"HCL Technologies Limited Q1 FY'25 Earnings Conference Call"

July 12, 2024

MANAGEMENT: **MR. C. VIJAYAKUMAR – CHIEF EXECUTIVE OFFICER & MANAGING DIRECTOR, HCL TECHNOLOGIES LIMITED**
MR. PRATEEK AGGARWAL – CHIEF FINANCIAL OFFICER, HCL TECHNOLOGIES LIMITED
MR. RAMACHANDRAN SUNDARARAJAN – CHIEF PEOPLE OFFICER, HCL TECHNOLOGIES LIMITED
MR. NITIN MOHTA – HEAD, INVESTOR RELATIONS, HCL TECHNOLOGIES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the HCL Technologies Limited Q1 FY'25 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing "*" and then "0" on your touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nitin Mohta, Head, Investor Relations. Thank you and over to you, sir.

Nitin Mohta: Thank you, Darwin. Good morning and good evening everyone. A very warm welcome to HCLTech's Q1 FY'25 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 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.

Over to you, CVK.

C. Vijayakumar: Thank you, Nitin. Good evening, good morning and good afternoon, everyone. Thank you for joining us today for our Q1 Earnings Call.

I will directly get into our business performance for the quarter:

As we had communicated, seasonally, Q1 has always been a soft quarter for HCLTech. It's still industry-leading YoY growth as it increased 5.6% on a year-on-year basis in constant currency, though our revenues declined 1.6% sequentially. Again, this was better than how we had expected this quarter to pan out when we met last.

We had called out the key factors that drove this during the last call. Operating margins clocked in at 17.1%, a decrease of 50 basis points compared to the last quarter and an increase of 13 basis points compared to the last year same quarter.

In terms of Segmental Performance:

Our Services business declined 1.9% sequentially but grew 5.8% year-on-year in constant currency.

Our IT and Business Services grew 5.3% year-on-year but declined 1.5% sequentially in constant currency.

Our Engineering and R&D Services grew 8.4% year-on-year but declined 3.5% sequentially in constant currency. The decline in Engineering Services were primarily in the Manufacturing and Med-Tech vertical segments.

HCL Software grew 3.5% year-on-year as well as 0.4% sequentially in constant currency. HCL Software business continues to progress in the right direction with annual recurring revenue at $1.01 billion.

Now, coming to the Verticals and Geographies:

In terms of geographies, on a year-on-year basis, Europe grew 3%, Americas grew 8%, but rest of the world declined at 3.6% in constant currency.

On a year-on-year basis, telecom and media and retail and CPG vertical segments fared well, growing at 69.2% and 9.7% respectively.

Manufacturing growth 3.5% year on year in constant currency, enabled by the ASAP acquisition, which we did last year.

Life Sciences and Healthcare segments declined 4.1% year-on-year in constant currency due to completion of projects last year and because of the softness that I had called out in the mid tech segment.

Bookings during the quarter, we had the TCV of $1.96 billion, approximately $2 billion with a good mix of small deals and large deals. We have called out all the large deal wins in our investor release and have also called out a number of opportunities that we have won in the space of GenAI in our investor release.

From a people perspective, our overall people account at the end of the quarter was 219,401, a sequential reduction of 3.6%, which is largely attributed to the State Street JV exit.

Our attrition continues to abate on an LTM basis. Our IT services voluntary attrition now stands at 12.8%, one of the lowest in the industry.

Expanding on a new Vista Strategy, this quarter we opened a center in Patna in Bihar, continuing to expand our new Vista strategy.

In terms of business trends and GenAI, we continue to see a lot of AI and GenAI-related opportunities. We had launched HCLTech AI Force, a generative AI and automation platform

couple of months ago and now We have launched another suite of products, HCLTech Enterprise AI Boundary to simplify and scale enterprise AI journeys.

Talking about Client Programs:

There are multiple ongoing engagements where we are working with clients to deliver real value. Specifically in terms of AI-led wins, the following are worth a mention: A global technology major selected HCLTech for implementing a GenAI-based solution for gaming review analysis that automated data collection, sentiment analysis and operational automation, resulting in significant workload reduction and 119% increase in game reviews. They also selected us to deploy GenAI to transform their content lifecycle management and the processes. HCLTech will help the client to automate its content processing with intelligent features such as persona filters.

A Europe-based financial services major has partnered with us to develop and manage its next gen low latency electronic platform and compliance analytics platform leveraging GenAI.

A US-based insurance provider selected HCLTech to transform its contact center and back office operations for claims management, leveraging GenAI.

HCLTech's Gen AI Force Digital Colleague suite of products will help the client optimize workflows, boost operational flexibility and enhance efficiency, accuracy and overall service quality in managing healthcare claims.

Adoption of GenAI technologies is also expected to boost demand for cloud services and data standardization work. Recent implementations that we did demonstrate that trend. It delivers business efficiency and operational excellence for clients who are seeking several modernization objectives.

For a leading athleisure brand, we modernize their e-commerce platform to improve Omni-channel consumer experiences and that spurred their top line growth.

For a US beauty retailer, we created a digital store of the future, digital shopping experience, that's high performing, visually appealing, immersive and omni channel.

Both implementations involve migrating from legacy systems to next gen platforms that enable innovation, reduce OPEX and scale on demand. This should logically lead to the next stage of leveraging Gen AI further.

This Gen AI momentum is driven by the attractiveness of a full stack proposition, which delivers to the entirety of the enterprise covering business processes, product applications, data, cognitive infrastructure and the semiconductor design. These full stack capabilities are key in the market right now and the flagship offering of AI Force and AI Foundry along with a global network of Gen AI labs are bringing them to life for our clients across the globe.

We are in fact seeing unprecedented levels of activity in our AI labs, which provide strategic advisory services, hands on engineering acceleration and a unique ideate to MVP experience designed to quickly prepare clients for scaled AI deployment. Our AI labs have curated 200 plus MVPs for our clients till date. Fueling this activity is a solid investment in people, places and partnerships.

In terms of people, we have a target of training 50,000 people on Gen. AI and AI skills this fiscal. 33% of this target has already been achieved in this quarter alone. Our focus on data AI, Gen AI developer skilling across the stack with a special focus to create a cohort of data and AI principals.

In terms of locations, this quarter we inaugurated an AI Lab in New Jersey in the US and the Gen. AI dedicated Data Center in Austin, TX. These labs help clients quickly innovate, experiment, and prepare for scale production, deployment of AI and Gen AI enabled solutions.

We have also recently announced a new collaboration to establish a Gen. AI CoE based on IBM Watson X AIM data platform. In terms of partnership, our expansive ecosystem of partners continues to be our bedrock of growth in this market.

We have strategic partnerships with all the leading hyperscalers. ISVs and Systems OEMs that keep us at the forefront of key innovation happening in this space.

In a software business too, similar acceleration is offered around Gen AI. Every major product in the HCL Software portfolio has now been embedded and infused with Gen AI capabilities, from business applications to total experience to intelligent operations, cybersecurity and data analytics.

Our Investor Release has got more details of the deals that we won both on GenAI and other digital and traditional themes, which should give you a much broader view of the potential opportunities in front of us.

Last quarter, we received several accolades and happy to share that HCLTech has been included in Business World's "India's Most Respected Companies 2024" List as #7.

HCLTech named the "Most Honored Company in India" in "Annual Asia Executive Team Survey" by the Institutional Investor Research.

HCLTech ranked number one in 21 categories in the Technology IT Services and Software Sector and had a total of 27 top three rankings across Asia, ex-Japan and rest of Asia, ex-Mainland China survey tracks.

And I am sure you know most of these details. I would like to thank you all for the continued support. These awards would not have come our way without you and your industry peers

acknowledging our work and commitment to strong corporate governance and investor relations. A sincere thank you to all our investors and analysts for their acknowledgments.

From an ESG perspective, we also won few recognitions this quarter. The British Safety Council has recognized five of our campuses in India with the prestigious "International Safety Award 2024". We also won the "Equinix APAC Social Governance Award" and "SAP Pinnacle Award" in the "Social Impact Category" for the HCLTech Aqua Solution that helps enterprises achieve their water conservation goals.

Looking ahead, with Q1 performance in line with our expectations, we will grow in Q2 in all verticals and geographies seeing a sequential growth except financial services. As you know, we shall have the planned impact of State Street divestiture on our revenues in Q2 and including that impact, we remain comfortable with our full year revenue and margin guidance as clients spend on GenAI and other emerging technologies. We expect to meet this guidance through strong operational execution that we have demonstrated over the last several years.

With that, I will hand it over to Prateek to provide more details on our financial performance. Over to you Prateek.

Prateek Aggarwal: Thank you, CVK. Good morning and good evening to all of you. I hope you are keeping well.

The Q1 FY25 Overview:

Revenue stands at $3.364 billion, which is a decline of 1.6% sequentially, but a growth of 5.6% year-on-year in constant currency terms. This quarter, it was led by the software segment, which was up 0.4% sequentially and 3.5% on year-on-year terms in constant currency and ARR stands at $1.01 billion.

Services came in at 3,041 million ~ 3 billion roughly, which was down 1.9% sequentially and up 5.8% year-on-year. Within that, ITBS came in at $2.5 billion, down about 1.5 percentage points and up 5.3% year-on-year. ER&D came down 3.5% sequentially and up 8.4% year-on-year.

Our EBIT came in at $575 million at 17.1%, which is down 50 basis points sequentially, but up 13 basis points year-on-year. Like CVK mentioned already, typically Q1 has that seasonality for us.

The Service margin is the one that drove the overall margins, down on a sequential basis, 51 basis points and up 43 basis points on a year-on-year basis.

Net income for the quarter is $496 million which is at 14.7% in U.S. dollar terms, which is an increase of 3.4% sequentially and 15.3% year-on-year.

Our other income as you would have noticed is higher due to the divestment of the State Street DPO JV in this quarter.

I would like to highlight one thing which is a little unique in this quarter compared to most other quarters or years, is the divergence between the net income in dollar terms versus rupee terms and that is driven by the accounting of the divestment of the State Street DPO JV.

What I am specifically referring to is the 15.2% net income in rupee terms in our IndAS financial statements, which is a divergence of about 43 basis points. This is basically because of an accounting difference between how the recording of the initial investment in the entities that were divested got currency translated over the 12-13 years of the life of the JV and is typically referred to as Currency Translation Adjustment (CTA). In the US dollar P&L, there is about $9.8 million, which was a loss in the US dollar P&L, but the same thing in the IndAS P&L, is a gain of $4.7 million. Therefore, there is that $14 and a half million difference. If you just translate the Rupee P&L would be higher by $14.5 million on that account.

Moving on to the normal EBIT margin walk:

There is not much to see there. It's pretty straightforward. 15 bps is the decrease at the Company level, which is obviously caused by the drop in the services margin which is at 51 basis points and that is basically the drop in margin is from the ER&D segment where the drop in revenue has percolated down to the margins if you look at it that way. And so that is really the reason for the drop sequentially QoQ.

The impact of annual productivity that has resulted in the revenue decline has been offset by efficiencies in business and along the way we got some small exchange benefit of about 10 basis points as well.

We continue to improve our return on invested capital (ROIC) due to continued focus on profitability and managing capital efficiency. The last 12 months ROIC, you will see is now at 42.8% for services which is a handsome increase of 4.8% on a year-on-year basis, and the software continues to be at 16.1% like last quarter and the therefore the Company as a whole in the last 12 months ROIC is at 34.6% which is also an increase of 3.5 percentage points on a year-on-year basis.

The guidance remains the same as what we had given you at the beginning of the year last quarter when we announced and revenue guidance continues to be 3% to 5% and like CVK mentioned, we are confident of seeing growth despite the 80-bps impact at a Company level from the. State Street DPO revenues going away, and which is about 90 bps at a Services level, we do expect to see growth in Q2 over Q1 both for the total Company and for Services, we continue to have that guidance band of 3% to 5% and EBIT between 18% to 19%.

Our cash generation continues to be robust. Last 12 months, operating cash flow is at 2.7 billion, which is 9% increase year-on-year and free cash flow is at 2.6 billion, which is an increase of

12% year-on-year. The respective conversion factor compared to net income are at 139% for OCF and 133% for free cash flow respectively.

Our balance sheet continues to strengthen. Gross cash at $3.26 billion now and net cash just a shade below $3 billion at $2,985 million.

We succeeded to reduce our DSO by another day, including unbuilt. It is now at 82 days versus 83 days last quarter. So, that's an improvement of one day sequentially and an improvement of six days on a year-on-year basis because it was at 88 in the same quarter last year.

For our shareholders, the diluted EPS for the last 12 months therefore comes in at 60.52 which is up 8.7% year-on-year, and the board has declared a dividend at. Rs.12 per share for the quarter, interim dividend which is in line with what we had been doing in the Q2 and Q3 of last year as well. We're maintaining the same run rate. The record date is going to be 23rd July and the payment of the same shall be 1st of August for the shareholders. That brings our last 12-month payout to Rs.54 per share, which is a ratio of 89% to the net income.

And that's where I will pause and moderator back to you for the Q&A. Thank you.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Vibhor Singhal from Nuvama Equities. Please go ahead.

Vibhor Singhal: CVK, I just had two questions. One, I think this quarter, we were expecting a decline because of the project moving from onsite to offshore, but adjusting for that, how is the BFSI segment looking like? How is the growth overall in this segment in terms of the pickup in demand; I mean we had a very strong BFSI performance last year, do you expect that momentum to continue or even get better? And a similar comment if you could provide on Manufacturing. What led to this decline in the Manufacturing vertical in this quarter and how do we see it going forward?

C. Vijayakumar: Yes. Thank you, Vibhor. Let me address the Financial Services question. Apart from the one item that we had called out last quarter, the progress played out exactly as we had expected. As you know, Q2 will have a little more impact because of the state street divestiture. After that, we expect FS to show some growth because a couple of big wins that we had in the quarter were in financial services, which would start contributing to incremental revenues in Q3 and Q4. Still the large outlook in financial services seems to be cost efficiency kind of driven programs, but a lot of them are not just straightforward cost efficiency, but it is led by level of modernization and tech transformation. That's what we are seeing in financial services. We're not seeing the general discretionary spend really picking up. It remains somewhat similar to what we saw in the last quarter. In Manufacturing, we have talked about the two elements of the Q1 outlook, one was of course offshoring of a large program, the second one was a traditional year-on-year productivity that kicks in in April. This is a little more concentrated in the Manufacturing vertical. So, that was one reason. Second, we saw in fact a significant weakness in the Automotive segment, contrary to all the expectations, because we see a lot of stress with the

automotive firms in Europe and that has contributed to the second element. The third, which is it's mostly a BAU thing - our asset revenue has declined some 10-odd million and pretty much all of that seems to have happened in the Manufacturing vertical. Now, moving forward, as I mentioned, we see good growth in Manufacturing in the second quarter. So, we should continue to see good traction in Manufacturing henceforth.

Vibhor Singhal: So, apart from this, these three things that you mentioned, the overall outlook in the Manufacturing remains as it was, let's say last year?

C. Vijayakumar: That's right.

Vibhor Singhal: I just have one follow up question for Prateek. I think we would probably be taking the wage hike in due course of the year, either Q2 or Q3. If you can probably shed some light on that as well as to when we are planning it? Given that we are at 17.1% margin in this quarter and there is the impact of these hike yet to come, what are the operating levers that you're looking at to be able to manage the margins in that 18% to 19% band? I know Q3 will be a bump up because of the product business; however, despite that it seems to be a bit of a tall ask what are you looking at in terms of the levers to achieve that number?

Prateek Aggarwal: Thanks for that question, Vibhor. I think I don't want to speculate too much about the wage hike timing and one-term, etc. Like Ram mentioned at the press conference, it is still a decision which is work-in progress. So, that is a work-in-progress which we will decide during the quarter. But at an overall level there is a certain quarter wise trajectory that we have had. If you look at the last couple of years, our Q1 is typically soft on the top line which kind of translates to the bottom-line EBIT as well. Then we have Q2 which is a pickup. Q3, like you rightly pointed out, is the peak. So, Q1 is the sort of trough, Q3 is the peak and the other two are somewhere in the middle. That's what we would expect to play out even in this year. I will leave it there because there is a long list of levers. We have talked about it enough times and all those levers continue to be available and at play. I will leave it there, Vibhor.

Vibhor Singhal: That was very helpful. So, in nutshell, we don't see any threat to over 18% to 19% guidance and we are comfortably pleased to meet that number.

Prateek Aggarwal: Our guidance continues to be 18% to 19%.

Moderator: Thank you. The next question is from the line of Sudheer Guntapalli from Kotak Mahindra. Please go ahead.

Sudheer Guntupalli: Hi, CVK. Thanks for the opportunity. So, you mentioned that the performance during the quarter was better than initially anticipated. Was this driven by the faster velocity, shorter cycle deals which would have come through during the quarter or something else?

C. Vijayakumar: It's difficult. It's a little bit contribution from a lot of things. It's not that we have hugely over-performed from our expectations. It is slightly above our expectations and it's a lot of small things which has added up. I wouldn't really call out any trend or anything like that.

Sudheer Guntupalli: You seem to be confidently suggesting that all verticals and geographies will sequentially grow in Q2 with just one exception. So, are you suggesting that the demand situation has bottomed out and seeing a gradual improvement from here on?

C. Vijayakumar: The only exception is Financial Services as I have called out and from a demand situation perspective, our going in assumption for the year was that discretionary spend would be similar to the last year and we maintain the same thing. I don't think the environment has changed in any meaningful way during the first quarter to project any optimism. Of course, our forecast for Q2 is based on the deals that we won and the execution that is underway. That's why we feel confident of our more broad-based growth in Q2.

Moderator: Thank you. The next question is from the line of Ravi Menon from Macquarie. Please go ahead.

Ravi Menon: CVK, just wanted to check about the Manufacturing vertical performance. Last year, despite the productivity improvements, we have shown good growth. Even the year before that, there was only a slight decline, just about 0.5% Q-o-Q in CC terms. This year seems to be a lot more pronounced. Could you give some more color on what happened in the automotive sector? Is there any decline in the ASAP acquisition's revenue specifically?

C. Vijayakumar: Yes, Ravi, I think you guessed it right. Our ASAP acquisition did not deliver to the way we expected in the first quarter. But we are very confident of the overall investment and the outlook in that segment. I do believe the EV segment is going to undergo some stress due to various factors, especially in Germany. Given the ASAP acquisition, we expect the Q2 to be a good growth quarter and if you are trying to compare it to last year and other years, usually there are lots of elements. Assets are one thing, cost of $10 million, kind of an impact from Q4 to Q1. And that's not something which we can predict/define year-on-year. Then the productivity benefits - it’s pretty much similar and a repetitive thing every year. The growth can be influenced in one year because of a new deal ramp up, etc. So, it's very difficult to draw a one-to-one correlation.

Ravi Menon: Prateek, a question on the margin. Your IT Services' margin seems to be holding up well with the shift offshore probably leading it, but the R&D has seen a sharp decline. Can we recover the R&D margins fairly quickly or do you think this will take a few quarters?

Prateek Aggarwal: Well, I am pretty sure we will recover most of it quickly. As you can see, it's a mathematical truth sitting out there. The costs have remained pretty much flat quarter-on-quarter, whereas there is a $20 million decline on the revenue line which has percolated down to the margin. So, sometimes that can happen when it is not expected, and it happens during the quarter. You don't have enough time to take the corrective action. I am sure they will take corrective action during the current quarter and see some growth hopefully.

Ravi Menon: Last question, if I may, on the fresher addition. How many trainees are you planning to hire this year?

Ram Sundararajan: There is a full year plan for this year. We have planned for is 10,000. Q1 we added about 1,100. That's in line with what we have planned for Q1, but a fresher addition through the year is always going to be something that we will plan quarter-on-quarter. We do make our plans based on what we do on campus and what we do off campus. Off campus is going to help us get that flexibility to moderate quarter-on-quarter to meet the demand that we have. But the going position for the year is 10,000 that we are still going as per plan.

Moderator: Thank you. The next question is from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah: CVK, the first question is any experience to share when the deals in ADM or IMS come for renewal and what are the clients asking for in terms of any benefits to be passed on from GenAI?

C. Vijayakumar: Yes, my answer may not be very popular, but I will still give it. More than the expectation from the clients on GenAI, I think it's the competitive intensity which is kind of driving some irrational behavior. That's all I would want to just say. In GenAI, customers, especially for running production landscapes, are a lot more pragmatic in what can be done and what needs to be done with a lot more thought and in a very gradual manner. I think we are working very well. Our AI Force platform is addressing the end-to-end lifecycle of software development and application operations, and a lot of our DRYiCE solution suite is also now integrated into the AI Force platform, where the earlier through machine learning runbooks were getting created, but now it's a lot easier through generative AI. So, that's all part of our AI Force platform. We are committed to implement AI Force platform across all our customers as and when we get the approvals. From then on, it's a journey and the customers recognize that. I would leave it there.

Sandeep Shah: Prateek, just the question in terms of the announced acquisition in May of 2024, I do agree it will take another six to nine months to close and not forming part of the guidance. Are you worried it may dilute our margin substantially? And so, it may change our comfort range on the EBIT margin at 18% to 19% whenever it gets consolidated.

Prateek Aggarwal: Our guidance is organic, both on the top line and on the bottom line. So, whenever the deal closes, like you said, six to nine months from the date we announced, that revenue is not in the 3-5% guided range, and neither is the margin. As far as accounting of any new acquisition goes, most of the EBITDA that comes with the acquisition gets provided as amortization of intangibles. So, most acquisitions' P&Ls for the first one or two years are not really EBIT accretive or show any meaningful EBIT in the first couple of years. Hope this explains that.

Sandeep Shah: So, this purchase consideration would be largely allocated towards intangibles rather than tangible assets, right?

Prateek Aggarwal: Intangibles include goodwill which doesn't amortize. So, in any acquisition, a substantial part, more than 50% definitely goes towards intangibles.

Sandeep Shah: Last question, CVK, what will it take for clients to relook the discretionary projects in terms of reducing the leaking buckets or to start the projects which are put on pause? Based on your interaction with the client, what are the events which they expect to become more constructive on discretionary projects?

C. Vijayakumar: I think even now there is some amount of discretionary spend happening, but for customers to become a little bit liberal and open-minded in doing new work, I think it's largely driven by the economic pressures, whether it is interest rates or inflation and things like that.

And it varies from segment to segment. So, I think it's just the macro factors. While some companies have delivered very good profitability, but there is still a conservatism that is there, which I think will loosen up a little bit with some signals and some real changes in the macro.

Moderator: Thank you. The next question is from the line of Dipesh from Emkay. Please go ahead.

Dipesh: Two questions. First about the vertical technology and services seem returned to good growth paths. So, if you can help us understand what is driving it because that vertical was relatively soft for last four-five quarters. Second is about the GenAI – what is our growth strategy and how are we different compared to some of the peers? AI Force, you said, we intend to implement across client base. If you can share some statistics around where we are in that journey?

C. Vijayakumar: I have been indicating that we were seeing some green shoots of growth coming from Tech and Services, and it helped us grow in this quarter. At this point, there are certain programs both on the digital business side and some on the execution of the other programs that we had won, two-three quarters ago that are helping. We also see a lot of momentum with the hyperscalers in enabling their infrastructure creation and support. We are also seeing some green shoots in the Engineering Services as well, but it didn't contribute meaningfully to the last quarter. We hope it will contribute in the next quarter.

Now, coming to generative AI, if I kind of summarize all the different use cases, one is very, very efficiency led. The second one is really innovation led driven by the leverage of data. So, our HCLTech AI Force is a comprehensive platform, which addresses all the efficiency-led benefits, both on IT processes and business processes. So, this is one platform, if a customer can implement it within their enterprise, then all the functions within the organization can leverage it to drive their efficiency programs using one consolidated platform which is secure, which has got ways to look at implementation of responsible AI and traceability of the decisions.

So, I think this platform is very comprehensive. While we started with Azure OpenAI, now it's expanded into several other LLMs. I think it's going to be quite pervasive across. I don't believe the industry has a similar platform. We definitely have an edge in this.

The second aspect within an enterprise will be how the internal organizational data, which is across different functions without going out (external to the organization), being leveraged to drive generative AI programs and innovation. That is where HCLTech's Enterprise AI Foundry, really helps any enterprise's AI journey, which is not just the efficiencies addressed by HCLTech AI Force and all the innovation around data is addressed by Enterprise AI Foundry.

Now these two are leading edge, which even our hyperscaler partners recognize as a very strong offering from our side. And we have also aligned our HCLTech Enterprise AI Foundry with all the tech OEMs like Dell, HPE and others. They also see a lot of value in this solution, especially where we need to implement a private AI stack. Right now the implementations in maybe a dozen customers of AI Force are still early stages. I think it's all about getting the basic solution in place and then continue to drive adoption. And adoption is going to be a multi-year journey. I hope that was helpful.

Dipesh: It is helpful. And just on follow up, in terms of let's say now customers we have for AI Force, whether there would be any immediate revenue benefit? Also, for time being, focus would be about adoption and revenue maybe over a period we try to monetize?

C. Vijayakumar: Yes, I think there are two different opportunities. The AI Force is going to be implemented and it's going to be more driving efficiency within the enterprise. At some point there is a value for the IP that we provide on an ongoing basis to the clients. Whereas in enterprise Data Foundry, any solution that we are implementing will give us benefits like how the small project's discretionary spend does. This is going to be one more category where we will see customers spending and right now we do quite a bit of projects in this space. Double-digit TCV for two deals is what we have, but it's still early days. I would not extrapolate anything, but some meaningful wins are happening in this space. I believe that we have an edge over a lot of other service providers in this space.

Moderator: Thank you. The next question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: I had a clarification on State Street. So, I think in the press conference, you mentioned that there was an impact on BFSI this quarter from State Street. And next quarter we should have a 0.8% impact on revenue. So, did I hear that right? Because when I see the headcount fall of 8,000 and State Street is out, the acute headcount cost remains the same on a sequential basis. So, it feels like people have left towards the end of the quarter. So, the question is one, is there any impact on revenue in the current quarter due to State Street and should we assume that 80 bps for the whole of next quarter?

C. Vijayakumar: Yes, just to clarify what we mentioned in the press conference and then Prateek can respond to the rest of the questions. We talked about the decline in Financial Services was due to offshoring of a large client. That was the main contributing factor which was as planned and as we had indicated in the beginning of the quarter. The finer details on the State Street cost and revenue, Prateek will address.

Prateek Aggarwal: Yes, so I think we covered this, Nitin, in the press conference that you referred to. There is an 80-bps at a company level and at a services level, the same translates to a 90-bps impact in Q2. That is exactly what we had told you at the beginning of the last quarter announcement.

Nitin Padmanabhan: The second thing to clarify was, in this quarter, I think we mentioned $70 million is the gain on other income due to State Street, but I think the consideration was $170 million. So, the rest comes in the next quarter. So, that was one on the State Street side. And I had another one, which is, CVK, you alluded to some weakness in Germany on the EV side. Could you help contextualize that a little better as to what exactly you are seeing? And finally, I think yesterday there was this ISG call and even on the TCS call, there was this talk about the impact of GenAI on ADM and Infra. So, when ISG put that number at around 30% of cost savings, TCS put it at 5% to 20%. Just wanted your thoughts on this because you have usually been very candid about these things. So, just wanted your thoughts on how, what are your observations on this space?

C. Vijayakumar: So, maybe I will address the two questions on the weakness in Europe and the GenAI impact on ADM savings, and Prateek will address the State Street related questions. Weakness in Europe was led by Manufacturing. I did talk about the three items in Manufacturing - productivity, assets and softness in the automotive segment. Automotive segments, especially large automotive firms who have significant software development capability, I think due to their own current stress have ramped down on a couple of projects which had a sharp impact in our ASAP revenue. We believe we have amazing talent and the leadership in ASAP. We need to broad base the ASAP capabilities to our global clients and that's what we are working on. I do believe this will get offset soon.

Nitin Padmanabhan: So, are you seeing this as cuts on EV related programs overall, or it is just specific?

C. Vijayakumar: Well, there is definitely one specific thing, but overall, the EV market is softening. Some of the investments are getting a little bit not prioritized as it used to be. But of course, the long-term trend, I do strongly believe in it. It could be the economic pressures on some of the industrial customers is what is causing this.

On GenAI, I have been fairly clear on the four areas and the kind of impact it will have. The first is DPO and testing. I believe the benefits would be to the extent of 50% and we ourselves have delivered programs or delivering programs which is promising 50% savings from their current outsourced spend on DPO and testing. We have examples for both.

The second aspect is in ADM. I think ADM and all the operations needs to be looked at differently. In ADM, we expect productivity improvement anywhere from 10% to 30% by adoption of a GitHub Copilot. The GitHub Copilot adoption journey is also a very gradual journey. Usually, customers look at a cohort of maybe 100 to 200 developers. They look at all the metrics and really make sure the productivity that is being measured which is accrued due to the GitHub Copilots, is calibrated and proper benchmarks made. Then that itself is significant to change management to achieve and then they scale from there to a much larger 1,000 to 2,000 developer kind of capacity. So, this is a journey, and we believe 10% to 30% is the productivity

saving that would come through. Even one of the most advanced companies in this, have their own internal goal to achieve 10% productivity on the software development.

The third element is the infrastructure application operations. This is where you are normally working on live systems which is running mission-critical applications and infrastructure landscape. So, the GenAI's incremental value from the existing automation, machine learning, and AI-led automation that has already existed in a very mature implementation where we have used machine learning and traditional AI technologies, the incremental benefit you would see would be in the range of 10%. That's what we expect. Of course, in areas like Service Desk etc, which is also in infrastructure support, maybe the opportunity is a little higher.

And the fourth element is all the business innovation and the data-led AI journeys, which will really be a good growth driver because here every application needs to be modernized with a GenAI approach. And that's for the existing applications. Then even to leverage GenAI in an effective manner, a lot of customers need to continue their modernization journey and the streamlining of data. So, I think there are a lot of prerequisites that are becoming more and more important as we complete these POCs for a number of customers.

Moderator: Thank you. The next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: The first question is for CVK. Just trying to understand all the projects that we are delivering on GenAI, how to understand if it's all an incremental demand that is coming to us or it does it reflect that some projects are being prioritized on GenAI but something else is being deprioritized? Trying to understand if it is an incremental net positive for the industry and for us.

C. Vijayakumar: Eventually it will be an incremental positive, especially the fourth category that I have talked about. I would think it's incrementally positive. These spends, like I am aware of one bank, which is looking at half a billion dollars outlay for GenAI programs. So, this is something which is coming top down. They believe it can be a very disruptive capability that they can leverage. So, while that is just one example, but it just shows the kind of thinking that customers are going through. Of course, from thinking, to executing and to giving us the program, there is a time gap. So, I personally think it will create a new spend trajectory.

Gaurav Rateria: Related question, CVK, on the prerequisite that you mentioned that once you complete the POCs, you will have a lot of the work coming around modernization, which would be prerequisite for companies to implement the GenAI. Does it mean that the second stage could mean a much larger project than that you have right now on POC stage and much longer engagements?

C. Vijayakumar: I see it more like the cloud journey where it kept growing incrementally. That's how I see this come up.

Moderator: We would need to end our question-and-answer session at this point. Thank you. Ladies and gentlemen, I would like to hand the conference over to Mr. C. Vijayakumar – CEO and MD for closing comments. Over to you, sir.

C. Vijayakumar: Yes. Apologize that we have run out of time. I am sure you have a lot of questions. Nitin will be very happy to respond to your questions as appropriate offline or in any other conversation. And thank you for joining us today and for all the interesting questions. We want to bring to your attention that on the 28th of August, we have an Investor Day planned in Mumbai, and you will get invites, and we really look forward to seeing all of you during the investor day. And thank you for joining us and thank you for your ongoing support and have a pleasant evening.

Prateek Aggarwal: Thank you.

Moderator: Thank you. On behalf of HCL Technologies Limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.