



"HCLTech's Q2 FY26 Earnings Conference Call"

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Management:

Mr. C. Vijayakumar – Chief Executive Officer & 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 HCLTech's Q2 FY26 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 touchtone 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 FY26 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 a 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 upon 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 documents, and all the factors that can cause the difference.

Over to you, CVK.

C. Vijayakumar: Thank you, Nitin. Good morning, good afternoon, and good evening, everyone. Thank you for joining our 2nd Quarter Earnings Call. I hope all of you are doing well.

This was a strong and energizing quarter for us with broad-based growth, expansion in margins, and exceptional bookings. We are seeing the results of a strategy come to life, and I am proud of how our teams are executing and winning in the market.

Our revenue grew 2.4% sequentially and 4.6% on a year-on-year basis in constant currency. Our Services business grew 2.5% sequentially and 5.5% year-on-year in constant currency with robust growth in IT and Business Services and ER&D services.

Our Software business' Subscription, Support and Professional Services USD revenue grew 9% year-on-year, while the overall revenue was lower due to lower perpetual license revenue. This reflects our objective to increase subscription revenue, which is expected to provide more sustainable value compared to the perpetual license revenue.

Our operating margins came at 17.5%, an increase of 116 basis points sequentially. This aligns with the recovery plan shared last quarter. While there is more to do, I am pleased with our progress so far.

This quarter saw strong, well-balanced bookings across service lines, geographies and verticals, resulting in \$2.6 billion of new booking. This is the first time we crossed the \$2.5 billion mark without a contribution from any mega deal. We also signed two large deals this quarter, which we mentioned as delayed last quarter.

We grew our employee base in line with the demand as we saw strong bookings and a good demand environment. More importantly, we continue to grow our revenue per employee as we leverage AI in everything we do.

I am proud and happy to share Time Magazine recognized us as the highest ranked India headquartered technology company for the second consecutive year in the World's Best Companies 2025.

Little later, Shiv would unpack detailed financials across service lines, geographies, verticals, and the client segments.

I will cover a little bit more on our AI propositions.

This quarter, we reached a major milestone by generating over \$100 million in Advanced AI revenue through our diverse service lines and IPs. This is about 3% of our total revenue. The credit goes to our exceptional teams across the company and the leadership for achieving this impressive milestone. Our people are embracing the transformation from a people-based business towards a model that seamlessly blends AI IP with human-in-the-loop capabilities.

Over the past few years, we have made significant investments in building intellectual property, deepening partnerships and strengthening our GTM and delivery teams. These efforts are now yielding results as we transition from the AI pilot stage to the AI monetization phase.

As we called out in our Investor Release, Advanced AI includes rapidly evolving AI technologies like Agentic AI, Physical AI, AI engineering, AI Factory, etc. To clarify further, this excludes Classical AI, Data and Analytics services, and the services delivered using GenAI and Agentic AI.

This achievement is a clear outcome of our strategy. As we have shared before, our strategy is clear and focused on shaping the future of our business and the industries we serve. There are four key elements to this strategy:

1. First, we are proactively transforming our services with a long-term view and the confidence to evolve even if it means disrupting parts of our existing revenue base. This mindset keeps us agile, relevant and future-ready.
2. The second part of our strategy, we are investing in building differentiated IP that accelerates and scales AI adoption for our clients. While companies like OpenAI, tech OEMs, hyperscalers, continue to advance the core intelligence layer and the computing needed for this,

our opportunity lies in making that intelligence enterprise-ready and impactful at scale. We are developing IPs that power transformation across IT, SDLC services, engineering services, BPO services, as well as industry-specific use cases built on top of that intelligence layer.

3. The third element of our strategy, we are expanding into new AI-led services, including AI Engineering, which has a lot of silicon for inferencing chips, AI Factory, AI Advisory, and these services leverage our strong foundation in engineering, infrastructure, and the deep industry expertise.
4. The fourth element, we are strengthening and expanding our AI partnerships across the entire technology stack from GPU providers to model and agentic platform providers. These partnerships are instrumental in helping us deliver impactful end-to-end AI solutions that drive real business outcomes for our clients.

Transformation of our talent and onboarding new talent to enhance our capabilities is central to our strategy. We are fully committed to this strategy. The momentum is building, the results are encouraging, and our conviction is stronger than ever. We believe this approach positions us to lead in the AI era and define the next phase of growth for our company and our clients.

I would like to share our AI progress last quarter across three key dimensions:

1. One is offering.
2. Second is engagement.
3. The third is partnerships.

On offerings, our AI Force platform, we launched v2.0 beta release with GA planned in January 2026. This version marks a significant leap forward, bringing agentic workflows, orchestration, and responsible AI together into one unified platform across IT, software, and business operational services.

Our AI Force platform is now deployed across 47 accounts, up from 35 last quarter, and this is the key solution enabler for most of our wins. I would also like

to bring to your attention the overall goal of 100 of our top clients to be leveraging the AI Force platform.

We continue to invest and build repeatable AI solution for industries, the InsightGen in Financial Services, and VisionX in Manufacturing are two that are seeing good traction. Under Advanced AI, we have added two new offering pillars of AI Factory and AI Advisory.

The AI Factory proposition we are taking to market in very close partnership with partners like Nvidia, Dell and HPE. We are engaged with one of the global top 10 tech companies in implementing global AI Factories. We see strong demand here and we are scaling our teams to service this demand.

In AI Advisory, we will be helping our clients deploy AI at scale by advising its strategic points in their adoption journey from use case prioritization to business case formulation to POC and deployment blue prints followed by organizational level change management and Responsible AI.

We also launched a new AI Security and Red Teaming offering.

In Physical AI, we signed a deal in robotics with AI which is a proposition that is catching great interest in tech and heavy industries. In Data and AI and AI Foundry, we launched new capabilities and accelerators to enable business persona-driven agentic AI solutions for data modernization and analytics.

On engagement maturity dimensions, we are witnessing the size of our engagements becoming bigger every quarter. Most of our services deals are now embedded with Advanced AI capabilities as they come up for renewal. Five of our top 10 renewables came with increased ACV, while the specific SOWs in the remaining ones had a decline due to AI-linked productivity. These are from large growing clients, and we do see opportunities to consolidate more work due to our proactive strategy in scaling AI with these clients.

Some key examples from Q2 reflect the maturity in our AI engagement. We signed a major legacy modernization program with a leading European retailer

to upgrade their auto management system. Using AI Force, we are automating design, build, and test workflows, resulting in 30% to 40% increased developer productivity, shorter cycle times, and greater agility in software development.

A Fortune 100 Aerospace company chose HCLTech to create contour scanning software and a simulation testbed. Using Physical AI and automation, HCLTech will support position manufacturing, faster validation, and improved production efficiency.

A U.S. global manufacturer selected HCLTech AI Advisory Services to build an Enterprise AI and governance framework to scale AI initiatives with measurable ROI, regulatory compliance, and responsible AI principles.

A large U.S. telecom company selected HCLTech to launch an NVIDIA-powered emerging tech AI Lab. Here we are setting up a high-performance AI cluster and deploying state-of-the-art models, such as LLaMA 405B, Maverick and Scout.

Apart from this, we have several clients who are leveraging our Advanced AI services. We think there is great potential to partner with these clients to grow our Advanced AI business further.

On the third axis is the maturity of our enabling ecosystems consisting of our people and partners. We see good demand for Open AI enterprise adoption, and we are training more people to support this journey. We announced two more significant collaborations this quarter. We announced a multi-year strategic partnership with Pearson to co-develop AI-powered products and services designed to close skill gaps, empower individuals to advance their careers, and help organizations succeed amidst the rapid technological change.

We joined MIT Media Lab in the U.S. to collaborate in shaping the future of AI and emerging technology areas such as quantum computing. While we signed these new collaborations, we continued to excel in our existing AI ecosystem. We received the Dell AI Partner of the Year Award for VisionX Solution. HCLTech is the only SI partner to receive this award.

We announced new partnerships with SailPoint on AI-driven identity transformation and with Thought Machine to accelerate AI in cloud-led transformation of banks.

On the people side – we continue to train our people at scale. We are building black belt cohorts on every technology stream. We trained 820 black belts in H1 alone, while our data and AI principal cohorts are now strongly embedded in more than 50% of our priority accounts.

We have also undertaken an AI skills standardization framework and have identified 14 top AI skills for scaling our AI talent base.

As a testimonial to this maturing momentum, we received multiple leadership citations for our AI business this quarter that are mentioned in our investor release. The progress we have made on Advanced AI over the last few quarters gives us great confidence in our AI propositions as it resonates with our clients. Every investment we have made till date builds the conviction that it was very well invested.

As we further accelerate our journey to address the expanding market to help enterprise clients realize value out of their AI investment, we expect to further invest in Advanced AI propositions, IPs, go-to-market capabilities, and partnerships.

I will dwell a little more regarding our bookings. We crossed \$2.5 billion of new bookings without mega deals. We continue to invest in a strong global sales engine that meets diverse client needs. For instance, our public sector GTM group secured a large aerospace and defense contract with a new client last quarter. As you would all know, new bookings we disclose do not include rate card deals or renewals. We emphasize more on the new booking metric, which generally has a strong correlation with revenue growth, typically observed with a one to two quarter lag. Nearly all deals include AI, and a comprehensive suite of AI offerings was instrumental in securing multiple large strategic wins. You would find the details about our key wins in our investor release.

As you would have noticed, we have been growing strong in three large verticals, which are BFSI, Technology, and Telecom & Media. We see a similar trend emerging in Retail CPG that should help us grow in the future as well as diversify our portfolio. We continue to win and grow in our Retail and CPG business as clients show intense interest in a prudent approach to adopting and scaling AI. A couple of areas where we see this include integration work in M&A, a carveout related separation work, and in large scale SDLC transformation work supported by Generative AI, especially our AI Force platform. We are seeing similar trends in Lifesciences & Healthcare as well as in our Public Services. While the broader Manufacturing segment is doing fine, there is continued impact due to the Auto sector slowdown within the overall Manufacturing vertical.

Next, I want to share some thoughts on our Software business. As a business, this is growing from strength to strength. For example, HCL Software has been named a leader in 2025 Gartner Magic Quadrant for application security testing. This is significant as we advanced from challenger position in 2023 to Leader position in 2025. We received the second highest score on completeness of vision among 16 evaluated vendors, a strong validation of our forward-thinking approach to application security and our alignment with the market needs and buyer expectations. HCL Software has been named a leader in 2025 Gartner Magic Quadrant for Service Orchestration and Application Platform, acronymed as SOAP, which makes it twice in a row for us. This consistent recognition from Gartner is all thanks to HCL UnO, especially the recent HCL UnO agentic delivery platform, which was called out for its end-to-end orchestration capability. This is a missing piece in the entire agentic AI and Services-as-a-Software proposition, so UnO is a very strategic component in that. This feature enabled us to be the second highest rated in completeness of vision among the 12 vendors evaluated this year.

Coming to the pipeline and market trends:

Our pipeline remains robust and has grown to a record high, well supported by our Advanced AI propositions. It's well distributed across business segments, verticals and geographies with AI, GenAI, Agentic now central to nearly every

deal, serving as a productivity enhancer as well as an innovation toolkit. While the external environment continues to be unpredictable, our key business indicators like revenue growth, booking, pipeline, AI demand etc., all look promising. While there are some concerns about the long-term trajectory of the industry, we feel there is and will be a huge tech services market. This AI wave would create big winners, and those winners would benefit big over the long term as clients always need a partner who can bring various technology capabilities together to build and operate solutions that solve business problems. To be a winner, one needs to have the scale and reach to develop AI IP-led propositions, have a great ecosystem of partners and most importantly, have strong engineering and a software culture, which we pride ourselves. We strongly believe this core competence of technology services partners is what global enterprises will always seek to realize value beyond buying technology tools and platforms. At HCLTech, we are focused or rather obsessed to be such a partner to enterprise clients.

Coming to the last topic, which is on immigration:

I know a lot of you may have questions regarding H-1B visa fee revision and its potential impact on us. Over the years, we've made conscious effort to reduce our reliance on visas by strategically strengthening our global delivery model. Our dependence on visa is now down to a few hundred visas a year. In Q1 this year, Forbes recognized us as one of America's best employers for new grads 2025, underscoring the success of our approach towards fostering innovation, career growth for early professionals and talent readiness. Overall, we intend to increase our local hiring and training to enhance our localization.

With that, I would request Shiv to walk you through more details on the numbers. 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 Q2 FY26 earnings call.

Let me walk you through our financial performance for the quarter, starting with the revenue performance:

Total revenue for the quarter is \$3,644 million, a growth of 2.4% quarter-on-quarter and 4.6% year-on-year in constant currency terms. Services revenue for the quarter came in at \$3,322 million, a growth of 2.5% quarter-on-quarter and 5.5% year-on-year in constant currency terms. ITBS services grew 2.6% quarter-on-quarter and 3.8% year-on-year and the ERS segment grew 2.2% quarter-on-quarter and 13.4% year-on-year in constant currency terms. Our recent CTG assets acquisition from HPE has been delivering financial results in line with our business plan. It has also given us the opportunity to address the needs of a much larger global telecom client base with a richer value proposition. Software revenue for the quarter is \$333 million, a growth of 0.5% quarter-on-quarter and a decline of 3.7% year-on-year in constant currency terms. Within the Software segment, Subscription & Support and Professional Services revenue grew at 8% year-on-year in constant currency terms. This performance reflects our priority to grow the Subscription & Support and Professional Services revenue line.

In terms of geographies: during the quarter, USA, the largest IT services market grew at 2.4% year-on-year, Europe grew at 7.6% year-on-year, while India grew at 0.6% year-on-year, and the Rest of the World increased by 17.9% year-on-year in constant currency terms.

Regarding verticals, we saw broad-based QoQ growth across key verticals, with some achieving double-digit year-on-year growth despite the macro environment. Our top-performing verticals on a sequential basis were Lifesciences & Healthcare and Public Services, whereas on a year-on-year basis, Financial Services and Technology fared well. They grew at 11.4% and 13.9% respectively in constant currency terms. In terms of clients, we remain focused on adding and expanding G2000 equivalent and emerging enterprises. This quarter, we made good additions to our client portfolio across verticals and geographies. On a year-on-year basis, we added 2 clients in the \$50 million category, 14 in the \$20 million category, and 7 in the \$10 million category. HCL Software is steadily broadening its client base across multiple industries and

geographic regions, with its portfolio exhibiting strong performance and facilitating the acquisition of new clients. This impressive execution positions us well for the future growth.

Now let me share the details on profitability:

Our EBIT is \$637 million at 17.5% of revenue. Net income for the quarter is \$486 million at 13.3% of revenue. The margin bridge explaining the same is as follows. The company margins have increased 116 basis points quarter-on-quarter. The improved profitability for the software segment gave us 35 basis point benefit. For Services, the 81 bps quarter-on-quarter increase was driven by the following factors:

Absence of one-off that hurt margins in Q1 gave us positive 30 basis points in this quarter. Project Ascend helped us to obtain 50 basis point gain from higher utilization during the quarter. Forex gain from INR depreciation gave us positive 56 basis points and restructuring expenses had an impact of negative 55 basis points. As we had indicated in July, our annual guidance, quarterly numbers, and commentary, all of them include the impact of the one-time restructuring hit in FY26. For fair comparisons, we would encourage you to keep this in mind.

Now moving on to Return on Invested Capital, ROIC:

Our ROIC continues to improve, thanks to our ongoing focus on profitability and efficient capital management. The last 12-month ROIC is at 38.6% for the Company, which is up 290 basis points year-on-year. And for services, ROIC now is at 45.3%, up 180 basis points year-on-year. Software continues to improve with ROIC at 21.8%, up 396 basis points year-on-year.

Let me share the details on our strong cash generation now:

Over the last 12 months, Operating Cash Flow is at \$2.62 billion, while Free Cash Flow amounted to \$2.48 billion. Operating Cash Flow to Net Income conversion is at 133%, and Free Cash Flow to Net Income is at 125%. The balance sheet continues to strengthen with gross cash at \$3.56 billion and net cash at \$3.29

billion. This cash generation is on the back of our continued improved DSO performance. Our total DSO, including unbilled, is currently at 78 days, an improvement of four days quarter-on-quarter and one day year-on-year basis. For our shareholders, the diluted EPS for the last 12 months came in at Rs. 62.57, which is up 0.9% year-on-year. The Board has declared an interim dividend of Rs. 12 per share for the quarter. The record date is 17th October 2025. Payment date of the same shall be 28th October 2025. That brings our 12-month payout to Rs. 60 per share, effectively distributing 95.7% of our net income.

Now on the guidance:

On the back of standout quarter and sustained growth momentum, we are raising our full-year Services revenue growth guidance to 4%-5% in constant currency terms. Given the softness in Software segment, due to decline in perpetual license revenue, we are keeping the company-level guidance unchanged at 3%-5% in constant currency terms. We remain on track to deliver our full-year EBIT margin guidance of 17%-18%. The wage revision cycle will kick in Q3, the revision is expected to be similar as last year. Q3 is expected to have 70-80 basis point impact and Q4 to have an incremental impact of 40-50 basis point. The impact is baked into our margin guidance.

That's all from my side for now. I would like to hand over the session to our moderator for Q&A session. Thank you. Over to you, Dorwin.

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

Moderator: Our first question comes from the line of Abhishek Pathak from Motilal Oswal. Please go ahead.

Abhishek Pathak: Hi, team. Thank you for the opportunity and congrats on a solid quarter. CVK, very encouraging to see Advanced AI revenue broken out. Quite curious to know how are these revenues being offered to clients? Are they mostly through standalone POCs or standalone projects or are they embedded into a bread-and-butter business? That's one. And secondly, how do you see HCLTech's

revenue mix evolve over the next 3 to 4 years? Do we expect IPs to contribute more and more percentage of our revenues? And if that's the case, how do you see our R&D expenses go up considering we will be competing head-on with a lot of the rich world OEMs in their own backyard? And lastly, a question on margins for Shiv. On the restructuring charges, would we expect a similar sort of quantum of hit over the next couple of quarters as well? That's all from my side. Thank you.

C. Vijayakumar:

Thank you, Abhishek, for a lot of interesting questions and first is Advanced AI. It's got a number of different ways of billing. For example, a lot of inference silicon build work are more fixed price projects which we take with clients and deliver. It has got a lot of scaling and reusable components. That's number one. And for example, for the AI Factory, the implementation could be even time and material, but there is a run piece which is based on per rack. Then there are a lot of custom AI solutions that we are building for our clients, which is continuing to be contracted in the traditional ways. Most of them in some kind of a fixed price model, because we also leverage some solution accelerator there. But there could be a number of time and material also. On top of it, there is an IP element. Like, for example, AI Force is being used in the SDLC transformation. The AI Force has got a licensing price list, and that's what we are considering as Advanced AI revenue. All the services that are being delivered is not considered in this category. There are a couple of small products in HCL Software. They are also being sold as IPs. So, right now, the IP component is small.

Now, going into your next question, on what do we expect our IP trajectory to evolve. We believe this industry will have to evolve from being a pure labor-based service provider to people plus IP and platform-based service provider. When you have a third-party platform, there is very little leverage, very little stickiness that we can build. And we can really deliver very good quality vertical IP solutions, which can be replicated across customers. So, that is why we are investing. However, the investment that is required to create that intelligence layer, that's not something we are taking on ourselves. We are leveraging the intelligence layer created by OpenAI and LLaMA and other tech companies. We

are creating IPs, which make this intelligent layer a lot more usable, scalable and relevant for the enterprise. This is the sweet spot we are focused on, and everything goes through a rigorous exercise. We are open to invest. We don't have a full picture on how much investment this will need, but this is required for the long-term vibrancy of the business and is a very good investment to make. We have already identified a few products. AI Force is, what I would strongly call, the killer app, which is really making a lot of big deals happen. We are competing head-on with all the big players who have a lot of AI mindshare. We have been able to showcase the technical depth of the product. Especially when the client evaluates by getting their hands dirty, we come out winners. So, it's a strong proposition. It's a big strategic initiative for us. We will not hesitate to make the right investments to make this a big success. I don't have a revenue number as to what our IP will be, but for sure, it is going to consistently increase in our services portfolio.

Abhishek Pathak: That's very helpful.

Shiv Walia: So, regarding restructuring, Abhishek, in July, we announced around 40 basis point impact of restructuring for the full year. We expect this to be slightly on the higher side for the full year based on visibility we have right now. As you would have noticed, we started this exercise in Q2, and this will continue through Q3, and we expect to have some spillover in Q4 as well.

Abhishek Pathak: Got it. Perfect. Thank you.

C. Vijayakumar: And the list of IPs is already called out in our Investor Release for your reference.

Moderator: Our next question comes from the line of Ravi Menon from Macquarie. Please go ahead.

Ravi Menon: Hi. Thank you and congrats on pretty broad-based growth. So, the first question is on the EBIT margin. When adjusted for that 55 basis points of restructuring, you are almost back at your 18% to 19% range, and you should surely get some cost benefits from restructuring going into next year. The question I had is how

much will the benefit be once you finish the restructuring? On a structural basis, how much margin improvement should we factor in because of the restructuring?

Shiv Walia: As we said, we have given the guidance for this year, 17% to 18%. At the time of lowering the guidance last quarter, we talked about one-offs which are hurting us. We also clarified that we are not structurally lowering our margin band. But in terms of what it is going to be next year, we would like to address that question when we give our next year guidance in April.

Ravi Menon: That is fair, but just trying to understand what's the benefit that you're expecting to get- is it 20 bps, 30 bps?

Shiv Walia: It's difficult to call out. Some of the one-offs we talked about, we have recouped the benefits. The restructuring process is still on. We have just started this exercise in this quarter. It's going to continue for next quarter and maybe it is going to spill over to Q4 also. So, it's difficult to exactly pinpoint the benefit we are going to get.

C. Vijayakumar: Ravi, we will definitely transparently call this out during the Q4 numbers because there are a lot of moving parts. So, we will definitely provide transparency around that.

Ravi Menon: Thank you. I understand that only part of it is employees and part of it is rentals and things like that. The other question is, a lot of people have been worried about the impact of AI on the existing book of business. If I understood correctly, the most impact is happening in the area of development where Gen AI plays a really significant improvement in productivity of coding. But in the more IT outsourcing side of things, whether it's infrastructure or application maintenance, do we see a significant pressure on the existing book of business?

C. Vijayakumar: I called it out in the Investor Day. We think the biggest impact is on the BPO business, which could be as much as 40% to 50%. In SDLC, 25% to 30% is what we think is doable with a lot of maturity. In IT Ops, application support and

maintenance, it will be 10% to 15%, but it also depends on where you are in the automation journey. In the infrastructure and application operations, a lot of work can be automated by the traditional machine learning, AI and rule-based automation. But if you have fully leveraged the existing machine learning and rule-based automation, then incremental impact can be 10% or 15%. So, this is the direction, and you know the mix of our business. Some of this will play out over a longer period of time. Like with software development, even if we are able to deliver 25% to 30%, but to scale for the entire 1000 or 2000 people in large setups, it takes significant amount of time. It could run into a couple of years. So, this productivity will be realized over a period of time. But certainly, there is a good headroom in improving either velocity or productivity, whichever way you want to look at it.

Ravi Menon: Thank you again. Are you seeing, where we you have passes on, is there enough elasticity in the demand to more than offset it?

C. Vijayakumar: I think the biggest demand elasticity is in modernization. While discretionary spend is whatever it is, we are seeing a number of programs which are coming up based on legacy modernization. Like we called out a very large legacy modernization program for Ericsson in our Investor Release and a very large European retailer as well. They were probably not even looking at these programs a year ago. With a lot of conviction and proof point on what can be done, they are much more open. And now these are close to \$100 million plus programs, which is quite big from a discretionary spend perspective. This is where the demand might open up as we see more and more success.

Ravi Menon: Thanks a lot once again One last clarification. I know that you do not include renewals in your TCV, but even with a scope expansion, do you even include the expansion of scope, like say, the renewal of Volvo, would any scope enhancement be factored into the TCV?

C. Vijayakumar: Yes. Any new revenue coming in scope expansion gets added into booking numbers.

- Ravi Menon:** Thanks so much. Best of luck.
- Moderator:** Thank you. The next question comes from the line of Sudheer Guntupalli from Kotak Mahindra Asset Management. Please go ahead.
- Sudheer Guntupalli:** Hi, CVK and team. Congrats on a good quarter. As the largest IMS player globally, how do you see the need for enterprise data center refresh as we go through the AI upgrade cycle? And what would our play be in this value chain? Will we continue to focus only on the managed services piece or are we willing to now offer services on co-location and cloud service provider modes as well?
- C. Vijayakumar:** We strongly believe in an asset light business model. There are enough opportunities in the current world to do a very good asset-light business scale up. Our direction is actually going slightly in the reverse. We are going to build more IPs and monetize IPs. Of course, this AI Factory is all about servicing large, mega, & giga data centers that are being set up by large tech players. That in itself is a huge services opportunity. It is getting very specialized and, fortunately, we have one big program, which we are managing for one of the large tech companies. It can expand and there are at least 20 such players and sovereigns and some enterprises who are building this. So, that can be a big opportunity without having to invest in big assets and data centers and real estate.
- Sudheer Guntupalli:** Sure, sir. And just a follow up. So, if you look at the IMS cycles, they have their own rhythm, a little bit different from the app development and modernization. So, do you see the next up cycle in the IMS space beginning anytime soon, partly led by this CPU to GPU upgrade of the existing data centers?
- C. Vijayakumar:** Yes, we are seeing some traction. From an enterprise side, it's still not picked up in a big way. But there are some Edge use cases, where we see Edge Compute with GPUs becoming relevant. I think it's early days to look for a large cycle of enterprise upgrade of CPUs to GPUs.
- Sudheer Guntupalli:** Sure, sir. Thanks, and all the very best for the future.

C. Vijayakumar: Thank you, Sudheer.

Moderator: Thank you. We have our next question from the line of Abhishek Kumar from JM Financial Limited. Please go ahead.

Abhishek Kumar: Hi, good evening, and good insight on our AI strategy and progress. I have one question on bookings. CVK, you mentioned that we are proactively cannibalizing the existing business and also in some of the SOWs that we have got renewal, the existing SOWs seem to have been offset through new scope, etc. Now, in that context, I just want to understand how relevant is the net new number? Because it is coming at the expense of renewals, so maybe some color on how has the overall deal bookings growth has been? And if we can, going ahead, provide full TCV that would give us the full picture of renewal plus net new. That is the only question from myself.

C. Vijayakumar: We track renewals very closely internally, but we are not ready with the numbers to share. But from a growth perspective, it is the net new booking, which matters. And obviously, there is dependence on some ramp downs, which has been quite stable. We don't see anything unusual now. So, our net new booking will be a very good correlation for growth. Now, the renewal deflation, I called out last quarter in 8 of the 9 deals, we got additional business. This time, we called out among the top 10, only 5 of them gave us additional business. Other 5 of them had specific SOWs, which saw some deflation. But what is comforting is these are large clients of us. One segment of the work, there is some deflation. And there is a lot of book of business that we can consolidate with these large clients based on the proof points of proactively delivering AI-led productivity. I think that is a very good indicator for you to see how things are playing out.

Abhishek Kumar: Sure, maybe just quick follow up on this. So, net new has been around \$2 billion for a couple of years. Now, compared to the past, where probably the deflation was not as much in renewal, should we look at slightly higher net new run rate to assume similar growth as we have seen in the past?

C. Vijayakumar: Yes, we had mentioned that we want to up our run rate from \$2 billion to in and around \$2.5 billion. That is something which we have been working with a lot of rigor and science behind it. We think we will get there soon. This quarter obviously was \$2.6 billion without a mega deal. Pipeline is good. Our win ratios are good, and we are well set up for a \$2.5 billion kind of run rate. Of course, this can always be spikes sometimes. But on a run rate basis, we feel good about achieving.

Abhishek Kumar: Sure. Thank you and all the best.

C. Vijayakumar: Thank you.

Moderator: Thank you. Our next question is from the line of Vibhor Singhal from Nuvama Equities. Please go ahead.

Vibhor Singhal: Yes, hi. Thanks for taking my question. And congrats on a solid performance. CVK, just a couple of questions from my side. Just wanted to pick your brains on the auto vertical. I think the manufacturing vertical seems to have kind of lifted a bit from the last quarter, but where exactly do we see that? Do you still see weakness in the auto segment, especially in European markets? And what is our outlook for that segment, let us say within the next 2-3 quarters, do you think the weakness will persist?

C. Vijayakumar: Yes, auto vertical pipeline continues to look very strong. But decision making is just not happening. It is taking its own time. Some of the opportunities are replacing incumbents. So, they are all taking a long time. But given the stress in the industry, it is only a matter of time when we see some large outsourcing possibilities, but we have to wait it out.

Vibhor Singhal: Got it. So, nothing around the corner at least at this point of time as we see it?

C. Vijayakumar: Yes, I would agree with you.

Vibhor Singhal: Sure. Just my last question on the headcount numbers. Given, we were the first one to have started calling out our AI revenues, how do you see the overall

headcount evolve, let us say for the company or for the industry, over the next, not just quarter, over the next 2-3 years with the advent of AI? Do you think we will be able to do more with less? Do you think the headcount number where we are today could actually be the same number we might be looking at maybe 2 or 3 years down the line with very limited net new auditions from the current levels. If you can give some color on that, that would be really great?

C. Vijayakumar: Yes, it is directly a factor of growth. If you see our revenue in the last couple of years, we have grown 4%-5% and our headcount has not grown. So, that gives you a sense there is some non-linearity playing out. Even this quarter, in revenue growth and headcount, there is at least 1.5% or 1% difference. And when you take a year-on-year, there is a 1.8% increase in revenue per employee. So, that is the kind of uptick that we expect to see. It should gradually improve as we create more platforms, more IP, more solution and Services-as-a-Software propositions with Agentic. We believe there is certain non-linearity. Even if you are able to achieve 1% differential every quarter, it will start adding up to a meaningful non-linear pattern.

Vibhor Singhal: Got it. Thank you so much for taking my question and I wish you all the best.

C. Vijayakumar: Thank you.

Moderator: Thank you. Our next question comes from the line of Surendra from Citi. Please go ahead.

Surendra: Yes, hi. Good evening, CVK. Good evening, Shiv. Good quarter. And thanks for all the details that you shared. I just had a couple of questions. Firstly, this was asked earlier, but you said that out of top 10 renewals, 5 had increased scope, increased ACV. So, possible to give a sense of what the aggregate trend for those 10 deals would have looked like? What kind of growth in ACV would it have translated for all of those 10 deals put together?

C. Vijayakumar: Surendra, we don't have the numbers ready, and we didn't intend to share. This was only to give a directional view of our proactive approach of pursuing the

clients to implement AI in a very meaningful way. We are also tracking to get some comfort if our hypothesis of proactively driving this, will drive more mindshare and more wallet share. At this point, we feel confident, but the difference is not every service provider is being proactive. A lot of providers are defensive as well, and that in itself is an opportunity for us.

Surendra: Well, fair enough, CVK. And is it reasonable to say that in the 5 instances where you gained share, it would have come from peers in the industry?

C. Vijayakumar: Yes. And maybe some things might have been in-house as well. In Financial services, it is a meaningful gain share, which is reflected in our 11% growth.

Surendra: Understood. And last question on H1B, as you and your competitors, all try to localize and I understand that you are more localized than your peer group, but everybody tries to localize. Do you expect this to be some kind of a margin headwind as we go into next year?

C. Vijayakumar: Yes, it is definitely something to watch out for, because obviously this trend will mean some higher investments in training, local hiring and related aspects. From a wage perspective, there is very little difference, but for availability, we will have to see how we will manage it. Fortunately, the dependence is very low, so that way we feel comfortable.

Moderator: Our next question comes from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah: Yes, thanks for the opportunity. CVK, in one of the replies of the AI impact on the different horizontals, you called out it will take another 2-3 years, because there are new things which need to be done before AI can be scaled up by enterprises like modernization and other stuff. So, in that scenario, is it fair to assume that in the next 2-3 years, AI can be additive in terms of demand rather than deflating? And the second question is on EBIT margin. This year, we have a lot of one-offs. So, why we are still not seeing that the next year we can be back

to 18%-19% EBIT margin? What holds you back to commit that? Because we are doing better in terms of margin even in this quarter, including one-offs?

C. Vijayakumar: So, Sandeep, I think you were a little confused on this modernization thing. Modernization is an independent stream. What I mentioned about scaling in the existing SDLC landscape is to get a small group of people, fully use leverage, train them and measure productivity, ensure that we are getting the productivity and the entire change management for a large software development organization. That is why I am saying it is going to take a couple of years. Modernization continues to be a separate motion. A lot of customers are looking at modernization. This is definitely an additive in terms of overall revenue for the industry. Now, with all puts and takes, where will it land depends on what the portfolio one has and you have a sense of our portfolio, so that is broadly where it is.

Shiv Walia: Just to add, Sandeep, we are on track to recoup the margins we have emphasized in the last quarter, like one-off reversals and improved utilization. However, our clear focus is to cement our position as industry growth leader during this tectonic shift in the industry. And to that end, we will prioritize investment in AI to help us grow with disciplined margins. As mentioned earlier, we will call out the margins when we do our FY27 guidance in April.

Moderator: Thank you. Ladies and gentlemen, we will take that as our 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: In closing, we are energized by our performance in the quarter gone by, and we are confident of our trajectory for the rest of the year. Thank you for your continued support. Wishing you and your families a very Happy Diwali and joyous festive season ahead. Good evening and take care. 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.

(This document has been edited for readability and is not a verbatim record)