also come to us in phases and short lived and then the next phase starts after a particular amount of time. Most of the clients at this point of time will be more comfortable deciding in a long transformational deal, but want to least projects on a shorter cycle in phases at this time.

**Priya** Sure, and I mean if you could just help us on the intangibles in terms of 45.2 to 42.3 billion here.

**Anil Chanana** The intangibles, I mean are you asking the question in terms of 8 million to 4 million?

**Priya** No, on a balance sheet side, your 45 to 85 was in Q2 FY10 that is 45.2 billion and it's come down to 42.3 billion Q3.

**Anil Chanana** Can we sort of take this question offline?

**Priya** No worries.

**Anil Chanana** I am just not able to sort of relate to the figure because I go see billion figure in my balance sheet.

**Priya** No, it's in INR terms.

**Anil Chanana** INR terms okay. In dollar terms it is 946 million and 944 million as of 31st of March.

**Priya** It's the only currency related factor.

**Anil Chanana** It's a currency related factor yeah.

**Priya** Sure. I mean just a last data point, you mentioned on the volume growth being 9.2%, is it possible for you to share it across the business segment that's, software, BPO and IMS?

**Anil Chanana** I can definitely, this is in the IT services with us, which is this software services and infra put together and that is the way we look at it.

**Priya** Okay sure, and out of it software is 7% odd.

**Anil Chanana** Yes you can easily calculate.

**Priya** Sure, thanks very much and wish you all the best and a great quarter.

**HCL Management** Thanks.

**Moderator** Thank you. Ladies and gentlemen, due to time constraints, this was the last question. I now hand the conference over to Mr. Anant Gupta and the management for their closing comments.

**Anant Gupta** Ladies and gentlemen thank you very much for participating in the 3rd quarter earnings call and we look forward to seeing you in the next quarter. Thank you.

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