HCL TECHNOLOGIES LTD

Q4 & FY 06-07 Earnings Call
7.00 pm **(IST),** August 13, 2007

Moderator: Good evening Ladies and Gentlemen. I am Ravi Babu, the moderator, for this conference. Welcome to the HCL Technologies conference call. For the duration of the presentation all participants line will be in listen only mode. After the presentation the question and answer session will be conducted for participants connected to international bridge. After that the question and answer session will be conducted for participants in India. I would like to handover to Mr. Shiv Nadar. Thank you and over to you sir.

Shiv Nadar: Thank you. Good evening ladies and gentleman. Thank you for attending our conference call for announcing the results for the year 2006-2007. I have with me Vineet Nayar President of the company Mr. Anil Chanana who is the Executive Vice President Finance of the company. Mr. Bansal, Corporate Vice President Finance and Vikas Jadhav are responsible for Investor Relations. I will just begin this and then turn it over to Vineet. We have had a very satisfying year. Our revenue during this period has gone up from $980 million to $1.395 billion. And it is our net income at $315 millions is up from $172 million which is about 82.9% higher than what it was last year. This year was satisfying in more ways then one because in all 4 quarters we showed sequential growth in excess of 9%. And in the current quarter we grew 9.2% sequentially. And during this period of the year we have added pretty close to 10,000 people and shown very robust growth in almost all areas, all the 5 service offerings of the business in which we are. We have also geographically gone more balance then what had been in the past. I would just talk about one point before I hand it over to Vineet.

You know when I take a 5 year view of the past, it is something very satisfying, because we came from being very dependent on one service offering, which was technology based services, when we came out in 2002 which is fully 5 years ago. And from there we have grown in revenue in the last 5 years by closed to 400%. It, according to me by any standard it is great growth story. We have grown an EBITDA in a similar manner in EBIT we have grown pretty close to 4 times as well in this timeframe. And this has happened in a extremely turbulent period, that turbulence in terms of currencies or if you take the year ending currency rate of dollar to rupees it was Rs.48.95 at the end of June 2002. And if you just see each of the five years it came to Rs. 46.43, Rs.46.03, Rs.43.51 and back to Rs.46.03. And now the rupee has decisively started appreciating because India's growth finally had to fire and our foreign exchange flow has become substantially positive. So during this phase despite this currency variation and the British part of the US dollar varying from 1.53 went up to 1.65, 1.81, 1.79, 1.84 to 2.01. You know this describes the fairly high level of turbulence, a similar thing would you know would prevail if we take the Euro to dollar conversion and Japanese Yen to the dollar conversion. When you put it out together given that 5 service offerings had been firing in all cylinders, in so many multiple service deals, it has been a complex thing to manage but our company has managed it well. Now with these broad opening remarks, I will hand it to Vineet so that he will go through more specifics and then Anil Chanana will go through in full details, thank you.

Vineet Nayar: Good evening ladies and gentleman. Welcome to the conference, you know this has been a great year and a great quarter. The highlights of the revenues on the year basis is, we are up 42.6% year-on-year, I would believe that is one of the best results amongst the industry as Shiv said, 4 quarters of 9% QoQ growth demonstrates consistency. Please notice that the headcount had increased by 29% and revenue has gone up by 42.6%, which demonstrates a margin expansion quarter on quarter, we will talk a little bit more about that. One thing we, one thing different about this quarter was the dollar depreciation. And let me state the philosophy of how we look at dollar so that you can understand to read the financials carefully. The way we look at dollar is that we believe that the dollar fluctuations should be hedged, and therefore, the business should be kept independent of the profits make of the hedging. So in this particular quarter you saw dollar impacting the EBIT, but we earned all of that back through hedging.

So therefore from our point of view there was no dollar impact on the cash flow. So whatever we lost on EBIT, Anil will explain that in detail, we got it back through hedging. So the dollar was neutralized. And if you take that neutralized dollar, you will see the EBIT growth of 15% quarter-on-quarter at the underlined growth for the company. And Anil will walk you through details as to how does this 15% come in, but this is important to understand because as we move forward we will be making losses if dollar behaves like this at the EBIT level and we will be gaining back those losses through hedging below the EBIT level. And somewhere we will have to have a way of neutralizing with these two so that we look at underlined performance of the company. The reason for the revenue growth and the margin expansion at EBIT was because of the falling in the three business lines.

The application business client was driven by three key drivers, the first is that our adoption of early technologies you will see more of this coming from HCL now. Our adoption of SaaS adoption of SOA, Web 2.0 and Master Data Management are driving growth in the core application area more and more projects we are wining is because of our leadership in SaaS, SOA, Web 2.0 and MDM. The second is building IP and platforms of our own which is helping us gain productivity advantage in large IT outsourcing deals. In the next coming quarters you will see HCL announcing large IP platforms which is a reason we are driving more productivity out of total IT outsourcing deals. And the third is we were the first out on the enterprise transformation and the 7 additional deals which we have announced this quarter. I believe this is the most robust quarter for us from an deal announcement perspective, indicates that our strategy was right, the market is a lot there, and HCL is winning a descent proportionate percentage. That is driving the application growth which has been very robust this year.

The infrastructure growth is about to cross the revenue is about to cross $200 million, 75% year-on-year growth of 3 years of consistent high performance. Margin expansion of 330 basis points despite the dollar has been the high points of infrastructure. So the three key drivers and on infrastructure I have said this before you should not look at quarter-on-quarter you should look at year-on-year because in infrastructure projects you do not get paid for transition and therefore from a year-on-year basis you a 330 basis point improvement in EBIT margins and that is what you should look ahead, the margin expansion story on infrastructure continues. The key drivers on infrastructure of why the margin is expanding is because we have moved to device based pricing in a big way away from manpower based pricing. So we talked about output based pricing, the largest success we have had was in the infrastructure business. We have focused on what we call the asset light business, we do not want to be in the rental, lease, asset utilization business. We have experimented that a lot in our v-sat businesses, I come from that background and I do not like that business and therefore we are in what we call the asset light business, because we do not want to look and feel like an IBM, EDS and CSC we want to create a different business model. And we are the first on innovation route on everything which we are doing on the infrastructure side. And that is the reason we are winning this proportionate number of new customers coming in the horizon on infrastructure.

On the BPO again there is a good story of, we are reaching a $184 million of business in BPO with 41% year-on-year growth, 60% year-on-year growth is coming from our India operation. Once again if you look at the quarterly numbers you will see revenue growth and number of people of down, that is not the way to look at the BPO numbers. You look at the total numbers for the year, you would see, that the revenues have grown up by 41% year-on-year and the manpower has also grown up about the same year-on-year. And that is because the training and the amount of training time we spend on BPO is significantly large and therefore there is a lot of quarter-on-quarter variation. And we will talk a little bit more on that, so look at BPO on a year basis, look at infrastructure on year basis, because those are the businesses which are, behave differently then a typical apps business.

So what are some of the key growth drivers, I would say there are 6 key growth drivers which we saw this year.

One is the geographical diversity which we planned, we talked about it 2 years ago, I am happy to note that that has been very successful. Our ANZ strategy is working, you are seeing a greater than 100% on a year-on-year growth. Europe strategy is working, so US dependency interestingly has come down from about 58% to 54%.

And 4% reduction in US dependency on an overall growth rate of 42.6% is the interesting story, so geographical diversion is one. All services lines are firing, as you see in the year-on-year growth and quarter-on-quarter growth it is not dependent on work service line. Yes it is true that infrastructure is firing more than anybody else, but infrastructure is carrying the application business because what the deals we are getting is total IT outsourcing.

The third is, the 5 of our most critical verticals are also firing greater than 10% CQGR as you saw in this quarter. So you saw Aero, Financial services, Life sciences, Telecom, Media publishing and entertainment all firing greater than 10% quarter-on-quarter over the last 4 quarters CQGR as we have reported, which also urge very well for HCL, because you saw some of the result on financial services not been very healthy but HCL, these 5 segments have done pretty well. The reason you saw a dip in retail this quarter is because one very large deal which we had announced in the previous quarter has moved big time into offshore. Now that resulted into a revenue drop because we moved from onsite to offshore. And also we let go some employees but the profitability has increased. That is the reason you saw a temporary dip in retail, but retail is one segment where we are winning a lot as you saw the announcement of Fonterra and you will see more announcements in the retail side, it is a hot and happening area.

The fourth point of growth driver is our top twenty customers it is very nice to see a 10.4% CQGR average over last 4 quarters driving growth. The top twenty customers, if they support you that means your multi-service strategy is working well and that is a healthy growth. So if that is the base then the rest of the growth becomes easy.

The fifth growth driver for us is the 7 deals we have announced. Now what is unique about these deals, the unique about those deals is not the size and scale or the number alone, that is definitely one sweetener, but the second part of the 7 deals which is very important is they are all Blue Ocean deals. When I say Blue ocean, we have talked about multi-service, and you are seeing multi-service deals coming from HCL.

We have talked about the fact that we will not be a part of the deal but we will start doing bigger projects on engineering you are seeing reengineering of the entire aircraft for Alenia. You are seeing large transformation in transactions with Konica. So you are seeing Blue ocean deals, where we are taking larger end-to-end project responsibility on a fixed price basis or a reward basis, not on FTE basis and both these are deals are like that, which is very interesting to see. You are also seeing new geographies emerging with large mega outsourcing like Fonterra deal it is coming out of New Zealand, largest company in New Zealand, first outsourcing. So HCL is on those frontiers expanding geographies and getting new deals from those geographies. Flawless execution of what we have signed, so Autodesk, Dixon and Teradyne and Skandia are extremely happy.

I am very happy to advise you that on 27th of September we have a Global Analyst Day in New York and these are industry analyst not the financial analyst. And what is unique about that day is that there are 16 customers who are participating in that Analyst Day and the 16 customers are going to speak on behalf of HCL. So that is a unique presentation where HCL will not be speaking but the customers will be speaking, which projects, and Skandia, DSG and Teradyne all are going to be there which tells you that not only we have done an exceptional job of creating new Blue ocean strategy we have done and exceptional job of executing for us to get younger than one year customer, the younger than 18 months customer in front of the industry analyst that demonstrates confidence of what we really have. And the last growth driver is the fact that two clients have moved to the $100 million club, we have added $100 million because we were waiting for 2 clients to come there. The two clients are now 100 million plus in revenues and 23 have been added to the million dollar club. So we continue focusing in that area. From the people point of view, interesting that we have added 9400 people, attrition is in control, if you see HCL is one company which has demonstrated constant attrition. I am not commenting whether it is high or low, I am saying it is predictable and especially if you are sitting in my chair and running a business I prefer a predictable attrition rather than high or low and industry wise you are seeing attritions going up and sometimes at dramatic level. For us, fortunately attritions are consistent on a quarter-on-quarter basis they have gone down.

Also I am happy to report that there are 60 General Managers and Vice Presidents from the rest of the Indian IT industry who have moved, because of the excitement of what is happening in HCL to HCL to take different leadership positions and we will be happy to share with the analyst conference we are going to have in Bombay soon in middle of September. The employee's first policy is also gaining wide expectance at the core differentiator, our customers are loving it and they are liking the cultural difference which HCL brings to the table and these are the four differentiators which we are bringing from the people point of view. There are other points, I am very happy to share with you, which you should notice, the media is noticing us, you saw us on the cover of Forbes, we got noticed there. You saw us on the Business Week as one of the top fastest growing technology companies. You saw us, Economist quoting that other MNCs are getting nervous about HCL. And the best which has recently happened is the Harvard has just done a case study and is teaching in Harvard the transformation journey of HCL in the last 2 years and we would be happy to point you to the link for you to see what Harvard thinks of what the transformation journey, it is very nice.

So that is what I wanted to add from a overall business perspective, we continue to be very positive in the way we are looking at it and handover to Anil to walk you through the details of the financials as we did the last time. And then we will open the floor for question and answers, over to Anil.

Anil Chanana: Thanks Vineet, good evening to everyone. I will walk you through the, how the growth has happened in terms of revenue in business by business. I will explain you as Vineet mentioned the underlying EBIT having gone up by 15% quarter-on-quarter. I will walk you through the treasury income, the FOREX hedging gains, the capital expenditure and the taxation items.

For the full year 2006/2007, we reported 42% YOY increase in sales, which is made-up of 32% by volume, 8% by higher realization and 2% by change in mix non effort based revenues etc. If I look at the quarter, we grew 9.2% QoQ where volume growth are 6.6% higher realization constituted 1.7% while the balance 0.9% was constituted by change in mix and non-effort base revenue.

I will take you now to the core software, core software has volume growth of 6.3% higher realization of 1.8% and had decline in non-effort base revenue and offset by the change in mix of -0.5%. So on the whole, it increased, the revenues increased by 7.6% in core software. In Infra they grew by 18.1% where the volume growth was 11.2% realization went up by 1% and there was the non-effort revenue element of 5.9%. In terms of BPO as Vineet explained the uniqueness of the BPO model, the volume growth effort based growth was 3.4%, the realization was 1.8% and the campaign one time revenues constituted 3.3% taking the total to 8.5%.

I will now take you to the EBIT line, if you look at the EBIT, the underlying EBIT has increased by 15% quarter-on-quarter. We recorded in this quarter 11 million of recorded and realized, 11 million of FOREX gain. My EBIT got impacted by 300 basis point on account of rupee appreciation. So on the fully, whatever I got impacted negatively at EBIT level on account of rupee appreciation was made up by the gains by realized for the covers I had taken earlier. So net -net there was no impact and I grew 15% on an underlying basis. There was other element in EBIT, on the positive side, we had higher realization coming in by 143 point. We had increase in utilization which gave us 55 basis point, we had certain negative other than rupee which was increased in SG&A if I take out the element on SG&A of rupee appreciation, my SG&A went up by 61% basis point. There were some business which came with lower margins, which had a 13 basis point impact. So this is, so far as the company as a whole is concerned. If I take you to the business wise, in core software, the SG&A increase was 100 basis points, the realization on the positive side was higher and gave us 172 basis points, the utilization, offshore utilization you see is going up to 71.1 from 69.8, 33 basis points, the mix change gave us some 6 basis points. In Infra, we had SG&A leverage actually there, there were the positive SG&A leverage gave me 172 basis point, the rupee appreciation gave me a positive of 34 basis points, the negative was the pass through revenues which have had a lower margin which took away 131 basis points of mine. And the currency took away 169 basis points. So the net impact in Infra was 94 basis points.

In BPO the higher utilization gave me 230 basis point, realization gave me 110 basis point so positive by 340 basis points. If you look at the negative, the currency took away there 360 basis points. The OPEX net of depreciation took away some 40 basis points. So net-net on BPO I had a negative of 60 basis points. I just would like to reemphasis wherever the negatives are there in terms of appreciation of rupee against US dollar GBP or Euro has been made up by gains which have been realized on foreign exchange covers which were booked.

I will now take you to the treasury income, the treasury income as reported this quarter, is \$9.1 million. However, while I have realized 9 million, if you see the footnote the unrealized income which was at the end of last quarter was 18.1 million has now gone up to 19.5 million. So if take a true income in this period of 3 months, this quarter, it was actually 10.4 million. We had this, this was made possible by more points on the treasury now, we have something like 465 million under treasury investments. And we made a return of something like 8.9% in this quarter. One of the, composition of points which is there in treasury is also changed in a little we have something like 67.5 million which we have put in fixed deposits in banks ranging from 12 to 13 months, and that rates which are from 10.1% to 11.5%.

I now walk you through the foreign exchange hedging and gains. At the end of 30th June, 2007 we had 1.16 Billion of forward covers, on between dollar and rupee. We follow the practice of marking -to-market all of the foreign exposures. This whether it is on the effort side or the covers they gave me a benefit in gain of 61.5 million. As I told you earlier I realized 11 million in cash in the quarter. So actually 51.5 million of the gain does not belong to this quarter, it belongs to the future quarter. Let me take a minute of yours and explain you how it is impacting on the net income side now. So if I, my net income if you see in the quarter ended 31 March, 2007 was 76.2 million and in this quarter I am reporting 119.5 million income. If I make a comparison on apple-to-apple basis, whatever I recorded last quarter it was 10 million of gain which did not belong that quarter and belongs to the future quarter. And I reduced it from there, I come to 66.2 million as net income as a underlying net income. This quarter 119.5 million income as reported, I take away 50 million which belongs to the future quarter, I end up with a gain of 69 million. So if you look at the net income line quarter-on-quarter growth has been 5% while YOY has been about 40% slightly shy of 40.

I will now take you to the tax, the tax provision this year has been 35 million opposite 14.1 million last year. I am looking at the tax more on a year basis, because this is the best way to look at it, because it can sort of a change quarter to quarter depending upon the nature of income whether if it is like treasury income, whether it is a form of dividend or it is a form of capital gains. I mean it comes in a pretax mode or a post-tax mode so it depends upon that. Last year, I had advantage, last year if you see I had my tax as a percentage of profit before tax was 8.2%. However I got the benefit of brought forward losses which were there in the subsidiaries and which got merged with the HCL technologies, I purchased long term capital gain bonds since I had, this is the best way I thought of a saving on the tax. There was on mutual fund unit, by taking the benefit of indexation I was able to report some losses, where actually I made money. The tax charge was reduced by about 1.5 million. So if I add it back it was actually, not 14.1 but 15.6. So it comes to not 8.2 but 19% as a effective tax which I gave last year. This year we have these number moved up from 9% to 10%. Basically three reasons, one is the, there is an element of interest on fixed deposits which I explained that we have starting putting money in the fixed deposits. We have something like 67.5 million in fixed deposits with banks, which income I have to realize and this comes before tax so it is fully taxable income. There is a foreign exchange hedging gain I have recorded this quarter, there are three units of mine which have gone out of 10A benefit. And on which I am now paying tax. So taking all these into account, this quarter or rather this year, my tax is a percentage of PBT has been 10%. The capital expenditure this year, this quarter has been of the order of about 24 million taking the total to 89 million.

Also I would like to walk you through the ESOP charge the ESOP charge this quarter has been net of tax has been at 4.9 million, lower than what it was last quarter. For this full year I had guided that I will be recording before tax benefit ESOP charge of 23 million and after tax benefit it is 21.3, so it is exactly in line with whatever I had guided. If you take a split between the fair value grants and below fair value grants it was 5 million on account of peer value grants and 18 million on below fair value grants. As of 30 June, 2007 the number of options in equivalent number of shares is something like 48.9 million which were below the market, constitutes about 2.2% of the capital and at market constitutes 5.2% of the capital. The other important thing here is that my EPS has doubled for the year from 27 cents to 48 cents per share. Thank you, we would now like to open the question and answer session please.

Moderator: Thank you very much sir. At this moment, I would like to handover the proceedings to international moderator, to conduct the Q&A for participants connected to international bridge. After this we will have a question and answer session for participants at India bridge. Thank you and over to you international moderator, Zainab.

International Moderator: Thank you Ravi. We will now begin the question and answer session for participants connected to the international bridge. Participants please press 01 to ask a question. First question Mr. Joseph from Jenny Montgomery Corp, USA.

Joseph: Hi guys and congratulations on a good year. I had some general questions here, first just any thoughts on specially on the business next year, any maybe guidance that you can give us on where is your revenue headed margins or the tax rate.

Vineet Nayar: Yeah as for the guidance for the next year is that we are very positive about what is happening in the industry you saw us signing us 7 deals. So we are positive about the future right now. If you talk about specifics we are guiding revenues growth at about 30% and you know our margin expansion story continues we will continue to hedge the dollar and therefore whatever dollar impact is there we hope to earn back that from hedging.

Joseph: Okay. Could you just give us a little more color on what went on in the BPO business, why had company pulled back like that.

Vineet Nayar: Yeah what I said that is the BPO business has to be seen from a year point of view because we recruit a lot of people, we train them and then deploy them on some processes which are very difficult to deploy. So on the year-on-year basis you saw a growth of about 40% increase in revenues and 40% increase in headcount. So that has happened on a year-on-year basis. However on a quarter basis what really happened was that we already hired the people and therefore the utilization improved dramatically and we did not have to add people and with the utilization the revenues went up.

Joseph: And just one last question here, just in general on infrastructure services. We saw we the acquisition by Wipro and GCS has said that they are kind of moving into that business. Can you give us any color on the demand trends there and who you are seeing compete on the deals both domestically and internationally.

Vineet Nayar: I think the infrastructure business, it continues to be very hot, and the way the infrastructure business is moving is, because it is one of new businesses moving in where HCL was the pioneer, it continues to be growing faster than any other business you saw a 75% year-on-year growth in that business. The key point to note out here where we depart from a lot of other people is that we believe in an asset light infrastructure management business, we believe that the old way of Asset based, Datacenter based you know full outsourcing the model of IBM EDS CSC was already existing in the market space. The infrastructure management business which we created our domain there was asset light were we said that you can host it in your center or in any other center you can buy hardware from anybody you want, you can buy network and telecom from anybody which you want but give us the management and give us the services. So we were asset light and services intense. And that is a strategy of HCL which will continue to be, we will focus on asset light and service intense business. And we believe there is a lot of business in that area and that can clearly the markets are from the business model what we are delivering verses what EDS and IBM and many others are delivering.

Joseph: Any difficulties that you are saying whether being such with demanding so strong and either recruiting talent and or finding that you have capabilities to fund that business.

Vineet Nayar: Yes sir I mean that was true with all our businesses, I mean and our talent is the core of the growth and strategy and that's a reason two years ago we launched what we called the employee first. And if you read the Harvard case study you will know a lot more of what we are doing that. So talent is the core problem in any business which we do and therefore your talent management and talent development program has to be very large. However, the recruitment of talent difficulties no more difficult then in infrastructure business compare to the application business. Those challenges remain the same. However what is very interesting to know is that if you take the 3 businesses we are in, the BPO takes graduates, the IT takes normally engineers who are IT driven and the infrastructure takes diploma holders. So actually between these three businesses we are targeting different pockets of talent available in India. And they are not competing with each other which make the talent pool available for these businesses much larger. So that's the interesting part of these three businesses.

Joseph: Sure, also I what type of people point of infrastructure.

Vineet Nayar: Yes it was worked out very well for infrastructure because three years in a row we have grown at this 70, 80, 100% year-on-year. So it's been pretty well.

Joseph: Okay great thank you guys.

Vineet Nayar: Thank you.

Moderator: Thank you sir. Next question we has Mr. Anthony Miller from **Arete Research**, UK.

Anthony Miller: Yes hello gentleman, let us start to continuing discussion of infrastructure management couple of points coming from that, firstly you mentioned in our introduction that you are loosing your infrastructure fields to device based price, or at least to non-FTE based pricing, can you give us an idea to how much of your business are there percentage of revenues or percentage of deals is now on some sort of pricing which is output based and how you see that trends in.

Vineet Nayar: You know right now it is not significant, right now the device based pricing in most of our contracts are optional, what the customers are doing is and this are some very large customer say what they are doing is they want to us to transition from FTE to FTE that means if there are let say 500 people working in US and Europe they want us to move to an equivalent number in the India. They want us to stabilize the operation and then show us how to convert the, what I called the horizontal pricing into a vertical device based pricing. So depending on the maturity of the customers, the customers are moving more and more to the device based pricing and that's a trend line we have seen. So right now the percentage of revenue originating from device based pricing is not large, not significant.

Anthony: But if you have to look at after 2 or 3 years what do you think it could be.

Vineet Nayar: We are hoping that by 2010 at least 35% to 40% of a business is device based, if not higher. And that is what we are hoping for.

Anthony Miller: Ah that is useful and just continuing on instruction management and there is nothing previous alluded to the Wipro infocrossing deal, if I understand that part of the rationale why Wipro felt it necessary to acquire infocrssing just because it keeps assuming on the size of infrastructure deals it could bid for surely on a remote managed basis and my understanding is that above a certain threshold, the customer does want to get rid of the assets. Do you not feel that you are going to hit a similar ceiling as your deals progressive into the hundreds of millions of dollars. And therefore you will be obliged to take on some onsite based essential central assets.

Vineet Nayar: So that they are, let me talk about facts first, the largest outsourcing deal has been done by HCL which is Dixons. The second largest outsourcing deal has been done by HCL which is Skandia. The third largest outsourcing deal has also been done by HCL unfortunately I cannot share the name, I am talking about IT non-BPO deals. Now if you look at the sizes of those deals, they are all in access of between $200 million to $500 million over a period of 5 years. So I personally do not believe that there is any limit to amount of business you can do in the total IT outsourcing space which is lead by infrastructure. Now all these deals which we have done and we are the ones who have done the largest outsourcing deals. We have convinced the customers on two facts (1) the price of assets only goes down, so there is no point of you signing a contract long term on assets because the price only goes down. (2) The cost of assets only depreciates and hence the real estate cost goes down. So if you look at the datacenter hosting cost, they have only gone down over the last 5 years. If you take the mib's cost of mainframe they have gone only down, if you take the server cost they have only gone down. So when prices are going to go down why do you want to lock yourself into a 5 year deal or a 10 year deal. This is how we educate our customers including telecom, the telecom cost are only going down. You should lock yourself into long terms deeds were the cost are going up which was manpower cost, services cost, wherever the cost are going down why do you want to lock yourself up. So this is the logic we apply to customer, some of them love it and therefore they do business with us, some of them think differently and that is what the beauty of this market space is that market space we want to play in one market space. And another business model will play in another market space and that is what Blue ocean is all about. We want to be asset light, so it is not the right model but it is a different model and relevant in one market space which we keep winning.

Anthony Miller: Okay thanks very much.

Vineet Nayar: Thank you.

Moderator: Thank you sir. Next we have Mr. Nick Allen from Boyer Allan.

Nick Allen: Hi and congratulation again on very good numbers. Could I and this will relate, relate it to the same question I think but just to clarify the revenue guidance you gave a 30% I presume is a dollar guidance. Secondly can you talk in rupee terms about sort of how your underlying margin on business that are now compared to say the 4th quarter average. And thirdly could you talk about, if you look at the hedge movements sort of how big the hedge book is now and what average exchange rate is that.

Vineet Nayar: The first question, I react the 30% growth is in dollar terms. And second is we think dollar, we will do our business planning in dollars and we plan in dollars. So I do not have an answer for you in rupee terms, because whatever happens on the dollar Anil and team have to hedge it and that is the way we look at it. And the third on the FOREX covers as of today, Anil.

Anil Chanana: The FOREX covers as of today as I explained is 1.16 billion, which is basically for 6 quarters from hand, from 30 June, 2007.

Vineet Nayar: So the answer is as on 30 June it was 1.2 billion dollars. We have increased our covers from 30 June to now which we are not shared the numbers with the market as of now.

Nick Allen: And that was mark-to-market 1.2. And the 1.2 billion is mark-to-market as on end of June.

Anil Chanana: That is correct.

Nick Allen: Okay thank you.

International Moderator: Thank you sir. At this moment there are no further questions from participants at the international bridge. I would like to hand over the proceeding back to Ravi.

Moderator: Thank you Zainab. We will now begin the Q & A interactive session for India participants. Participants who wish to ask questions please press star and one on your telephone keypad. On pressing * and 1 participants will get a chance to present there questions on a first in-line basis. The participants are requested to use only handsets while asking a question. To ask a question please press * and 1 now. The first question comes from Mr. Sandeep Shah of ICICI Securities.

Sandeep Shah: Yes sir, consistently we are winning larger number of multi-service multi-year deals so that indicates that our wallet-share is increasing the existing as well as new plants. Can you share some idea in terms increasing wallet-share and what kind of vendors we are replacing in such kind of transformational deal sir, In the sense, you may be replacing the other vendors who are already there?

Vineet Nayar: yes it is an interesting question. I do not have percentage of the wallet-share, but that is definitely an area of our focus. We want to be as a headset two years ago significant for fewer customers that is an insignificant for larger number of customers. If you take the opening statement I made you take Fonterra, Alenia, Konica, CMS none of these companies can ignore us because we would by far be their largest vendor and that is point number one. Point number two who are we replacing; in the most cases we are in the final shortlist with the IBM, Accenture, EDS, CSCs of the world in most of these cases and with existing customers we did exercise which was very interesting. In 56% of the case we actually, this is what we call the fresh outsourcing. So, we are replacing bits of vendors, may be that means you know may be AT&T as a telecom vendor and somebody as a hardware vendor and somebody as a desktop vendor and somebody, you know different vendors and they consolidate an offshore that is 56% and then 44% of the cases we are replacing an existing vendor for which the contract is coming up for the negotiation.

Sandeep Shah: Secondly, question in terms of the aerospace how big is that vertical as a percentage to be consoled revenues, what kind of pipelines we are witnessing and what kind of domain expertise we have or now we differentiate in the aerospace?

Vineet Nayar: We have merged that as part of the high-tech and therefore we are not sharing what percentage of high-tech is constituted by aerospace because of some competitive reasons. The reason I pulled it out and pegged it as a separate line item for you to indicate that going forward may be a year from now you will see high-tech emerge as a separate segment which is going to be very meaningful in size and hence would deserve as to be quoting that separately. We are seeing a very large traction in high-tech and that is all I would like to comment on that right now. Especially when we are getting projects like Alenia where we are redesigning the entire aircraft, it is not only the size of the business but what kind of business you are getting and that is reason aerospace is becoming very critical for our future in coming years.

Sandeep Shah: Sir you comment on deal size with in the aerospace, are they in line or higher in line with the other verticals?

Vineet Nayar: The aerospace deals right now are I would say below retail from the size of the deal, but increasingly what I am saying is aerospace is just becoming a very hot. It is just an incidence which has happened in the last two years. We have been here for 10 years but the last two years the deal size has been becoming larger and larger and this is the first time we are seeing a $30 to $50 million size deals. So, they are still under the radar of what you have seen normally in retail or financial services which is 100 to 500 million dollar deal, but they are definitely 30 to 50 million dollar deal and the becoming larger every year.

Sandeep Shah: What kind of competitors you face in the aerospace?

Vineet Nayar: We are niche competitors they are niche players who are focused on aerospace because to get into aerospace you need a lot of quality standards, which we have invested in and we have got those quality standards and you need a lot of approvals authorities which we have done. You need a lot of partnerships where the different component manufactures which we have done, so there are lots of niche players in this aerospace which we complete again.

Sandeep Shah: What could be the ESOP charge in FY 2008?

Vineet Nayar: I would believe that that the ESOP charge should be around $24 million.

Sandeep Shah: Thanks and all the best.

Moderator: Thank you very much sir. Next in line we have Mr. Pankaj Kapoor of ABN AMRO.

Pankaj Kapoor: Hello sir, congratulations on the quarter. Just a few questions on these large deals we announced. Can you give us a sense how many of these would be a 50 million plus on how many of them may be a 100 million plus or so?

Vineet Nayar: Pankaj we are not doing that we stop doing that so I would not be able to comment on this but all these deals are significant in size and scale. What is happening is that in the past we did that and it is resulting into some very high degree of sensitivity in out-sourcing and off-shoring which the international media is catching and therefore we have decided that as far as possible we would avoid giving any data which we have not agreed with the customers. So, I would not like to answer that question but we would not put it in the press release if these were not significant.

Pankaj: Just one question from our SG&A expenses. I was looking at the rupee numbers, but there seems to be a increased over here and general expectation was that because of the appreciating rupee, we probably should have seen a slight flattish marginal decline in that number. Any sense of this, any kind of onetime expenses in that area?

Vineet Nayar: I think this is very important question and I would like to take a minute to answer it. We have said very clearly that we are gunning for growth and if we have to gun for growth we have to spend in SG&A and therefore our constant intension is how to built a sustainable business model, which is different in the model which is existent in 2005 so that we can demonstrate consistent growth irrespective of what happens in the environment. The dollar impact we have intelligently taken hedges and we were one of the first out on that hedging scheme. So, the way we look at our P&L may be a little different in the way you are looking at it and therefore I will encourage all of you try and look at this our way. In our way is that the dollar has to be hedged and the business has to be run from a growth point of view. The day I start pulling away from SG&A and stop investing in my future just because of the dollar then I think we got it wrong. The dollar varies in instrument available in hedging that has to be optimized. The business has to be invested in if you are believing in the long-term business and I am telling you that the market is hot and the business is hot and therefore we need to keep investing in new geographies, in new areas and why should not we go to New Zealand, why should we not launch new services, why should we not do the aircraft reengineering and invest in domain knowledge in aerospace and we have to do all these things because we are not living here for 2007-2008, but we are living here, but we have lived here for the last 30 years and hopefully will live for the next 30 years and therefore keep on investing till the business model changes so that none of these issues become relevant. So, from the house of HCL you will keep on seeing investment and the treasury people will take care of the fact that at least in the medium term they keep us away from the dollar ups and downs.

Pankaj: One last question on the BPO front. You explained that man power that needs to be needed to look at from a year-on-year perspective but still is any kind of one-time impact because of project pending or something, why we have not seen increased over here in terms of man-power and this is quarter on quarter dip so any particular reason behind it?

Vineet Nayar: Yes it is not that. Unfortunately, the kind of business we have picked up in BPO, you know it has stickiness to it. Stickiness in terms of entry, takes a lot of training and exit, for the customer it is difficult. We took that as a conscious choice rather than the revolving door policy in BPO. Now because of it we have to fortunately or unfortunately hire at advance train at advance take a higher hit on utilization in the beginning of the quarters and as the project role out you know we take the benefit of the quarters. So, I would encourage you not to look at BPO and I would say the same for infrastructure. On a quarter-on-quarter basis but look at it on a year-on-year basis and as you have seen in the entire year despite a lot of consensus on BPO 40, 41, 42% year-on-year growth with the same number of people addition what the BPO has delivered. So, you should get a lot of comfort from that growth.

Pankaj: So sir going forward like any sense in terms of what kind of hiring are we looking at for this year or the focus is likely to be on utilization and can you give some color on that?

Vineet Nayar: I do not have a specific guidance business by business but on an overall basis our resourcing team is getting ready to make 25000 offers in the coming year. These are gross offers and not net offers and that is the only guidance I am getting to give to you right now, but on BPO you will definitely see an increase in manpower. I don't have the number with you as to how many.

Pankaj: This 25 includes both lateral as well as freshers?

Vineet Nayar: Yes, this 25 includes lateral as well as freshers and again these are gross hiring not net hirings.

Pankaj: You have guided for a 30% growth in revenue terms and dollar terms. On the margin front are you looking at flattest margin year on year because you are going to neutralize because of the hedging and all. So, should at operation level we look at marginal decline in margins because of the currency in fact, but our net level, we will be able to neutralize it because of the currency.

Vineet Nayar: Very good question and let me take two minutes to answer this so that we are all very clear on this. So, point #1 is the answer on the underlying basis is that

30% increase in revenues; you will see consistent growth in what I call the underlying margins. Now what is the definition of underlying margins? The definition of underlying margins is whatever the dollar impact is should get negated by the hedging which we have done that is true. Now however there is a peculiar problem. The peculiar problem in the way the P&L get accounted for in the mark-to-market hedging is we have accounted for 50 million dollars of gains for example in this quarter, which pertains to the next few quarters. So if you take that into account, your answer is yet valid in terms of the fact that all dollars we are very well hedged and you will see hedging and dollars keeping tag with each other. The answer is yes but how it reflects in P&L is going to be an interesting story, because we have booked because that's the way US GAAP is written and that is not the way I wanted it, but that's the way US GAAP is written. We booked 10 million dollars last quarter in advance, which doesn't pertain to last quarter but the next few quarters and 50 million quarters this quarter which pertains to the next quarter. So, if you keep that in mind, then the answer to your question is absolutely yes. On an underlying basis, we definitely see a margin expansion story and somewhere the dollar has to get hedged by the hedging strategy and somewhere we have to report to you, how the hedging is working with reference to the dollar depreciation and this is not a quarter-on-quarter answer, this is a year-on-year answer.

Pankaj: Thank you and all the best.

Vineet Nayar: Thank you.

Moderator: Thank you very much Sir. Next in line we have Mr. Ruchit Mehta of HSBC.

Ruchit Mehta: Good evening gentleman. Can you just talk a bit about what you see in terms of demand environment and any concerns from that front or you see it as business as usual?

Vineet Nayar: We don't see business as usual. We see very exciting times out there. You know the fact that we have announced seven deals in one quarter does not mean business as usual. Forget the dollar story, we are looking too much into dollars and believe that the business is depressed; business of course is not depressed. Business is exciting. We have new proposition from India. We have new service lines from India. We are winning into those new those new propositions in India, so I would say the business demand sector is pretty good, is pretty hot.

Ruchit Mehta: You mentioned you are hiring about 25,000 gross this year. What is the CAPEX happening for this year and just in terms of planning for this kind of employ addition?

Vineet Nayar: It's going to be 150 million.

Ruchit Mehta: Okay and what will be fully diluted equity post all ESOPS being accounted for.

Anil Chanana: In fact, I have given the number of options, which are out there.

Ruchit Mehta: Okay, that is fine. Thanks.

Moderator: Thank you very much sir. Next in line, we have Mr. Kunal Sanghvi from Edelweiss.

Kunal Sangoi: Congratulations to the management on the good numbers. Sir my questions is pertaining to the IMS segment, we have seen that though the top line has been increasing at a faster phase at the company average, the gross margins in quarter on quarter basis has been coming down or this current quarter also we had about 3% declining gross margin in the IMS, despite, 1% increase in the pricing, so could you offer some comments on how is the incremental revenues making money in the sense that the gross margins and also at operating level?

Vineet Nayar: See I don't want to complicate this call, but there is a new US GAAP ruling that any transition for examples you take on a project and you go into transition the project you cannot recognize the transition revenues. For example, in this year we did not recognize 9 million of revenues, which pertains to this year, but because of US GAAP, 9 million dollars of revenue and 3 million dollar profit , which we did not recognize this year, but which had to be staggered over the periods of contract, which in most cases is 5 years. Now what really happens in the infrastructure side of the story is again if you look at quarter-on-quarter, you will get as wrong because we spent a lot of money on assessment studies. For example we spend a lot of money on data center consolidation, which is risk-reward sharing till we get at the end of the study we are able to give profits. You have to see from an year in year point of view and this question I answered three quarters also. A 300 basis point is the year-on-year improvement on infrastructure services and that is the important point you should keep noticing.

Kunal Sangoi: Sir, even on year-on-year basis if I look at the gross margins in the IMS segment itself, it would be about 5.4% lower than the same quarter last year. So just that on an incremental basis, how do we see the margins on this particular segment?

Vineet Nayar: I think on the incremental basis, you will see the same margins as you have seen in the last year at the EBIT level, you should see it as a 12 month basis. The infrastructure will lend itself only for any continuing 12 month measurement basis. So, take any 12 trailing months and you would see a very similar story.

Kunal Sangoi : Okay, my second question is on the Forex front, the 1.16 billion dollars of hedge we have. Is it totally into forward futures contract or do we have options also, could you please give the break up?

Anil Chanana: No. We don't have any options. We have only forward contract.

Kunal Sangoi : So that is totally forward contract?

Vineet Nayar: That's correct.

Kunal Sangoi: Okay Thanks and all the best.

Moderator: Thank you very much sir. Next in line we have Mr. Harminder Gandhi from Brics Securities.

Harmendra Gandhi: Good evening and congrats on a good set of numbers. I want to ask you what is this non-effort based one time revenue, which you have mentioned in each of these three service lines?

Vineet Nayar: See, what really happens is that for the right reason or wrong reason, we have this manpower addition and billing effort and that links to rewards. Sometimes, you have pass through revenue, where you have taken a subcontractor and that is revenue pass through, so you have some bonus provisions which come in because of the fact that you have done well. You get some bonuses accruing to you for some performance. That is one time, non-effort base pricing. You get risk reward, which is that results into one time revenue. In BPO, you do campaigns; based on which are success case and based on success you want some one time revenues. So we identify that as one time. So that you know that we have to earn that and that it will not happen naturally.

Harmendra Gandhi: But, in the last few quarters, we see this coming continuously. Is it?

Vineet Nayar: Yeah it is the normal. You will see that normally happening. The reason we declared that separately so that you can match the headcount revenues separately and match the non-headcount revenue separately.

Harmendra Gandhi: Okay. What are the risks of going after not very large customers and I believe you are not going after Tier-1 very large customers and you are going relatively mid-tier size customers and doing TCO deals, so do you think the SGNA will always be higher than the Tier-1 average, because you are going at multiple customers and it is not efficient from account mining prospective?

Vineet Nayar: What has happened is that we have added 23 new million dollar accounts and the only deals, which we announced in press, are the total IT outsourcing contract. That does not mean that we are not in the fortune 100 and winning enough deals, which are single service deals. If you are not winning single service deals then we will not be demonstrating a 42% growth. It is just the fact that we are not announcing, but yes we are in the mist of fortune 100 customers, which are single service deals and we have winning them also.

Harmendra Gandhi: How should we look at the guidance in terms of going from 42% to 30% kind of revenue guidance? Is it conservative because you are winning deal continuously?

Vineet Nayar: I would say guidance is guidance. I don't whether it is conservative or optimistic. We have the company do not believe in guidance, but you know Vikas put a gun to my head when the question was asked and therefore I give you a number. I believe we treated as guidance and we will keep guiding you as the quarter's progress.

Harmendra Gandhi: Thank you very much.

Moderator: Thank you very much sir. Next in line we have a follow up question from Sandeep Shah of ICICI securities.

Sandeep Shah: Sir I think my question was just that why we are looking at 30% growth in dollar terms to just to follow up to the earlier question?

Vineet Nayar: My job is available Sandeep, any time please do thank you very much.

Shiv Nadar: I would like to just give one more question because, I do not know you are all very tired we are not, we can keep on answering you because that is our job. Just please go ahead. On last question after that we will wind it up.

Moderator: Sure sir. Thank you very much sir. Next in line we have Mr. Shekhar from Goldman Sachs**.** Mr. Shekhar your line is open sir. Next in line we have Mr. Jayender from Prabhudas Liladhar.

Jayender: Hello congratulations on the great set of numbers, just wanted some clarity in terms of the gross hiring that you have indicated about 25,000 odd offers in terms of laterals versus the fresh ratio and just following that are you facing any pressure on the hiring front especially from niche areas like the aerospace segment?

Vineet Nayar: The fresh hires will be about 8000 this year and balance will be lateral hires and I will repeat 25000 gross hires and 8000 would be fresh hires. This is outside the BPO fresh hires; this is only the IT hires. The second question with reference to are we facing; yes we are facing problems in hiring people in the aerospace and that is the reason we are hiring them in advance and training them and certifying them in domain that is the forward investment that we are doing and that is why you are seeing the expenses in SG&A which we book in and sent them to US for advanced certification and we will continue investing them. There is resource constrained in aerospace and we are forward in investing that space.

Shiv Nadar: Ladies and gentleman can we close this for today, because I am sure some of you would have dinner in sometime.

Moderator: Thank you very much sir. I would now like to hand over the floor to Mr. Vineet Nayar for final remarks.

Vineet Nayar: Thank you very much Ladies and gentleman for joining us and look forward to talking to you when we come to Bombay in our analyst meeting on 17th of September we will have an analyst meeting in Bombay. We would be very happy to answer more questions and share up with the perspectives of the industry and HCL. Thank you very much and good night.

Moderator: Thank you very much sir. Ladies and gentleman thank you for choosing WebEx conferencing services. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.