



"HCL Technologies Limited Q2 FY'25 Earnings Conference Call"

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Management:

Mr. C. Vijayakumar – Chief Executive Officer and Managing Director

Mr. Shiv Walia – Chief Financial Officer

Mr. Ramachandran Sundararajan – Chief People Officer

Mr. Nitin Mohta – Senior Vice President & Head - Investor Relations

Moderator: Ladies and gentlemen, good day and welcome to the HCLTech's Q2 FY25 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 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, Dorwin. Good Morning and Good Evening, Everyone. A Very Warm Welcome to HCLTech's Q2 FY'25 Earnings Call.

We have with us Mr. C. Vijayakumar – CEO and Managing Director, HCLTech, Mr. Shiv Walia – 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 afternoon and good morning, everyone and thank you for joining us for our Q2 Earnings Call. I hope all of you are doing well.

Many of you would have met Shiv Walia – our new CFO during the Investor Day session we had in Mumbai. For the rest of you, it is pleasure introducing Shiv again, a three-decade veteran with HCLTech and he's been integral to our success over the last many years. Let me welcome him once again.

At a high level, Q2 has been a strong quarter. As we had indicated in the last quarter, we have grown across the board as we see business momentum starting to pick up.

Our revenue grew 1.6% sequentially and increased 6.2% on a year-on-year basis in constant currency. Our operating margin stood at 18.6%, an increase of 149 basis points compared to the last quarter. This is as a result of our strong operational execution.

Our Services business grew at 1.6% sequentially and 5.9% year-on-year in constant currency. This is despite the headwind we had due to the divestment of the State Street joint venture BPO business.

Our IT and Business Services grew 1.8% sequentially and grew 6.2% year-on-year, Engineering and R&D Services grew 1.1% sequentially and 4.3% year-on-year, and HCL Software business grew 9.4% this quarter and 6.4% growth in H1 FY'25 in constant currency year-on-year basis, demonstrating the increasing relevance of our products for the digital economy. HCL Software business continues to progress in the right direction with ARR at \$1.05 billion. More on HCL Software which we will discuss in a few minutes.

All three geographies grew this quarter with the rest of the world having a strong growth of 7.2% on a constant currency basis sequentially, largely driven by Financial Services and some uptick in Manufacturing. On a year-on-year basis, Americas grew 7.5%, Europe grew 4.2%, whereas ROW declined by 2.6% in constant currency.

All our verticals grew on a quarterly basis except Financial Services. Financial Services had an impact of the planned divestment in the quarter. Without divestment impact, FS grew handsomely on a quarter-on-quarter basis. Our top performing verticals on a sequential basis were Retail & CPG, Life Sciences & Healthcare, Technology & Services and Energy, Utility & Public Services in that order. On a year-on-year basis, Telecom & Media, Manufacturing, Retail & CPG and Technology & Services fared well.

In terms of clients, we continue to grow our clients to a larger size, a key focus area for our growth through cross-selling of our services. During this quarter, we made good additions to our client portfolio. On a quarter-on-quarter basis, we added four clients in the \$50 million category, also added four clients in the \$20 million category. And if you look at it YoY, we had strong additions across various categories. I am pleased with this for now while we have higher goals for the future. Our proposed plan to invest further into sales would lead to even better outcomes.

From a booking perspective, we won 20 deals, 12 deals from Services and 8 deals from HCL Software in this quarter, and the total new booking TCV for Q2 stands at \$2.2 billion with a good mix of small 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.

A couple of wins that gives you an idea about the variety of work that our clients collaborate with HCLTech to extract value. A US-based Financial Services and Insurance firm selected HCLTech to modernize their data estate and insights for risk reporting including fraud analytics, anti-money laundering for credit card and other Retail functions. A Europe-based global semiconductor and computing technology major selected HCLTech for system on chip engineering to augment the clients chip development program. HCLTech will provide all phases of chip design, verification, quality, checks, power and performance metric analysis, and physical design.

We also had strong wins in GenAI related programs. Most of the deals are now getting embedded with AI capabilities. Our GenAI platform AI Force is now getting widely adopted for service transformation. A Fortune 200 global technology solutions company has chosen our AI Force-led solution as a part of the overall ITO program. Here, the AI Force served as a critical differentiator, displacing a long-term incumbent. Another one in Xerox, who expanded its strategic partnership with HCLTech spanning AI-driven engineering services and digital process operations. HCLTech will leverage automation, product and sustenance engineering and process operations services along with its advanced full stack GenAI platform AI Force. For a leading transportation client based out of North America, we are using AI Force to reduce timelines and overall manual effort during the application modernization program.

A Europe-based global semiconductor Company selected HCLTech to create ultra efficient models for low cost IoT microcontrollers by leveraging HCLTech's Zero Code and fully automated AI offering. HCLTech will deploy its enterprise AI Foundry to build and operationalize models that enhance aftermarket sales operations for a US-based automotive company. Overall, we continue to witness good traction in AI, GenAI related opportunities led by our offerings- HCLTech AI Force, HCLTech Enterprise AI Foundry and AI Labs.

AI Force is now integrated with Microsoft GitHub Copilot and will be enabled as a Microsoft GitHub Copilot Extension. This provides unparalleled extensibility and wide

coverage of use cases. We are among the first Indian SIs to have this partnership. We have entered into a strategic collaboration with AWS and Google Cloud to accelerate GenAI adoption and HCLTech AI Force is integrated with Anthropic Claude 3 in Amazon Bedrock.

We continue to build and strengthen our partnerships to cater to our clients better. We launched a suite of Salesforce-based solution to empower enterprises with essential GenAI capabilities across various verticals. HCLTech's IMRO/4 on SAP S/4 Hana Cloud adds advanced capabilities in commercial management. Our maintenance, repair and overhaul MRO solution IMRO/4 on the latest version of SAP S/4 HANA has added advanced functionalities in commercial management, bringing greater efficiency to clients' customer service teams.

Now, I want to update you on the overall progress we are making with our Software business, a long-term bid to diversify our portfolio:

In HCL Software, we continue to execute on a three-year strategic road map. The current quarter results demonstrate we are executing to plan and are starting to see results. The 2nd Quarter is a relatively soft quarter for HCL Software, but the growth has been very strong. Our focus is on targeted growth around specific opportunities emerging from renewals, customer success motions and sustained value delivery. We have categorized the business into the right set of offerings that gives strategic impetus and clarity to all stakeholders, clients, employees and partners.

As you would have seen from the Investor Release, quite a few good wins during the quarter and clients are continuing to appreciate our value proposition. We are working to strengthen our business partners, managed service providers, global system integrators and consulting partners, ISVs, hyperscale relationships, which we expect to drive momentum in the coming years. We continue to develop organically and also acquire niche capabilities in this space.

Let me take a minute to talk a bit about Zeenea, our recent acquisition. Based in Paris, it will enable HCL Software to accelerate GenAI in data engineering road map for its clients. This is aligned with the long-term strategy to drive growth into our Software business through bolt-on acquisitions that would have a multiplier effect.

We are the largest Enterprise Software product business headquartered out of Asia, and we continue to build upon our heritage of product and engineering excellence. We

continue to believe that our purpose and core values paired with our passion and pride around frugal engineering, choice-based consumption of products across innovative licensing, paired with customer success focus and bringing empathy, which is generally missing in the software product industry. I strongly believe this business will continue to add significant value to HCLTech.

As I look ahead, our pipeline continues to grow and remains strong and is well distributed across business segments, verticals and geographies. As I look at our pipeline, I see a lot of opportunities across practices apart from data and AI. SAP is emerging to be a strong area of growth. Thanks to S4 Hana migration. We are well positioned here, as you would remember our recent announcement on deepening the partnership with SAP, facing good demand in other commercial applications and even for custom applications. The pipeline for engineering services continues to grow at a very healthy pace. We are starting to see the benefits of an integrated sales organization.

Gen AI is currently small but is a big opportunity and is growing at a good pace. Clients have started benefiting, seeing value from AI and GenAI projects, making it a significant driver for technology change and technology debt reduction. Overall, it reiterates the fact that clients continue to value technology and its impact on their businesses. We, however, remain cognizant of geopolitical factors and global economic conditions which can impact growth.

As India's #1 Company in Time Magazine's World's Best Companies 2024, we are optimistic of gaining share in the technology spend of our clients and contribute significantly to the goals of our employees, clients and shareholders.

I will now hand over the floor to Shiv to share insights on our financial metrics and some view into the future. Over to you, Shiv.

Shiv Walia:

Thank you, CVK. Good morning, good afternoon and good evening to all of you. Thank you for joining our FY'25 Q2 Earnings Call.

Let me walk you through our financial performance for the Quarter. Starting with the revenue performance:

The total revenue for the quarter is \$3,445 million, a 1.6% increase quarter-on-quarter and a growth of 6.2% year-on-year in constant currency terms. This robust growth was achieved despite State Street divestment in the previous quarter.

Coming to the Services side:

The revenue came in at \$3,114 million, which is an increase of 1.6% quarter-on-quarter and a growth of 5.9% year-on-year in constant currency terms.

Software revenue for the quarter is at 342 million, a 1.4% increase quarter-on-quarter and a 9.4% growth year-on-year in constant currency terms. I am very happy to share that this represents our highest ever year-on-year growth reported till date.

Moving on to profitability matrices:

Our EBIT is at \$640 million at 18.6% of revenue which is an improvement of 149 basis points quarter-on-quarter and 8 basis points on a year-on-year basis. Net income for the quarter is 506 million at 14.7% of revenue.

Just to give you some color on how our margins have moved quarter-on-quarter:

The software business contributed 54 bps improvement at a Company level. Services margin increased by 110 basis points quarter-on-quarter driven by operating leverage and reduced marketing events and travel. There is a seasonality in the marketing-related spend and our 1st quarter spend is relatively more than in this quarter. There is a positive 22 bps impact due to exchange movement.

I would also like to spend a minute on our Return on Invested Capital, which is ROIC:

Our ROIC continues to improve, thanks to our ongoing focus on profitability and efficient capital management. The last 12-months ROIC is at 35.7% for the Company, up 350 basis points year-on-year and services ROIC is now at 43.5%, up 400 basis points year-on-year. And thanks to a good performance, Software ROIC is at 17.8%, up 190 basis points year-on-year.

Cash generation is the another highlight I would like to focus your attention on. The cash generation remains strong; our last 12 months operating cash flow is at 2.52 billion, while free cash flow amounted to 2.39 billion. Operating cash flow to net income conversion is 126% and free cash flow to net income is at 119%.

Our balance sheet continues to strengthen with gross cash at 3.44 billion and net cash at 3.17 billion. This cash generation has improved on the back of our improved DSO. Total

DSO including unbilled is currently at 79 days, a three-day improvement quarter-on-quarter basis and a four-day improvement on a year-on-year basis. This is among the best DSO performance in recent years.

For the shareholders, the diluted earnings per share for the last 12 months come at INR 62.02, which is an improvement of 8.9% year-on-year.

The board has declared an interim dividend of INR 12 per share for the quarter. The record date is 22nd of October '24 and the payment date of the same shall be 30th October 2024. That brings our last 12 months payout at INR 54 per share, effectively distributing 86.9% of our income.

Now, on guidance:

As mentioned in our Investor Release, our revised guidance for the FY'25 is as follows: Overall, we have revised the lower end of our revenue guidance from 3% to 3.5%. So, the growth is now expected to be between 3.5% to 5% year-on-year in constant currency. Services revenue is also expected to be between 3.5% to 5% year-on-year in constant currency terms. EBIT margin guidance is unchanged at 18% to 19%.

That's it from my side. And now I will hand it over to the operator for the Q&A session. Thank you very much. Over to you.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Abhishek Pathak from Motilal Oswal. Please go ahead.

Abhishek Pathak: I have got a couple of questions, CVK. So, firstly, I mean the ask rate for the second half in terms of growth now seems fairly benign. So, does the top end of the guidance still assume aggressive furloughs or is it a slight conservatism baked into the numbers or are you assuming, if there is a recovery in discretionary spends, is there upside risk in number, that's one? And the second question is on ER&D. I think it's great to return to growth again. Could you throw some light on which areas have recovered and where we still see some pressure going forward? And also, how do the recently announced job cuts at a major airline affect the outlook here for industry and for us, if at all?

C. Vijayakumar: Abhishek, the ask rate for Q3 and Q4 is between 0% and 2%. So, it's a fairly good kind of a growth ask-rate at a higher end. While we see the optimism that's coming out of the improving demand environment across multiple verticals, we are also a little bit more

cognizant of the broader macroeconomic environment and the geopolitical context and some of the things that you've talked about in aerospace and things like that. So, we are a little bit cognizant and if you see the CY'22 in November, December when the optimism was there, it suddenly turned. So, to that extent, we are cautious. We are feeling good about the coming quarter, and we will update you if there's any change in our outlook when we talk to you at the end of Q3. And I would not want to comment on any client-specific situations. Obviously, there is an impact in a few clients due to various client-specific issues, but we have dealt with it this quarter and all of that is baked into our 3.5% to 5% guidance.

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

Ravi Menon: You talked about some of the deal wins. It looks like a lot of AI-led productivity baked into some of these. Could you talk a bit about how this is helping to increase the win rate overall? And secondly, it's just something that.

Moderator: Sir, sorry to interrupt, but the line for you sounds a little muffled. If you could please use the handset mode to change the mode.

Ravi Menon: Looking at the deal wins that you announced and seems to be having some AI productivity baked into some of these, especially a BPO deal. So, I want to check how much are you baking into these, have you seen this improve your win rates across the board?

C. Vijayakumar: Only one DPO deal which is significantly pre-announced where we are very well into implementing a lot of automation led by the previous version of AI Force, so which really helped us pass back the productivity. In fact, almost two-thirds of what we needed to achieve is already in place. So, there is one-third which we need to work towards. Of course there is an expectation on GenAI-led productivity, but it is also not a switch that you can turn on and generate productivity will be achieved. If customers commitment to implement the AI Force platform and really become a sponsor for the platform within the enterprise helping us navigate different stakeholders, which will really be the start of the process of getting the benefits from AI Force. From then on, it is a journey. And I think our models with clients are fairly transparent and they're quite realistic and customers are also unwilling to even buy an unrealistic value proposition with the hope that something magic will happen. So, I think it's a very pragmatic approach we feel comfortable with what we are doing.

- Ravi Menon:** A follow up there. Could you throw of those magnitude, I mean, the 10s of millions the BPO deal?
- C. Vijayakumar:** It's a renewal and it's got a maybe some component which may be roughly 20% of the new scope.
- Ravi Menon:** This momentum that we have seen for Software Products, you sounded quite confident about this. So, should we think about high single digits being more or less consistent year-on-year growth for the products business, because I think earlier you had talked about how you want to take that to low-single digits this year I think if I recall right and then probably towards mid or high-single digits next year or the year after, we seem to be moving faster than that?
- C. Vijayakumar:** So, I think Ravi, see, till last year it was a low-single digit, this year also we were looking at a similar growth, in the medium term, we wanted to go to a mid-single digit growth. Obviously, we have had two very good quarters and a lot of initiatives that we have put in place are playing out, but this is a very volatile business, that is the reality. If you had asked me two weeks before, did I feel so confident about the outcomes, maybe it would have happened by 30th September, or it might have even gone to October. So, there is volatility. So, I would not extrapolate this, but there are enough fundamental reasons behind the growth that has happened, more broad based and a lot of it is also driven by the work that is happening in data and AI which is driving the Actian business quite smartly. So, I would wait for some more time before you extrapolate a more positive long-term picture. Right now, I stay with from the current low single digit to mid-single digit growth. That's what we are comfortable with.
- Ravi Menon:** I'll ask this one on the ER&D side. Are you expecting any pressure on the aerospace and automotive segments that we saw last quarter recur again in the near future?
- C. Vijayakumar:** Not in aerospace. Automotive, of course, there is pressure in automotive, especially in Europe. And that is definitely reflected in our numbers this quarter as well. Some of it would be reflecting in the next quarter as well.
- Moderator:** Thank you. The next question is from the line of Vibhor Singhal from Nuvama Equities. Please go ahead.
- Vibhor Singhal:** Thanks for taking my questions and congrats on a very solid quarter. CVK, just two questions from my side. If I look at the growth that we have delivered this quarter, I think

it has been kind of a very broad-based growth, excluding the BFSI segment and there also if I exclude the State Street divestment, I think the growth has been pretty solid in terms of QoQ terms on all the fronts. So, do you expect this growth momentum to continue because if there is no other, I mean, a large deal, something that could have started in any of the verticals. So, is it just the ramping of the deals that we had, basically won over the past 12 months that has led to this kind of growth? And any headwinds that you see in any of the verticals in the upcoming quarters from the growth point that we are standing at?

C. Vijayakumar:

So, I think the growth is broad-based and which was also our expectation, except in Financial Services. When we went into this quarter, we were confident of growth in all the verticals, and Financial Services had this divestment impact. But Financial Services grew from strength to strength as the quarter passed. So, overall, it just helped us do much better. Now, extrapolating this, okay, first of all, this growth is due to two factors. One is there is some ramp up of the deals that we signed in the last 2-3 quarters. So, actually it is somewhat equally split between the efficiency-led deals which we signed, which ramped up in this quarter. And the other half is really a lot of data, SAP, some initial large application modernization opportunities where we had to ramp up. So, it was good, balanced, discretionary and non-discretionary growth. So, that gives us some confidence as we get into this quarter. And I do not want to call out any vertical specifically in Q3. See, last quarter we specifically called out that Q2 is going to be all broad-based growth because we were coming off a declining quarter in Q1 and there was some anxiety that the State Street divestment may make Q2 also very modest. So, that's why we gave you some clearer picture. From this quarter onwards, I would be more comfortable sticking to the annual growth numbers, not really provide a view on the Q3 or Q4.

Vibhor Singhal:

Got it. Fair enough, CVK. My second question was on the manufacturing vertical. I think we had some of the auto companies, some of the profit warning, some of the leading companies, and there are other things also which are kind of some basically concerns about strength in that. What is our view on that? What are we seeing in terms of our communication with the clients? Manufacturing has been the mainstay for us from point of view. And from the industry, I think also it's known for some time. Is that segment seeing some headwinds going forward? Are the clients trying to pull back some strength? Anything, any color on that will be helpful?

C. Vijayakumar:

Specifically automotive, definitely there is stress. And that's a couple of large clients are going through significant cost reduction. So, some of the programs are getting canceled.

In fact, that happened in Q2 as well. But there is also a ramp up of SAP business quite strongly in manufacturing. So, to some extent, it is offsetting this momentum, this whatever headwind that we have in automotive. Other than that, I don't, and of course, there will be some impact due to some of the aerospace clients as well. So, I think these two are very specific. Beyond that, I think we are largely comfortable across the portfolio.

Vibhor Singhal: Just one last question if I may just squeeze in. In terms of our overall guidance, we continue to maintain that our second half should be better than the first half.

C. Vijayakumar: See, now it's not really a relevant question because now it's 0% to 2%, I mean, that is the range between the two quarters.

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

Gaurav Rateria: First question is for CVK, just want to understand your commentary you made around press conference on discretionary spending, outlook looking slightly better. Is it reflected in the form of the timeline to close the deals coming down or is it more like the conversion of the deals to revenue has improved because of higher mix of the short cycle deals, just trying to understand the behavior of client changing versus last quarter.

C. Vijayakumar: The last 3-4 days, we have done some very deep analysis of the timelines to close. And that is not materially changed. It remains whatever it has been for the deals. But obviously, there is in a lot of existing clients, there is nothing to really close deals. It is really additional demand which is coming based on the rate cuts and based on the contracts that we have. I think that definitely is showing some optimism there, and that's reflected as well in our numbers.

Gaurav Rateria: The second question is for Shiv. Just want to understand the quantification of impact on margins from wage hike that you have taken in the current quarter. Thank you.

Shiv Walia: The impact for the next quarter is going to be somewhere between 65 to 80 bps in Q3, and an incremental further impact of another 50 to 60 basis point in Q4. That's the impact of wage hikes we will have for the rest of the year. Thank you.

Moderator: Thank you. The next question is from the line of Abhishek Kumar from JM Financial. Please go ahead.

- Abhishek Kumar:** My first question is specifically on the Services guidance. If my calculations are correct, at the lower end it seems there'll be a marginal decline in terms of CQGR for our services guidance. So, I just wanted to understand what are we building in for lower end as well as an upper end? Anything specific that we should keep in mind?
- C. Vijayakumar:** Abhishek, it should be like if it is minus 0.1 or something, it's really not material. So, 0% to 2% should be rough math.
- Abhishek Kumar:** Okay, maybe if I can just follow up on that. We had mentioned a couple of quarters back that Verizon deal might we have to offshore. We are going to complete one year somewhere during Q3 or Q4. Is that something which is kind of keeping the lower end at a kind of flattish for the next two quarters?
- C. Vijayakumar:** Yes, there would be some impact, but that's not really, I mean, I don't know what to answer. We cannot give you a client-specific how much ramp down may happen. It's baked into our guidance and it's not every deal is not the same, Abhishek. Like last year, we had a significant onshore to offshore. It was a completely in-source program getting outsourced. Here it is different construct. There was a significant amount of outsourced work that we have taken over, which transitioned to the target operating model in the first instance itself. So, there are many things at play. I don't want to call out, but that is definitely factored into our numbers at this point. And 0% to 2%, I think, is the realistic kind of number moving forward.
- Abhishek Kumar:** Fair enough. Maybe one last quick question. There was a net decline in headcount despite strong growth and good commentary. I just wanted to reconcile what you were explaining about headcount growth. Thank you.
- C. Vijayakumar:** I think we had added about 12,000 freshers in FY24 when the campus hiring across the sector was very muted. So, I would want to look at the headcount addition in conjunction with what we had shared with you in August in our investor call where we also talked about Project Ascend. We are driving Gen AI led delivery transformation to get coding productivity, delivering managed services automation, and also customized learning programs to upskill people and all of that. So, while the headcount itself has declined a little bit, if you see the wage bill, that has definitely gone up. So, there is some pyramid shifting that's happening, and I see that to be a continuing trend. The pyramid will shift to more specialized skills. So, I think you have to slightly change the framework with which you are thinking on people addition here on. It should be higher in skills and wage

bill would increase probably in line with growth or comparable to growth. That should be the metric other than just people count.

Moderator: Thank you. We have the next question from the line of Rishi Jhunjhunwala from IIFL Institutional Equities. Please go ahead.

Rishi Jhunjhunwala: Just one question around the products business side. So, just wanted to understand the underlying dynamics there. It seems like it is actually being doing relatively better than what we would have potentially planned a couple of years ago or in general, how the environment is. So, if you can elaborate a little bit more on how much of this is sustainable and what is driving the low to mid-single digit growth in the products business and this quarter of course that growth is much higher. So, how do we think about that both from a slightly medium-term growth perspective and a consequent impact on margins?

C. Vijayakumar: I think our medium-term commentary remains mid-single digit growth aspiration. And this is a business where growth will definitely improve margins. So, right now we cannot kind of provide any further kind of view on this. We have done well in the first half, and we are doing well not because of certain one-dimensional growth. It's quite broad-based. As Kalyan Kumar also spoke in the press conference, there are multiple levers, and each one will play out and it just gives us a good balance of different components adding to the overall growth. So, a little bit robustness is coming into the portfolio. And it's also a lot to do with some of the innovation or product features that we have launched like HCL Unica, we have integrated with the customer data platform. And that's definitely been a big hit for all the Unica customers to increase their adoption. So, with every product, we have a good offering led value proposition, which is compelling for the customers to renew and also pay as increased fees while renewing. So, some of this is very good developments and we will watch for it for a few more quarters before giving you any better outlook.

Moderator: Thank you. The next question is from the line of Manik Taneja from Axis Capital. Please go ahead.

Manik Taneja: I had a related question to what was asked earlier, and I am just trying to reconcile the absolute decline in SG&A and the SG&A reduction in SG&A itself as percentage of revenue as well as the modest hiring with regards to the qualitative commentary that you've spoken about in terms of seeing improvement. So, how should we be thinking about SG&A going forward? And also, with regards to wage hikes, Shiv mentioned that

the wage hikes will be similar to last year. The average hikes that were given last year appear to be probably between 3% to 4% as per the published annual report for the year. So, should we be thinking about that kind of impact for this year as well?

C. Vijayakumar: Yes, so I would request Shiv to respond to the SG&A question. And maybe Ram can respond to the modest hiring and the wage hike. Shiv, over to you.

Shiv Walia: Yes, thank you, CVK. So, there is some seasonality between AMJ and JAS that explains the QoQ trend. Last year also we had similar trends where the cost went down from AMJ to JAS. So, if you look at on a year-on-year basis, the SG&A spend is quite similar to what we had last year. So, I don't think there is a steep decline, it's just a seasonality which is playing out. Over to you, Ram.

Ramachandran S.: Yes, so I think the wage hike that you are referring to from last year is on the global numbers. Firstly, we need to look at wage hikes at the country level. And predominantly, India is where we'll have majority of our employees. So, we need to look at India differently from other countries where traditionally the wage hike in percentage terms will be lower. So, if I focus on the India employee base, the increase for people going through the current cycle and getting increases will be to the tune of about 7%. Again, within that, top performers will continue to get double-digit increases, which typically we expect to be in the range of 12% to 15%. So, that's the way we look at it. Outside of India, it's governed by what's happening in each of the countries, some European countries where there are statutory obligations, where there are collective bargaining agreements and so forth. So, we need to look at each country differently. Global numbers will give us a certain picture. But if you look at India, you will see a slightly different picture which will be in the range of about 7% average.

C. Vijayakumar: And also, just to additional dimension is the demand scenario will also drive some percentage increase in certain areas. So, data and AI, SAP are some examples where it could be very different.

Manik Taneja: So, should we be essentially seeing an improvement in terms of hiring on a go-forward basis as you were speaking about a better demand backdrop?

C. Vijayakumar: Yes, I mean, there is of course some productivity release which has happened significantly. It actually started in May, June and July, August, September, some of that converted to deployment. We still have some headroom there, but we are also hiring, hiring very specific skills. Significant hiring is underway for that.

- Moderator:** Thank you. The next question comes from the line of Sandeep Shah from Equirus Securities. Please go ahead.
- Sandeep Shah:** CVK, just wanted to understand what are the assumptions for the upper end of the guidance to be achieved at 2% for services business?
- C. Vijayakumar:** So, I think we have assumed similar furloughs like last year. We have assumed the execution of the deals that we have signed. A little bit is left for the previous quarter and a lot of it is to be executed for the deals that we have signed so far. Of course, the pipeline is very strong. It's almost near the all-time high. Now some of that will convert in OND and we expect good bookings for the rest of the year. So, all of that goes into this plan.
- Sandeep Shah:** So, if the furloughs are similar and you expect the better ramp up of the deals signed earlier, then 5% is achievable plus some pipeline comes on an expected deadline.
- C. Vijayakumar:** You had three ifs in your question. So, with that, I think you know the answer yourself.
- Sandeep Shah:** And CVK, if the CTG acquisition gets closed, as per the annual report, the financial statement, it shows it may be yet closed by December. Then it may further bump up the revenue growth for the full year, right?
- C. Vijayakumar:** Yes, right now, we have not assumed any contribution from HPE CTG carve out. We think it will happen during this quarter. That will be an incremental number on top of the guidance that we have provided on the revenue side. On the margins, we will report that separately as well.
- Manik Taneja:** Just the last question. This quarter, the PNP margins have been above the normal 20%-21%, which we report in Q2 for PNP or software. This time it is 25%. So, do you believe this uptick is structural and may continue on a year-over-year basis across quarters or do you believe the bump up because of the software on the overall margin in December Quarter could be lower because we are already coming off from 25% in terms of a margin for the September'24 quarter?
- C. Vijayakumar:** No, I think, I mean, this, if you see last year, the revenue was almost 9.6% lower. So, to that extent, that margin would have been lower in the previous year. So, it's going to be driven by growth. If you grow similar numbers, obviously the margins will be similar. And if the growth is less, margins will go down and the growth increases, margins will go up.

Because a big part of the cost is fixed, and a small part is variable with respect to revenue growth.

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

Dipesh: Couple of questions. I think you indicated some improvement in discretionary spending, which we witnessed. Any specific sector where you are seeing that kind of trend or it is borrowed by and related to it, whether it is temporary kind of spend where let's say clients are not certain or some of these programs are medium term programs where you expect spending momentum to sustain even from discretionary spending perspective. That is the first question. The second question is about furlough-related thing. You said it is in line with last year. But considering some of these things, let's say where you are seeing some momentum in Quarter 2, do you think that is more short-cycle kind of thing, and that's why you are indicating about similar to last year? Thank you.

C. Vijayakumar: Okay, so the demand picked up during the quarter. We talked about it in August end, that Financial Services is definitely looking better from the discretionary spend perspective. And I would call out a few more verticals, like Tech and Services definitely, we saw some more improvement. And even other verticals, even though it's a mix of ramp up of existing book of business and little bit of discretionary as well. Is it sustainable? I mean, in a normal world, I would assume this would be sustainable, but there is so much happening on geopolitics, economics, politics and things like that. And things, I mean, the nature of discretionary spend things can turn either way quickly. So, that's why I am not trying to extrapolate this for the long term. At least in QND, we feel this will stay. But when customers plan for the next year, how would they kind of look at each of these areas? Something is yet to be decided. Your question on furloughs, I think we have made a broad assumption that it would be similar based on some of the client conversations. I do not think it has any tie in into short cycle, long cycle kind of programs. Because it's broad in large clients, we work on so many things and based on client's priority and their overall spend during the year, there could be some change in furloughs as well.

Dipesh: And anything you can give us about our AI adoption from platform perspective? How many clients are we seeing that adoption is changing now?

C. Vijayakumar: Yes, it has been very good. And I would say our goal was to, we started with the goal of getting AI force into 50 clients. We already have at least some modules implemented in

25 of them. And we have good commitment from a number of CIOs to further sponsor this adoption based on what they have seen. I would still think it's early days, but we are encouraged with the progress that we are seeing.

Moderator: Thank you. Ladies and gentlemen, we will take that as the last question for today. I would now like to hand the conference over to Mr. C. Vijayakumar – CEO and MD for closing comments. Over to you, sir.

C. Vijayakumar: Thank you everyone for joining us today. In closing, I want to thank each and every one of the HCLites, 219,000 of them, for their phenomenal contribution through the year as well as very good execution during the quarter and we are very confident of the capabilities and the differentiation that we have. So, as a company, we will continue to gain market share in this world where technology is changing fast. And thank you for your support and look forward to talking to you during the next quarter. Thank you.

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