"HCL Technologies Limited Q3 FY'22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the HCL Technologies Q3 FY'22 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. I now hand the conference over to Mr. Sanjay Mendiratta -- Head, Investor Relations. Thank you and over to you, sir.

Sanjay Mendiratta: Thank you, Aman. Good morning and good evening, everyone. A very warm welcome to HCL Tech's Quarter 3 Fiscal '22 Earnings Call. Trust you all are safe and in good health.

We have with us today, Mr. C. Vijayakumar – Chief Executive Officer and Managing Director, HCL Tech; Mr. Prateek Aggarwal – Chief Financial Officer; Mr. Apparao – Chief Human Resources Officer along with the senior 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 on information presently available to the management and the company does not undertake to update any forward-looking statement that may be made in the course of this call. In this regard, please do review the safe harbor statements in the formal investor release document and all the factors that can cause the difference.

Over to you, CVK. Thank you.

C. Vijayakumar: Thank you Sanjay. Good evening and good morning, everyone. A Happy New Year to all of you. I wish you a lot of health, happiness, and prosperity in the New Year.

As we start the year, I am very grateful for the dedication, passion, and service of all the HCLites across the world who continue to do a tremendous job taking the company higher and farther despite the continuing pandemic.

I am delighted to share that Q3 Fiscal '22 has been a spectacular quarter for us with a very strong revenue growth, sustained margin performance and continued momentum in both booking and pipeline reflecting in our overall strength in the market.

We had a fairly large ramp-up in terms of our talent in the last quarter we continue to invest in training to gear ourselves to address the current and future demand. Our employee brand has been very strong. That's been one of the very important aspects along with their talent strategy, which has helped us attract significant number of digital talent over the last 12 months.

Our new gen services like Digital Engineering, Cloud Transformation, Application, and Data Modernization, remain the top themes in this quarter. We had some great success in our products and platform business, both renewals and new licenses. Overall growth has been broad-based with momentum across all geographies, segments and all the industry sectors.

In terms of numbers, our revenue grew 7.6% sequentially and 15% year-on-year in constant currency. We exceeded our expectations, but I always believed that we had the potential to achieve these numbers. In fact, this was the highest growth recorded in the last 47 quarters and that too, on a significantly large base, which is today almost 4x larger than what it was in 2010.

The growth momentum was fueled by both of our Services Business and the Products and Platform business. Our rupee revenue grew 8.1% sequentially and 15.7% year-on-year.

Our operating margin saw a small 5 basis points increase, coming in at 19%. We signed eight net new large services deals and eight significant product deals across the geographies and the industry sectors. We continue to impress our clients with our capabilities which is resulting in a number of incremental small deals in our existing clients, which helps us to continue to grow our top clients.

Our net new booking remains strong at $2.1 billion, which is 64% year-on-year increase. There are also a lot of deals that are coming in as what we call this rate card deals, which don't get quantified until we start delivering them. When we add renewals of existing contracts to the above, we see a good growth momentum in the medium term.

Our client addition has again been spectacular across all categories, reflecting a strong demand as well as a strong relevance of our offerings to our clients in this fast-changing world. Our $50 million clients increased by 11, $20 million clients increased by 13 and we added 50 $1 million clients in the last 12 months.

Our Mode-2 offerings grew 30% year-on-year and 6% sequentially in constant currency. Our pipeline is very strong. It's reflective of the demand environment. The pipeline is broad based across all dimensions, service lines and geographies, verticals and even if you take a cut of large deals and mid-sized deals and small deals, it looks quite balanced.

Let me provide some color on the segments:

Engineering and R&D Services led the momentum, with the robust 8.3% sequential and a 19.7% year-on-year growth in constant currency.

Our IT and Business Services delivered 4.7% constant currency growth sequentially. Cloud is a very important theme, which is driving a lot of growth in the IT and Business Services. Cloud in two shapes:

One is a re-host and re-platform, which is predominantly moving existing workloads to cloud.

The second aspect is, it's again a part of the migration to cloud journey, which is really modernizing applications and data.

The third element is building more innovations once you are in a cloud platform. We participate in all the three areas in a very strong way, and this is continuing to drive good acceleration in this business.

Overall, our Services Business grew a 5.3% sequentially, on top of the 5.2% in the previous quarter. If you look at our Services Business beyond the numbers, there are a few trends that stand out and worth talking about:

One, we are seeing relatively smaller but faster deal cycles in the digital business, which is reflective of the quick win for the clients are looking for, especially in the front-office transformation, especially in industries which were not very quick in adopting digital transformation in the last three/four years, they're really accelerating that journey. Then there are opportunities are also opening up as clients are facing talent supply gaps within their own organizations, leading to extension of outsourcing deals with newer scopes, particularly in the digital deals. For example, we entered into an engagement with the leading Swiss based financial technology firm, to help their global client base, meet their digital transformation and cryptocurrency adoption needs.

The second trend that we have seen is, we are seeing a lot of momentum in our Engineering and R&D business led by IoT and industry 4.0 semiconductors and telecom sector transformation. For example, our leading US-based telecoms service providers signed the deal with HCL for network quality engineering to enhance customer experience, reduce cycle times and optimize their cost structures. We continue to see this as a business that will play a significant part in our medium-term growth. We continue to look for companies that can add to our Engineering and R&D Services capabilities and the growth story.

As you would have seen we have just announced the acquisition of Starschema, our leading provider of data engineering services based in Hungary. Starschema provides consulting technology in manage services fashion in data engineering to some of the large G2000 companies. The acquisition combined Starcshema's high value capabilities and the data focused expertise with HCL's existing presence in industry segments undergoing data driven transformation. In addition, HCL will strengthen its position in data engineering, which is an integral part of the company's digital transformation and engineering capabilities and the next generation offerings.

The third aspect is cloud. Cloud has become one of our key catalyst across segments representing dominant winning outcomes. For example, a US-based global life sciences company chose us for large cloud transformation engagement through our HCL Smart OPS solution.

Underpinned by our differentiated ecosystem partnerships with all the top hyperscalers, we've been able to penetrate into new accounts across sectors with our cloud offerings. This quarter we expanded our capabilities in this area by scaling our AWS business unit significantly. We also building deep domain and sectorial capabilities on the cloud smart offerings. This quarter alone, we saw that cloud smart team launched more than 40 new solutions.

Coming to our Products and Platform Business, came back very strongly with a constant currency revenue growth of 24.5% sequentially and 8.2% year-on-year. From a revenue perspective when all the products did well, we had some excellent growth in Commerce, digital experience, which is HCL DX, marketing with HCL Unica and security offerings which had some very good wins during the quarter.

Despite the pandemic representing a challenge, as clients are diligently making consolidated platform investments, we are noticing a consistent growth in companies partnering with HCL software, as a very reliable and a client friendly enterprise software product partner of choice to help accelerate their digital transformation. The Products and Platform team delivered 1,500 plus product releases since its inception. It enjoys an inspiring net promoter score of 70 plus and that too with a massive base of 15,000 plus clients. This is a Testament to the solid product performance, product innovation and the support reliability we continuously deliver to our clients. Our product business is now close to $1.5 billion.

Today HCL software is well-positioned as a reliable and client friendly partner for iconic brands and large global corporations to leverage our products in their digital transformation journey.

In terms of geographies, Europe led the growth by 9.1% sequentially, followed by Americas at 7.3% and ROW at 4.5%. All our verticals showed a high growth momentum from mid-single digit to high teens growth rates. Leading the pack was technology and services segment which posted 14% sequential growth followed by retail, CPG and telecom and media, both of which grew double digits sequentially. All our verticals grew in double-digits year-on-year with life sciences and healthcare leading the pack with a 21% year-on-year growth. We continue to see healthy growth in geographies that we had called out as focus in new frontier countries. Our investments in these markets are continuing and are getting into a complete structure with the right sized sales, sales support, and delivery organizations locally.

Coming to the subject of talent:

At HCL while we continue to onboard experience domain and tech specialists, our strategy continues to lean more towards adding net new talent at scale through the fresh talent coming out of colleges and schools. Last quarter our net addition was 10,143 people. Helping us on this mission, our programs which have deep roots already because we started on the talent journey much ahead of the demand cycle. Initiatives like TechBees, New Vistas, global apprenticeship programs and up-skilling and re-skilling programs along with our value proposition for our employees continues to position us very strongly for the future. We are in line to achieve a 20,000 campus hires target for this fiscal, having added more than 15,000 year-to-date. This has been made possible by a robust enablement process created for the campus to company lifecycle and a strong brand that attracts college graduates to build their careers with HCL. We intend to double our fresher hiring in the coming year induced by the good demand environment that we are seeing all around. Our campus hiring program in some of our largest markets like US are also accelerating with plans to hire over 2000 graduates in the next two to three years. We also had a reasonable attrition number. It is 19% on an LTM basis. It is higher than what it was in the last quarter, but we expect this to continue for some more time before it moderates. Our LTM attrition numbers may go up before it will be moderating.

In addition to all the recognitions that we have received in the global press over the last couple of years, like Top 30 Global Employers, also the Top Ranked Professional Services Firm Globally by Forbes. Recently Avasant and Everest, both published their reports where they have named HCL Technologies as a leader in Talent Readiness and Digital Talent Capabilities. We continue to accelerate our New Vistas program which is designed to establish innovation and delivery centers in emerging cities across the world. We have also seen an increase of 20% in our New Vistas head count in India while countries like Sri Lanka, Vietnam, Costa Rica, Romania continue to expand in scale. We also opened a new center in Hartford, Connecticut in the US this quarter. This facility serves our flagship clients, Stanley Black & Decker, as well as several others in the Northeast US and will expand to support clients across industries including manufacturing, aerospace, and defense insurance, life sciences and healthcare supported by a smart manufacturing lab.

Let me also cover another important topic on ESG before I move on to the outlook. Guided by our mission of enabling harmony between people, planet, and prosperity, we as a company have announced a pledge to limit our greenhouse gases emission aligned to our 1.5 degrees pathway by 2030 and to reach net zero by 2040. This is our big step forward on contributing towards global effort on combating climate change and one that we will keep all of you posted as we progress.

Looking ahead, we remain optimistic about the demand environment and also feel very confident of our propositions and their client relevance as well as our talent supply capabilities. So, looking ahead Q4 is a seasonally weak quarter for our P&P business. We had earlier guided for a zero to 1% growth. We stay with that growth. So, you will see the numbers in line with zero to 1% growth for the P&P segment. On the services side, we have grown 5.2% in Q2, 5.3% in Q3. We continue to see strong momentum in our engineering and R&D services in IT and business services. Our ramp ups continue to be over 10,000 people every quarter. So, we remain positive about the growth on the services side as well in the Quarter 4.

So, overall, we remain very enthusiastic and very buoyant about the market opportunity while remaining a little cautious on the new versions of the pandemic for which our global BCP and HR systems remain on standby, and they are well-prepared to address any escalating challenges.

With that I wish you all a great year ahead and I will hand it over to Prateek to provide more color on the numbers. Over to you Prateek.

Prateek Aggarwal: Thank you, CVK and good evening, good morning, good afternoon to wherever in the world you are. And also, a very happy new year, happy Pongal, happy Makar Sankranti, and happy Bihu to all the people who are celebrating the festival season. It is a new year in many ways.

Going on to the numbers, giving you some more details. Services growth has again given a 5%+ sequential growth for the second quarter running. This quarter is 5.3% which is on the back of 5.2% last quarter and on a year-on-year basis it is a 16% year-on-year constant currency growth. P&P segment delivered a very strong 25% growth on a sequential basis in constant currency using the seasonal tailwind and recouping the last quarter miss. On a year-on-year basis in constant currency the growth has come in at 8.2%.

To give you a quick overall company overview, the company revenues stood at $2977.5 million, almost close to $3 billion. 6.7% in US Dollar terms sequentially and 13.8% on the year. And in constant currency was 7.6 QoQ , 15.0 YoY. You would have seen all that. The other number to look at is EBITDA. In US GAAP, EBITDA is 23.4%. But the more comparable number which is IFR is comparable Ind AS published EBITDA is 24.2%, that is the difference in the GAAP about 80 basis points. That's the more comparable number. Q3 EBIT is at 19% which is basically flattish versus last quarter. It is 5 basis points up. On a year-on-year basis it is 3.9% down. Our net income for the quarter was 15.4% of revenue coming in at 3,442 crores. There is an asterisk that we put there to explain the last December quarter there was a one timer benefit that we had on the tax expense line which was a significant $59.4 million due to a reversal of prior year provision. If you exclude that the profit after tax for this quarter is down about 4.7% year-on-year in dollar terms. In Rupee terms it is down about 2.9% year-on-year which is basically coming from the EBITDA and EBIT lines.

The key metrics for the quarter, the deal wins $2135 million TCV. Towards the end of this commentary, I will walk through some more details about how we categorize and qualify and mention the TCV, we will give you some more details around that. This 2,135 million on a year-on-year growth basis is 64% which comes on the back of 37% and 38% growth in the previous two quarters. This is further backed by strong net hiring in this quarter of (+10,000) employees and in the last three quarters that brings the total up to almost 29,000 employees and third-party contractors are on top of that number. Better account mining has resulted into addition of one customer sequentially in the +50 million+ category and 11 on a year-on-year basis. So, that's a very healthy large client growth as you can imagine.

Just a quick word on the effective tax rate. For this quarter it is about 22.5 and for the full year given that we have three quarters actuals, we expect to land up in a narrow range of 21.5% to 22% expected tax rate for this fiscal year.

Margin walk is something important to discuss and I'll put it a little simply so that it's easy to understand. The overall margin at company level has remained flattish like I said at 19%. The services margin however, has dropped by 190 basis points from about 18.9% last quarter to 17% this quarter. P&P margins have obviously offset that and that solid revenue performance except for the higher amortization cost, which is linked to the revenue, the rest of it is pretty much flown down to the EBIT level. So, I will give you the services margin walk rather than going in for the total company margin walk. So, 190 basis points is what I am basically explaining here. There are six factors that I am going to call out. Number one is we gave the second phase of the salary increments this quarter. That took away 80 basis points from this quarter's EBIT. The second factor was the seasonal leaves, that is an impact of about 65 basis points. And this is basically a seasonal impact which should hopefully come back next quarter because it is related to the Christmas break and the Diwali holidays and the Thanksgiving holidays and so on and so forth. The third factor is we had a bunch of new customers where we are ramping up and there is knowledge transfer cost that we had to incur which was not payable by the customer and we had to take that hit and a few other investments that we had called out at the beginning of the year. So, the total of that was about 40 basis points.

The fourth aspect was basically the retention and attrition cost, targeted retention for the people who are with us, higher backfill for the people, backfill costs for the people who leave us. higher bonuses to be paid. higher recruitment costs and all of that. That is the supply side issues that the whole industry is facing which we are also going through. That factor alone amounts to about 85 basis points on the quarter. So, these were the four main hits that we had to which were headwinds during the quarter.

The last two factors were really the positives. We got 60 basis points positive impact from operating leverage basically, from the SG&A expense, and D&A (depreciation and amortization), so that was a positive 60 basis points and exchange also helped to the extent of about 20 basis points. That is how the 190-basis points reduction in the services business breaks down.

The guidance remained at double-digit. I know some of you have questioned about double digit, double digit does not mean any specific number. It is a range which obviously is a wide range. But double digit is what we have maintained right from the beginning and that's what we are maintaining on the top line.

On the margin guidance, most of the factors stated above in the margin box will remain there for some time and are expected to recover in the next fiscal. The only the seasonal lease impact of 65 basis points is what is expected to come back in the next quarter. The rest will probably take some time. And therefore, the full-year EBIT margin is now expected to be around the lower end of our guidance of 19% given earlier.

Having said so, I must also point out that given the growth momentum in the market which we are obviously chasing and the supply chain challenges that we are wading through, if require, we won't be hesitant in investing or spending extra even if that means we might have to come in 10 or 20 basis points lower than the 19% mark. I just want to say that so that the expectations are clear going forward.

Moving on to the cash generation and cash conversion:

OCF was $584 million, $130 million more than last quarter, so was free cash flow, healthy $520 million. Being the OCF 128% of net income and free cash flow was 114% of the net income. On the last 12-month basis for the calendar year, OCF $1.95 bn, close to $2 billion being 117% of net income and the free cash flow is at 1.7 billion which is 102% of net income. Our balance sheet remains strong with gross cash of $2.7 billion and net of $2.14 bn. And you should remember this is after three significant cash payouts that we had during the quarter. First of all, there was the additional dividend we paid out Rs. 10 per share versus the old Rs. 6 that we had been following before. So, that took away a $146 million extra dividend payout during the quarter. The second was we paid for the 19.6% remaining stake of Actian and there was a 100 million that we spent on purchasing that. The third aspect was pursuant to the RSU plan. The ESOP trust purchased back from the secondary market, treasury shares of roughly $95 million. All this put together is $341 million and the gross and cash net position is virtually the same as last quarter, just 30 million lower after having spent this $340 million extra.

Just a few other updates; the last 12 months diluted EPS is at 47.5. This is after leaving out the milestone bonus which was a one-timer which we had paid in January of last year. The dividend declared for this quarter continues to be at Rs. 10 per share being the 76 consecutive quarter of or dividend payout. As already mentioned, 5.5 million shares (55 lakh shares) were bought through the stock exchanges, 495 million on 24th of December for the purpose of the implementation of the RSU plan. As already CVK mentioned, we have announced the acquisition of a new company called Starschema which is a Hungarian company, limited liability company. We would be paying for the $42.5 million for that acquisition which is in the data engineering space and also helps us set up, accelerate Eastern European or near shore presence in the right areas of data engineering and digital engineering which are all moved to services. This transaction is expected to close by March and that's the sum and substance of the update I have for you today.

Thank you very much. Operator back to you.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Mukul Garg from Motilal Oswal.

Mukul Garg: I had two questions from my side. One each for CVK and Prateek. CVK, if you look at the PnP business, if you can just help us understand the growth profile during this quarter. There was some slippage last quarter. How much of the growth was because of that? What portion is due to the increased sell-through you are seeing at new clients. If you can also help give some sense of how to see 2022 for the vertical, especially given that like you don't have a leadership at place right now. The second question for Prateek, two-part question Prateek on the margin side. If you look at the IT services vertical, the margin dip was a bit unusual given that historically you have been able to absorb the wage hikes. Given the supply challenges what levers do you have to return to the 19% type of margins for IT services vertical and are the margins for PnP seasonal or do we expect them to stay around 30%-31% levels?

C. Vijaykumar: Thank you Mukul. Let me address your first part of the question. This is on the PnP growth. Yes, we called out close to $20 million of deals which slipped in the last quarter, so most of it came in this quarter but of course. That was one important incremental revenue. But even outside that we had a pretty good growth this quarter for the PnP business. It's been led by a lot of new wins. Many of them we worked through last year and build strong value propositions, proof of concepts and usually they get concluded in December. So, that's what happened. We were very happy and we came in a little better than we expected. Now in terms of the growth profile, I've always said that this is a very strong business in terms of the stickiness of the clients and the quality of the products that we have. There is tremendous amount of innovation that we have done on these products. Many of them are finding very good acceptance, like the newer versions that we launched in DevOps and the newer versions that we launched in some of the containerized version of the products. They have seen some good traction in this quarter. Some of them are still small in their base but they offer a pretty strong growth potential in the future. We have to interpret that in terms of two dimensions, one of the renewal and other one is a new license growth. I think we have a good grip on the renewal rates and we will start disclosing the renewal rates starting the next fiscal. We will also overlay it with the new license and maybe we intend to also provide you a group of four or five product teams around which the revenues built up which will give you a good perspective to create a good growth model. At this point I'm not giving any commentary on FY23. And leadership, we have a strong leadership. The team had a good leadership within the team and we have an interim leadership who are running and executing very well. We will have a new leadership structure in the next few months. I don't see that impacting growth because we have some interim model in place and it's taking a little more time from some of the other leaders to manage it but we're not going to let that suffer, let the growth suffer due to that aspect. And Prateek over to you for the second question.

Mukul Garg: Before Prateek, just a clarification, are the growth challenges which we saw last quarter which was due to bring your guidance drawn to 0% to 1% behind us or we are still facing them?

C. Vijaykumar: Mukul, there was very one important aspect of this business is, there was close to 50% of new license sales for the quarter happens on the last week of the quarter. That is the nature of the business. I think it's true for a lot of companies which sell software licenses and they have a perpetual licensing model. I think this is the nature of the business. So, that can swing either way. For example, this 50% new license in the last week can I have 10% to 15% impact on our overall revenue for the quarter. So, 5% growth quarter could become (-10%) growth quarter but they will come back because it's just a matter of timing. There's this one aspect we have to keep in mind based on the experience that we had in the last quarter. We have analyzed the data over several quarters and this kind of fluctuations can happen in this business. Right now, I'll stay with the 0% to 1% growth that we had guided for and I'm not changing anything at this point. But next year we'll give you more data points to help you create the right model for this business.

Prateek Aggarwal: So, Mukul you had two-part question for me, the first part being on the ITBS business where obviously the margin drop has been the highest and you're right, typically the absolute volume of the wage hike, we have typically been able to absorb over a period of one or two quarters after the hike. But this year obviously it's a very different supply situation out there and therefore it's not like normal year. To your question about levers going forward. Obviously, we would like to return to those 19ish kind of margins like we had last quarter but it would take time; like I said earlier and there are various levers. Obviously automation and other productivity measures are the biggest levers. But at this point in time particularly for the higher end work and the work which is usually given out as T&M rate card, this is we are approaching our customers to get some higher rates for the services that we provide. Over a period of time the new geographies, the seven new geographies which we have started and the five focused geographies show that some point going into the next fiscal year start giving us some return on that investment and this year has been, as we called out right at the beginning, this year has been a year of investments and that should start yielding results hopefully in the next fiscal. Like I explained by going through the margin walk, some of the things like seasonal 65 bps that should come back next quarter. There some other things like new customer ramp up and those kinds of things typically for those customers will come back next quarter. But given the growth phase that we are going through, there will be I am quite sure, there will be some other customers for which we might have to incur that kind of a startup ramp up cost. The growth that we are chasing and getting has its own cost and these are some of those costs which are exacerbated at this point in time because of the supply side situation that we have as an industry. So, that combination is what is affecting the margins a little bit. P&P margins, no you should not assume the 32% will continue because realistically, you should look at the last 12 months and that is the right expectation to set going forward as well. This quarter is obviously, there is a much higher revenue which is most of it is flowing down through the EBIT and EBITDA which I pointed out while I was giving my commentary. So, definitely don't take this quarter's EBIT percentage as the benchmark going forward.

C. Vijaykumar: Prateek, just one more thing I want to add is the whole lever of freshers. As I mentioned earlier, we intend to double the fresher intake in FY23. That while it creates a cost bump for some time, it should eventually help us to increase the percentage of freshers versus laterals in the gross hiring numbers. So, there could also be a margin lever.

Moderator: The next question is from the line of Ankur Rudra from JP Morgan.

Ankur Rudra: First question CVK, clearly, we seem to be in a very strong demand environment and appears to be a market dominated by smaller deals. How is HCL positioning its sales funnel to capture more of these types of deals versus historical abilities? Are you making any changes to your medium to long-term strategy to maintain this growth momentum going ahead?

C. Vijayakumar: I think that the pipeline has a good mix of large and small deals. Though the skew towards smaller deals is a little higher. Basically, there are two traditionally, our engineering and R&D services had a very large number of small deals which really contributed to the growth. There I think the trend is continuing and if there's nothing changing and the team is well-equipped to deal with it and lot of IT services had several large deals. We still have several of them in the pipeline but the volume of small deals has gone up and that's being handled by augmenting our client partner teams significantly; including some amount of the COEs and the solutioning teams, getting dedicated to several accounts to kind of ensure that the solution and all of that are done in a nice way for our clients. It's really rebalancing some amount of centers of excellence and delivery and client partner teams to really handle the volume. I think the large deal momentum; I think it's still intact maybe you don't have billion-dollar deals or $500 million deals but there are several $100-200-300 million deals in the pipeline which are either the large product outsourcing deals or end-to-end integrated infrastructure and application outsourcing deals. The flavor is still existing and it's definitely not that it's all only small deals.

Ankur Rudra: How do you feel about, we have obviously had very impressive deal TCV numbers for the last four quarters but it seemed like it took us a while to see the growth pick up. From where you are right now? What's the confidence of maintaining this momentum going forward across your services business units?

C. Vijayakumar: The best leading indicators are the TCV win and the net hiring that we are doing. I think as you have seen the trend and that's reflecting like we've grown about 5% in headcount in the last three quarters and our revenues is also growing in that range in the last two quarters. I see that to be the right indicator as long as, there is growth in the total TCV that we are winning. So, overall positive and it's one of the best demand environments that we've seen and the lot of programs we have been doing, a lot of stress testing to see the longevity at the demand and we feel pretty comfortable, a lot of this work is going to be around for at least a couple of years.

Moderator: The next question is from the line of Sandeep Shah from Equirus Securities.

Sandeep Shah: CVK, few quarters back you made a comment that FY23 could be better than FY22. Can you throw some color in terms of where are we standing? Both for services business as well as products platform, you said we may return. Because this is a year of investment in FY22 we may return a growth to mid-single digit to high-single digit growth in the products in FY22?

C. Vijayakumar: Yes, Sandeep yes. Let me first address the P&P. Yes, this was a year where we scaled up our sales teams and that showing very impressively in the bookings that we could deliver in the most important quarter which is the OND quarter that went by. We expect some of those investments to start to delivering results even in the subsequent quarters and as the composition of mature products or declining products go down, I think the growth profile of this business fundamentally will change. We will provide you more metrics in the next quarter which will help you model it. In terms of overall FY23 versus FY22, when I talked about it our FY22 growth was at a certain level and now it's significantly higher. So, I cannot comment on it now. We have to do a detailed planning and the leading indicators are booking and headcount additions. That's what you should go by. If there is any more update, we'll let you know in the next quarterly results.

Sandeep Shah: And this question to Prateek. What I understood is this year we are seeing, we maybe 10 or 20 bps lower than the lower end of the guidance and EBIT level at 19%. So, that means we could be at 18.8-18.9 if required investments are there. So, in that scenario the fourth quarter margin could be actually lower by 50 to 100 bps on a Q-on-Q basis despite the tailwind of 65 bps you are seeing will come back in the fourth quarter. So, it would lead to almost like the 80 to 140 bps kind of a Q-on-Q dip in the fourth quarter margin, what would we lead this? What are the headwinds and the tailwinds and is it the ESOP cost which you are factoring as incremental headwind in the fourth quarter and going forward and some color on the ESOP cost for coming quarter as well as FY23-24 as a whole?

Prateek Aggarwal: First of all, I think you have to take the seasonality of PnP out and like I explained when I talked about the margin walk, the PnP business at the company level has given something like 170-175 basis points and that has offset the negative of 190 basis points on the services side. So, the benefit of that 173, not the entire 173 but a smaller number will be going into the next quarter. I don't remember what the margin for the March quarter in P&P last year was. But, this is a year-on-year business, the margin for next quarter will certainly not be 32%, like this quarter. So, the right way to look at next quarter is to look at the services business. And that is why I broke out the services 190 bps in that much detail, so that you understand that next quarter could be lower, we would certainly try to keep it at 19% and beyond. But, if the environment requires both on the demand side, as well as on the supply side, then I just wanted to clarify that our guidance, remains at 19% to 21%. And that is what I repeat, that is what we will certainly hope to achieve and target to achieve. But, we still have three months to go and if the situation warrants, and requires we could come down to that 18.9 or 18.8 on a full year basis. And you can do the math, whatever it means for the balance that's simple to calculate.

Sandeep Shah: And comment on the ESOP cost?

Prateek Aggarwal: ESOP there is no, like we had said when we went to the shareholders, very clearly that ESOP is something which is part of the LTI plan that we have, and we are just converting about roughly about 30% of that cash element, we are converting into these RSUs. So, ESOP is not something which is really an incremental cost per se, there could be some quarter-on-quarter swings, but that's not something which is really making a huge new thing.

Sandeep Shah: Okay. And sir last related question, you also made a comment Prateek that FY23 guidance band on margin of 19% to 21% can have an upward bias. So, is it what we try to indicate?

Prateek Aggarwal: I am sorry, are you talking about FY22 or FY 23 now?

Sandeep Shah: FY23, because in your comment you said that the guidance band of 19% to 21% for FY23 may have an upward bias because of the investments and the growth momentum we foresee, so FY23 could be a year of yielding results on the investment?

Prateek Aggarwal: So, we are definitely not giving any guidance for FY23 at this stage. We will come back one quarter later in April and give you the guidance for next quarter on whatever we decide to do at that point in time. But, what I said was more directional kind of a thing which basically, there is a reason why we are investing and it has a lead time and at the beginning of FY22 we did mention that this is an investment year. And we are investing at the right time because when the demand is there if you don't invest then, then when are you going to invest. So, we are investing at the right time and we certainly hope that we start getting the payback of those investments hopefully in FY23 but at this moment of time I'm not giving a guidance.

Moderator: The next question is from the line of Sandeep Agarwal from Edelweiss. Please go ahead.

Sandeep Agarwal: So, I have one small question if you see our business model it is slightly different than the other companies in the sector, other companies we compete with. I wanted to know where do you see like, I have generally seen that we have a long gestation period when we start winning the deals and when they convert into revenue. So, will it be fair to assume that after the kind of momentum we have seen in this quarter, we are broadly starting to see the momentum from here on. The reason I'm asking you this question is because, we have seen in the past that once our momentum starts we start doing extremely well. And our growth picks up very substantially and the first eight, nine months of lag impact, the lower growth actually gets heavily compensated in the coming quarter. So, do you feel that trend for us going forward or you think the growth will be volatile and that the past may not be true for the future how is the way you will put it. Thanks, that's all from my side.

C. Vijayakumar: Sandeep, of course the booking is the best indicator. But within the booking, there can be two types of deals one are the large infrastructure outsourcing type of deals. Then the other one would be your cloud transformation and digital and application modernization, a lot of product development and sustenance type of opportunities. The first category generally takes longer to realize revenue, because of the transition and some of the data center migrations and things like that. The second category all the three or four things that I called out; the conversion happens relatively faster. Now, the mix of this will determine the speed at which the new conversion happens. And given the commentary that we already said, the smaller deals are more, you should see a slightly better conversion speed compared to what you saw in the past, then the rest has to be extrapolated based on the net new TCV that we announce every quarter.

Moderator: Thank you. The next question is from the line of Mihir Manohar from Carnelian Asset Management. Please go ahead.

Mihir Manohar: You talked about your partnership with the hyperscalers, if you could throw some more light on that and how should we see that partnership and what kind of revenue could come in from that?

C. Vijayakumar: Thank you. We were one of the first in the industry to build hyperscalers specific business units, we were pretty much the first ASI to build Google Cloud ecosystem unit, Microsoft, AWS, and even other large ecosystem providers. Whether it is SAP, whether it is IBM, Dell, Cisco, we have dedicated units. The focus on an ecosystem as a big enabler for all other segments is very high within HCL. This is led by our CTO, Kalyan Kumar, who leads the cloud and ecosystem units. And we go to market with them they take us to a lot of clients. Of course, a lot of these opportunities come as a small stream of work. But depending on the quality of execution, they continue to stay and ramp up. So, we see this as a good enabler for our growth. And we've been investing in it for the last three, four years now we have very strong ecosystem partnerships across hyperscalers and other tech OEMs.

Mihir Manohar: Sure. My understanding, is that mostly cloud adoption, this IMS has emerged as a strong opportunity, right?

C. Vijayakumar: Absolutely. I have always said that cloud is a tailwind for the infrastructure business and not headwind. That's the broad theme. And we are continuing to invest and continuing to, there is a lot more emphasis on building scale, the cloud delivery capabilities because these cloud migrations, as it picks up speed, it really needs to be in a factory model and we're continuing to build hyperscalers specific migration and managed services factories to scale it and we see that there were great tailwinds for others.

Mihir Manohar: Understood, sure. And just last question from my side. So, there are some talks in the media regarding the employee bonus. There's drawback on the bonus side for some of the relieving employees, if you could clarify and what can be margin impact because of that?

C. Vijayakumar: It's very insignificant and this was really, it was misunderstood, the annual bonus which should have been paid at the end of the year based on performance. It was a good employee that we practice where we paid them in advance every month. So, this was there for a small set of employees and we have taken some corrective steps as well because in this environment we want to be absolutely sure that we're doing everything to support, our existing employees and our former employees. I don't see any impact to our, there's nothing meaningful to really call it out as an impact.

Moderator: Thank you. The next question is from the line of Surendra Goyal from Citigroup. Please go ahead.

Surendra Goyal: So, just a couple of questions. Firstly, your comment on P&P full year guidance, seems to imply a significantly bigger than the usual season decline that one would expect in the March quarter. Are you just being conservative given the inherent volatility or quarterly volatility in this business or is there any other reason for it? And secondly, one for Prateek on the seasonal leave impact point, was there something particular this year or maybe a bigger than usual impact this year because I'm not sure if you have really called this out in the past. Thanks.

C. Vijayakumar: Yes, Surendra Happy New Year, and thank you for your question. P&P, as called out there is a lot that happens in the last week of the quarter. So, we guided for 0% to 1%, so we will stay with that. It all depends on how the quarter progresses and what really gets converted in the last week of the quarter that can make a difference either way. So, we've just taken that into account to stay with the credit range and Prateek if you could answer the question on seasonality.

Prateek Aggarwal: Before I answer that, I will just add that, we had publicly said about the end of the DXE relationship on the Hogan product. So, that's one more thing which is affecting the P&P revenues. And that was one reason why we reduced our guidance from the earlier guidance to 0% to 1%. So, that's one more aspect. Now coming to the leave part, Surendra you're right, it's not usually different from what happens in the December quarter in other years, but other years we don't have the supply side situation like we have in this year. And that is why it has not been easy to sort of absorb it amongst, 10 or 20 things that are happening. So, that's the reason and even increments like I mentioned earlier, somebody asked that question, increments also we have been able to absorb over a couple of quarters, three quarters, but this year is different. It's just a very different supply side situation that we are all facing.

Moderator: Thank you. The next question is from the line of Kawaljeet Saluja from Kotak. Please go ahead.

Kawaljeet Saluja: Congratulations on a good revenue growth, but I guess the question will not be on revenue, but on margins if you see area of focus for everyone. So, Prateek you did mention that, in response to one of the participant question that growth has a cost. So, when you're referring to growth has cost, were you referring to pricing or some new found aggression or was it related to largely condition cost?

Prateek Aggarwal: No, I was referring not to pricing. Pricing, in fact as I mentioned, is one of the levers we are looking to absorb the cost increases. What I was referring to is knowledge transfer and ramp up cost for a lot of the new customers that we've won in the last three or four quarters, those ramp ups are something which in today's day and age they don't get paid upfront or even over period, it takes a long period to sort of recover those costs, but you have to bear them upfront and that is the lumping cost that I was referring to.

Kawaljeet Saluja: Yes, but Prateek on the transaction you hardly had any mega deals in the last two years and most of the deals which you alluded to are $100 to $300 million, or even lower than that there shouldn't be transaction cost be absorb in the normal course rather than calling it out separately?

Prateek Aggarwal: Kawal, I'll just say that, we have not seen this 5% on a sequential basis, that also continuous quarters running for quite some time like CVK called out, it is after 47 quarters 12 odd years that we are seeing 7.6% kind of growth. So, that is what is basically making it a little difficult to bear these cost. Not difficult in the sense, that is affecting margins which we all believe is cost to be borne in the short or medium term and over a longer period of term, we will definitely like to come back to our usual range of 19 to 21 kind of thing, which has not been possible in this quarter, it may take maybe one or two quarters or maybe even three quarters to come back to that kind of a level which we would obviously aspire to, work towards, target, but can't commit to at this point in time.

Moderator: Thank you. The next question is from the line of Dipak Saha from Savart. Please go ahead.

Deepak Shah: My question is regarding; it was mentioned that we are going to change the employee structure currently we have very low segment in fresher's. So, how are we exactly planning going ahead that currently compared to the existing employees, we do not have that kind of fresher's but we are gradually ramping up, so how is this going to benefit us in terms of basis points that we are considering for the overall margins in terms of EBITDA margins in the previous that would come ahead. Thanks.

C. Vijayakumar: Sorry, I don't think I fully understood your question.

Deepak Shah: So, what I'm basically saying, as we are saying retention and higher recruitment has kindly costed 80 basis points for the 190-basis points margin fall in this particular quarter in the service segment, and we are planning for going ahead to increase the overall fresher's that is currently not available in the employee structure. So, how is that going to benefit and to what extent we can see that, that would expand the margins, or at least minimize the fall that we have recently recorded?

C. Vijayakumar: Yes, so it's difficult to kind of model it on this call, but the broad parameters that I can give you is, when we hire fresher's they can become billable as early as four months to in some areas it takes over nine months. So, you should take an average of six months of cost for fresher's before they become billable. And when we double it there is going to be an increase in cost, but it will eventually reduce the direct costs in the projects. So, that's the broad model. And just to kind of, since there have been a lot of questions on margins. Fundamentally, the industry cost structures are changing, we can have the fresher lever for some more time. But fundamental cost structures are changing and I don't think it's going to normalize anytime soon. So, the most sustainable lever that we believe which will help us will be to really get rate increases, and we are already we increased our price list, all the new bids go in at a much higher price. We have approached all our clients. So, clients are also responding quite positively. And that's where our maximum focus from a margin improvement for sustainability perspective, and we will continue to incur all these costs, whether it is fresher's, and transition or some additional training, recruitment. These are going to be there for some few quarters I don't see it going away and we are constantly now focused on how to give better rates. That's what the industry is doing across the board.

Moderator: Thank you. The next question is from the line of Abhishek Shindadkar from InCred Capital. Please go ahead.

Abhishek Shindadkar: I just have one question on the purchase of property and equipment and tangible, the 63 million payment in the cash flow can you just elaborate on that item and would that have any bearing on the growth of products business in this quarter. Thank you for taking my question.

C. Vijayakumar: Thanks Abhishek. That is the normal run rate we have Abhishek across most quarters because of the region of $60 to $65 million. Typically, most of that tends to be IT equipment either laptops, servers, or those kind of things. Sometimes it has some component of facilities, but that has not been a large component in the last few quarters. But it is typical normal CAPEX it does not include any intellectual property purchase, or acquisition or anything like that.

Moderator: Thank you. The next question is from the line of Diviya Nagarajan from UBS. Please go ahead.

Diviya Nagarajan: Most of my questions have actually been answered. So, I'm going to ask one, CVK, we have seen these ups and downs from the software side, and your earlier commentary for this is that we still could be looking at inter quarter volatility in this business going forward that makes it more difficult to kind of comment on what your revenue growth could be like for next year. Given what you know about this business right now, how would you reassess strategy and plan for more stability in this business? How would you kind of go about, as in some modicum of stability or less volatility in the software business than what we are doing now?

C. Vijayakumar: Diviya great question, the fundamental nature of this business, it has a lot of perpetual licenses that's the model which is prevalent for these products and with these clients. So, changing them to some kind of subscription and term license will be one way to make the product business more predictable and that's a long journey. And we've seen some very good success even in the last two years, converting a lot of clients from perpetual to subscription-based revenue model, especially when we are upgrading the products and we are containerizing them, putting them as a overall end to end service. They become more predictable and more annuity type of revenue. However, like in all other software product businesses, this business model transformation is a long journey. And we are going to give you some right metrics to track, we will probably be able to give that to you in the next quarter. And you will be able to track how we are doing and there will be one component of the revenue, which will see a lot of stability and incremental growth and that will be the subscription revenue. So, once we break it up, you'll have better clarity. That's all I can share at this point Diviya.

Moderator: Thank you. The next question is follow up questions from the line of Surendra Goyal from Citigroup. Please go ahead.

Surendra Goyal: Just wanted to clarify something, such strong services growth and fairly sharp margin compression sequentially. Just wanted to confirm that there was no pass-through components which helps growth but impacts margins or anything like that which kind of creates an impact in the following quarter in terms of growth, et cetera.

C. Vijayakumar: Nothing unusual. Usually there is some material revenue that is there every quarter, but nothing unusual in this quarter.

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

C. Vijayakumar: Thank you, everyone for joining us today. And for the confidence you have placed in HCL over the last several years and quarters. I would like to also try and call investors who trusted us with their investments. As they look into the horizon, digital technology will continue to play a very big role in improving human life while making the climate sustainable, and hits in a well-positioned to innovate and partner with a global clients across industries who are making it all happen. Talk to you again during our Q4 FY22 Earnings Call. Thank you and have a great weekend.

Moderator: Thank you very much members of the management. Ladies and gentlemen on behalf of HCL Technologies Limited that concludes this conference. Thank you all for joining us and you may now disconnect your lines.