"HCL Technologies Q4-FY10 Earnings Conference Call"

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Moderator Ladies and gentlemen good day and welcome to the HCL earnings conference call. This is Rochelle, the moderator for your conference. Please note that for the duration of this presentation all participants' lines will be in the listen-only mode and this conference is being recorded. After the presentation there will an opportunity for you to ask questions. Should anyone need assistance during this conference call they may signal an operator by entering * and then 0 on their touchtone telephones. I now hand the conference over to Mr. Vineet Nayar. Thank you and over to you sir.

Vineet Nayar Good evening ladies and gentlemen. Thank you for joining our Q4 and financial year 2010 results announcement. I am joined with Anil Chanana, our CFO, Rahul who is the President of BPO, Anant Gupta who is the President of Infrastructure Services, Prem Kumar who is the President of Financial Services and Health Care and Steve Cardell who is the President of the Enterprise Application Services. So you have a full management team to answer your questions and also give their perspective of what is happening.

This year has been a fantastic year from our point of view. Last year we grew by 17% and this year they grew by 24% year-on-year so, therefore, we registered significant growth during two challenging years which we have exhibited. Our EBIT on year-on-year basis at 16.5% and net income is also up 6.1% on a year-on-year basis. The revenues on this particular quarter are sequentially up 7.7%. On foreign currency they are up 9.1% and the IT services revenues are up sequentially 10.7%. And I truly believe a stellar performance from team HCL has been driven by many strategies which I will come back to.

The other point which we demonstrated that I have been talking about, the lateral strategy been adopted by HCL, we demonstrated that we have been able to hire 6,428 people as the net headcount addition taking our total headcount to about 64,500. So the ability to be able to attract talent, being an "Employee First" company and the ability to be able to deploy them and bill them with marginal reduction in utilization has been something we have clearly demonstrated very well. So where did this growth come from and how did that happen? If you look at the analysis as I said on our AMJ quarter-on-quarter performance the IT services is 9.3% and the IT services on a financial year-on-year is 28% growth. Interesting the IT services on a four quarter CQGR is also 6%. Now our first strategy was focusing on emerging verticals and services in retail, for example, pulled in 17.5% sequential growth up to four quarter CQGR of 10.8% and YoY of 30%. Media Publishing Entertainment also contributed significantly and so did Healthcare to the growth. So the emerging vertical play was a big play. For the year, Infrastructure and APAC both contributed significantly again emerging geographies and infrastructure because of our focus on `run the business'.

The core verticals have been growing at par with the rest of the industry. So BFSI on a 5.5% quarter-on-quarter and actually 8.3% on a constant currency basis; ADM at 6.7% on reported and US at 11.3%, mature core verticals and services also contributed. Now the question comes on discretionary spend and I have been saying that in HCL portfolio is a very interesting portfolio that 50% is CTB, 'Change The Business' and 50% is 'Run The Business'. And for the last about eleven quarters we have been running on a steam of RTB and it is interesting to note that ERS joined the party early in JFM so you saw an 11% growth again followed by another 11% sequential growth and the Enterprise Application has registered a 5.8% growth in OND'09 and then went down, stayed stable because that is the way the project business happens that you will pick up and you stabilize and you pick up again. And 11.9% is the growth they have demonstrated in AMJ'10 on constant currency basis at about 13%. The discretionary spend coming back is also interestingly to see that two consequent quarters of manufacturing also is registering a good growth which is where it's strong and therefore the greens on discretionary spends are looking good. So overall our assessment is the strategy we adopted in the recessionary two years of increasing SG&A spends and converting deals, is taken as an opportunity, has worked well and registering a 17% growth in the first year and a 24% growth in the second year has worked well for us and the growth drivers which we articulated have worked well for us. So with that I go over and handover to some of my key leaders and they are articulating what they are seeing in the market space. Let us start with Anant Gupta first.

Anant Gupta Good day everybody. From a financial perspective I think we had another good quarter. In the back of four quarters of double-digit growth we grew by 8.9% this quarter and actually our EBITDA and EBIT grew faster than revenue at 11.6% and 10.2% sequentially. From a full financial year perspective revenue grew at 571 million up from 355 million last year which is a 60% YoY growth. Interesting to look at is, if you just look at the top four Indian outsourcing providers and the incremental revenue coming from the infrastructure management business, HCL acquired a 50% share of the roughly $450 million of incremental business that was added in the last four quarters. Some of the growth drivers for this and for the accelerated growth are seen in the infrastructure business. Like Vineet mentioned, "Run the business" is an area which kind of gets aided with recession and there is a much higher acceleration option of outsourcing and offshoring and that obviously led to a significant amount of adoption of the RTB services. What we are also seeing is significant amount of large-scale transformations are being bundled consolidated solutions along with the one side of the business of things like data center migration for 3 of last year and our solo consolidation, virtualization and bringing capacity on demand, infrastructure internally is actually providing the value side of these large outsourcing engagements. In the third area what we are seeing is Greenfield system integration services and especially Indian markets in some of the markets where some of the budgets are being released or especially in areas where you have asset which have been sweated already beyond the useful life are kind of coming back on priority in terms of being refreshed. I think one of the key one is really the re-bid market. There is a big large rebid market and the rebid market is actually feeling another large aggressable part of players like us.

In terms of recognition Datamonitor black book of outsourcing. They came out with a survey of both the business models. The traditional IT outsourcing business model as well as the remote infrastructure management outsourcing model, so this was a survey done over 3,100 end users and on both these HCL was ranked number one. In the first one we actually came on top on 18 categories, on second we came on top on 13 categories in that space. The other significant recognition which we have been working is the HCL growth standard where we have framework amalgamating a number of industries standards. So the whole of last financial year we actually did trials with over 12 global customers and the results have been fairly encouraging where we have been able to actually clear a model quantifying transformation which is very critical in the governance of relationship. So with this I would like to hand it over to Steve

Steve Cardell Thank you. As Vineet has already mentioned we enjoyed a very strong growth this quarter after a couple of quarters of slow growth, so 13.3% growth on a constant currency basis. And I think that also reflects if we look at the results from SAP and Oracle and Microsoft in terms of new license sales as they were published in the last week or two. What they are comparing a very bad year last year they are showing strong growth again in their markets and I think we just need to reflect. Where did the growth come from for us, two parts of the market? So firstly we added a number of global 500 new clients to this stable and ramping up those projects. We saw that ramp-up of revenue in this quarter. The second thing we have seen is the return of some parts of business intelligence, customer intelligence and mobility. And both combined, this is what has brought growth for us and we continue to test to do that. And also as Vineet mentioned earlier we also saw the trend of emerging geographies contributing to some strong growth performance.

Challenges and opportunities for us going forward, we need to ensure that the revenue growth that we see, we have the right delivery model, beside that we are adding a 1000 additional resources here in India across five delivery centers to make sure that we can deliver that in the right cost base. And we see growth slightly differently in the Americas where we have seen a strong performance; in Europe where we have seen growth but we have not seen it at the rate of the Americas. So we are watching the European situation aptly protected by government spending. One of our core areas that has been very helpful for us that they are enabling us to win more than our fair share of business this quarter. There has been a focus on the return on investment model for implementations and we picked up as the first company to be globally accredited by SAP for their value engineering to them which is the method by which they assess the return on investment on their products.

Now I hand across to Rahul.

Rahul Singh Good day everybody. I'll talk to you about HCL BPO thought process. As you would have noticed BPO in HCL has seen de-growth for a couple of consecutive quarters and also for the full year and that would give our thoughts on what we are calling as rebooting of HCL BPO strategy in the last couple of months. And what I would like to highlight to you are some of the outlooks on that particular strategy exercise. What we have done is that we have evaluated all the businesses which comprises in HCL BPO today and taken some strategic calls in terms of what business we would like to grow and invest them and what business, on the other hand which are non-core and non-strategic, we would like to either ring-fenced or downsize over a period of time. It depends what we have done is that we have categorized our businesses into three parts in buckets. There is the first bucket of which we believe are strategically important for us and are aligned with our overall BPO strategy going forward but which are loss making at this point of time. So our thought process there is to ring-fence the losses there but continues to invest in them primarily because they are strategically important for us to grow. And some of the businesses that we do, for example, we have a bigger vehicle which is called IBS which is in the insurance space at home BPO. It is loss making at this point of time but we believe it is strategically important for us to position in that segment both from a vertical point of view as well as from a platform-based point of view and we will invest in that vehicle for a couple of quarters going ahead as well.

The second category of businesses is the ones which we believe our non-strategic and non-core where we could be running into losses because of the way that they are organized or the clients that we are servicing from there, those businesses we have decided to ring-fence. Essentially which means that we will on a relative basis de-grow them from total BPO that we run and over time reduce the percentage in those businesses. And the third business is the one where we believe we will focus on growth. These businesses in BPO are more aligned to overall HCL's BPO strategy which is itself built on HCL's core skills where we have looked at certain verticals for growth and we have also looked at certain platforms etc. which we can take to the market in the more aggressive manner and thereby build a BPO proposal around that. And we are already seeing some early successes. Although these numbers do not reflect this in this particular quarter primarily because as you know BPO deals do take time to mature and to grow but we have seen four deals coming through in the last 2 to 3 months which are based on more specific focus on verticals in HCL BPO. I will handover to Prem to speak about financial services and healthcare.

Prem Kumar

Good day to all of you. I am happy to state that at the end of the year we are exiting the past year at almost 25% growth year-on-year growth on the back of 8.3% sequential growth from financial services perspective. The key element of that has been the addition of eight new logos and I would like to reflect on these also because in the last few years we have added a few names which have become very material now, in terms of trying to show almost 65% year-on-year in some of the accounts that we have won in the last few years. And this is on the back of, I would say, a reasonably consistent growth across this last 24 months.

Apart from it, it is important to note that in the last eight quarters what really has been the incremental revenue of the financial services business, we have managed to look at almost about 27% of that business coming into HCL. Despite what you would see as a financial services market share of HCL being close to just about 11%. So I think in the context of where we are as a fourth of the HCL's revenue, I guess we are on the track to try and look at increasing that with respect to some of our peers but distinctly I think from a market share point of view we are on the right wicket.

From a demand point of view I just wanted you to touch upon the fact that there is quite a bit of a discretionary spend coming back in terms of projects. In terms of the fact that a large part of the business over the last few years have been concentrating on the change the businesses that Vineet talked about but I think you have definitely seeing quite a bit of discretionary spend in terms of transformation and new kinds of integration work. Thanks to largely what's really happened in the way organizations have had a merge or tried to de-merge in some context.

One of the other things that we are coming out of these 24 months is with a very strong RTB transformation offering and I think with the emphasis of the 50:50 perspective of 'run the bank' and 'change the bank' that Vineet talked about. I think our 'run the bank' kind of a perspective has really looked at it very strongly and we are emerging as very clearly a differentiated and quite industry-leading propositions around that.

The other point which was very relevant has also been the kind of partnership aligned normally in your revenues that are coming up. We are seeing quite a significant growth. I think it is again linked up with the discretionary spend because I think in the field of financial services organizations of the past were trying to compete on platforms and compete on speed of platforms and speed of execution for their customers. I think that went out in the last 6 to 8 quarters to be more of an inside out organizations which were more concerned about trying to see their cost structures and collections in their balance sheets. But I think now with the fact that the need to look at some of the financial results of their competitors. I think the whole perspective of what one would look at in terms of trying to be ready with fast assistance and looking at a faster implementation cycle, the partnership kind of an echo system that we have created is resonating very well.

With this I think that's an update on financial services I would like to handover to Anil.

Anil Chanana Thank you Prem. As far as the overall company is concerned, a fantastic quarter as Vineet explained. 7.7% growth quarter-on-quarter and if we add the exchange impact, the constant currency impact works out to be much better which is 9.1%. And for the year as a whole the revenues are up 24.1%. The EBIT has lagged slightly. But I am going to explain where and how. Just one thing I would like to highlight here is when you look at the 2.1 billion revenues in FY'09, an EBIT of 383 million, this 383 million included 24 million which came from BPO services. So far as this year is concerned which is 2.7 million and on which we have recorded 446 million of EBIT this is actually a loss figure. So about 28 million has been the impact on account of BPO in FY'10 which we will now look forward to in the future year.

Going further, in the IT services the growth has been much better it is 9.3% and if we add 1.4% which is loss on accounts of currency, it is 10.7%. And the results are much better here. So I will explain where the revenue gain has been and the EBIT explanation in terms of where the EBITDA margins how they got impacted.

Revenue Analysis: the 10.7% growth in IT services is all coming from volumes. This is the 1st Quarter when we are recording double-digit volume growth.

Margin Movement AMJ'09 to AMJ'10: This is a very interesting slide. We thought we should compare where we were just taking the IT services since the overall company revenues have the element of BPO. So let us look at how & where the business is panning out, what the margin profile is. So IT Services Revenues were at US$ 548.6 million in AMJ'09 vis-à-vis US$ 692.1 million in AMJ'10. The EBITDA was 125 million in AMJ'09; this was 22.9% and US$142.6 million which is 20.6% in AMJ'10. The incremental revenue was 143 million. The incremental EBITDA was 16.9 which is 11.8% (EBITDA Margin). However, in this period which is AMJ'10 if we compare it to AMJ'09 the utilization has reduced from 76.2% to 72.9%. And the on-site utilization has reduced from 97 to 95.2%. This impacted the margins which is 4.5% in value terms 6.5 million, we incurred, which is very apparent from the numbers, incremental marketing costs of about 0.5% of the overall company's revenue which translates to 2.8% here. So the adjusted incremental EBITDA which we have earned on the incremental revenues is 27.4 million which translates to 19.1%. Partially there has been a huge movement which just shows this period, there has been a huge movement in the currency in this period and that movement is 13.8 million out of which we have been able to recover 8 million through efficiencies and all. But 5.8 million we have not been able to recover. If we would have recovered that 5.8 million we would have made 22.9%. So incremental business gave us 19.1% if we consider the low utilization and the incremental marketing costs which happened in this particular quarter.

Now I will take the position which is for the year as a whole because quarter-on-quarter the things can vary. There could be very peculiar feature which could be associated with the quarter. So AMJ of 2009 and AMJ of 2010 may have very different market conditions, very different type of businesses we are getting executed and so on and so forth. So let us look at for the year as a whole. So FY 2009 1.9 billion and FY 2010, 2.5 billion and FY2009 included six months and 15 days of Axon revenue which, we all know, came with a different EBITDA profile which was 13%. So had it been full year for Axon and it would have been into the in pie as for IT services which it is now. So this revenue of US$ 1.9 billion would have been US$ 2.1 billion and EBITDA would have been slightly higher and the overall margin percentage, instead of 22.6% would have been 21.8%. For FY'10 Revenues are at US$ 2.5 billion & EBITDA at US$547 Mn gives us a margin of 22%.

So it's a very interesting analysis which has emerged on the incremental numbers. With the above restated numbers of FY'09, there was a US$ 373 Mn incremental revenue and US$ 86 Mn of incremental EBITDA which was generated in FY'10 over FY'09. Thus, the incremental revenue came at a EBITDA margin of 23%, which is higher than what we were generating in FY'09. So the new business which we have executed, have executed at a margin which is higher than the margin at which we were delivering earlier.

Margin Analysis AMJ'10 over JFM'10: So this is a quarter on quarter analysis in terms of IT services. There is a change of 113 bps; there is exchange rate movement of 43 bps. You know about the European currencies the GBPs and the Euros, the way they have behaved this quarter. Lower utilization we talked about; it took away 71 basis points. SG&A took away 47 basis points and however, we could cover it partially through efficiency gains which are 48 basis points. Similar situation is there when we come to EBIT.

How the company has performed vis-à-vis the customer profile. Our top 5, our top 10 and our top 20 customers grew if I take the AMJ 10 as the base and take the customer pair it has grown by 8%, 9%, and 8% respectively. So we are sort of mining our existing customers and this is higher than the overall company growth rate.

DSO - A positive situation again. We were at 84 days overall and we are down to 80 days.

Cash Flows: This is a very interesting slide and I would like to spend a minute here. If you look at FY09 the net income was US$ 264 million and FY10 it was US$ 281 million. However, in the last year FY09 we generated only US$ 206 million of cash through operations. This year we generated US$ 384 million of cash which is almost double. The EBITDA conversion ratio went up from 43% in FY09 to 69% in FY10.

Debt: So it's now reflected throughout the balance sheet, our loan funds, net loan funds which were 221 million as of 2009 is now down to 37 million. So we are maybe a quarter away to square this off. We prepaid about US$ 39 million of loan. Our loan got re-priced and we got 150 bps benefits due to the de-pricing of the loan. You see the interest and dividend income as US$8 million and the interest expenses as US$ 12 million. So has that US$2 million of additional component which is there, which partially is reflected by the unamortized charge on the US$39 million which has been taken in this quarter. The interest dividend income does not include about half a million of return which we had from the mutual fund units which is yet to be realized and will get realized in the subsequent quarters. So overall we do not expect the US$ 3 million to US$ 4 million is only a quarter phenomenon, it should go down back to US$ 3 million or even lower.

Hedge details: So our hedge is now at US$ 362 million. The average booked rate has improved more because we have US$ 95 million of hedges in this profile which are at Rs. 47.37. We have range options, we have put options which you can see at the bottom so we are using these instruments to hedge ourselves and our hedges remain within our hedge policy so they cover us for the next three months. The cross currency hedges are about US$ 33 million out of that total US$ 362 million and they are rated to being the USD-INR hedges.

Forex Losses: In this quarter you would have seen our forex loss going up from US$ 14 million to US$ 29.5 million. Unfortunately, this was the quarter when we had the maximum value of hedges and that too under the mark-to-market category. So last quarter we had got a benefit of US$ 4.3 million. However, this quarter we got a hit of US$ 3.3 million where the hedges we were following through cash flow hedge accounting. Again since the average rate in AMJ'10 was higher than the rate which was as of March end. So we got a slight hit on account of that. The foreign assets and liabilities we got to hit more because of the assets we had in GBP and Euros which gave us a hit of US$ 4.2 million, so net-net the hedge loss was higher this quarter as compared to the last quarter. Now the hedge position is, the old hedges are tailing off. Now we have 1-2 quarters principally of hedges left. So where we will be recording US$ 15 million and US$ 5 million of hedge losses. This on the hedges which were taken more than two years back.

This is the amortization schedule of US$ 14 million. We will basically guide you on how the amortization schedule will look like and you can see the schedule here.

Tax provision – So this quarter you would find the tax expenses, the lower expense as compared to what it was in JFM'10 quarter. We reversed US$ 6.8 million of provision we had created because of the computational anomaly in the formula which was there and has been now removed. Secondly, we also recognized some tax benefit on certain tax attributes losses incurred in foreign jurisdictions in our subsidiaries where we are seeing better improved outlook and we will be able to take the benefits thereof. So overall in FY10 our effective tax rate was at 18%. Going forward we expect, particularly in the foreign jurisdictions, a bit higher profitability position and STPI design is coming to an end from April onwards. So due to these we expect our tax rate to inch-up to 20% till March 2011 and then go up to 25% from April 2011 onwards. So this year which will be FY11 the average rate will be 22%. So this guidance we are basically giving on the premise that the profit linked at STPI benefits will only be available only to the units which get established before 31st March and under the DTC the statutory tax rate remains at what it currently is. So there is a likelihood that this will come down. However, for this purpose we have taken it at the same.

Dividend: This is the 30th consecutive quarter of quarterly dividend.

EPS: So overall we have improved our earnings per share to 42 cents from 40 cents a year and diluted again 39 cents to 41 cents.

The other key thing is the balance sheet has got significantly strengthened. We were at US$ 1.2 billion as of 30th of June and now we are at US$ 1.5 billion. We talked about the net debt position which has come down from US$ 221 million to US$ 37 million; the DSO has also come down.

Deferred Revenue / Costs: We record deferred revenues and deferred costs on fixed price projects, on annual maintenance projects, on transition services and multiple deliverable elements of the projects. And what we do in terms of fixed price projects and annual maintenance projects is what most of our peers in India do. What we do in respect of transition services and multiple deliverable projects is what globally IBMs of the world do and it is an established US GAAP accounting practice where we do not recognize the margins till the time US GAAP allows us to do. So in respect of annual maintenance projects which is normally what happens in the infrastructure side of the business where they sign annual maintenance contracts till the time the services are delivered. Though they might be built at the beginning of the year, we do not recognize the revenues as it gets recognized as we deliver those services, so this portion has gone up from US$ 39 to US$ 59. This usually is the trend because at the beginning of the year the billing happens to the customers. In terms of transition it's not a significant change except that the deferred revenues have reduced by US$ 5 million and the deferred costs have reduced so we have booked US$ 10 million of costs and US$ 5 million of revenues this quarter. And the margin which is carried forward is US$ 39 Mn which will get recognized over many quarters.

This is stock options and Vineet, would you like to talk about this?

Vineet Nayar Sure, one of the critical aspects of going forward is the ability to be able to excite the leaders to grow the company in the next five years. So we have decided to grant 1.9 million shares on the similar lines as we did in the past and which constitutes to about 1.16% shares, this is over a period of five years. So the charge associated with this is estimated, in Q4 we had the total charge deferred tax of US$ 5.2 Mn. That will go up to US$ 5.8 Mn in Quarter 1 and then it will come down to US$ 4.4 Mn, US$ 4.4 Mn and US$ 2.8 Mn, so total charge of US$ 17.4 Mn will be the charge in the next year. Charge net of tax will be US$ 5.1 Mn what it was in Q4, it will go to US$ 5.5Mn, then US$ 4.1 Mn subsequently to US$ 2.6 Mn.

Vineet Nayar They are below market price. They are not at market price.

Okay with that we open the floor to question and answer. Operator please take over.

Moderator Thank you very much. Our first question is from the line of Ankur Rudra of Execution Noble. Please go ahead.

Ankur Rudra Hi good evening gentlemen, and congrats for a brilliant quarter. Starting with a bit on the market trends, Vineet, if I may. Some of what we are hearing from consultants which is TPI, is that RIM at AT&T remains the key component of large deals right now. However, that should benefit you. However, in Q2 and potentially H2 as well, we see a weakness in large deals activity. Just wanted to know how this reconciles with what you are seeing in the market?

Vineet Nayar I think you are absolutely right. There are three indicators which are negative. The manufacturing indicator which came out from US, the TPI indicator indicating to a soft Q2 which is calendar year Q2 and predicting also a softer Q3 which traditionally July, August, September has been the softest quarter traditionally as per TPI index and some other reports are also indicating to the fact that the total IT outsourcing bids are very soft. And Europe is actually grown negatively whereas America is flat. And I am sure you have seen that analysis. When we look at the deal flow what you would notice is and which is something I had said is that most of our deals are coming from existing customers expanding our relationship within those customers. So we do see the deal flow much lesser than it was before. And that is the reason we have shifted our focus in expanding our markets within the existing customers and we are seeing that happen. With the new deals we are winning is what we had won maybe two years ago and now we are expanding our markets within that. So that's the first trend which I am seeing. I think there is another trend which we did, what we did was, we did a decade analysis. We looked at year 2000 and we looked at year 2009 and looked at the top four Indian IT providers and the market share they gained during these nine years on the overall IT spend across the globe. And that was about 300-330 basis points is what we gained. And that was identical to the gain which IBM and Accenture did in the similar period. So that caught us by surprise. So what that indicates basically is that the gains which were gained both by the IBM and Accenture and the Indian ITs, you know these are the large players, was at the cost of the smaller players. So my hypothesis right now, because it can only be hypothesis, is the fact that the smaller players regionally are losing out in vendor consolidations. These are regional players in their respective regions and that vendor consolidations are going in trickle effects rather than big outsourcing contracts to existing vendor's either to the big Indian players or to the big global players and, therefore, that is the trend which is driving this set of revenue growth number you are seeing rather than big total IT outsourcing deals which is what we saw in the earlier part of last year which coincided with what TPI said. If you remember when I had come and said in the first nine months of recession, we have done I think about a billion or billion-and-a-half, I was showing you the TPI growth curves and the deal flow of what TPI was saying and HCL signing was coinciding and therefore I do believe in the TPI data which is coming in.

Ankur Rudra And in the year do you win deals with about $2 billion, is that correct?

Vineet Nayar Yeah it is correct but if you look at the deals like Merc right, Merc was $500 million, it was existing customer. So most of the deals which we won, yes we won deals but they are not a typical Reader Digest deals which are talked about, so the deals we won in pre-recession nine months, we won from new customers, new logos. Here we won deals from more existing customers. Axon won all its deals from new customers. But if you remove Axon from the $2 billion most of our deals we won from existing customers.

Ankur Rudra Okay that's useful, just a couple of questions on Axon and EAS, if I may. First of all what could we expect the impact of austerity measures, especially in the UK in the Axon business given historically a lot of revenues were from public sector?

Steve Cardell Hi this is Steve Cardell, let me take you that question. So I think there is a threat and opportunity for us on the austerity measures. The threat is without doubt the total amount of spending by European governments will decline over the next three years. So there is no doubt about that. The opportunity though is if I take the UK government which is the most mature in its use of IT services vendors, most of the work over the last five years, it's gone to EDSs, HPs, TSEs of the world and the Indian offshore players have had a very small look into that market. So the opportunity is there as governments are looking to reduce cost as they are looking for more creative ways and for partners to be more creative. That presents an opportunity and could potentially increase interesting market for us. So there is a threat due to austerity measures, there is also an opportunity because we think there will be a lot of switching that goes over the next couple of years. Specifically on the Axon business we had within Europe, public sector was probably within our top five verticals so we have some exposure to that market but not a huge exposure to the market

Ankur Rudra Thanks. Just one final question we have heard about the attrition in the offshore space. Could you give some sense of the attrition on the onset especially on Axon with consultant given the market is recovering now and we see discretionary spending coming back?

Steve Cardell So we do not disclose attrition at several levels but I would just make a common assess, what we see there is consistent to what we see throughout the rest of the group.

Ankur Rudra Thanks a lot and best of luck for the remaining quarters.

Moderator Thank you Mr. Rudra. Our next question is from the line of Mitali Ghosh of Bank of America. Please go ahead Ms. Ghosh.

Mitali Gosh Yes thanks, good evening. Firstly just on the deal closures in the quarter Vineet, what was the kind of deal closures we saw?

Vineet Nayar I think with this is not something significant Mitali. We saw the Merc deal which we announced it in May but it was signed in the last quarter. Nothing material. Other than that the Singapore Stock Exchange we had announced which is $100 plus billion deal.

Mitali Gosh And just wanted to focus on the margins actually. Anil in fact, I think, end of June you were expecting almost like a 200 basis points margin decline for the quarter which eventually you were able to restrict to only about 90 basis points. So what were some of the offsets that, perhaps you were are unaware of at that time or did some cost actually get postponed into Q1?

Anil Chanana Mitali, to answer your second part first, there is no cost which got postponed. Actually we have incurred the cost, you see the SG&A spend in this quarter being higher than it is typically otherwise. I think one of the things which were anticipating was the hit on account of European currency. When we were doing the computation it has varied on a day-to-day basis. So this has been earlier anticipated to be more than 100 bps and then finally it came down to 45 bps. So that was one. The other is the project profitability; so we have been working on sort of trying to see how we can improve the project profitability. We have invested in the deliveries significantly. So the focus is to look at the project profitabilities and improve that, introduce processes, introduce a capability based organization here.

Vineet Nayar I think Mitali if I could add, the engineering services growth added a significant part. It came towards the end and it added significant margins to us. The kind of projects which came has positively surprised us.

Mitali Gosh Okay and Vineet if you could just comment on the margin trajectory over the next 1-2 years. Because on the one hand you could see an uptick on scale benefits or, for instance, BPO turning around, on the other hand you did comment on television today that you would be investing in sales, solutions, people so that could also imply a lower sustainable levels. So any color on that would be very useful.

Vineet Nayar I think I would like to make the following comment. I think HCL is in a phase where it wants to be seen as a very respectable option to global players in key accounts, in key verticals, in key geographies which we are playing. And, therefore, the battle royal is going to begin when this stacks are complete of HP and Accenture and IBM and the deal flows are going to move more towards cloud computing, transaction based pricing. So, in the next five years we are going to see a radical change in the way the service provision is going to happen. From an HCL point of view, I believe, that exactly it is the way we felt in 2005 is the way feel in 2010 is that we are not ready with countering those propositions which are going to arrive in the market at price points which are going to very aggressive because they are going to be bundled price points. And, therefore, we need to fix a couple of things and we need to make some investments. The first investment we have already made in terms of having transmission capability so that we can take a 100 cost and convert that into 30 without moving it offshore, the ability to transform and bring in business benefits. That is where the Axon capability really came in. The business services capability was largely call centre oriented from our point of view and therefore it was very important to have the front-end as business services and I will tell you one of the deals which we have recently done in this quarter, which is the publishing company and we won a deal against a global major on making the page in India. And what we did was, this customer had multiple platforms which he was using to make pages. We had number of people doing that so we re-wrote the platform, re-configured the platform so that the number of people used to do the same job dramatically reduced and added offshore into it and converted that into a hosted transaction based pricing for him. It is the kind of deals we wish to do in business services and that was only possible not because of the BPO capability, because of our vertical knowledge, our product engineering capability of re-platforming, and our BPO capability of executing after that was done. So those are the kind of things we need to fix. So that is the second thing which we need to fix more and more and that is the reason we are making in the investment. The third thing we need to fix is that we need to fix, then we need to be in the right customer place. If you really saw the growth from 2000 to 2008 that was the momentum growth that the market grew and if you were with the right customer, the right time you grew with it and you also saw that the repeat business was the large driver of growth during that period. Now when the momentum of growth comes in, it is very important for us to be inside the right table, rather than outside the table trying to fight to come in and that is therefore the emphasis in HCL on getting inside the doors for the last two years because we see recession as a great opportunity to do that and then we see new service propositions which are going to come up later on as new opportunities to getting inside the right door. So one of the big movements in the last two years is not just the revenue growth, but it is the kind of doors we are inside and the kind of expansion we will be able to deliver.

One of the things we have not talked about out here is the fact that we did an independent customer satisfaction survey which is done by feedback consulting and we saw a 21% year-on-year increase in customer satisfaction which indicates to the maturing delivery capabilities we are bringing on the table, multi-service delivering capability on the table. A lot of questions were asked, these are delivery mature or not, but if you can see that from expansion of revenues from existing customers wining new deals on the reference of existing customers, improving customer satisfaction that our delivery model and our delivery capabilities is quite out there and the last thing which we need to do Mitali from sales and marketing point of view is to have a very strong engagement management structure which will be focused on transformation of the business and that is one initiative Axon had of how to build up a transformation capability and hired a leader to do that, so that we can bring in not business consulting capability, but business transformation capability in existing customers where we are forming transformation boards and coming up with the ideas which are a combination of our product engineering, our infrastructure transformation services, our application transformation services, and our enterprise transformation services and all that through that board. So all these areas is what we will continue to invest because I am worried about tomorrow and I am excited about the tomorrow's opportunity also. So what does it mean from a margin point of view, from a long-term margin point of view, I believe we have, these are investment areas. What are the opportunity areas, the opportunity areas is you have seen aggressively hire laterals. There are 6,500 people who joined us, who walked from some organization into HCL. Therefore we have significant headroom for growth in expanding the pyramid, adding freshers at an appropriate time whenever we wish to do that. So that is a margin lever which currently I do not wish to exercise. The second margin lever is that we are still moving into campuses. We are diversified into multiple locations. You know that we were the last to come into campuses. As we move into campuses and as we move more into SEZ, the operating levers come into place, that becomes better and better. Third is we demonstrated in infrastructure services that we started our journey at 5% margin,, took it to 10% margin, and now it is 15% margin. So we have demonstrated that with scale, we can pull in margins and we have demonstrated that infra and you will see that demonstration in multiple other businesses. I have to demonstrate as we move up the other units which we are starting now. BPO will have to demonstrate that. So that is from the positive margin lever point of view on a long-term basis. I think we have enough to use to fund the investments which I am saying we wish to make and therefore our strategy is to remain constant on margins and then use some of these margin levers to make up some of the exchange impact, but outside the exchange you should see our margins virtually at the same levels till we have done with the investments until we think that we are in the right place to fight the new battle which would start any time in a year from now.

The last point on a short term basis. On a short term basis, you would see a margin dip in the next quarter and the reason for that is salary increase which you have always seen in July, August, and September quarter from us. But as if you can do the historical analysis of per day HCL, you will see that in financial year 2007, in financial year 2008, financial year 2009, that we have been able to recover it. So the April, May, June 2010 margin, you will that in April, May, June 2011 also outside the exchange impact. So there may be a margin dip happening in the next quarter, but we would be able to recover it and we will be back to square one in April, May, and June 2011 outside the exchange impact. I hope that answers your question.

Mitali Ghosh Sure, that is really helpful. Any guidance on how much the wage impact can be next quarter?

Vineet Nayar Yes, so one of the things we are doing differently in HCL this time is given the situation of a lot of heat generated in the market on laterals, I think somehow there is merit in the argument or not a merit in the argument there is a huge amount of demand for laterals. We are preponing the compensation increase of some of the constituents of HCL from 1st of October to 1st of July. So the regular increase of 1st of July will happen in addition some of the 1st of October is getting preponed to 1st of July and we expect the salary increase impact in the last quarter to be 300 bps.

Mitali Ghosh Thank you very much.

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

Pankaj Kapoor Hi sir, just a couple of questions. First is a small clarification on our SG&A expenses where I think on a year-on-year basis they have been coming down in the last 3-4 quarters. So just want to understand how does this link up with our going forward plan of investing more in SG&A?

Vineet Nayar I think the issue here is that the SG&A which we have been investing in is what I call the right investment of SG&A. If you see historically, our SG&A has been historically very high and with volumes growth, for example when we open Middle East or when we open Continental Europe that SG&A as a percentage of revenue look very high. But the revenues once comes in, we don't need to increase the SG&A because we have already forward invested SG&A. So Sweden for example, the whole Continental Europe territory is giving us now about $200 million of revenue. When we started that, Continental Europe started and made the investment of I think about 10 to 15 senior leader sales program, there was hardly any revenue there and with the revenue coming in, we don't need to have more SG&A. So that is the advantage you are seeing coming in from SG&A as a percentage point of view. So once we gained that and we figure out now where else to invest in SG&A, we will go and invest the SG&A that has to earn its back and then we go and invest the SG&A back again.

Pankaj Kapoor Sir going forward when we are looking at other different kind of a margin headwinds, will this constitute one of the levers you want to use that the profile of the investment may change, but on percentage basis, it may keep coming down?

Vineet Nayar I think there are multiple levers which we can use and the guidance which I am giving is we are sharply focused at the EBITDA margins or actually at the EBIT margins. And our objective is to use some of these levers to either go up and make forward investments and then save in SG&A or save or improved gross margins and increase SG&A. We will play around with them, but our view is that on a full year to full year basis we should deliver the same EBIT margins as we have delivered in the past and aggressively demonstrate that we can absorb investments like we are demonstrating in Continental Europe first, now in BPO, now you will hear a bit about cloud computing and mobility which we are investing in, because it is very important for the company not suddenly focus on squeezing the margins out too early because in the end, it is growth. If you are not growing and if you are not taking market share, your relevance in the market reduces and as your relevance in the market reduces, your momentum drops and we don't want our momentum to drop, we want our momentum to continue growing because I can always use these margin levers whenever I want to, to try and get stability in the margin which is what our stated strategy is and which we will continue following.

Pankaj Kapoor And sir two things which you have highlighted in the results, one obviously is the pick up in the discretionary spend and the second thing that we noticed is the stability in the quarterly attrition rate. Both of these are slightly away from what has been reported by the peer group. So can you just give us some sense of what we are doing different over here in these two areas. And what is guiding our thought process here?

Vineet Nayar The first is I would believe that from an attrition point of view, we are second; I think TCS has indicated a better attrition management than us. But yes, you are right in terms of two of other peers are worse off than us. So I think it is less to do with what we are doing. I think we are doing nothing different, because we didn't even given salary increases in the last quarter, it was actually our cycle is first of July. We are just doing the basics right and I think somehow that seems to be working and I am very happy to see the attrition especially go down in BPO with the Parivartan Program we have launched in BPO and that is very heartening to see that. So that is my view on attrition, but we will have to keep watching that scale. I do not think on attrition there is a cause of worry that the attrition is increasing, but I think we will be on the lower band of attrition not on the higher band of attrition given the fact there is a huge amount of investment we have made in our people policies. On the discretionary spend, I think I would like to say the following and Steve can you explain the whole concept to discretionary spend and strategic spend and then I would give you a guidance of what we think is happening.

Steve Cardell: Yes Steve Cardell here. The comment I would make on this is the way we actively describe discretionary spend in the past has been projects that companies can choose not to do. I don't think we have seen a return of discretionary spend because companies, I think, are still only doing what they have to do. But we are seeing is a return of strategic spends. So for the last year, the budgets were almost completely closed off and companies were not in projects that actually they needed to do and where we seeing the return is really two kinds of strategic issues which fall under particularly EAS side. So one is consolidation projects where companies are looking at either the large projects, are looking to reduce that ongoing cost base. So these are typically platform consolidation or the implementation of enterprise platform to displace a whole suite of legacy applications to give a long-term lower cost base on which business can be build. And on the second category of projects that we have seen has been this suite around predictive analytics, business intelligence, custom interactivity; the deployment of the core platform on to mobile solutions. There is high volume of those; they are smaller projects in their nature. But they are very strategic to what the company is doing, so we have certainly seen a return of spend into those two categories. I wouldn't say we are seeing the traditional discretionary spending projects are sort of aspirational or nice-to-have projects. But we are seeing companies strategically investing again, but doing it in a very thoughtful manner.

Vineet Nayar So the implication of that Pankaj and that is very interesting analysis and I will say the same thing in engineering projects that we are seeing very small strategic projects and not those big bang ODC formations and those kinds of projects which we used to call it discretionary spends. So therefore the cause of worry here and there should be a note of caution out here and we would be very clear about this that we are not declaring discretionary spend is back, we are saying small projects spend is back. But the difficulty of that is the predictability of next quarters are very weak because you have to earn the small projects and you have to move virtually quarter-on-quarter at 6 months at a time. For example, our visibility on enterprise applications for the next quarter is marginal growth to flattish predominantly because we are not seeing the same level of discretionary spend as we saw last quarter, in the next quarter. So we will have to play this on quarter-on-quarter, but our view is then whenever anything moves on small strategic play like a blueprinting exercise, after blue printing they will sit down and not do anything about it. We want to participate, we want to win because whenever it opens, whether it opens immediately or it opens later, then the tail will come automatically to us and therefore we are focused on it and therefore we identified it to you, but I think discretionary spend is back, is not the right way to summarize it.

Pankaj Kapoor So sir if I just look at this quarter numbers that we had a very strong growth in the R&D services as there is on the EAS side and I am assuming that both these services will typically have a high realization. On a blended basis, our realization has been flattish. So what would you attribute this flatness to?

Vineet Nayar So the EAS realization is much lower than company average and engineering realization is much higher than company average and you know that, and you know when we bought Axon that the realization of that business was around 13% and you know the engineering realization is much higher than the company average realization. So that is the reason the realization remains the same.

Pankaj Kapoor Okay sir fair enough, thanks and all the best.

Moderator Thank you Mr. Kapoor. Our next question is from the line of Pinku Pappan of Nomura Securities, please go ahead.

Pinku Pappan Good evening and thanks for taking the question. I just caught on the last comment you made, you were talking about EAS realizations being much lower than the company. So are you doing anything, if you are adding 1,000 people in India for that, so is this part of the strategy to improve realization there and also take your offshore revenue share higher than, you know what is currently, I think if I look back in FY08 you had much higher rate of offshore revenue mix than what you have now. So what is your strategy around that?

Vineet Nayar That is correct, you summarized the strategy well.

Pinku Pappan Okay the second thing is you were talking about re-biding opportunities in infra services, could you give us a little bit more color on that. What exactly is the opportunity and how big is it?

Anant Gupta If you look at the reports which states roughly there is a north of $40 billion of rebid market which is happening from financial year 2010 to financial year 2012, so it is three year period and if you translate that back into what typically moves out from the incumbent player historically the ratio is to be 80% would go back to the incumbent and 30% would find a new service provider, marginally that has gone up to a 70-30 kind of a ratio, so there has been an increase in the churn from an incompetent player and then if you really take out the non-addressable space of government and federal, I think the real opportunities for players like HCL is in the order of $8 to $12 billion. Now obviously some of that has already been happening and lot of the bookings that we did last year, I would say 50% of that really came from wins in the rebid market when we had a fairly good win ratio, Singapore Exchange is classic example of that.

Pinku Pappan Okay and so you were talking basically of three buckets in the infra-services space, so where exactly is the maximum opportunity you are seeing. You have been talking about rebidding and then one more, I am not sure I got it.

Anant Gupta I think the three different spaces, so the traditional run the business which is large scale or medium scale IT outsourcing driven largely by markets which are still depressed so that is coming in from the European side. Engagements which are looking for quick ROI similar to what Steve mentioned which is large scale transformation, but requiring quick return of investments either around fragile assets or something which would give a direct business benefit is what we really see from the America side and thirdly is the system integration services largely being fuelled by the emerging markets which are actually investing in large scale turnkey projects like India. So these are three different markets, obviously they are getting fuelled from either in-sourced services or the rebid market which is already outsourced to traditional players.

Pinku Pappan So RIMO falls into which of buckets?

Anant Gupta RIMO forms a part of both the first and the second, so that is an integral part. RIMO is pure remote infrastructure management; full service resourcing, retail outsourcing is the bucket which includes RIMO as a core, but then also has additional services which is global delivery services or providing the Data center hosting services and things like that.

Pinku Pappan And the last question is more related to when you were talking on the interview in TV you were seeing more of IT plus BPO deals. So how does this change come to BPO, I mean why weren't you seeing this earlier and why now?

Vineet Nayar I don't have an answer for you. I just indicated the fact that those four deals we have done are the integration of BPO and IT. I think one of the things I would say is that because of a hard integration of BPO now with our vertical structure, our sales team is creating those deals. They are trying to see if there is an IT transformation deal, they are saying, they are trying to search for BPO which is using that platform and see if they can merge the two deals and make it happen. So I would not call it trend, I would just comment of the fact that the four deals we have seen are interestingly integrated deals, let us report back to you in the next quarter.

Pinku Pappan Sure thanks a lot and good luck.

Moderator Thank you Mr. Pappan. Our next question is from the line of Nitin Padmanaban of India Bulls Securities, please go ahead.

Nitin Padmanaban Hi, thanks for taking my question. Great quarter, I just wanted your thoughts around utilization. How are you looking at this at HCL, is it that you are looking to create a buffer and maintain it at current levels or can this be used as a lever in the quarter going forward?

Vineet Nayar You know as I said, the answer will change from quarter to quarter. Utilization, we hard drove numbers this year; hard drove means hard drove resourcing because we wanted to get inside some doors because of the speed at which we move and that drove down the utilization by 200 basis points. Now, Steve is going to contribute to another utilization fall by putting an additional bench. So I would say that we would use these levers up and down, but our emphasis is on a full year to full year basis to try and be at the EBIT level the same.

Nitin Padmanaban: Just from an industry perspective just to understand, do you see the need to keep a lower utilization and maintain a bench because of the kind of demand that we are seeing for people and the kind of attrition that could come?

Vineet Nayar No.

Nitin Padmanaban Fair enough. And another thing with regards to the engineering and R&D services, you are seeing good growth. I think 28% of incremental revenues came from there. Just give us a flavor of what is the kind of areas for which we have seen incremental work here?

Vineet Nayar So there is something very interesting which we did, which is what we created what we called engineering out of the box. One of the things we started focusing on was there were a lot of platforms within the CIO office which are obsolete. So take media and publishing for example or broadcasting for example. They are working their entire billing system and production support; production is working on systems which are bought from vendors who do not exist or bought from vendors whose business continuity is threatened or well developed 5-10 years ago, where there is no sight of a resource code and the reason these companies are very vary of touching these chords is because they don't believe that software development vendors like us would have the capability to be able to give a risk free transition of those products into new platforms. So interestingly what we said was that actually we can throw the engineering folks at this problem rather than throw the software development folks at this problem. Because in product engineering whether the kind of work we have done in Boeings where we did 5 million lines of code transition of navigation system or we did for Cisco, where have taken old platforms, replatforming them. So that is the core capability we have in engineering and therefore if we could transition that engineering and apply to the CIO office and identify large platforms which are working well which don't need to change, there is no cost objective, there is no cost benefit which you will be able to achieve other than the fact that you would spend to get the business continuity, would we be able to drive the engineering business. So that is the first reason for growth. The VIACOM announcement which we did was actually an engineering project and same is true with lots of CIO especially in media publishing and entertainment you seeing a lot of traction which we are gaining out of this.

The second area of growth which is coming out is from the hi-tech vendors who are slightly getting ready for new products in anticipation of the demand swinging back. So that is a bay area phenomena where there is a bullishness in the bay area that we need to now up the R&D investment, ahead of the demand coming back. So that when the demand comes back, we have the products ready to go and we are seeing that in securities and storage, in servers. The third phenomenon is the competition; sadly is heated up because who is a server vendor, who is a storage vendor, who is a network vendor, who is a security vendor, the lines are becoming bleak and therefore everybody wants to be everything and therefore we are seeing upswing of that kind of R&D spends. These are three trends which are driving the engineering, but we will have to wait and watch out how this pans out because this is all in the hope of the economy recovery. So this is what I call hope investment in strategic investment. If the hope converts to reality, then the investments will continue. If the hope does not find feet in actual buying of their products as we saw with the manufacturing data which came out, then I think these two businesses will go back to their flattish growth curves and you will see the RTB coming back. So it really depends on how the macroenvironment plays out.

Nitin Padmanaban Sure great that would help. Just one more thing, if you could just give a sense, I mean in this perspective. If you look at the cost of hiring a lateral today as it was may be a couple of quarters back, in what range would it be in terms of the increase in cost for the industry as a whole?

Vineet Nayar I have no idea, I have not thought about it that way.

Nitin Padmanaban Sure, perfect, thank you.

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

Sandeep Shah This year if we look at the BPO, as Mr. Anil said has impacted the full year margin by more than 100 bps, so do you believe now this can be a gradual tail win when going forward?

Vineet Nayar No, I thought we guided so here is the BPO numbers. I think if you look at our IBS which is the insurance platform which we acquired, we have made a loss of $9 million on that in the financial year 2010. Now this company we acquired, if you remember we did not pay anything to acquire as it was a loss making company and it continues making a loss. So let us say the loss is about $2-$2.5 million per quarter and that is what you see in IBS. Now the reason this company makes a loss is because it uses every time, say it has multiple customers, every customer has a different platform and therefore to be able to service those customers around every platform, you have a significant inefficiency in the system and therefore you make a loss because you use more people than you really require. The hypothesis of acquisition at that particular time was first stabilize the operation because this is the regulated entity and it is important to stabilize the operations so that we are not in the wrong side of the regulator which was objective number one, so therefore there was investments required in processes and people and getting the controls right and getting the matrices right and make to sure the regulator is happy because in the past, the regulator was not happy with the operations of this company, this is before we took over.

The second was that there is an opportunity of converting this multiple customers which we have into one platform and develop a platform not from scratch without knowing who the customer is but with customer in front of us. So can we convert all this into one platform and then once we have the platform and we have this multiple customers using this platform, then we can actually take it to the rest of the insurance market which will turn out to be a fairly big opportunity and we are in a unique position because we have an entity and we could immediately declare that we have 10 customers day one and that would need about $30 million of investment to develop a platform and which we started I think on first of February last year and that would take about 7 to 8 quarters to develop and therefore there is an additional charge, I may have the wrong numbers, but about $4 to $4.5 million the charge we are taking. So overall IBS itself on a combination of operations loss and combination of investment in people process and product development is generating a loss of $6.5 million and I believe that loss will continue for a period of another 6 or 7 or may be 8 quarters in the IBS alone.

Now, the rest is one what I call the non-strategic BPO which Rahul and his team have ring fenced and stopped focusing on it and we hope that it will go away and if it goes away, then it should start improving the margins because it is not very attractive margins because we pulled the management into what we call strategic BPO, the kind of deals which I told you we are doing with the publishing. So now we are focused on IBS we are very clear what we need to do for the next 6 quarters and we are not going to take any more contract. We have taken the **ELAS** contract because that was critical for us to gain scale there and use ELAS to develop the platform which we are doing.

Now, the focus is that how can we grow the core BPO in the form which we want to do by vertical zing BPO around our verticals and that is the focus of growth. So there you will see growth coming back that is a breakeven operation that will become a profitable operation, but again some investments which have to be made. Now, we are hiring aggressively in creating capabilities across multiple business services and those are the investments which are going into BPO. So my view on BPO and that is also Rahul's view on BPO is that in this financial year, you will continue to see similar losses as you have seen in this quarter, the reasons for losses exchange but the losses may be in form of investments or whatever it will may change, but the losses will be at the current levels for the complete financial year and may be one quarter more.

Sandeep Shah Okay, so sir with that when you are saying that on the constant currency, the margin would be even flattish in the FY11 versus FY10?

Vineet Nayar I am sorry, I meant it for IT services.

Sandeep Shah Okay, you meant for IT services and second if you look at in this quarter, Anil if you need to just look at is there any nonrecurring nature of margins which can convert into a tailwind in the coming quarter?

Anil Chanana No, I do not think so.

Vineet Nayar The nonrecurring project is not recurring if you mean so they will not become negative. For example in EAS, we have already guided that the next quarter will be marginal growth or flattish growth because we are going to move key projects offshore from onsite and therefore the growth is going to get compensated for the revenue loss because of off-shoring, but other than that projects by the nature you do and then they come to an end and therefore you have to sell more projects.

Sandeep Shah Okay and this last thing as Steve has said that the return on the strategic spend and now we have AXON in the kitty, so do we believe that our share in terms of strategic spend in the existing clients of HCL tech this likely to pick up going forward?

Vineet Nayar I think it is yes, I think that was the premise of the acquisition and I hope it happens.

Sandeep Shah What I meant to say is the decision making from the client side is positive to take that business synergy benefits?

Premkumar Indeed I mean I think if you look at it in the context of the EAS business; the AXON business which from an enterprise application side if you take the financial services and I mean there is a greater amount of acceptance and greater amount of win-ability possibility thanks to AXON.

Sandeep Shah Okay, thanks.

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

Ashwin Mehta Congratulations on good set of numbers. Just wanted to get a sense in terms of our EAS grew by almost 13% in constant currency terms, did it entail significant contractor costs in this quarter?

Steve Cardell **S**o there was no material change in the mix.

Ashwin Mehta And secondly in terms of our SG&A, were there any one-offs which are not expected to recur in the coming quarters?

Vineet Nayar Yes, there were one-offs, but will it not occur I have told them I am not going to release that SG&A and I am going to invest it somewhere else. We did a global customer meet which cost us $4 million and Anil wants to pull it back and I will not allow him to pull it back. We need to keep investing in brands reach our programs and things like that. So that is the conversation which is still to happen between me and Anil.

Ashwin Mehta Okay and in terms of BPO, we saw almost 10% sequential addition in headcount. So does that mean that the growth accounts where you are looking at growth versus the accounts where you want them to ramp down the growth accounts are actually wining some shares?

Rahul Singh If you look at the BPO FT trends over the couple of quarters, you would have seen there was a decline happening there. So one of the first things that we have done is that we have obviously looked at the accounts with neat happening and we plugged that and therefore we see a ramp up in the FT this quarter and it also goes back to my earlier strategy where we said that we will continuously focus on the third strategy of BPO accounts and businesses which we think are right businesses and which you should focus on for growth. So it is those categories where we have the incremental heads are going to go into that category.

Ashwin Mehta Okay, thanks a lot and all the best.

Moderator Thank you Mr. Mehta. Our next question is from the line of Dipesh Mehta of Khandwala Securities. Please go ahead.

Dipesh Mehta I have only one question about industry related scheme. Once we said we are engaging more on your new engagement model like cloud computing, transaction based pricing, so what impact it would have on our revenue and reported pricing matrix, because we used to report pricing difference. For that what impact extract on pricing as well as profitability going forward?

Vineet Nayar I think it is too early right now for us to say this, the cloud is still a dream and it is business model which still has to emerge and therefore let us succeed. I think it is too early to comment on something which we have not even seen early steps of it so let that happen, then we will understand figures of it.

Moderator Thank you. Our next question is from the line of Radhika Merwin of IFCI Financial Services. Please go ahead.

Radhika Merwin Hello, good evening sir. Congratulations on a very good quarter. Most of my questions have been answered, it was in the enterprise application space so I will come back later on for follow-up. Thanks a lot sir and all the best.

Moderator Thank you Ms. Merwin. Our next question is from the line of Rahul Jain of Dolat Capital. Please go ahead.

Rahul Jain Good evening sir. My question pertains to the amortization write back what just happened in the BPO segment. Is it something to do with the re-evaluation of the Liberta financial services?

Anil Chanana No, it has got nothing to do with the re-evaluation of any asset per se.

Rahul Jain I have another question. May be I have missed on this, But can you tell me why the realization in terms of overall revenues have been better than the quarterly rate or may be the peer rate in the particular quarter?

Anil Chanana So I don’t know where which numbers you are looking at, but the realization is flattish. So it is the same and to tell you I mean we see a stable pricing. The first question you had raised about the million dollars which have been added back there. Bansal, my colleague is going to answer that question. He is the Finance Controller.

P R Bansal This is on account of the sale valuation of some of the assets and liabilities at the time of acquisitions which has resulted in the reduction in the value of the intangibles which were earlier considered and the value of the intangibles reduced the amortization charge which was taken during the year, also got reversed by million dollars. So it is a onetime credit which has come in this quarter.

Rahul Jain So that is as good as a re-evaluation of the earlier goodwill value on that?

P R Bansal Not really. This is the impact on the reduction of the intangibles because certain other tangible assets and liabilities got fair value.

Rahul Jain Because the committed revenues were not achieved?

P R Bansal Not exactly that, it is the certain liabilities which were originally considered at the time of opening balances were no more required because those liabilities were removed from the balance sheet which resulted into corresponding reduction in the value of intangibles.

Rahul Jain And basically just to correct what I was trying to understand was realization in terms of the forex realization when we do dollar to rupee?

Anil Chanana Are you looking at the rupee accounts. Is that what your question is?

Rahul Jain The pure conversion factor from million dollars revenue to rupee revenue

Anil Chanana So we can take it offline. I mean I think I just need to understand it, but what we do is in terms of converting our accounts, we use the quarter end rate and this is the way we are being doing it. I mean historically for I don't know how many years. So this is the way that transition is done, but we have been very happy. Sanjay will be very happy to take it offline.

Rahul Jain Thanks.

Moderator Thank you sir. Our last question is from the line of Karan Torani of Pinc Research. Please go ahead.

Karan Torani Congrats on good set of numbers. In terms of the deal pipeline going forward, we see that BFSI had good growth and manufacturing has come back. So where do you see the deal pipeline in which segments specifically?

Vineet Nayar So the deal pipeline actually we are seeing in healthcare, media entertainment, retail, and manufacturing. Those are the segments where we see a deal pipeline. In BFSI, we are seeing expansion with existing customers.

Karan Torani And sir what was the reason for this strong growth manufacturing?

Vineet Nayar I think what is happening is what Steve said, there is where we saw those strategic projects where they are trying to implement CRM or supply chain or make investments and data analytics, so we are seeing a lot of what we call very hard nosed ROI led small projects investments coming in manufacturing, so I hope it sustains.

Karan Torani And sir BFSI, the M&A integration kind of work which you saw like 2, 3 quarters prior to that. What is the kind of demand in the BFSI in which segments specifically?

Prem Kumar BFSI demand is essentially, I mean there has been a long period of no transformation projects, nothing which has essentially what I would say catching up with competition and so on. We are seeing a lot of that coming back like Steve eluded too in terms of saying that these are strategic, I mean there is a need, and there are also a lot of regulations that really happened in this period. So people are really getting ready to look at some of those investments.

Karan Torani Okay, thank you.

Moderator Thank you Mr. Torani. Ladies and gentlemen that was the last question and now I hand the conference over to Mr. Vineet Nayar to add closing comments.

Vineet Nayar Thank you ladies and gentlemen for joining us and looking forward to talking to you next quarter. If there is any further questions we have not been able to answer, please reach out to Sanjay; IR team will definitely answer those questions. Thank you so much and on behalf of my colleagues, have a great day.

Moderator Thank you Mr. Nayar. Thank you members of the management team. Ladies and gentlemen on behalf of HCL technologies that concludes this conference call. Thank you for joining us and you may now disconnect your lines.