"HCL Technologies Earnings Conference Call"

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Moderator Ladies and gentlemen good day and welcome to the HCL Earnings Conference Call. This is Rochelle and I will be the moderator for your conference today. As a reminder for the duration of this presentation all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of the opening remarks. Should you need assistance during this conference call please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Vineet Nayar, thank you, and over to you sir.

Vineet Nayar Good afternoon and good evening friends, welcome to the yearend conference of HCL Technologies. I am joined today with my entire management team, Sanjeev Nikore – who heads Consumers and Manufacturing, Prem Kumar – Healthcare and Financial Services, Anant Gupta – Public Services and Infrastructure Management, Steve Cardell – who runs EAS, G. H. Rao – Engineering Services and Rahul – BPO and Anil, you already know is our CFO. So you have our full management team present today to give you a view on our yearend results and also the way ahead. And therefore Anil and I will speak less today and we are going to have our management team speak more.

Two points I wanted to make about our performance; one is that when you see it from a one-year growth perspective, three-year growth perspective, five-year growth perspective, we are exceeding the industry average. On a three-year perspective, industry has grown at about 13% whereas we have grown at 24%. One-year industry has grown about 19% and we have grown about 31%. So we are outperforming the industry growth rates, which is what our growing in strategy three years ago was and during the tough period of recession we have done the same. What is meaningful to note in this financial year all engines have fired, all service lines and verticals have fired. That is truly remarkable of well done execution by the management team and I will leave it to them to talk specifically about how did this happen.

One quick note to bring this to your attention as I was saying that there is a significant amount of deal churn which is happening in the market space and the validation of HCL's presence in the deal is done by the latest TPI report which has come in, which shows that in America and in Asia-Pacific, we are the only Indian service provider who is in the top ten in both these regions from a deal flow point of view. And also the fact that TPI says that the deal flow in H1 was low and deal flow in H2 will make up for the loss in H1 and therefore we would see a higher deal flow in H2 and the fact that we are in the top ten in this quadrant should augur well for HCL.

With this as I said I would want the management team to talk more, I hand this over to Sanjeev.

Sanjeev Nikore Thank you, Vineet; we had an exceedingly good year for CS as well as manufacturing. The highlights are that we closed $1.9 billion of business end of Q4, of which about $500 million was influenced by sourcing advisors. We closed the largest deal multi-service engineering deal in our sector. We acquired 55 new customers across CS and manufacturing and over 70% of our revenue contribution came from multi-services deals and integrated service deals.

Apart from that, in the Manufacturing and Retail, we grew 40% YoY and one of the reasons was that the top 15 accounts in Manufacturing and Retail grew at 65% year-on-year; this was a remarkable growth for us. Our growth in manufacturing was very consistent throughout the year. And we managed to snatch market share from all other peers and our YoY growth at 34% in Manufacturing is the highest in Indian industry amongst all Indian IOPs.

In the last quarter, MPE also showed good growth of 12% due to ramp up of some of the deals that we signed in early FY'11. The growth that we have seen in manufacturing and CS across, has been led actually by domain-led solutions and IPs that we have created over a period of time. And apart from the IT cost reduction and operation improvement, which continued to be the top agenda for CIOs, we are seeing CIOs now shifting towards business benefits. We are seeing more investment going into discretionary projects, into transformation project, and we are also seen new trends in response to changing buying patterns of customers in terms of more emphasis on customer experience management, multi-channel, analytics; More emphasis on mobility solutions led by a lot of Smartphone, tablet adoption at both enterprise and consumer level, a lot of digital transformation whether it is print to digital, whether it's online, whether it's e-commerce, whether it's social media, huge amount of service orientation and product companies and focus on emerging markets.

So the value proposition that we have on the table are actually coming to the fore and allowing us to create a competitive edge, so whether they are mobility solutions like track and trace, store Workbench, field force management which are all based on our own IP platform, which we have created for mobility.

We are also focusing on next-generation mobile technology solutions such as mobile augmented reality, content match up, near field communication, so we have the cutting edge of mobile technology, which we are using for our verticals and our verticals are some of the biggest users of mobile technology.

We are also getting in some new interesting areas like digital coupons and we are creating end-to-end business platform for that, we are creating interactive publishing solutions which are device independent, we are creating recommendation engine for personalization and we are adopting and adapting our horizontal solutions like test factory in a box for our retail vertical and we are planning to do that similarly for our manufacturing vertical.

In the Manufacturing services, we are also creating intelligent supply chain solutions like HCL online and diagnostic tool which comes from our AXON's table for key supply chain analytics and inventory planning which is giving us a new range. There is also a trend towards radical simplification of IT and towards that our solutions are being towards portfolio management, TLM and Cloud as a more asset management. We have operationalized our IP and business integration and service delivery platform for F200 clients in terms of launching product as a service for them in a self-service mode. So these are some of the proof points which we have already created and I think we are very optimistic about the year ahead, we are seeing a fairly growing pipeline and we are very positive about the outlook. Thanks.

Prem Kumar Thank you, Sanjeev. Prem here. Good day to all of you. I think I will start the presentation with highlights about what we have done in the financial services vertical first. The quarter and yearend perspective is good. 30.4% year-on-year growth, this actually brings up the CQGR of the last four quarters to 8.1%, which is clearly ahead of the peer group in the context of the financial services vertical. From a market space, we are seeing quite a lot of key changes and disruptions which is in many ways changing the profile of the kind of deal close that one is getting. In the year that went by we saw almost $750 million booking environment that we were able to complete. And from a pipeline perspective also, we are seeing a very large number in terms of what we have at this present moment.

Some key drivers and some key changes that are relevant to talk about is the context of discretionary spends associated with some key disruptions. For example, the disruption around the regulation aspect as well as the investment focus of banking and financial world looking at a larger part of investments around the customer management side, which essentially means that the focus from cost rationalization, which was a perspective until a few quarters back, has significantly moved towards a sales data addition, the focus is on entire customer management process, how do you really look at the customer experience in a different way, the investments which we have perhaps being held back a little while ago, are trying to come out now with the greater emphasis and stress in terms of a larger emphasis around the customer side.

The second aspect that really comes in here is that the financial services businesses have largely been a very mature marketplace in terms of outsourcing at least from a larger businesses perspective. What really we are seeing is that significant amount of vendor consolidation exercises that are really coming out in the open today. It could be an outcome of the change in prioritization from back-end cost rationalization to front-end customer, clients' level of expectation in terms of value associated with and what they have got so far. And the way we have tried to drive this, have been largely around key investments in our own customer management side to protect our existing turf and our existing customer base; and as a testimonial that is visible in Forrester reports and so on, HCL is coming well ahead of the entire global ecosystem in terms of the client referrals course and so on. So while we keep that as a very key element of protection, at the same time, that is leading us into more opportunities and that is what we see in perhaps historically very large pipeline that we are sitting on today, at the same time, I think there is a lot of dissent or dissonance that you see in some of the existing relationships and I think one of the key aspects at least that you would see is the level of vendor churn in terms of existing incumbent relationships not continuing beyond 5%, and it is now touching about 35% and we see that as a key element of being invited to the party. So that is as far as the financial services part is concerned.

I will now just slip forward into Healthcare and give a perspective of the year that went by. 45.8% YoY which you would see very clearly large and the best kind of a vertical performance across the industries and across our peer group. Very key element here, if you look at the payer segment, we have already added four key accounts in the top ten accounts globally. In the Pharma side again three accounts are from the top ten and grown in excess of 40%. Here again we are seeing the right kind of pipeline with respect to the kind of momentum that has been established in the last few years and distinctly in the few quarters preceding us now.

In the case of Healthcare there is another kind of thrust that is coming out from the regulatory side or the reform side. So you are definitely seeing a lot of again investments, for example, in the payer area, which were perhaps, I mean if you look at a very relative comparison, the payer marketplace in terms of the customer management investments in the past, we are nowhere compared to what you would have seen in the financial world, especially if you look at some of the credit card companies that have Platinum, Gold and Silver kind of services. The payer industry has not seen much of that, we have seen a lot of thrust, I mean with the newer uninsured coming inside and so on, we are definitely seeing a lot more of that happening, and again, that is again one of the key elements of the changing business models driving new technology investments.

And as far as the Pharmaceutical business is concerned I mean the blockbuster drug patent and the pipeline challenges that we all hear about is definitely driving significant investments in the whole commercial side which is essentially looking at the sales and marketing investments in the Pharmaceutical Life Sciences world in terms of bringing in a lot more of multichannel kind of connect with the payer group as well as the provider group and the physician group. And we really build some very core propositions around the payer and provider side which really addresses some of the time bound kind of roadmap that the reforms process has given the whole healthcare industry.

So, here again I mean, we are seeing a very robust kind of a pipeline, the momentum being sustained with respect to pipeline. And at the end of the day I mean in both of these, I think one key aspect that you would see is that while we definitely have some kind of overhang associated with the overall macroeconomic scenario, there are very key drivers associated which are associated with the changing business model and also with respect to the vendor consolidation exercise, which is a consistent perspective that we are seeing across the verticals I am talking about. Thank you.

Anant Gupta Hi, this is Anant Gupta and I will walk through the Infrastructure Services. I think we had another good quarter. Our revenues grew 10.5% sequentially and our EBIT grew 15.9% sequentially. From our yearly perspective we grew about 44.6% YoY and we closed the revenue at $826.7 million. From the manpower perspective we added about 8,000 gross additions. And really there are two important aspects, one a larger share being driven from the offshore growth largely coming from existing accounts plus obviously moving lot of the large engagements which we were transitioning in the quarters before where we are moving on into steady state and therefore a higher offshore percentage. The second aspect is that most of this manpower coming behind a very strong internal referral program I think the highest in the industry which is around 38%. So 38% of the gross hires are from the referrals from within the employee base switch, obviously, adds to the longevity as well as the quick fit in of the individuals. If you look at what is driving some of this, I think first years, it has really been the booking profile, so we clocked about $1.2 billion rate of bookings. We added about 33 customers including 5 customers in the Fortune 100 space. Secondly, a good growth from existing clients, roughly around 15%, which is again a sign of increasing significance within our existing accounts. A couple of points which we talked about in the last call was the shared services something which we are very keen on, you are seeing that to be finding greater traction in the mid market customers. Europe continues to be a strong driver especially in Nordics and France. The India government and PSU or public sector strategy around ERP and turnkey SI deals continues to drive this growth for us. A couple of new services around SAP on demand as well as enterprise platform services largely around the development and testing environment kind of getting the first entry and traction in the market.

If you look at some of the trends in the demand environment, the cost continues to be a driver but not the only driver for business. What we are also seeing is significant amount of high ROI based transformational programs which are coming in, Sanjeev and Prem both mentioned about that in the verticals. Also what we are seeing is engagements having a mixture of multiple business models. So managed services, shared services and as a service model, of a different tracks and different types of applications, we see a need for multiple operating models. The part of our TPI, I think the important point to note is really the overall outsourcing market is actually not increasing, it is declining but from a HCL perspective, we are obviously being invited to a lot more engagements which is driving our growth. Something which I alluded to you last time, which we are seeing initial traction of network transformation breaking out from the carrier world, we continue to see that, we continue to see that is, we will continue to be positive on that.

If you look at some of the sectors from a growth perspective we believe Healthcare in the U.S., Banking, Insurance and Manufacturing in Europe and Telecom in emerging geography should drive the growth going forward. Along with the India Inc. story, where the India Inc. the private enterprises globalizing we are seeing a need for strategic relationships coming in the market and therefore we see that as another potential growth opportunity.

If you really look at what is driving some of those strong growth for HCL in this space really is the high C-SAT Score that we have. So we have the third-party annual customer satisfaction, survey and we scored 48, which is amongst the best-in-class in the industry globally, so that is really drives the referrals and the referrals programs when the new customers are onboard.

If you look at some of the other unique elements which we have been recognized for, we are the first Indian provider to enter the Gartner’s data center outsourcing and infrastructure utility services Magic Quadrant. If you look out our thought leadership around the cloud computing and the SAP on demand we were recognized as one of the OEM technology vendors for being a leader in that space.

If you look at the Global services 100, this is unique because it really covers all service lines of HCL and we are actually best in eight categories over there.

Another interesting element is that Gartner really came up with survey around the communication skills and the help desk force which is normally an issue when you look at some of the world's best services move into offshore locations and I think we have highlighted over there having an excellent program which is kind of supporting this entire initiative, with that over to you Steve, now.

Steve Cardell

Thanks, Anant. So let us just turn our attention for a moment to Enterprise Applications. Another very good quarter in terms of achieving the goals that we set out at the beginning of the year, one of our biggest challenges and priorities has been gaining market recognition for the unique capability that we have in the SAP market. And in this quarter we completed the hat trick in terms of being named as a leader by Forrester in their Forrester Wave SAP. So, the three main analysts who report on our market, Gartner, IDC, and Forrester, there are now only three firms globally who feature the top five provider in those marketplaces by all three of those analysts and that is Accenture, IBM and HCL AXON. Among those three, only HCL AXON has reported by those analysts has been progressive in their performance this year, while Accenture and IBM are both moving backwards on the analysts preview.

And we have seen some of the out working of that in developing our propositions, so in our stable of products, iCREW which is a solution that we have co-developed with Canadian National to provide SAPs offering for rostering for the airlines and railroads and other transportation firms is certified and is now available for sale in the marketplace through part of network and directly. And also there has been growing attention on two of the providers that feature within EAS, Microsoft and SAP. It was the first year that there was a development jam between Microsoft and SAP, and HCL AXON developed the most collaborative solution on those combined technologies facts, for which we received a joint reward. So significant progress in the market understanding of the capability that we have, which puts us in good stead as we come in to the New Year. And we continue to make strong investments in our Oracle practice. We continue to see faster growth from a smaller base and increase in our market share. One of the priorities for us in Oracle is that we are at the forefront of the fusion wave as it comes out and we are pleased that we are first in the line to be approved as a fusion application partner and also to win our first client project implementing one of the first fusion applications in the HCM space. So all of that allowed us to finish the year with a 27% year-on-year growth, which is a strong performance against our peer group, but in addition to that ensuring that as we have been moving our delivery model throughout the year to leverage more of our global delivery center resorted in our delivery mix and so improved the profitability of the work that we are doing in the EAS. We also made a very strong progress on that in the quarter.

We continue to see similar trends in the demand environment that we saw last quarter, so we see lot of consolidation projects, particularly from multi-version, multi-platforms on to single platforms or perhaps few in such platforms. Strong wave of upgrade both in our Oracle SAP and cost base legacy systems replace particularly in some of the mature infrastructure businesses like utilities, like travel and transportation, where organizations are still running off longstanding legacy systems.

And we continue to see a shift in the bundling of particularly the ERP type of deals with other service lines that we offer and also along with that our customer is looking for different ways in which they would pay for those services. So let me hand over now to G.H. Rao, who will talk about our Engineering Services.

G. H. Rao

Hi, good evening. This is G. H. I will talk about Engineering Services over the last quarter and the year. We had a good quarter and last year, where we grew 5.5% on a quarter-on-quarter and 26.3% year-on-year respectively, ending at $643 million in overall revenue for Engineering Services. We ended last quarter with a transformation deal for Xerox which is a deal in context with several products in our families and where it is a global delivering model with operations in several countries.

We primarily see three growth drivers for Engineering Services; one is driven by the macroeconomic scenario worldwide; second is driven by technologies, and third is now driven by what value propositions that now we bring to the table.

So let me roll back on to the first one which is driven by macroeconomic scenario worldwide. Because of the continued instability in economic situation, there are still cost pressures on our customers thereby they try to keep the budgets constant and try to do more work for the same dollar which in turn is driving larger projects and more end-to-end projects in engineering outsourcing. The second one is driven by the technologies, wherein today we are at an inflection point where multiple technologies need to be integrated to offer any sort of product right from pumps to mobile devices there are no more point devices, they have to integrate the plethora of technologies, wherein lies an opportunity for us to integrate several technologies whereby the complexity of the project is now improving. Then the third is the value proposition that we bring to the table, which is in terms of engineering out of the box. Traditionally, product engineering yields to be to design products and it is more inward looking into a product. So what we brought the table was to see how we can make the products now more relevant to the ecosystem thereby we have engineering to be done out of the box as well, which is actually not as significant both in complexity and size as what we traditionally do inside the box. So these are the three big drivers which are now helping us to grow in the engineering services in our business.

By virtue of which we constantly increased our market share over the last 12 months and also in the last year we saw significant business coming from our traditional sectors in telecom wherein we had to do a lot of reengineering to be relevant for the new data centers and now convergence. This is also helped by the growth in consumer devices and semiconductor business.

From a geography perspective, we had a good business from Japan in the last year and going forward next year we believe we have good in roads into continental Europe in engineering services business. Again, we had strong outlook for the both aero and industrial domains for the next year. In last year we had several recognitions from major industry analysts like TPI, Zinnov and Frost & Sullivan. Our engineering out of the box proposition has got one of the innovation awards from Frost & Sullivan, and Zinnov has rated us as a leader in R&D services, in fact, out of the six segments that they rated Indian ISPs on, we came first in three of the segments. In the rest of the segments also we are doing very well, and we are in the top quadrant.

Also, we have internally rolled out several innovation initiatives, wherein we bring more value to the customer, some of them have been actually recognized by industry analysts and we have won several awards for the same. So that is my brief on Engineering and R&D services at HCL . Thank you

Rahul Singh G.H., thanks. This is Rahul Singh here. I will talk to you a little bit about the BPO at HCL. The BPO brief for the year was to look at turning around the BPO which was generating negative revenues most of last year and our brief essentially is to kind of improve the profitability of the business and refocus on growth. And as a result of which during the year we did several things to kind of restructure the business including ring fencing from the non-strategic businesses and also diverse businesses which were not generating adequate profits for us. So that reflects in the financials as you see them, the Q4 financials are ahead of the exit Q4 for the previous year. However, if I were to back off the exit businesses which we terminated and we transferred out, the quarter-to-quarter last quarter AMJ'10 to AMJ'11 actually grew by about 15.8%, so it was reflecting that growth is coming back into the businesses. It is also reflected in new accounts, booked about eight new accounts during the year, spanning across financial services, logistics and MPE and while the numbers do not reflect that because of the ring fencing of non-strategic businesses that I switched off for some businesses, the underlying businesses grew by as explained earlier at about 15.8%. Also we have seen the EBIT improving where the business was generating negative EBIT of about $6.5 million of quarter as of exit of last year. This year, however, the exit negative EBIT is $3.9 million reflecting improvement in terms of losses, and as we are rapidly moving towards breakeven and profitability thereafter. We have seen a shift of demand in the environment and we have reorganized the BPO business to be able to react to that change. So for example, the lift and shift model in BPO is moving rapidly towards more innovation and ownership base models. So most of our new wins, 8 new wins I spoke about are because of more focused improvements that we have proposed in our business models to our customers. We have seen integrated global delivery coming into place. So this year we have been able to integrate delivery across multiple locations where we really service from, for example India, Northern Island, UK and US and provide integrated services to the customers so that they can get the full breadth of details that provided from multiple delivery locations.

We also focused a lot in terms of vertical industry domain space, BPO space. so if you look at some of the wins we had in financial services and logistics, these are deep in domain and therefore we had to put wrappers around domain-based service in BPO also it is inflecting and complex pricing models which are more to do with outcome and outcome-based pricing which we will put in place during the course of the year. Most important was improving the way in which BPO business executes like what happens to the customer in terms of business impact, quantification of the improvements that customers can see by outsourcing to HCL. The market continues to be challenging. We have got more industry specific BPO emerging, proposals being put up for the customers as I explained earlier we are in line with that. Importantly, we are also bringing technology into our solutions for our customers so to some extent by increasing the involvement of technology and putting in certain platform from our partners, we have been able to show value to the customers which is beyond BPO and increase the creation of value so far the customer is concerned.

We continue to be banked in terms of multiple banking outsourcing providers which is listed here, but more importantly the focus on quality, the focus on people and HRD related awards are significant for us.

With that I would like to hand over to Anil.

Anil Chanana Thank you. Thanks, Rahul. So I am going to walk you through the financials.

The quarter has been good as Vineet talked at the beginning. The revenues were up 5.3% QoQ and 30.5% YoY. If you see, it sort of percolates down where the gain becomes larger and larger. So we expanded on the gross margin, expanded on the EBITDA margin as well as on the EBIT margins and we ended up with a net income margin of 11.9% this quarter opposite to 11.3% last quarter. On Full year basis picture is more interesting at 31% YoY revenue growth and 35% YoY increase in net income.

So I am going to talk about the constituent of the BPS analysis – QoQ as well as YoY. So the revenue increased this quarter by 5.3% consisting of 4% of volume growth and 1.3% being the impact of exchange. This is when we look at the company level but when you look at the IT Services level, 5.3% is actually 5.8% and 3.9% is 4.5%, with exchange rate impact being 1.3%.

With respect to margins – there is a 55 bps on the net margin and 105 bps on the EBIT margin. Let me focus on the EBIT margin. So there was impact on account of the rupee appreciation of 12 basis points, have that no been there, it could have been 117 basis points which has been on account of operating efficiencies, the realization, the utilization impact as well as the SG&A optimization; 50 basis points on operating efficiency and 67 basis points on the SG&A. I am not going to talk on the net income side because these are overheads sales tax charge which was with other component.

So I will move on further and I will talk about YoY. So year-on-year for the company as a whole 31.1% growth, close to 30% in volume and 2% being the impact of exchange rate. Let me focus here again on the EBIT margin. If we look at the full year basis, in FY11 we are at 14%. While in FY10, we were at 16.5% so there is a 243 basis points impact here, but when I look beyond the numbers where the 87 basis points which has come only because of the exchange. Outside of the exchange and there is the impact is 156 basis points. So what it is composed of? It is composed of three things; one being the unrecovered salary costs which is39 basis points. The utilization, down this year from last year as we currently we are in the investment phase. We have been hiring and you see this quarter in the IT Services side, we have net hires close to 4,000 and gross hires close to 10,000.

Third, there is the investment in SG&A, this is the area which we have seen the IT companies trying to save on, but we followed a somewhat different, stepping up our investment on the SG&A beginning April 2010, which went down only in the last two quarters, we sort of took advantage of the same. So outside the exchange, it has been a 156 basis points impact.

I move on to the other income, the other income that you see is $1.6 million and there are two impacts which are acquisition related and I thought to be a right point to talk about those impacts as well. So we have done various acquisitions over the life of the company and certain pre-acquisition claim got settled in this quarter, which released $22.5 million which was taken in other income.

In parallel, we keep on looking at our intangibles and test them and we are basically focusing on what was exactly the line of business or the customer side of the vertical which would be growing. And looking at all that and various parameters, we decided that we should be taking a one-time hit $26.7 million, so net-net $4.2 million came off from the other income, so had that not been there the other income would have been highest by that extent.

Table below explains the amortization schedule. So I would like to give you some sort of quantification here. We are having two assets in the intangibles; one is the goodwill and second is the intangible which are being amortized. Both have tested every year. In terms of the intangible which are being amortized, we said something like the gross value would be about $160 million. So, $100 million of that has been expensed, including this $26.7 million here. So now we are left with $60 million which will get amortized over the next several years. And we will keep on looking at this every year.

Moving on to cash flow conversion – this year its 100% but if you take 2 years rolling average it is even better. The key thing here to notice is that it varies from quarter-to-quarter. Quarter I which is July to September quarter is when we pay most of the variable payment which is bonuses, etc.. We have the advance tax payments, which comes there. So, a lot of these sorts of a payment fall during that period. And we have seen normally that in that period, the conversion of net income to cash flow is lower. But over the years, it’s sort of averages out. So this particular quarter it has been much higher than 100%.

Going further in terms of receivables, we are pleased to report that our receivable position is one of the best in the industry today, So two years back we were at 84 days overall DSO. 30th, June 2010, we were at 80 and now we are at 71. With our unbilled receivables well under control between 16 to 20 days so at this point of time we are at 17 days. So this has really helped in terms of cash flow conversions.

Also I'm going to the next slide also in terms of reaching a positive fund position. On the left side you could see that like cash on my balance sheet has increased from $537 million to $558 million. On the right hand side, the loan funds have come down by close to $100 million. So net-net I'm now a cash positive company having $83 million. And two years back when we did the AXON acquisition, we were close to ~$250 million. So we are sort of generating so much cash in this period that we have reached cash positive position and have been paying dividend also in this period.

This is another interesting slide; we have been stepping up our investments in terms of capital expenditure, in terms of new campuses. So last year close to 50% of the funding's were spent on creating new development facilities, we created 9000 seats, in addition to that we created close to 1000 trainee seats. We are going to create 45,000 seats in the next five years. Training facilities for 6000 seats and 8000 development seats in Nagpur and then the existing facilities at Chennai, Bangalore, and Noida will be expanded. So the next year FY12, the planned capital expenditure is $230 million.

Moving on to hedge position – All of a sudden, everybody's attention has moved to the Dollar-Rupee once again because it reached today at 44 levels after RBI increased the rate by 50 basis points. India is an effective destination for putting money and earning returns. So we have the hedge policy whereby we hedge between 20% and 40% of our inflows. Currently, we are at 20% of our inflow and we are hedging our balance sheet exposure close to 100%. So if you look at my hedge book is $390 million and my book rate and MTM rate well within that. And we use various instruments one being the forwards and the other being the options. We range the options primarily. And the significant of this is in terms of USD-INR and other cross currencies. In terms of the range options the range has been Rs.46.05 to Rs.48.36/US$.

I move on to the tax provisions, our guidance stayed. This quarter we were at 25%, we have guided that will be at 25%. For the full year we had been 22.1%. Now we have finer calculations. So we refined our workings and we find that our specs charge next year which is FY'12 should be between the ranges of 24% to 25% and then should drop to 22% to 23% in FY'13 as the SEZ revenues increase.

Moving on to the employee stock options – Currently these options constitute 3.6% of the capital of the company. We took a charge of $19.9 million net of tax during this fiscal year. Next fiscal year, which is FY12, the charge is expected to be $15.6 million equally divided over the four quarters.

So with this I will hand over to the operator for any questions.

Moderator Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. To ask a question at this time, please enter * then 1 on your touch-tone telephones. If your questions are answered, you may withdraw question from the queue by pressing * followed 2. Participants are requested to please use only handsets while asking a question. To ask a question, please enter * followed by 1 now. The first question is from Vihang Naik from MF Global, please go ahead.

Vihang Naik Hi good evening sir. Thanks for all the details. My question is that we have said that we do not expect this pricing situation to improve in FY12. Can you just tell us what the areas where pricing pressure is highest currently are they because of completion and other reasons?

Vineet Nayar I think we didn't say pricing pressure is high. We said we do not see pricing improvement taking place because of the macroeconomic indicators. And I think the pricing pressure from existing customers and existing deals, I believe is already behind us unless the macroeconomic indicators move so badly that the customers are incentivize to look at it again. But I think that is already behind us. And the new deals are already stable. Stable pricing is already there. So there is nothing change. I think the question asked was do we see a possible after lift on existing prices and my answer in the past one year has been no. And my answer now is also no, unless you change what service you are offering to your customers.

Vihang Naik Okay. And just second one, I mean, in the absence of increases in billing rates in FY12, you know, apart from utilization, what are the other levers that we have to combat wage hikes in FY12?

Vineet Nayar I think there are many levers that has fixed priced, that is output based pricing, device based pricing, use of IP and solutions, utilization, SG&A lever, spending higher value added services, moving more offshore, and the onsite services, where the large IT outsourcing deals which are in transition not going into steady state. Moving out laterals from those deals and moving fresher's in. So there are multiple opportunities for looking at these elements.

Vihang Naik Okay.

Moderator Thank you. Our next question is from the line of Pankaj Kapoor of Standard Chartered. Please go ahead.

Pankaj Kapoor Yeah hi sir. Just want to get a sense on the deals that we have won during the quarter and during the course of the year. We have reported around 20 deal wins, but the other players of course have reported much lower number. But I was wondering that, if you can give us a more comparable number. The other players typically report $50 million+ whereas I guess our numbers might be including deals which are smaller in size. So for a like-to-like comparison, can I get a sense in terms of how many would be like$50 million+ and if you can give me a TCV of the deals that would be much better.

Vineet Nayar Pankaj both data points we do not share. All I can say is the deals we have signed in this particular quarter have been higher than what we have signed in the recent past. So this quarter has been extremely good. The second indicator is that if you look at the TPI report, HCL is the only Indian company in the H1 which in the last two quarters, is in the top 10 for both US deals and the Asia deals. So, those are two indicators that I can share with you. We are not sharing data points on either TCV or greater than $50 million deals.

Pankaj Kapoor Okay and my second question would be on the enterprise application services where I believe you previously spoke of a good operating environment. This quarter was slightly muted for us, just about under 2% of growth in constant currency. So I was wondering if you can give me some color in terms of what's happening in the market place and how do we look at for us the growth which SAP and all have been reporting to reflecting our numbers going forward.

Vineet Nayar Steve, could you answer that please?

Steve Cardell Yes I think in terms of the growth number I will say the same as I said last quarter which is taking one quarter in isolation is not always helpful. So if you look at four quarters we have seen strong horizon, we continue to stay ourselves very well-positioned in the sector and we have strong pipeline conversion this quarter. I think in terms of growth, there are growth that Oracle and SAP reported that is helpful to our growth and there is growth that they have is unhelpful. Two comments, one is there is always a lag time between a good quarter for SAP-Oracle and the translation of that into services revenues and typically that is between two to three quarters. So we tend to lag SAP and Oracle by about nine months on average and secondly the largest conversion for us is in corporate areas like ERP, CRM, SCM, ACM and we see a lower software-to-services ratio in some of the new areas such as Sybase mobility from SAP or BI elements where you will see a one-to-one services-to-software ratio while we see in quarter 1 in some of the core front and back of these areas. So I think we see ourselves well-positioned, four quarter growth is good and we continue to see good outlook.

Pankaj Kapoor Okay thank you and all the best

Moderator Thank you Mr. Kapoor. Our next question is from the line of Mitali Ghosh from Bank of America, please go ahead.

Mitali Ghosh Yes thanks. Firstly I just wanted to understand, how you would describe the pipeline today versus let's say three or six months ago and one other things that has been highlighted is of course the churn of vendors which is helping. So I'm just trying to understand whether this is because of contracts coming up for renewal in normal course or is there restructuring being done ahead of time. And secondly to what extent you are seeing may be first time offshorers as well in the pipe line?

Vineet Nayar Mitali, first answer is the pipeline today is very-very good. Is very large and if this pipeline turns to be true then in October-November-December of '11 will be a very big decision quarter for the industry. Who wins, who loses I don't know but I think somebody is going to win big or few people are going to win big in October-November-December because the pipeline is very large. Let me explain to you why the pipeline is very large. The pipeline is very large because 1) the overall IT spend has come down H2 to H1. And so therefore that has a negative. However, there are two positive factors which are increase in the pipeline. One is in Europe a lot of first time outsourcers are coming into the market because of macroeconomic indicators which we talked about last quarter also. And therefore that is driving the pipeline higher and higher and if you see some of the announcements which we have made this quarter in form of Ikea, in form of Danfoss and in form of some of the other customers we have announced. You would see a significant amount of continental Europe customers coming in with our RFP's, which HCL is winning. The second which is the more interesting part is that a lot outsourcing contracts were written in FY'05 to FY'07. And those contracts have run through their 5 to 7 year term and in that 5 to 7 year term they had gone through the recessionary period where the vendors may not have demonstrated the flexibility which the customer is expected out of him. So typically what we have seen is that only 5% of the deals get renewed with the new vendor. 95% of them get renewed with existing vendors. That is the statistics we see in a HCL deal pipelines. In HCL deal pipeline now for the last six months we have seen that the renewal rate has come down to 70% so that means 30% of the deals, the customer is very-very open in changing his vendor. Actually he wants to change his vendor and only a negative will prevent him from changing and we have seen some very large deals happening in that category. So the churn of the vendors is being driven that. That's point number one. The second reason for churn of the vendors is suddenly the customer when they start outsourcing especially in the European continent are wanting new capabilities and new geographies for delivery whether it is Philippines or Brazil or China or India for that matter because of their geographical expansions. The local vendors especially in the European geography are not able to offer them this capability and therefore there is a significant churn of vendors. So in the total IT outsourcing if you look at the TPI report also there are two things which we are saying. 1) The H1 was amongst the worst from the deal pipeline point of view. But H2 will make up for H1. So that validates again what I'm saying with the H2 deep pipeline is good, that's what TPI is saying. 2) They also are saying that the churn is too high. So they are showing the TCO, total IT outsourcing deal is going down but the churn deal is going up. 3) And the third thing they are saying is that the people who are participating in this, there are two Indian players in the top 15 and one Indian player in the top 10, which is HCL in both America and Asia. Does that answer the question?

Mitali Ghosh Yes thanks that's very helpful. Second, I just wanted to understand the 20 transformational deals that you have highlighted. What would be composition we like from our services stand point? Because we have seen a lot attraction in infrastructure management services, but are you seeing a pickup in some of the other service lines as well?

Vineet Nayar The biggest deal we have signed in this is from engineering services. And this quarter, infrastructure is not the number one contributor to the 20 deals this quarter. Beyond that Mitali I don't want to give further color to the deals.

Mitali Ghosh Okay. Sure in fact if I just squeeze in one last question just on the telecom side we have seen weakness. I was just wondering whether this is from the OEM or services side and whether you feel the worst is behind. Thanks.

Anant Gupta So Mitali the weakness is both from OEMs and services but services is little more pronounced and what we are doing now is to look at re-jigging some our portfolio and we are also refocusing on the market in a more targeted manner. So that's what is really happening.

Moderator Thank you. Our next question is from the line of Dipesh Mehta from SBI Capital Securities. Please go ahead.

Dipesh Mehta Hi sir. I have two questions, one is about, you said quantum of wage hike which we are giving this year and second is about can you give us revenue growth and employee numbers without considering any acquisition or any take out or any deal. Because this quarter we might have seen because Citi acquisition we have done, that would be also part of the number. As well as some of deals we required, some of the employees, if you can give us excluding those numbers?

Vineet Nayar We are just consulting because I think the Citi deal was fully factored in JFM and it was pretty small from our revenue point of view. I think the wage hike for offshore is going to be between 12% and 14%. Onsite is going to be 2% to 4%. Revenue growth, we do not give guidance as you are aware. The only guidance that we are giving you is that the revenue growth would be higher than the NASSCOM industry average guidance which they had given. And we do not give guidance on employee hire other than that the fact the fresher percentage in the next two quarters is going to be higher then what you have seen as a percentage of total hires. As you saw in this quarter and you would see the same in the next two quarters also. Other than that we do not gave further guidance, please.

Dipesh Mehta Sir my question was precisely for Q4. Q4 total employee what we have added, out of the additional, how much we have taken as part of the transaction or acquisition as well as some of the deal what we have signed. Actually organically how much we did.

Vineet Nayar So I don't have the exact number but the employee acquisition through acquisitions has been zero. The employee acquisitions through deal may have been there so, we have either acquired employees either through deals where we rebadged employees or they have been lateral hires but we have yeah the Citi employees were taken over in JFM that's my colleague confirmed that so, no additional manpower to acquisition. Does it answer your question?

Dipesh Mehta And deal related sir because some of the deal what we have signed during the quarter so, we might have acquired some of the employees**?**

Vineet Nayar Yes that we would have. I don't have the number with me. I will get one of my colleagues to call you but this will not be a significant number. It may be around 100.

Dipesh Mehta Sure thank you sir.

Moderator Thank you Mr. Mehta. Our next question is from the line of Divya Nagarajan of UBS, please go ahead.

Divya Nagarajan Hi, you spoke earlier about TPI looking at some kind of a flush in the second half of the calendar. Given that we have been hearing bad news from some of your large banks and we have talks of headcount cuts, what probability would you attach to that kind of a scenario?

Vineet Nayar I think if you look at what TPI is saying or what everybody is saying is that the overall there would be an IT budget cut. The flush of the deals is only coming either from the European continent to cut costs further or a change from one vendor to another vendor or a transformation investment which is especially the banking and insurance companies are making for more frontend investments rather than backend investment. So, given that scenario I believe in those deals because I see in front of me despite negative macroeconomic indicators.

Divya Nagarajan And I think one of the things that you have done very well in the last couple of quarters if kind of curtail our SG&A expenditures, especially of percentage of sales and I recall last December we had kind of said that we will spend a lot more on it because we were chasing deals. Do you expect to see a repeat of that in the next couple of quarters as the deal so picks up will you be spending more SG&A dollars to go after those deals?

Vineet Nayar Yes.

Divya Nagarajan Would you give us a sense on what is most of us can expect as percentage of it?

Vineet Nayar I think the only guidance we would like to give is that overall for a full year margin basis our margins would not exceed the margins of FY11 which is about 14% at the EBIT level. And also the fact that there would a 300 bps drop in margins next quarter 250 bps originating out of compensation salary increase and 50 basis points originating out of increase of fresher's, we hired about 3000 fresher's last quarter, and we will hire about 3000 fresher's next quarter. Beyond that I do not want to guide on any margins trajectory line item by line item. We will do whatever we require to maximize our win ratios and keep the margins as per what we have guided.

Divya Nagarajan Great thanks and all the best for the year

Moderator Thank you Ms. Nagarajan. Our next question is from the line of Ashwin Mehta of Nomura. Please go ahead.

Ashwin Mehta I just wanted to get a sense in terms of given that H1 spends were down and you expect improvements in spends in H2 or signings in H2 so, essentially are we looking at a back-ended growth scenario in this year for the company?

Vineet Nayar No, I would not like to comment on it. I would just say that deals signings are going peak in H2 that's all I would like to comment.

Ashwin Mehta Okay.

Vineet Nayar H2 of the calendar year

Ashwin Mehta Okay so, in terms of ramp ups possibly we could see H1 of 2012 to be better.

Vineet Nayar Let me not comment on it.

Ashwin Mehta Okay thank you

Moderator Thank you Mr. Mehta. Our next question is from the line of Sandeep Shah of RBS. Please go ahead.

Sandeep Shah Yes sir in the presentation you spoke about the building or training campus with a capacity of 6000 so, can you give some color when this will be complete and if you look at the average period of training it would be close to around three to four months. So, we are looking at a yearly training capacity of be around 20,000 to 25,000 employees so, does that indicate that may not be today but down the line in the longer term the fresher intake will increase substantially?

Anil Chanana Yeah so, this is Anil on this side. We are building this and the capacity is going to be 6000 so, it will take about three years to build those.

Vineet Nayar And the answer to your second question is that we are getting ready for a eventuality where we can increase the fresher's which is a long term guidance we have given. Unless the business model changes. You are right in terms of we would like to increase the fresher intake. That's the long term guidance.

Sandeep Shah Okay thanks.

Moderator Thank you Mr. Shah our next question is from the line of Nitin Mohta of Macquarie. Please go ahead.

Nitin Mohta Now my question is regarding the BPO segment. Vineet in the earlier call you had mentioned that the payments is going to last about three to four quarters more. I just wanted to get a sense on when we would be completely done with it and how should we think about profitability for this segment in this fiscal as well?

Vineet Nayar So profitability of the segment in 2012, I don't want to answer but Rahul could you give them a sense of when are you breaking even?

Rahul Singh If you look at quarter-on-quarter our profitability has been improving. Example exit quarter 2010 it was -$6.5million, exit quarter of 2011 it is -$3.9million so, we have been improving about $1 million a quarter and I did comment earlier that we are looking at another 2-3 quarters to breakeven and I think the efforts are on to make sure that happens.

Vineet Nayar That is breakeven in JFM of 2012.

Nitin Mohta Thank you

Moderator Thank you Mr. Mohta. Our next question is from the line of Girish Pai of Centrum Broking. Please go ahead.

Girish Pai Yeah I had two questions. The first was with regard to the margin decline last year for consolidated IT services there was a gross margin decline of 300 bps. How can that be explained is it largely salary related or was it a pricing element to it?

Anil Chanana So, I think we talked about the margin YOY but I can sort of again walk you through that. If you look at YoY the margin drop at the overall company level has been 243 basis points out of which the exchange accounted for 87 basis points so, outside of exchange it was 156 basis point, the salary cost unrecovered was 39 basis point, the utilization was 67 basis point, and the SG&A investment which for many of our peers decreased, was 50 basis points. So this account for the 156 basis points impact.

Girish Pai Okay Vineet you have mentioned that the December quarter is one of your good quarter from deal flow perspective. Which particular sectors do you think will see more deal flow from?

Vineet Nayar I think we talk individuals that is the reason I have brought my entire management team, we talked about it consumer, manufacturing, we see financial services, other than telecom services where we do not see opportunities. We see it across the board we see engineering, we see enterprise application, we see it across the board. There is no specific. Other than manufacturing which is leading the charge, we don't see other specific trends of one vertical running away with deals.

Girish Pai Okay thank you

Moderator Thank you Mr. Pai. Our next question is from the lie of Abhishek Shindadkar of ICICI Securities. Please go ahead.

Abhishek Shindadkar Hi could you quantify some of the data points that you are factoring in I believe in the morning on some of the news channels you predicted a less optimistic demand environment for FY12?

Vineet Nayar I maybe or was it somebody else. I think what I said was that the macroeconomic indicator which is what I said in this call also the macroeconomic indicators are not good in US. The macroeconomic indicators in the Europe are also not good plus we have a challenge on both Middle East and Japan. So, that's the headwind. So that is quite a strong headwind. The tailwind is what I just talked about the deal pipelines is increasing because of either the first time outsourcing happening out of Continental Europe or because of the churn of vendors in total outsourcing happening out of America and UK. So, the tailwind as we speak today because of large pipeline is overtaking the headwind in the short term and that's the reason I said my estimation is that we will peak in October-November-December of 2011 as I had predicted in 2008 also. Beyond that we will have to see either the macroeconomic indicators have to improve or this churn should continue or first level outsourcing should continue or discretionary spend should come back or some of those mega trends should come back for us to predict better growth in FY12 that's what I had said so, I have not talked about a pessimistic financial 2012.

Abhishek Shindadkar Okay. Thanks for taking my question.

Moderator Thank you Mr. Shindadkar. Our next question is from the line of Ankur Rudra of Ambit Capital. Please go ahead.

Ankur Rudra Hi! Thanks for taking my question. Congratulations on another strong quarter. Just the first question is on the growth in your top 5, 10, and 20 accounts seemed to be very lighter than the company average. How should we read that in the quarter? The second question is on DSOs; clearly you have been able to improve them quite substantially in the last three quarters in fact opposite direction of many of your peers. So if you could highlight what steps you have taken to do that? Thanks.

Vineet Nayar So, we have one customer who was a BPO customer who is in the top segment for us, so let me just be polite about it that's the reason you are not seeing growth on the average. And the second is that with reference to what are we doing on DSO I think I had alluded to this couple of quarters ago that it is about management's attention. So, where do want you to put the management's attention at one side we were putting the management attention in growth and in recession and therefore some of these operating issues went weak. Therein 2008-2009 we brought back that control on operating parameters and therefore we pulled it back in with strong management control and there is nothing else. There are no other innovations there.

Ankur Rudra Alright Thank you and best of luck for the remaining quarters.

Moderator Thank you Mr. Rudra, ladies and gentleman due to time constraints that was the last question. I now hand the conference over to Mr. Vineet Nayar to add closing comments, please go ahead sir.

Vineet Nayar Thank you everybody to join this conference and thank you for your support and helping us walk through this along with you and I hope we had done a good job in transparently explaining the results to you. We look forward to talking to you next quarter. Thank you. Bye.

Moderator Thank you Mr. Nayar and members of the management team. Ladies and gentlemen on behalf of HCL Technologies that concludes this conference call. Thank you for joining us on the Chorus Call Conferencing Service. You may now disconnect your lines.