



“HCL Technologies Limited
Q1 FY24 Earnings Conference Call”

July 12, 2023



**MANAGEMENT: MR. C. VIJAYAKUMAR – CHIEF EXECUTIVE OFFICER
AND MANAGING DIRECTOR – HCL TECHNOLOGIES
LIMITED
MR. PRATEEK AGGARWAL – CHIEF FINANCIAL
OFFICER – HCL TECHNOLOGIES LIMITED
MR. RAMACHANDRAN SUNDARARAJAN - CHIEF
PEOPLE OFFICER – HCL TECHNOLOGIES LIMITED
MR. VIJAY GUNTUR – PRESIDENT, ENGINEERING AND
R&D SERVICES – HCL TECHNOLOGIES LIMITED
MR. SANJAY MENDIRATTA – HEAD, INVESTOR
RELATIONS – HCL TECHNOLOGIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the HCL Technologies Limited Q1 FY24 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sanjay Mendiratta, Head Investor Relations. Thank you and over to you, sir.

Sanjay Mendiratta: Thank you, Aman. Good morning and good evening, everyone. A very warm welcome to HCLTech Q1 Fiscal 24 Earnings Call. We have with us Mr. C. Vijayakumar, CEO and Managing Director at HCLTech, Mr. Prateek Aggarwal, Chief Financial Officer, along with the broader leadership team to discuss the performance of the company during the quarter, followed by Q&A.

In the course of this call, certain statements that will be made are forward-looking, which involve a number of risks, uncertainties, assumptions and other factors that could cause actual results to differ materially from those in such forward-looking statements. All forward-looking statements made herein are based on information presently available to the management, and the company does not undertake to update any forward-looking statement that may be made in the course of this call. In this regard, please do review the safe harbor statements in the formal investor release document and all the factors that can cause the difference. Thank you, and over to you, CVK.

C. Vijayakumar: Thank you, Sanjay. Good evening and good morning, everyone, and thank you for joining us today for HCLTech's first quarter FY24 Earnings Call. Getting into our business performance for the quarter, Q1 is seasonally a soft quarter for HCLTech. As you would know, a lot of productivity benefits for a number of deals kick in during this quarter. Our revenues declined 1.3% sequentially and grew 6.3% on a year-on-year basis in constant currency. Our services revenue was down 1% quarter on quarter.

Having said that, though we did expect this to be a soft quarter, our performance was lower than our expectation in our Services business. I'll go over some of the details on the factors influencing these in a few minutes. In terms of our operating performance, our EBIT came in at 17%. This is at the same level as our Q1 last year. On a sequential basis, it has declined from 18.1% to 17% this quarter. In terms of segmental performance, our IT and business services had a good momentum on new deals signed. But most of these gains were offset with reduction in discretionary spend on digital.

This has resulted in our ITBS business being flat in constant currency. Our ERS business has continued to be soft. Again, primarily driven by a couple of large verticals. ERS reported a decline of 5.2% sequentially in constant currency. HCLSoftware revenue was stable year on year in constant currency. The annual recurring revenue, the ARR metric, has grown nicely at 4.7% year on year, and is now US\$ 1.04 billion, which augurs well for the future. In terms of industry verticals, our three largest verticals are Financial Services, Manufacturing, followed by Life Sciences.

We've delivered strong double digit growth in all the three verticals on a year on year basis. Financial services business grew 5.1% sequentially and 14.4% year on year in constant currency. Manufacturing grew 3.6% sequentially, and 16.5% year on year. Life sciences grew 13.4% year on year. These have been due to great execution of large deals, which translated into revenue. This has helped significantly offset the discretionary spend reduction in these verticals.

We saw significant declines in our Tech and Telecom verticals, primarily driven by cuts in discretionary spend and some associated ramp downs. The pipeline in these verticals are strong and they're in advanced stages. We expect the growth to pick up in the coming quarters in these two verticals. In terms of geographies, US reported flat, while Europe and APAC reported a negative growth on a constant currency basis sequentially. Over on a year on year basis, Europe grew 10.5%, followed by Americas at 7.3% and rest of the world 6% decline in constant currency.

Before I get into our bookings and pipeline, I want to talk about two key topics. One is Gen AI and the second one is HCLSoftware. In terms of Gen AI, I would like to give you a quick update on our Gen AI initiatives. Our approach to Gen AI has been driven by engineering and innovation spirit. Given a tool as powerful as Gen AI, all our efforts are geared towards harnessing its power to bring exponential innovation to our products, solutions, and services. We are also an early adopter of Gen AI technologies as a client at the same time.

Our philosophy of consulting, creating, embedding and integrating AI within Silicon to infrastructure, apps, data, and business processes. With our engineering heritage, we've been involved in co-creating AI technology stack for the last two decades. Currently, we have 140 plus external and internal projects in Gen AI at various stages of maturity from proof of concept to implementation. We've deployed at scale AI option or operations and engineering business for over a decade and have carved those IPs to fuel the intelligent automation which is DRYiCE product line in HCLSoftware.

We implemented an AI tech solution, a Generative AI-powered human-like voice conversation bot for a global healthcare company specializing in medical devices, diagnostics, nutrition products and pharmaceuticals. We also implemented an enterprise open AI search using Power Virtual Agent Co-Pilot for a federal corporation responsible for supplying the state's bulk water needs. We're also working on an intelligent aggregator for automated data collection from health authority sites, trial registries, news company websites and regulatory sites.

The information thus collected will be automatically summarized using a Gen AI-based large language model and the summary will be shared with select recipients via email alerts. A few pharma medical devices and technology multinationals have signed up for this solution as pilot programs. Talking a little bit on HCLSoftware, we are making good progress with our go-to-market strategy.

We are primarily focused on customer success as a key strategy through a customer success organization. There is a strong renewal focus through a focused approach under senior leadership. There is a dedicated organization to drive partner ecosystems. Four routes on go-to-market with partners have been established, which is GSI, Hyperscalers, OEM ISVs and

Business partners. We now have sharp focus on Business partners for big market segment, resulting in a clearly defined pipeline for partner-generated leads. About 10% of new license booking this quarter has come from partner-generated leads. We continue to emphasize on large deals in Software, 11 large deals have been signed this quarter.

All this has led to our ARR growth, which continues to grow at 4.7% year-on-year on a constant currency basis. In terms of product strategy, we are moving forward with a four-cloud strategy around our products. This includes Business Cloud. Products in our Business Cloud portfolio are designed to support the entire user lifecycle by providing industry-leading system integration from applications to endpoint.

The second cloud is AppDev Cloud, from securely collaborating and automating an organization's core processes to creating great omni-channel and contextual multi-experiences. Our AppDev Cloud helps companies around the world transform digitally. The third is Intelligent Automation Cloud. We transform and simplify IT and business operations by leveraging AI and Cloud.

And the fourth is Hybrid Data Cloud, where customers demand a data platform that is dependable, adaptable and simple to use. We deliver on that promise with our Analytics Database and Cloud Data Platform. We continue to create partnerships and alliances on Gen AI in our HCLSoftware business. We have recently signed partnerships on Gen AI with Hyperscalers to strengthen our offerings through partnerships and alliances.

We are infusing and plugging Gen AI capabilities into our products using HCL PromptO, which is HCL's enterprise-grade orchestration and prompt engineering platform and partner collaboration. Example, Unica, Marketing Automation: these products are creating generative AI capabilities with our Hyperscaler partners on Co-pilot and Duet AI. Some of our products are already with Gen AI features.

Just moving to bookings. As you will remember, our bookings for previous quarters have been in the range of 2 billion-plus for the last seven quarters. This quarter, our bookings came in at US\$ 1.6 billion, which was soft. Bookings are normally lumpy. We expect some spikes in the coming quarters that will more than make up for the drop in Q1.

I want to call out a few important deals that we signed this quarter. A Fortune 50 healthcare company selected HCLTech as a strategic partner for managing its end-to-end IT infrastructure, modernizing the infrastructure through cloud and security services. HCLTech will consolidate these services from multiple vendors and streamline them to transform business operations for the client.

A global financial services company has selected us as a digital transformation partner. We will help the client accelerate their journey to a hybrid cloud environment and build a secure and resilient technology architecture in new technologies to serve customers with digital-first experiences.

A U.S.-based healthcare company selected HCLTech for large digital transformation and managed services mandate. HCLTech will enhance the client's customer experience and

business productivity by modernizing IT-enabled and order-to-cache processes. This is one of the largest deals signed in this quarter, greater than US\$ 250 million.

On the product side, a large Asian stock exchange selected HCLSoftware's DX platform to support their digital transformation journey and the growing trading volumes. A Euro-based financial services firm has expanded its partnership with HCLSoftware for its Latin American operations.

The client will leverage the Unica marketing automation platform to serve its growing customer base through digital-first banking services. In terms of pipeline, I'm happy to report that our pipeline continues to grow. Like last quarter, our pipeline this quarter has increased significantly. So the last two quarters have seen growth in efficiency-led programs, which is a combination of transformation that is leading to cost efficiency and global delivery models driving cost efficiencies.

So these deals have shaped up quite well, and we see several of them in the advanced stages in the pipeline. And this is what is giving us confidence about our ability to convert these large deals in the coming quarters. And these deals are well distributed across U.S. and Europe and in APAC. It is also distributed across our service lines and verticals. So we see this as a fairly broad-based trend in our pipeline, and the maturity of the pipeline is good.

So forward-looking, I'm optimistic because of the strong pipeline, and many of these projects are in advanced stages. We continue to invest and gear ourselves to execute well on these projects, even though it has resulted in a dip in utilization to cater to the deals we are expecting in the coming quarters.

In terms of people, our net headcount reduced approximately by 2,500 people during the quarter, while we added 1,800 freshers in line with our plan. Our headcount has reduced primarily due to the fact that we've consciously not backfilled some of our attrition. Our attrition is continuing to come down. Last 12-month attrition is at 16.3%, down 7.5% year-on-year.

One of the important decisions we take during this quarter, during this time of the year, is about compensation reviews for our employees and the budget required for that. This year, we've made a decision to skip the compensation review, starting with the management layer, which is E4+, and also defer for junior to mid-level people by a quarter, which is E3 and below levels. While we do this, we will continue to closely monitor the industry trends and, as appropriate, take measures as required.

Looking ahead, we are retaining our revenue and margin guidance, for FY '24. In spite of the decline in revenue and low booking in Q1, we expect to meet the guidance based on strong pipeline with a healthy mix of large deals in advanced stage. We are expecting a strong booking in quarter two. We continue to invest and gear ourselves to execute well on these projects.

We are also taking incremental actions to reduce our cost, which will enable us to meet the margin guidance. With that overall commentary, I would request Prateek to share some more details on our financial numbers.

Prateek Aggarwal:

Thank you, CVK, and good evening and good morning to all the listeners. Just to recap the top line numbers, overview, HCLTech revenues stood at US\$ 3.2 billion, which was down 1.3% sequentially. Increase of 6.3% year-on-year in constant currency terms. Services revenue stood at US\$ 2.9 billion, down 1% sequentially and up 7.1% year-on-year in constant currency again.

And within services, ITBS was basically flat sequentially and year-on-year growth was at 9.1% in constant currency again. ERS, as we had discussed in the last con call also, had the full quarter impact of the cuts in the last month of the previous quarter and showed up sequential decline of 5.2% in constant currency.

And Software, on the other hand, was flat year-on-year and the annual recurring revenue in software went up 4.7% year-on-year in constant currency. The EBIT came in at 17%. I will just share the walk in a few minutes. And the net income is at US\$ 430 million, which is 13.4% of the revenue, which is up 1.5% on a year-on-year basis.

We continue to focus on improving the Return on Invested Capital (ROIC). And as the page on ROIC shows, the last 12 months ROIC is now at 31.1%, which is a healthy increase of 2.6% or 260 basis points on a year-on-year basis. And within that 31%, Services ROIC stands at 38% and Software at 15.9%, just touching 16%.

The EBIT movement on a quarter-to-quarter basis is 110 basis points, 18.1% declined to 17%. Within that, the Software segment revenue decline of about 11 odd million was offset by the one-time benefit in the intangible reversal that we got this quarter. And therefore, the margin on the software was pretty much flat year-on-year and quarter-to-quarter. The Services margin is what drove the decline. Services margin itself dropped by 120 basis points, which had an exchange impact of about 10 basis points.

The balance 110 bps was operational. Lower utilization contributed to about 36 basis points out of the 110. Travel and other one-time type of costs, which we have at the beginning of the year, contributed about 33 basis points. We did have some one-time benefit in the previous quarter which became a headwind in this quarter of about 42 basis points.

CVK has already spoken about the guidance. Just to give you some more bullet points, the pipeline is at an all-time high. And on a sequential basis itself, it has increased by 18% quarter-on-quarter on top of a very decent growth last quarter as well. On a year-on-year basis, the pipeline is up 26%. So, like we said, part of it is in advanced stages and which we hope to make up the booking in the next quarter and which should therefore flow into delivering the revenue and the margin guidance for the full year.

Cash generation is the other bullet point I should point out, which continues to be very robust. The last 12 months operating cash flow is at almost US\$ 2.5 billion and the free cash flow at US\$ 2.33 billion being 135% and 126% of net income respectively. Our balance sheet continues to be very strong despite paying out almost US\$ 600 million of dividend in this quarter. The gross cash is at US\$ 2.664 billion and net cash at close to US\$ 2.4 billion.

On a diluted basis EPS for the last 12 months is now at INR 55.70, which is up 11.3% year-on-year. And the board has declared a dividend of INR 10 for the quarter in keeping with our past

practice. The record date for which is 20th July and the payment date shall be 1st of August, 2023.

And with that INR 10, we continue the last 12 months to be INR 48 per share, which works out to 86% payout ratio on our LTM EPS of INR 55.7, which is obviously in line with our capital payout policy.

With that, operator, back to you for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is on the line of Ankur Rudra from J.P. Morgan. Please go ahead.

Ankur Rudra: Thank you for taking my question. My first question is on how the demand and revenue performance played out in the first quarter versus your expectation. Is this what you were anticipating given that you've maintained the guidance and also if you could characterize the enterprise tech spend environment, despite seasonality and the strong deal wins that you had in the past?

C. Vijayakumar: Ankur, as I said in my initial remark, while we expected the quarter to be soft, it came in lower than our own expectations. While all the large deals that we won, we really executed extremely well. They all ramped up. They've all delivered good revenue growth as you can see in both Life Sciences and Manufacturing verticals. And even in Financial services we've seen good growth. Tech and telecom is where we saw more drops than what we had expected and we were expecting some projects to go online, but towards the second half of the quarters, that did not happen. So we did have people, we were ready and they did not really move forward. There were a couple of instances, one Tech and Telecom. So it was disappointing for us to have that situation, which not only declined our revenue, but it also had a big impact on our margins.

Having said that, obviously this whole cycle, the way I'm seeing is - the discretionary spend is moderating and it is probably stabilizing at a certain level and the cost and efficiency led programs have to fill in the gap and create net incremental growth. We believe that the state has achieved in three of our verticals, Manufacturing, Financial services and Life Sciences. And the other verticals are a little bit lagging behind.

So we are also tracking the pipeline and the maturity of the pipeline a portion of the large cost efficiency deals. And they seem to be on track. While our booking has been soft, we think we will deliver a strong booking in Q2.

And if I look at the revenue translation of the deals that we expect to sign in Q2, there is a certain nature which helps us get revenue quickly. So I think that's really what we're seeing. And it's really a new cycle that's evolving, which is really offsetting the moderation in discretionary spend with growth and efficiency led programs.

Ankur Rudra: Understand. I understand that it's very uncertain, the demand environment is difficult for you to spread it to play out exactly as you predicted at the beginning of the year. But do you think, maybe by maintaining your revenue guidance, you are potentially backing yourself into a corner

if the uncertainty persists? And while you have large deals, if the softness in smaller deals continues, you might be at risk of at least reducing the upper end of the guidance?

C. Vijayakumar: We've had a pretty good track record of looking at our pipeline, looking at our conversion and kind of, giving a guidance and meeting the guidance. So whenever we've given guidance in the last five years, we've delivered to it. So we believe, all the math behind it and all the judgment behind it is very robust. And it does factor in some of the challenges in the macro environment, which we did even when we gave the annual guidance. So I remain confident of delivering to the guidance this year.

Ankur Rudra: Okay, appreciated. Maybe one last question on Gen AI and thank you for all the color you've shared. Just curious about how you're seeing this playing out in the marketplace in contracts. Given you have a high participation in some of the cost takeout deals, maybe on the cloud side, is this showing up in discussions as a source of price deflation that maybe you or competitors are driving and hence might impact your contract profitability going forward?

C. Vijayakumar: So, Ankur, at this point, most of the conversations on Gen AI are more innovation-led and we have not seen, I mean, obviously customers are always challenging us to demonstrate the art of the possible. And at this point, I don't see anyone trying to take the contractual position of how much we have to deliver through this technology because there are too many dependencies. So I think, there is definitely a lot of hype in the short run, but we do believe it will have some meaningful benefits in the long run.

Now, I think, one of the key benefits are going to be around efficiency. So which means there will be some deflation, but I think it's at least two to three years away. And I do believe, it will get offset with so many projects in a few weeks, you have 140 projects, some of them pilots, some of them implementation, some of the examples that I shared earlier as well. So, I think there is going to be a little more uptake on small projects, which are really looking at proof of concepts and some implementation. And maybe gradually as it matures, there's going to be some more focus on how much efficiency it can drive. And I see that at least two to three years away at this point.

Ankur Rudra: Appreciated. Thank you and best of luck.

C. Vijayakumar: Thank you.

Moderator: Thank you. The next question is from the line of Kawaljeet Saluja from Kotak. Please go ahead.

Kawaljeet Saluja: Hi, thank you for the opportunity. CVK, my question is again related to your guidance. Now, when I look at your guidance, right, across the last three quarters, in December, you had to come and indicate that after raising guidance, that your revenues will be the lower end of the band. In March, you ended up missing your services revenue guidance, wherein the services revenues came in at 0.6% growth. In June, again, the numbers came in lower than what you expected. Now, I understand that the demand environment is uncertain, but any aspects that you have seen in your revenue forecasting process, which perhaps needs strengthening or something of that sort?

And a related question on it is that when you look at the hurdle rate, actually last quarter, when I did ask you this question, you did mention the CQGR hurdle rate. I mean, it was fairly modest. Now, that seems to have gone into a fairly unrealistic level. So why persist with the guidance when the math in itself is working against you?

C. Vijayakumar: Yes, so maybe I'll ask Prateek to answer the revenue forecasting question, and then I will come back to you on the guidance.

Prateek Aggarwal: Maybe I'll take a shot at both, and then you can add, CVK. So, Kawal, you're absolutely right. The ask rate has certainly gone up. And as CVK covered right up front, the first quarter actuals have come in lower than what we had planned on. Therefore, the ask rate which - let's say, at the lower end of the band - for example was somewhere around 2% - 2.5% odd, has now gone up to about 3.2%.

But we have done the math, and we have done the numbers I shared and CVK shared on the pipeline are what is giving us that confidence, and the stage of the deals in the pipeline is what is making us stick with the guidance. Yes, the pipeline is one factor which we have penciled in. Things could go better, things could go worse. We obviously do a probability of timing, probability of winning, and all of those metrics that I'm sure everybody does. At this point in time, we still want to retain and we are confident, as CVK already said, that we will meet the guidance.

Like you also pointed out, there are other factors. So if at a later point in time it becomes better, then that's good for us. If it becomes much worse, which practically we don't see happening because we've already seen, like you pointed out in your question itself, we have seen the last two or even three quarters being softer than what anybody would have imagined, say, one year back or nine months back. So these are estimates and we'll see where we go. So that's what I wanted to say.

On the forecasting piece itself, I think, we do have a fairly robust way of forecasting. Obviously, like I just described, forecasting does work on certain estimates and if the environment changes during the quarters, like the last three quarters, estimates can go wrong. I'm sure it's going wrong pretty much across the board, given the way the environment is and that's where I'll leave it. I don't think there is something seriously broken or anything. At the end of it, ultimately it's a judgment. There is some hope, there is some practicality, and there is some buffer that you build in and those are the elements we continue to play with.

C. Vijayakumar: Yes, so Kawal, one thing from a revenue forecasting perspective, there's one aspect which we believe, I think the industry itself is struggling with there's really forecast this drop in discretionary spend. So I think that's where I think we've got it wrong a couple of times. So we continue to get the feedback and input into our planning process. I think, there is a lot of volatility in that, and that's the only element which we believe we can improve a little bit more, based on what we've seen in the last two-three quarters.

Coming to the guidance, I think, the ask rate has gone up. It essentially boils down to how much booking we can deliver in Q2 and what we can do in the next 45 days will determine the course

of the year. We have some reasonable level of confidence on accomplishing the outcomes that we expect.

Kawaljeet Saluja: So, CVK, I should thank, and Prateek, thank you for that fantastic color. I really appreciate it. The question really is that for you to achieve the guidance, you need a big spike up in the second quarter itself. Do you have that confidence? And the second related question to it is that normally in the cost takeout deals, consolidation deals, there's a free transition offered, there are timelines, like that sort of deal that you announced in insurance vertical in October, started ramping-up towards March, right? So even if let's say the pipeline converts, isn't it too late to meet the hurdle rate that you have for your guidance?

C. Vijayakumar: So I think, the deals are different, nature of deals are different. Some of them have an ability to convert to revenue faster and that's the nature of deals that we have and that's what is driving this.

Kawaljeet Saluja: All right. That's the final question on profitability. Prateek, what is the kind of a tailwind that you'll get from profitability through possibly, change in the compensation revision cycle for this year?

Prateek Aggarwal: I don't want to really talk numbers on that, but E4 and above is a significant portion of the wage bill. I don't want to get into exact numbers, but like I said at the press conference also - we have made a plan. We have revised that plan based on the numbers that we see for Q1. Obviously, we have revised it by baking in more actions and more cost cutbacks that we need to do. I think, the leadership team is all apprised of the situation. The numbers gap is obviously visible to all of us and everybody. I think as a leadership team, we are committed that we will take the actions to meet the numbers.

Kawaljeet Saluja: Yes, and then normally if you see the past year's wage hike, generally have an impact of 50 basis points to 100 basis points, depending on how much increments we gave. So we do believe there is some of that will flow into the savings.

Moderator: Mr. Saluja, may I request you to join the queue for any follow-ups?

Kawaljeet Saluja: Yes, thanks so much.

Moderator: Thank you. The next question is from the line of Mukul Garg from Motilal Oswal Financial Services. Please go ahead.

Mukul Garg: Yes, hi! CVK, first, just a clarification on the whole discussion about guidance. You mentioned about some large deal wins. Are you factoring in a quick scale-up in these deals? And does that mean that there is a bit of a rebadging which is involved here? If not, then what is your degree of confidence that the muted environment won't push out the ramp-up, as Kawal also asked?

C. Vijayakumar: Mukul, I don't want to call out the very specifics about the nature of deals but given all what we have said in the last 10, 15 minutes, we should assume that the significant part of this advanced pipeline can convert into revenue relatively quicker than what you've seen in the last two, three large deals that we've done.

- Moderator:** Thank you, Mr. Garg. Please join the queue for any follow-up.
- Mukul Garg:** Sure.
- Moderator:** Thank you. The next question is from the line of Gaurav from Morgan Stanley. Please go ahead.
- Gaurav Rateria:** Hey, thanks for taking my question. So, CVK, the question is around the verticals of Tech and Telecom. You talked about uncertainty. So, was this largely deferrals or some cancellations, and are these behind us, or you think this will continue to be an issue in the near term? Thank you.
- C. Vijayakumar:** From all what we are seeing, we think it is stabilized, but this has been so volatile, so I won't be able to give you more color on that. It looks like these are stabilized.
- Gaurav Rateria:** All right, thank you.
- C. Vijayakumar:** Thank you.
- Moderator:** Thank you. Next question is from Sandeep Shah from Equirus Securities. Please go ahead.
- Sandeep Shah:** Yes, thanks. Thanks for the opportunity. Just the clarity in terms of the guidance, CVK, so do you believe the 2Q conversion of deal pipeline into deal wins will also result into a better growth from 2Q onwards, or do you expect the growth to pick up from 3Q? Because historically, to achieve the guidance because of the high hurdle rate, even fourth quarter is being softer. So in that scenario, 2Q has to do a heavy lifting along with 3Q as well?
- C. Vijayakumar:** So Sandeep, we don't give a quarterly view, but as I said, even in the beginning of the year, the quarters will get incrementally better. That was the commentary that I made even when we presented the guidance. So, you should see incrementally better growth and obviously, this means there's going to be spike in one of the quarters. So that's to be expected.
- Sandeep Shah:** And just last book-keeping, Prateek, what was the one-time benefit in the intangible amortization? Is it worth, how much basis point in this quarter and will it reverse in the second quarter?
- Prateek Aggarwal:** No, so it will certainly not reverse in the second quarter. It is a one-time benefit. This is the impairment, we had taken a couple of years back in one of the products. And the product has done well in the last two years, and we have been able to increase the royalty we get on that. So the revenues are significantly up; therefore, as per the accounting rules, we needed to write it back - write the impairment back. So, it's just a one-time benefit in this quarter and there are no repercussions on any of the next subsequent quarters.
- Moderator:** Thank you, Mr. Shah. Request to rejoin the queue for any follow-ups. The next question is on the line of Sudheer Guntupalli from Kotak Mahindra AMC. Please go ahead.
- Sudheer Guntupalli:** Yes, you could give just one clarification on the decline in tech and telecom. So did you allude to the fact that, this is largely within the ER&D, this can be mapped to the ER&D segment?

- C. Vijayakumar:** No, if you see the decline, the numbers are quite high and of course, ER&D bore the brunt of it. It definitely had impact on the ITBS as well.
- Moderator:** Thank you. The next question is from the line of Chirag Kachhadiya from Ashika Institutional Equities. Please go ahead.
- Chirag Kachhadiya:** Hello, what type of orders are we taking into ER&D segment?
- C. Vijayakumar:** So I have Vijay Guntur, who heads the engineering services. Vijay, if you can hear, could you just give some color on the type of orders that we are taking?
- Vijay Guntur:** Yes, thanks, CVK, and thanks, Chirag, for the question. We are seeing two kinds. One is consolidation in each of the Tech and Telecom segments. We are seeing more consolidation deals, and hence a pipeline that is growing. To what CVK said earlier, that is helping us gain more confidence that, when these deals fructify, realization to revenue will be quicker. So that's one we are seeing that consolidation is on. The second we are seeing is decision-making, which used to be reasonable, is getting a little delayed. Those are two trends we are seeing in terms of pipeline and order booking.
- Moderator:** Thank you. The next question is in the line of Ravi Menon from Macquarie. Please go ahead.
- Ravi Menon:** Hi, thank you for the opportunity. As you said, it looks like the Tech and Telecom declines are more than just ER&D. So I wanted to check, are these over pretty much? Should we think these verticals will return to growth? That's the first and the second follow-up on the nature of ER&D work that you do versus pure-play ER&D firms. Most of the pure-play ER&D firms, I think haven't seen this sort of Q-o-Q decline and now you've seen this for two successive quarters. So just wanted some color on what led to this decline?
- C. Vijayakumar:** Ravi, it's our exposure to tech vertical, which is primarily, which has contributed to it, Tech and Telecom on the ER&D side. Maybe most others have exposure to some of the other industries. I cannot comment on others, but that's our kind of hypothesis. And maybe, Vijay, you can add a little bit more on this.
- Vijay Guntur:** Yes, CVK. Certainly, our tech exposure is more, especially big tech and we've seen a lot of consolidation and rationalization of spend. I think, from what we see in the market, that consolidation and rationalization of spend is stabilizing now. We expect the deal pipeline that we are having now to convert. That's what we are seeing.
- Moderator:** Thank you. The next question is on the line of Surendra Goyal from Citigroup. Please go ahead.
- Surendra Goyal:** Yes, thanks, sir. CVK on ER&D, is the worst over? And should we expect it to be back into growth trajectory going forward?
- C. Vijayakumar:** Yes, Surendra, that's what we believe.
- Moderator:** Thank you. Next question is from the line of Manik Taneja from Axis Capital. Please go ahead.

- Manik Taneja:** Hi, thanks for the opportunity. While my question on the ER&D outlook essentially has been answered, just wanted to understand, your hiring plans in the backdrop of some of the near-term challenges that you've seen?
- C. Vijayakumar:** Probably, Ram, could you answer this?
- R. Sundararajan:** I think our hiring plans, quarter-on-quarter, we do moderate our plans to be in line with our forecast for the quarter, the revenue forecast for the quarter. Next quarter is typically the quarter, where the fresher intake will be higher. So that will continue as planned. So, basis that, we will moderate our requirements for lateral hires.
- C. Vijayakumar:** There is also some amount of productivity-based releases that we expect to happen. So that will also feed into some of the growth. To that extent, we are not dependent on a lot of hiring for growth in Q2.
- Moderator:** Thank you. The next question is from the line of Apurva Prasad from HDFC Securities. Please go ahead.
- Apurva Prasad:** Yes, thanks. So my question is, on the revenue growth guidance the ask rate differential. What I'm trying to understand is, the top end of the guidance, are you factoring faster acceleration? So between the top end and the bottom end, are you factoring in faster acceleration in H2 or a spike starting Q2? I ask this as you are entering with headwinds in Q2, as you stated earlier that, the weaker than expected second half in the first quarter in the Telecom vertical will play out full quarter for Q2 as well as the weaker booking. So, how should we look at the difference between the lower and the top end?
- C. Vijayakumar:** I don't want to comment on where we will land in the guidance at this point, we will just stay with the guided range and obviously because of weak Q1, we must deliver a much stronger H2 to deliver growth.
- Moderator:** Thank you. Next question is from the line of Surendra Goyal from Citigroup, please go ahead.
- Surendra Goyal:** Yes, last quarter you had shared that the ACV for the year was plus 4% year over year. What is it on a TTM basis at the end of 1Q?
- Prateek Aggarwal:** Surendra, I don't have a number on a TTM basis, but for the quarter, it is 21% lower year-on-year.
- Moderator:** Thank you. The next question is from the line of Rahul Jain from Dolat Capital, please go ahead.
- Rahul Jain:** Yes, hi, thanks for the opportunity. I just wanted to understand your thoughts on the ERS space. What led to this kind of an impact and how you see this segment to perform in the coming quarter? Is there any trend related to vertical or specific to any discretionary spend thought process or these are just one-off for now?
- C. Vijayakumar:** Yes, we covered some of those in the previous commentary, but maybe I'll request Vijay to share it again.

- Vijay Guntur:** Yes, sure, CVK. I think we talked about the deal pipeline is stronger. That is the first indicator for us, and we expect that to convert to order book and hence to revenue. The conversion cycles in our business are shorter in the R&D space. So we expect that, we will perform better in the next quarter.
- Rahul Jain:** So these are your general thoughts, but is it any different from a sub-vertical perspective or this is an overall thought process that you see?
- Vijay Guntur:** No, the Tech and Telecom part of our ER&D business, which got impacted quite a bit, like we've been talking about, those we see conversion and we see back to growth situation in it.
- Rahul Jain:** Sure, thank you.
- Moderator:** Thank you. Ladies and gentlemen, that would be our last question for today. I now hand the conference back to Mr. C. Vijay Kumar for closing comments. Thank you and over to you.
- C. Vijayakumar:** Yes, thank you everyone for joining us on the first quarter earnings announcement. We do take our commitments very seriously. So, in spite of a weaker performance in Q1, we are confident of delivering to the commitments that we have made, and we look forward to your support and look forward to talking to you during the quarter and at Q2 results. Thank you everyone.
- Prateek Aggarwal:** Thank you all.
- Moderator:** Thank you very much. Ladies and gentlemen, on behalf of HCL Technologies Limited, that concludes this conference call. Thank you all for joining us and you may now disconnect your lines.