"HCL Technologies Limited's Q2 FY24 Earnings Conference Call"

October 12, 2023

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Moderator: Ladies and gentlemen, good day and welcome to the HCL Technologies Limited Q2 FY'24 Earnings Conference Call.

As a reminder, all participant lines will be in the 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 '*' then '0' 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, Yash. Good morning and good evening, everyone. A very warm welcome to HCLTech's Quarter 2 Fiscal '24 Earnings Call.

We have with us Mr. C. Vijayakumar – CEO and Managing Director, 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 the 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 statements 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.

Over to you, CVK and thank you.

C. Vijayakumar: Thank you, Sanjay. Good evening, everyone. Thank you for joining us today for our Second Quarter Earnings Announcement.

Let me start with the "Business Performance":

This was a strong quarter across all dimensions. We executed very well. It's reflected in our revenue growth, significantly improved margins despite the challenges in the industry. We also recorded our highest bookings ever, which set us up well for the growth in the second half of the year.

During the quarter, our revenue grew 1% quarter-on-quarter and grew 3.4% on a Y-on-Y basis in constant currency. Our services revenue grew 1.6% Q-o-Q in constant currency. Both our services segments, Engineering and R&D Services, and IT and Business Services grew 5% and 0.9% Q-o-Q this quarter respectively in constant currency. Our ERS business grows strong on a Q-o-Q basis even after considering the ASAP acquisition that got integrated for a month during this quarter.

I want to take a minute to talk a little bit about our ASAP acquisition:

Last quarter, we could not share details about these acquisitions as it was signed right after the meeting. Our Engineering Services business historically has been very strong across many verticals, but not to the desired levels in Auto Engineering where there is a lot of growth spend. ASAP should be able to address the demand with 1600 employees and serving top automotive OEMs and Tier-1 suppliers in Germany. ASAP works in areas such as autonomous driving, E-mobility and connectivity. Our plan is to take these capabilities to other geographies and drive synergy.

HCL Software revenues grow 3.6% year-on-year in constant currency and the ARR, annual recurring revenue has grown at 3.9% year-on-year, which is a good indicator for the future. Our operating margins recorded 154 basis points improvement over the last quarter led by a number of initiatives. We drove a lot of efficiency in our managed services operations driven by our automation and AIOps capability. A lot of freshers who we have hired in the past 18 months got trained and finally got deployed in an economic manner during the last quarter.

Our subcontracting cost also got optimized during the quarter resulting in our EBIT percentage reaching 18.5%.

In terms of verticals, we had very strong growth sequentially in Retail, CPG as well as Telecom and Media. Our Financial Services business had a healthy growth along with Life Sciences and Healthcare both sequentially and on a year-on-year perspective. Technology vertical continues to be weak, though we're hopeful of growth coming back here in the coming quarters.

Another good accomplishment last quarter was in terms of client count. We added 3 accounts in the 100 million category and 7 accounts in the 50-million category on a year-on-year basis. What is also very encouraging is our addition of 46 clients in the 5 million category and 81 clients in the 1-million category. Amidst the current uncertainty in the industry, adding 12 and 24 clients in the 5 and 1 million categories sequentially is also a very good indicator of the broad-based relevance of our proposition and really expanding our market share.

Bookings, as you will remember, our bookings for previous quarters have been in the range of $2 billion. This quarter, our bookings hit a record high of $4 billion, $3.96 billion to be precise. During the quarter, we signed a mega deal with Verizon that is unlike all other deals signed in the industry, which are very internal IT and internal centric. The partnership with Verizon Business is a strategic business partnership where we become the primary service provider for deploying all their managed services globally for their enterprise customers while Verizon Business will lead sales solutioning and client acquisition. We will lead post sales implementation and ongoing support where clients will benefit from our managed network services offerings. We also see huge opportunities for us to reach out to some of the Verizon's global clients for the first time and help them experience the rest of HCLTech’s offerings.

I wanted to call out a few other wins we signed during this quarter. US Financial Services firm partnered with us to expand its scope for data services. HCLTech will lead cloud migration, platform modernization, data management and data governance for their insurance division. We expanded our partnership with Fortune 50 communication services provider to transform its billing operations, superior activation to billing experience to its customers. This would be done by leveraging advanced digital technologies, including GenAI. A Europe based global leader in smart, safe, and sustainable building solutions selected HCLTech as a transformation partner to transform the clients' end-to-end order to cash process using Oracle Fusion Cloud and Salesforce. The new platform will enable operations as a single unified business globally.

A US based healthcare technology company selected us to set up an advanced product development and testing center by leveraging our Med tech product development and digital engineering capabilities.

I also want to mention a few opportunities that we signed this quarter in emerging areas like GenAI and Sustainability. One of the largest global technology companies has selected HCLTech as a preferred partner for their product developer support lifecycle optimization using AI and machine learning. We will help the client deploy next GenAI technology across various product cycles to result in faster triage and improved product quality and enhanced developer ecosystem satisfaction. A Europe based Financial Services firm selected us to leverage GenAI to strengthen its global compliance framework. We will deploy large language models along with machine learning technology for proactive surveillance and risk detection.

A global manufacturing company has partnered with us to accelerate its sustainability agenda. HCLTech will leverage its comprehensive suite of sustainability solutions in assisting the client build a robust, sustainable strategy, regulatory and compliance framework. These wins give us comfort and conviction that we have the relevant offerings to address future tech spend of clients and I'm sure these would set us for many more and larger deals in these emerging areas.

In terms of pipeline, I'm happy to report that our pipeline continues to remain very healthy while it is a little lower than earlier as the mega deal is now converted into booking. What is more important is that we are working with clients on hundreds of opportunities in emerging areas like GenAI and Sustainability, which is very critical for our future growth and continued relevance in the market. Some of them have already been converted to wins as I mentioned earlier and are in the implementation phase.

In terms of people, we continue to adjust our people's strength by 1% during this quarter. Primarily a lot of attrition has been backfilled with freshers who were already trained and also some of the new work got done with people whom we had internally. Our investments over the last few years in freshers have really started showing results and that's visible in this quarter's profitability numbers. Our attrition continues to come down. LTM attrition stands at 14.2%, down almost 10% on a year-on-year basis.

On GenAI, I would like to give you a quick update on our internal initiatives where we have a 2-pronged strategy, one client phasing where we are working on generating early stage opportunities as well train our delivery organization to leverage GenAI for core development, deployment, testing and managed services. Our Software offerings continue to embed AI into their product offerings. I believe it's still early days as clients are still evaluating them as PoCs while ensuring their data strategy is right as well as establishing the guardrails to ensure data governance and compliance requirements. The second aspect is we are leveraging internally GenAI across all our corporate functions primarily to improve our employee experience and productivity. Various programs are in pilot phase across our people function, finance, risk and compliance, sales and marketing functions.

With respect to ESG, we had some very good accolades this quarter. We remain very committed to our ESG goals as called out in our medium-term strategic objectives. I'm happy to report that EcoVadis has rated HCLTech Gold and placed us in the 94th percentile for our advanced sustainability performance. As you may know, EcoVadis is a well-recognized sustainability assessment and benchmarking platform used by many of our clients to assess our sustainability practices. During this quarter, we also launched the HCLTech Grant in the Americas and have committed $5 million over the next 5 years towards this program, which is focused on climate action and funding NGOs with disruptive ideas with respect to tackling the climate challenge the world is facing.

Looking ahead, based on the bookings and all the deals that we have signed, we expect very healthy growth in Q3 and Q4. This growth in Q3 and Q4 would be extremely good growth even in normal circumstances. But even in today's challenged macro environment, we expect to deliver very strong growth in Q3 and Q4. For the entire year, when you combine it with the weak Q1 and a reasonably good Q2, it adds up to 4.5% to 5.5% growth organically for services in FY24. While we have won some large deals and have been successful on gaining share on the cost optimization led deals, the market is still weak on the discretionary spend. At the start of the year, we had expected it to come back at least partially by now but given the macros it has not yet come back.

When I include ASAP's inorganic contribution and HCL Software growth, we would end up with 5% to 6% growth at a company level in FY24. On the operating margins, we are confident that we would be able to come within our stated guidance of 18% to 19% for the year.

With that, I will hand it over to Prateek for some more details.

Prateek Aggarwal: Thank you, CVK. So, before I get into the numbers, there is an announcement I need to make. First of all is the change in the IR Head (Investor Relations Head). As some of you already know, Nitin Mohta has joined us couple of months back and will be taking over as the new IR Head while we continue to have Sanjay with us until 31st Jan of 2024, when he will be superannuating, and we thank him for his 15 plus years of dedicated service to HCLTech and vision. All the very best for his future endeavors. And at the same time, I welcome Nitin, who I'm sure a lot of you would know before from his days in Goldman Sachs, Macquarie and LTIM and he's just joined us recently in the last few weeks and wish you all the very best, Nitin as you assumed this important position and thanks Sanjay again.

Getting into the numbers then, HCLTech revenue $3.225 billion, up 1% sequentially, 3.4% in constant currency terms that includes 50 basis points from ASAP contribution of one month during the quarter. As you probably saw, we announced the acquisition closed on 31st August. So, it's one month of revenue therein. HCL Software was up 3.6% year-on-year in constant currency terms and ARR, annual recurring revenue continues to be at $1 billion plus and in this quarter grew by 3.9% year-on-year in constant currency terms again. Services revenue stood at $2,922 million, up 1.6% Q-on-Q and 3.4% year-on-year in constant currency terms. And the ASAP acquisition on the services revenue base had an impact of close to 60 basis points.

ITBS came in at $2,406 million, up 0.9% sequentially and 4.6% year-on-year in constant currency. And ERS, after a couple of tough quarters showed good 1.6% constant currency growth organically during the quarter and including ASAP grew at 5% in constant currency sequentially. The EBIT came in at 18.5%, which is an improvement of 154 basis points Q-on-Q and 50 basis points on a year-on-year basis. In many ways, that is one of the highlights of the quarter and sets us well on our way to meeting the 18% to 19% of EBIT guidance that we had given and continue to maintain. The services margin on a sequential basis, Q-on-Q actually increased by 212 basis points and also the growth on a year-on-year was also very healthy.

The net income, the profit after tax for the quarter, came in at $463.5 million, which is a 6.4% increase over the previous year in dollar terms. In rupee terms, it is up 9.8% and that was 14.4% of the revenue numbers for the quarter.

I would like to spend a minute on ROIC, return on invested capital. As you know, this is one of the big metrics we are focused on, especially in the last couple of years. The last 12 months ROIC is now at 32.2% for the Company, which is up 3.5% year-on-year, 350 basis points and services ROIC is now at 39.4% and Software at 16.2%. We have also been calling out incremental ROIC over 2-year and 3-year timeframes in some of our interactions. Over the last few quarters, we have actually reduced our capital deployed significantly so much that the incremental capital deployed over the 2-year, or 3-year period is now negative at a Company and at a Software level, thereby showing very favorable incremental ROIC. I mean mathematically it will be negative, but it's actually increased NOPAT (Net Operating Profit After Tax) at a lower capital deployed. So, very, very favorable.

As far as Services business is concerned, it has kept on growing and the incremental ROIC in services over the 2-year and 3-year period is now 73% and 85% respectively.

To give you some color on the movement of the EBIT from last year to the current quarter, the margin walk as we call it, 150 bps has been the improvement sequentially. Services margin up 212 basis points like I said. Most of it coming from productivity and utilization about 100 basis points, largely from reduction in 3rd party contractors, which you might see has reduced by 70 basis points sequentially and close to 200 basis points over the year ago period. And other discretionary cost optimization largely travels, recruitment, legal costs and so on and so forth gave us another 50 basis points on a services level itself and overhead reduction gave us additional 70 basis points. The acquisition ASAP as the purchase price allocation goes and intangible amortization goes actually gave us a hit of 10 basis points, which was offset by a minor exchange benefit of 10 basis points. So, that is the margin walk for the quarter.

The guidance, CVK has already talked about it. So, at a Company level, it's 5% to 6% for the full year and 4% to 5% being the organic growth at a Company level. At a services level, it's 4.5% to 5.5% and EBIT between 18% to 19%.

Cash generation is another highlight I would like to focus your attention on. Cash generation continues to be very robust. Last 12 months, operating cash flow is at $2.8 billion, $2,820 million to be precise. And free cash flow is at $2,662 million, $2.7 billion almost, which is 151% of net income and 142% of net income respectively. Very proud to have delivered that kind of cash flow to the Company's shareholders. The balance sheet continues to remain very strong. Gross cash is now $2.85 billion and net cash of $2.56 billion. The cash generation improved substantially this quarter as we reduced the DSO by 5 days including unbilled DSO now stands at 83 days, which is an improvement of 5 days Q-on-Q and 6 days Y-on-Y.

From a shareholder’s perspective, last 12 months diluted EPS is at Rs. 56.95, which is an increase of 11.8% year-on-year and 2.3% on a Q-on-Q basis. Given the improvement in EBIT and net margins and the improved cash flow generation, the Board has declared dividend at an enhanced rate of Rs. 12 from the quarter, up from the typical Rs. 10 per quarter that we have followed for the last couple of years now. So, Rs. 12 per quarter, the record date for the dividend is 20th October, next Friday and the payment date for the same is 31st October. With this increased dividend, the last 12 months’ payout ratio will continue to be at 88%, which has been the run rate in the last couple of years. So, we maintain the same run rate.

That's all I have for now and happy to go into the Q&A.

Operator, back to you. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session.

Vibhor Singhal: Sir, my question was mainly on the overall IT Services segment excluding the ER&D. So, from the ER&D segment, of course, we have seen a good ramp up in this quarter included the ASAP acquisition results and, of course, we were recovering from the bottoming out in the last two quarters.

In the IT Services segment, just wanted to understand apart from, of course, the strong deal wins that we have seen, what is the overall status on the discretionary spend in the existing deals, are we seeing continuous ramp downs as some of our peers are kind of basically suggesting that the discretionary part of these existing deals is being put on hold. Is that the considering traction, are we seeing an acceleration or deceleration in that process vis-à-vis in the last few months or last couple of quarters and what is the outlook on that, when do you think this could maybe start tapering off in near or near-to-medium term future?

Prateek Aggarwal: Vibhor, thank you for that question. I think it's none of those things that you kind of mentioned. And this is pretty visible from our notes to the accounts, our assets revenue has actually gone down by $25-odd million which at a Company base is 75 basis points.

So, yes, it is 0.9% reported, but if you sort of add that back then the number would be very different. And more importantly I think the guidance that we've given for Q1 and Q2 - it is what it is, but in the CQGR terms for the balance half of the year, there are three numbers. So, I'll just sort of stick to the Services number.

It does translate to about 3% to 4% between organic/inorganic. So, even if you take just the organic, I think the number is 2.6% to close to 4%. So, we are confident of delivering that. That is the revised guidance we have given.

Like CVK covered in his opening remarks 3% to 4% is a very good growth at any point in time, especially in these kinds of macroeconomic scenarios.

Vibhor Singhal: Sir, I think we are absolutely right that I think CQGR that we are targeting for the second half is definitely very strong, but my question was more to understand the overall demand environment that we are kind of facing. Of course, our deal flow has been quite strong. But overall are we seeing the client conversations around more holding back or cutting discretionary spends as CVK mentioned in the opening remarks or the situation is stabilizing. Just basically trying to understand the direction in which the discretionary spends is moving at this point of time.

C. Vijayakumar: Vibhor, the discretionary spend continues to be there and obviously a good part of the booking that we have done contains some of the discretionary spend. But I think the spend is a little lower than what we would normally see and that reflects in some kind of reprioritization or optimization, and that's what you see.

And we still think discretionary spends is not anywhere closer to what it used to be. So, that's what I would say on the discretionary spend at this time. But our pipeline continues to remain very strong. Obviously, it is not at the highest because we've got a tremendous booking last quarter, but it's probably maybe 10% below our peak.

So, which is also a very strong position that we are in, and we have a number of deals in the final stages. We will continue to deliver strong bookings in the rest of this year, which will all feed into the next year.

And just one more element I want to keep in mind is when we talk about booking, we do not include rate card deals where the ramp-ups are relatively slow. We only consider them as booking after the ramp up has happened.

So, all the bookings that we have are firmed TCVs with the committed transition timeline and execution timeline in all net-new because renewals are excluded from these numbers.

Moderator: We have a next question from the line of Sudheer Guntupalli from Kotak Mahindra AMC. Please go ahead.

Sudheer Guntupalli: Both for HCL and the industry we are seeing record high deal wins, but for the reasons well known it is not immediately translating into revenue growth trend. So, the question here is given the strong order backlog pipeline and the fact that some of these mega deals are ramping up towards the latter half of FY'24, is it fair to assume FY'25 could be potentially a COVID period kind of high growth year if the macro stays stable henceforth, just looking for your directional qualitative assessment, I appreciate that you don't give FY'25 guidance yet?

C. Vijayakumar: Sudheer the overall environment is quite volatile. So, if you see, I mean every 2 months, 3 months, the overall commentary is also changing. So, I would hesitate to take a view on FY'25.

But, of course, given where we are and the growth that we anticipate in Q3 and Q4, we will have a strong exit there is no doubt about that. But, of course, how FY'25 pans out will depend on, of course, the deal wins in these two quarters. But again, the client spending, which is largely the discretionary spend of which I think it's very early to even get a sense. And I doubt even if we will get a sense of what the discretionary spending, client budgets will look like even in the calendar Q1 next year.

So, I think we'll have to take it one step at a time and it's very difficult to do a long-range planning in these circumstances.

Moderator: Thank you. We have our next question from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: So, the first question is just to understand if things really worsened on flow business towards end of the quarter which is leading to the guidance cut and like what really have you factored in, in the flow business in your second half, is that one of the reasons for driving a strong CQGR that you mentioned about or is it largely driven from purely from your order book converting into revenues?

C. Vijayakumar: Yeah, I don't think there was anything which happened in the end of the quarter which made us change the guidance. Of course, Q1 was weak which makes the Q2 subsequent part of the year challenging. We expected a little more growth in Q2. We would have ideally loved our 2%-plus Services growth, which obviously was impacted due to some more strain on the discretionary side.

Now coming to the second half, there are three components which really make up the second half of this year's. First is, of course, the large deal ramp-up which we expect to go-live on 1st of November, which is absolutely on track. I think this will contribute to significant growth in Q3 as well as Q4.

The second aspect is Q3 is a strong quarter for our Software business. You will see a spike in revenues and that definitely adds, and the third component is the ongoing business, which is a combination of deals that are under transition, which will go into steady state and some amount of discretionary spend.

And I think one more aspect which gives us confidence is, even if you see the Q2, our couple of deals really clocked in revenue only in September. So, that will also give us some kickers in Q3.

Moderator: Thank you. We move on to our next question from the line of Surendra Goel from Citi Group. Please go ahead.

Surendra Goel: So, CVK just one question on the guidance again. You delivered a decent 2Q and are guiding to a strong 3Q and 4Q and yet the upper end of the guidance is revised down by 300 basis points.

So, just wanted to understand what changed between July when you had retained the guidance and today when you have lowered the guidance at the upper end by 300 basis points. And secondly, what gives you the confidence that this guidance is going to hold?

C. Vijayakumar: Weak Q1 primarily contributed to this, and we did have a little bit more optimism on some of the things that was expected to happen in Q2. So, weak Q1 and even though maybe our Q2 performance met market expectations probably, it was a little below our own expectations.

So, just adding up mathematically the ask rate becomes quite high for Q3 and Q4 and we did a realistic estimate of all that is possible and then, of course, as the first half is over, second half you will obviously narrow down the range. So that narrowing down the range probably upper end has become lower by 3%. But the facts are what it is Q1 and Q2, but our Q3, Q4 will be very strong. Our Services organic growth to achieve the guidance will be between 2.6% and 3.8% and a good part of it will be contributed by the large deal ramp up and of course including ASAP it will be between 3.3% to 4.5%. So, I think with these numbers we feel reasonably confident, they are safe numbers for us to go after.

Moderator: Thank you. We have a next question from the line of Ravi Menon from Macquarie. Please go ahead.

Ravi Menon: CVK on Software side we've seen year-on-year growth of 3.6%, but still the margins are down slightly, wanted to understand is this because some sales investments or is there anything else because on the R&D front I don't see much of an increase in spending?

Prateek Aggarwal: I'm not sure whether you're looking at year-on-year or sequentially. Sequentially, it is the weakest quarter in the year for Software historically and also in this quarter. So, sequentially it is but natural. As far as the year-on-year is concerned that also was a tad weaker, but that's largely on the back of initiatives that we are driving, which should hopefully continue to give us the 3.6% kind of growth and even beyond.

Ravi Menon: Can we say that the margins for Software could expand with continued growth that we are at a steady state of expense?

Prateek Aggarwal: Our guidance is obviously at a Company level EBIT guidance, don't necessarily want to lock myself up with the segment wise margin guidance, but it would be in the similar range as what we delivered last year is all I'll say.

C. Vijayakumar: I think when Ravi one significant comforting factor this quarter all our assumptions on how we will deploy freshers, how will we optimize on our managed services engagements. All of that actually we had started sometime in March itself, all of them delivered results.

So, I think our long term as we have been talking about 19% to 20%. I think it feels much more realistic based on the accomplishments of the quarter. So, I think that that's what you should really look for while this year is 18% to 19%, but we do hope to continue all our initiatives with the significant focus to improving our margins. That's one of the strategic objectives that we continue to drive.

Moderator: Thank you. We have a next question from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah: The first question is generally in Q3 with seasonal strength in the Products & Platform business the margin also takes a big lift. This time we will have a Verizon cost deal ramp up related to same, so do you expect still despite that the margin will have an upward bias on a Q-on-Q in 3Q.

And Prateek just based on my estimate, it looks like there is implied guidance downgrade in the Products & Platform from earlier upper end of 3.6% to now 1.5%. Is it true if you can give us what is the implied Products & Platform growth guidance for this year?

Prateek Aggarwal: So, Sandeep, let me take your second question first. We are not really giving you a P&P guidance. We are giving Company guidance and Services guidance. But if you do back calculation, it will be around the same percentage increase which they showed last year. I'll leave it there.

So, it's like the previous question was on margins, your question is on Software growth. I would expect the same kind of growth, the same kind of margins. I don't want to get more specific than that.

The simple answer to your first question is - yes and I don't know why this question keeps arising about Verizon, but it's a huge deal. It's giving us good revenue and we are going to deliver the 18% to 19% with that. So, I don't think there's any reason to sort of look a gift horse in the mouth.

Moderator: Thank you. We'll move on to our next question from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: Just wanted some color on the costs. So, I think this quarter the fall in a lot of cost items seem very sharp, almost like there's an intentional cut on these costs, so travel for instance, is down almost 30% sequentially and 13% year-on-year. Similarly, we have seen that in training and a lot of other things. I was just wondering what is the context to this? Is there anything specific? Was it macro or was it just about or something has really changed here in terms of the way we are doing things?

Prateek Aggarwal: So, Nitin, let me simplify it for you, I mean, last year Q1 was 17% and so was it this year. The Q2 last year was 18% and it is 18.5% this year. You can ascribe a large part of that 50 basis points is to the deferral of increments that we did last quarter. That's one way to look at it. So, that sort of puts it in context, if you like.

Coming to your specific question, yes, of course, there has been very deliberate action on a number of fronts, and it is visible in the detailed cost page that we have given. The biggest cut is obviously in third party subcontractors, which is part of the overall outsourced cost bucket that is 70 basis points.

Travel had gone up in the June quarter to some extent and has been cut down to reasonable levels and I would like to maintain it near these levels, maybe not exactly these levels. So, that's given us almost another 50-basis point.

Actually, the training that you mentioned, we have not cut training. It's just that we are hiring less people. So, it's the recruitment part which has been reduced because we have hired so many freshers. Ram also explained at the press conference, and they are all ready and eager to get into projects and deliver.

So, we have just not backfilled all of the attrition that continues to happen. Some of it has been sort of not backfilled because we have these freshers coming in. So, those are the kind of reasons. Obviously, there is a 18% to 19% guidance that we had given, and we want to be well within that range.

C. Vijayakumar: And just to kind of put it in perspective our training costs have only increased this quarter. It's only because the recruitment costs have been reduced and that also is kind of some of the recruitment that you do there is a lagging impact and that's why you see the impact now. In fact, mostly the recruitment reduced even last quarter.

So, it's related to people joining and things like that and also our cost of Hardware and Software reduced 0.5% that also helps.

Moderator: Thank you. We have a next question from the line of Ashwin Mehta from Ambit Capital. Please go ahead.

Ashwin Mehta: Just one question in terms of wage hikes, what's the timing for your wage hikes and what is the impact that you see in terms of margins coming in from wage hikes?

C. Vijayakumar: I will request Ram to respond to that.

Ramachandran S.: So, the salary increases which usually happen in the July month, will now happen in the October month. That's the one deferral that we spoke about last time effective October. Prateek, you want to talk about what's the impact.

Prateek Aggarwal: So, it will be around 60 basis points to 65 basis points thereabouts and there will be a small impact in the March quarter as well, which will be another maybe 25 basis points, 30 basis points.

Moderator: Thank you. We have our next question from the line of Chirag Kachhadiya from Ashika Institutional Equities. Please go ahead.

Chirag Kachhadiya: I just want to know that what gives us confidence that the H2 would be better compared to H1 and your outlook and expectation with FY25 in terms of growth revival or recovery?

C. Vijayakumar: So, no comments on FY25, it's really a long-term kind of FY25 view in the current environment. And as I mentioned, the second half recovery, as I explained it in a very granular fashion and for one of the earlier questions, but to kind of summarize it.

There are three components, of course, one is the large deal going live on 1st of November that will give us good growth in Q3 and on top of that there will be good growth in Q4. The second aspect is the Software seasonality. There will be a spike in revenue in Software in Q3.

And the third aspect is the continuing revenue, the full quarter impact of whatever happened in September and some amount of flow through revenue from the new bookings that we have done. So, these are the three elements which make up the forecast for Q3 and Q4.

Moderator: Thank you. Ladies and gentlemen, that would be our last question for today. I now hand the conference back to Mr. C. Vijayakumar for closing comments. Thank you and over to you, sir.

C. Vijayakumar: So, in closing, we delivered a very good quarter in all dimensions. We continue to remain very confident of the pipeline and its conversion, we expect to deliver strong bookings in the rest of this year.

And given the all the good work that we have done, we've tremendously improved our margins. We remain very focused on improving our margins and most importantly for us quality of revenue is a very, very important metric which we have been maniacally focused on because that is what is going to give us sustained growth in the long run, and we remain very committed to the quality of revenue as well as capital efficiency. Our internal operational rigor has helped us improve our DSO significantly in the last quarter. And I think it's not just a one-time impact, it's a result of significant amount of work that has happened in the past few months to improve our processes.

So, we are very committed to capital efficient growth, improving our return metrics, all of that. And so, we expect to see strong growth in the second half, and we committed to deliver 5% to 6% growth for the full financial year.

So, with that, thank you for all your support and wishing you a happy festive season and enjoy as much cricket as you can and have a good evening. Thank you.

Prateek Aggarwal: Thank you.

Moderator: Thank you, sir. On behalf of HCL Technologies Limited, that concludes the conference call. Thank you for joining us and you may now disconnect your lines.