"HCL Technologies Limited Q3 FY'19 Earnings Conference Call"

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Moderator: Good day, ladies and gentlemen, and a very warm welcome to the HCL Technologies Limited Q3 FY'19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I am now glad to hand the conference over to Mr. C. Vijayakumar - President and CEO of HCL Technologies Limited. Thank you. And over to you, sir.

C Vijayakumar: Good evening and good morning to all of you. Welcome to our commentary on our Third Quarter Performance of Fiscal 2019. Today, I am joined by our CFO -- Prateek Aggarwal; our CHRO -- Apparao; Darren Oberst, who heads our P&P business; Kalyan Kumar, who is our CTO; and Rahul Singh, who heads our Financial Services.

Let me start with a quick update on last quarter's performance: As you would have seen, we delivered solid revenue growth of 5.6% quarter-on-quarter and 13% year-on-year and a consistently good margin performance of 19.6% which is within our guided range.

In terms of deals booked, this is the second quarter within the current fiscal where we recorded another new high, primarily driven by Financial Services, Technology and Services vertical and Manufacturing vertical. Our year-till-date booking in FY'19 is 40% more than the booking for the similar period in FY'18. We brought home about 17 transformational deals, reflecting a broad base of verticals, services and geographies, which will contribute to our future organic growth.

From Mode-1-2-3 perspective, Mode-1 grew 3.9%, Mode-2 grew by a whopping 13.1% and Mode-3 grew 6.2% in this quarter, sequentially in constant currency basis. Our Mode-2 business crossed a milestone of $1.5 billion run rate. Two years back, we were about $890 million. We have had a stellar cumulative annual growth rate of greater than 30% in our Mode-2 offerings. Our combined Mode-2 and Mode-3 revenues now constitute 29% of our revenues.

Before I get into a little more detail business commentary, I want to tell you how well HCL is prepared to address the healthy demand environment for technology services that we are seeing in the market today: Our investments over the last 10-years in establishing global delivery centers outside of India and being close to our clients, gives me a lot of confidence in our ability to service the accelerating demand. Today, we have 134 centers outside India and 61 centers with capacity of (+100) and some with 1000+. Of these 61 centers, 23 are in US, positioning us well to service the demand in our largest market. We also have one of the highest localization ratios in almost all geographies. This helps us address the fluctuating supply and demand scenarios that arise due to economic, geopolitical and other broader macro trends. We are also continuing to invest aggressively both in training our workforce on emerging technology and injecting fresh talent both in India and in delivery centers across the globe.

In Mode-1, our Infrastructure Services business delivered solid double-digit sequential growth of 10.4% quarter-on-quarter and 16.5% year-on-year. A pickup in growth in Infrastructure

business is in line with our expectations. The numbers reflect the view we have been sharing with you over the past few quarters.

Our Engineering and R&D Services business grew 5.1% QoQ and 17.4% year-on-year which is also a consistent and solid performance. The growth momentum was enabled by scaling up of some of the large transformational deals which have moved into execution phase.

I must call out a large deal we signed in Financial Services this quarter, which has a combination of Business Services and IT Services. As a part of this engagement, we have been selected to manage end-to-end reconciliation services as well as design and implement future state operating model to enhance process efficiency and provide superior client experience. RPA and process-led transformation are creating a differentiated positioning for us in integrated deals.

In Mode-2, our theme of investment and innovation continue to keep us ahead of the game. In our Digital and Analytics business, we continue to see strong acceleration, and that is reflected in the double-digit growth that we demonstrated in Mode-2. We are seeing significant increase in scale digital-led RFP and conversations and an increased demand for ASM and AD deals.

You would have read about our preferred services partnership with Broadcom signed early December. This deal will enable Broadcom's 600-plus enterprise customers to have preferred access to the HCL's technology expertise including our digital transformation, security, cloud and infrastructure portfolios.

We also signed a deal with one of the world's leading consumer product companies for Infrastructure Engineering Services, S/4HANA support, automation and migration of workloads to cloud, and leveraging the overall HCL's cloud management platform. We were selected by one of the top global consumer credit reporting agencies to provide technology-led integrated digital operations and application support for multiple business lines and a digital omni-channel ecosystem to provide superior client experience to their end customers.

On our Cloud Native business, as we pointed out earlier, Cloud is becoming a critical deal broker for us in both infra apps and integrated deals. We are working very closely with an ecosystem of partners representing hyper-scalers like Google, AWS and Microsoft, hybrid cloud enablers like VMware and IBM, and Cloud Native platforms like Pivotal and Red Hat.

We are also seeing the SaaS ecosystem evolving across our partnership with SAP Cloud, Microsoft Dynamics, O365, ServiceNow and Salesforce.

IoT works, along with core engineering, is helping us enter niche phases in industrial and manufacturing clients and continue to bring home many interesting and innovative deals.

In this quarter, we launched in partnership with Impinj, a new RFID-led IT asset tracking solution, that helps enterprises realize significant cost savings and operational efficiencies in tracking and managing their IT assets.

This quarter, we were also rated as a leader in the Forrester Global IoT Wave. This is the first time Forrester has done an assessment on IoT Services and we are happy that HCL is the only Indian origin service provider to be rated as a leader in this analysis.

Cyber Security is becoming a sweet spot in many of our transformational deals and helping us differentiate in our client to value propositions.

In Mode-3, our revenues grew 6.2% quarter-on-quarter in constant currency and for the fourth straight quarter, our products and platform build business released a set of HCL branded products. We are on a roll with our products business, further establishing HCL as a leading global technology company.

Our organic IPs are also continuing to move in the right direction as we incubate ideas across technology and vertical domain opportunities.

Also, the top headline in this business was a deal that we announced to acquire select IBM products for 1.8 billion. This transaction is expected to close by mid-2019 subject to regulatory approval. This and our other recent acquisitions have been well received by our market analysts, existing HCL clients and acquired future clients.

On the organic IP side, our DryICE portfolio focused on three core areas – Autonomics, Service Orchestration and Business Flow Monitoring – and is now being recognized as the AI foundation for our clients' enterprise solutions.

From vertical perspective, core verticals grew greater than 20% year-on-year. Energy, Utilities and Public Services posted a decent 8.1% year-on-year constant currency growth. FS and Manufacturing had a muted performance on a year-on-year basis, which is expected to reverse course and improve in 2019. FS witnessed, as we had pointed out earlier, couple of client-specific issues in Europe which we believe will settle down in 2019.

In terms of geographies, we have delivered a double-digit growth on year-on-year perspective across all geographies; even RoW has delivered a double-digit growth excluding India. So, all geographies are growing well, in line with the overall growth of the company. Big part of our growth in the US came from Life Sciences, Retail CPG, Telecom and Technology Services.

I also want to take a minute to talk about what we saw and shared with the global community at the World Economic Forum in Davos last week. We unveiled our theme of "HCL 2030" where HCL provides the platform together with our ecosystem of customers and partners to debate and create the future of business and society at the intersection of technology and humanity. I invite all of you to go through the information on our website and social channels to get a more in-depth perspective.

Overall, it has been a very satisfying performance. I am very confident that HCL has got a great mix of services and products that are well positioned to address the needs of the global

enterprises. As we move forward, we expect to deliver revenues for FY'19 around the high-end of our guidance of 9.5% to 11.5%.

With this broad commentary, I will request Prateek to provide a little more details on the financials for this quarter.

Prateek Aggarwal: Hi, good evening and good morning to all of you. I am not going to repeat what has already covered in the investor release that we did earlier today. I will focus on some of the key metrics like cash EPS, return on equity and return on invested capital. We believe these are very important numbers and I want to be clear with the definitions with all of you.

Starting with cash EPS, we have taken the net income, plus added back all the non-cash items in the P&L and reduced the deferred income taxes, the MAT that we pay here in India, the Minimum Alternate Tax. So, that is what has gone into the numerator of what we call cash EPS. The denominator is the number of diluted shares like in EPS, and that is how the Rs.82 per share has been calculated for the last 12-months which is basically calendar year 2018. Cash EPS of Rs.82 a share is an increase of 11.4% over the calendar year 2017 number, and that is the number we will keep talking about as we move forward. I think that is a very healthy number that we should keep track of.

The second metric, return on equity, is well understood I think, but for the purpose of completeness, the numerator is profit after tax, the net income number, and in the denominator, we have the total shareholder equity, and we are taking the last five quarter average to basically do that calculation for return on equity. We continue to have 25% plus return on equity over the last several quarters, and for the last 12-months, the number is at 25.1%.

The third metric I want to call out is return on invested capital and the formula we are using there is, the numerator is EBIT after tax. So, EBIT multiplied by 1 minus the effective tax rate and the numerator again on a last five-quarter average is equity plus long-term debt minus the treasury investments. So that is how the number of 28.7% is calculated, and that is a healthy close to 29% return on the capital that is invested in the business leaving out the treasury investments.

The other highlight I would like to call out right upfront is the $0.5 billion of EBITDA for the quarter which is $2 billion run rate EBITDA on an annualized run rate basis.

Quick color on margin movement on quarter-on-quarter basis. We were at 19.9%, we are at 19.6% this quarter. We did have a benefit of about 15 basis points this quarter based on the exchange rate movement across various currencies, and therefore, 45 basis points is really what we lost largely because of the scheduled and planned wage increases during the quarter, offset to some extent by the productivity that we generated during the quarter.

On the payout ratio, we continue to be at 50%+. As we have stated several times before, we continue to have capital allocation policy which talks about a payout ratio of 50%+ and including the buyback that we did at the beginning of October month, that adds up to about 52%.

The last thing is on the hedge book. We have a $2.1 billion hedge book, about half a billion of balance sheet hedges, close to $1.6 billion of cash flow hedges.

With that, operator, we can open the line for questions.

Moderator: Sure sir, thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Ankur Rudra from CLSA. Please go ahead.

Ankur Rudra: Maybe at the beginning of the year when you had set out for the guidance at 9.5% to 11.5%, I think at that time you had highlighted breakup between what you thought would have been organic growth and inorganic growth. Could you maybe elaborate based on your new target where is the breakup of organic and inorganic, how has it progressed from the beginning of the year to now… perhaps your organic growth is accelerating?

Prateek Aggarwal: Ankur, the guidance when we gave it right at the beginning of the financial year, we said if you take the midpoint of the guidance 10.5%, that was kind of evenly split between organic and inorganic. As the year has progressed, that inorganic portion has actually trended a little down more due to the timing factor practically speaking. So, if you were to just sort of round out rough edges, it would maybe be around some 5% kind of a number is what you are talking about inorganic. Since the revised guidance with three quarters under the belt is towards the higher end of the range, and if I was to sort of for number purposes, just say somewhere between 11% and 11.5%, the balance leaving out 5%, so 6% to 6.5% is therefore where the organic range would lie.

Ankur Rudra: Maybe, CVK, you could elaborate, you mentioned in your commentary that this is one of the strongest deal wins that you have seen so far, I think you had said this a few quarters ago as well, but sounds like there is more optimism on growth momentum given the performance this quarter and the guidance for next quarter. What has changed now versus the last time you saw very strong deal win?

C Vijayakumar: Ankur, this is the second time we are calling out that it is the highest booking in this fiscal and we had called out once in the last year as well. So, if you look at the last five quarters, we had three peaks and each of the peaks have been higher than the previous peak. So, it is a good enhancing curve that I can see in increasing bookings and it has been driven by performance across geographies and service lines. Of course, in this quarter, one large deal in Financial Services which is a combination of technology and business services is what has contributed to the peaking again on the booking side, and our pipeline also is at the highest, in spite of closures, we have built more new pipelines which is also helping us, when we look at the overall pipeline, qualified pipeline, it is again at the highest level. I do believe our booking performance and the growth in the next quarter would also be good based on all what has happened. Overall, I think

our mix of services, while we continue to invest and grow our Mode-2 services, we have not lost focus on our core Mode-1 and there is so much of opportunity to bring in more automation, to have a very differentiated end-to-end IT Services solution, and that is also generating a lot of interest and that is also reflected in the pickup in our core infrastructure business and our Engineering business is also doing well, a couple of quarters of very good growth. So, all of this is setting us up quite well to have a great year-end and obviously that forms a tailwind to FY'20. So, I think broad-based optimism really based on all the things that we are seeing on the ground in terms of how we are executing, our conversion ratios, and how well our proposition is received. What I am most excited about is 13% quarter-on-quarter growth in our Mode-2 services. Pretty much all of that is in the organic growth, which means we have added substantial revenues in the new services that we have launched and it is a combination of digital and…. Broadly, I think we are very optimistic due to several things in terms of our momentum in core services, momentum in our Mode-2 business. All of that is giving us optimism.

Ankur Rudra: I just had one follow-up in terms of clarification on your deal that you had highlighted in December, the acquisition of IBM software assets. IBM in their quarterly earnings last week highlighted that the software assets that were part of the deal booking revenues were $1.2 billion and I believe in December you had highlighted that your incremental revenue target was $650 million. Perhaps you could explain why such a big difference, what are we missing?

C Vijayakumar: I guess it will be a good question to IBM than us, but it could be due to number of factors, Ankur or maybe there is a good surprise waiting for us, we do not know. At this point what we believe we will deliver $625 million of incremental revenue. We really do not want to comment on what contributed to the number that was quoted in IBM's conversations at this point.

Moderator: Thank you. The next question is from the line of Srini Rao from Deutsche Bank. Please go ahead.

Srini Rao: I have two questions: First, just going back on the deals, a couple of them if you can highlight what is the state of integration? One is your Actian acquisition which you did some time back. So, has that been partly responsible for the IMS growth which you have mentioned? That would be helpful if you can talk about that. Secondly, for this quarter I believe you would have the H&D acquisition contributing to the numbers. So any feedback on how much that impact would be probably on quarter-on-quarter basis, that would be helpful? Finally, on the IBM acquisition, if you have any more feedback to share on, you had given us very detail color on how the various parts of the portfolio are working, is there anything that you think has changed or they are trending in line with what you were expecting when you took over the acquisition?

C Vijayakumar: Actian has zero contribution to the Infrastructure business. It is a product business. So, all of that revenues is consolidated in our Engineering Services and in our Mode-3 business. So almost all of the infrastructure business is driven by pickup in two or three big deals that we had announced, some big and some mid-sized deals. The H&D acquisition contributed to approximately 1% of our revenue growth this quarter, $21 million approximately, and half of that has gone into Infrastructure business, $11 million or something in that range has gone into Infrastructure business and the rest would be in a little bit in the apps and little bit in the Engineering business.

In terms of how these acquisitions are doing, like C3i, we almost finished three quarters, we are into the fourth quarter, the projections are pretty much on track, all the synergies that we have expected, we are in the process of integration, creating some level of optimization as well as some early signs of some access and synergies that will come out of our incremental access to life sciences and consumer services. Actually, the C3i acquisition offers one more unique opportunity. With the acquisition of Unica, which is a marketing automation product and the marketing operational services which C3i was delivering to several CPG customers, it has just made perfect sense to create an as-a-service offering for marketing automation and marketing-as-a-service. I think we will have some compelling case studies as we get into market for the overall marketing automation deal. So there is a nice set of synergies playing out there. Actian acquisition is very well on track. This is the first full quarter of Actian. We had closed it sometime in middle of August. So there is a little bit $5 million, $6 million incremental revenue this quarter from Actian and H&D has just begun, very early days, but it has given us a significant footprint in Germany and that should help us really scale our business in Germany. In terms of the IBM deal that we had announced, it is on track for closing mid of the year, June, July is the timeframe when we expect it to close and revenues will start flowing subsequently.

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

Divya Nagarajan: Two questions, CVK. You have spoken about how there has been a surprise on the organic revenue. Could you run us through what is really driving that surprise, how much of it is really the technology transformation demand in the market versus bottom up initiatives that you have put in? #2, Mode-2 as you pointed out is now trending very nicely in terms of revenue of about $1.5 billion. When should we expect margins to kind of start scaling up -- are we still in deep investment mode for Mode-2? We seem to have dropped about 10% margins there. So, just trying to understand what is the ramp up on margins on Mode-2 here?

C Vijayakumar: Mode-2 margins trying to look at quarter-on-quarter is a little difficult for us to predict because when we invest in POCs, we invest in skill additions. There are some areas where we have strong capabilities in like design thinking, customer experience, organizational change management. However, in some areas, in SaaS, we believe we need to continue to invest and create better capabilities and scale and also presence in some additional geographies. I think the investments would be more or less similar to what we have done in the past and you should see some increasing margins. But I would not really count on a quarter-on-quarter improvement, but I think FY'20 should deliver better margins in Mode-2 than the current margin levels. Talking about your question on what has helped pickup of the organic business, I think we traditionally had very strong presence in Infrastructure and Engineering Services. Infrastructure Services, I said was going to pick up in the first quarter because in 2017, we had some dip in booking and there was some softness and we were very clear that was going to impact us for some time, and it was quite visible that we will recover from the first quarter of FY'19 and that is why last quarter was good and this quarter has been a blockbuster quarter for Infrastructure business and we continue to feel positive in spite of this 10% quarter-on-quarter growth, the next quarter is also going to be good, which will give us very good exit run rate even in the Infrastructure

business and we will only continue to build on top of it. And, of course, Engineering Services, while again there is big deal momentum is somewhat patchy in Engineering Services, but a lot of technology companies are transforming some of their platforms and as we had mentioned in the earlier calls, ISVs converting their platforms into SaaS, Cloudification of some of the software products. All of that is creating good momentum across multiple customers. We are quite embedded in that vertical segment and we are really capitalizing on that to grow.

Divya Nagarajan: Just a follow-up question on how you are seeing the macro impact in customer conversations. Is there any impact that you have seen so far and what is your outlook for how spending is likely to hold up in 2019?

C Vijayakumar: So I think from a macro perspective, generally there is a lot of conversation around slowdown and in fact we have heard some customers talking about impact to their business due to slowdown in China and things like that. However, there is one theme which is very strongly coming across is they are not going to cut down on the digital transformation spend because a lot of them are seeing some early success in their digital initiatives and they strongly believe that they should continue their digital transformation spend. So I do believe most forward-looking enterprises are not going to cut down on digital spend in spite of some pressures in their business because they believe this is no longer discretionary spend and it is very critical for them to continue to evolve their business model. The second way to look at it is the overall outsourcing penetration is less than 50%. There are a lot of customers who have not outsourced in a big way and that is also true in the markets where we are playing. So, any slowdown will only kind of accelerate them towards looking at more efficient ways of delivering, run the business services. So, whichever way you look at it, I feel pretty confident whatever is the emerging macro situation, our mix of services and the differentiation we have in both the efficiency-led services and transformation-led services will help us weather the storm in either of the business situations.

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

Surendra Goel: CVK, just had a couple of questions. Firstly, on Financial Services, are these client-specific situations going to take some time or are we kind of done with the major part of the ramp downs?

C Vijayakumar: Surendra, I think we are close to the end of whatever ramp downs. I do believe FY'20 will be good and at least we do not expect the situation to continue into FY'20. However, I want to highlight that we have very good broad-based momentum in Financial Services outside of a couple of client-specific situations in Europe, and that's what is giving us confidence that the broadest trend and broadest success is very good and lot of customers are growing, but obviously some of these clients are large clients and it has a disproportionate impact to the overall revenues and I see that moderating as we get into '20.

Surendra Goel: Just one follow-up on the Engineering segment. So, if I take out some of the acquisitions and, again taking out some of the IP deals and I know you guys take IP deals as organic, but I am just trying to understand that this was a segment where there was always a belief that this could

outgrow the market. If I take all this out, to me it looks like a little light over the past few quarters. Is that understanding incorrect, any thoughts on that would be welcome?

C Vijayakumar: One trend in Engineering Services is we had some structured reductions over the last couple of years in some of the big deals that we had signed in 2015 and 2016. These were all years we had planned reductions that we had, which I think GH also had mentioned in one of the calls earlier. So in terms of getting new business and our ability to win, there is lots of work happening in technology transformation and we are definitely a participant in that and we are gaining from it. But, of course, some of that got offset by some structured reductions that we had in large deals which we did a few years back. I think some of that has also stabilized. So we should see a good momentum in the core engineering services as well moving forward.

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

Sandeep Agarwal: CVK, I have two questions, which part of them you have already answered. First, extending the question which was asked by the earlier participant, while you mentioned that probably you are at the fag end of the ramp down, if you can give little bit more clarity that let us say out of 100% of that business which was syncing, are we at 80%, 90% of the business which has already stabilized and only 10%, 20% is left which needs to be stabilized, and if it is stabilized do you see a prospective or opportunity to grow there? Second question, while we classify business in Mode-1, 2 and 3 and we know broadly where digital gets classified, is there a sense where you can tell us approximately what kind of proportion will digital exactly be within the services and overall proportion would be how much and what kind of growth we can predict because the question is that it is very hard to do comparison to understand where we are going on the overall growth? Obviously, our business is slightly different in the IMS side versus others. So, it becomes very difficult to understand apple-to-apple comparison versus the industry. So, if you can give us some comparative analysis, in the sense, if not possible in the numbers at least if you can tell us how to relate to that?

C Vijayakumar: Rahul, why do you not take the first one on Financial Services, some specificity around ramp down, and then I can take the broader question.

Rahul Singh: Yes, sure, thanks, CVK. So, I think in Financial Services, we are seeing two trends very specifically -- One is that most of our clients are adapting digital in a big way and essentially what we call as Mode-2. So, all clients where we have a digital footprint, Mode-2, we have been seeing good growth, and that has been happening through the last couple of quarters, of course, the total appears to be muted in terms of growth rate because of two large clients where we have seen a declining trend, correct. It was offsetting. So, while there was underlying growth happening in the digital work, it was being offset by declines happening in two large accounts. Therefore, that was a muted growth all through the year. Now, if you were to project it out into the future, we have reached the end of the cycle in terms of the decline on the two large accounts. So, hopefully that should be part of the past now. Also, as CVK mentioned, we have had significant bookings this year specifically in this quarter, and the bookings are on the back of lot

of transformational work that the customer is expecting from us including in what we are calling as integrated deals, integrated deals essentially mean where the customer has bought business process and application services as a joint offering from HCL where the digital content and the ability to provide higher amount of outcome is higher. So, we have seen some large wins of that also happen this quarter and also in the previous quarter. So that will do good for us as we go ahead. So I think in summary to answer your question, two large accounts have been causing some heartburn for us in the last four quarters, that has more or less come to its end and digital and integrated nature of new business coming in, should hold us in good stead in the future.

C Vijayakumar: Sandeep, just talking about digital and how should you be looking at our digital growth, as the definition for digital is evolving and as we see some of the industry players classify their digital revenues and if I were to just compare our services and product footprint, we have digital revenues in Mode-1, 2 and 3, while all of Mode-2 is definitely 100% digital, but there are several components in Mode-1 which is significantly new technologies, I am not just talking about private cloud, but the whole lot of work that we do in implementing software-defined data centers, digital workplace, SDN, all of that is just modernizing the landscape into new technologies which are available, but we classify them as Mode-1. But there is a good component of what industry is calling as digital in Mode-1. Similarly, in Mode-3, all our automation products and lot of SaaS component in Mode-3, the industry is broadly classifying them as digital. So at this point, I would really encourage all of you to look at the overall growth. Our Mode-2 is primarily, we have classified a few technologies and few solutions, which we believe are highly scalable where there is very big market opportunity and we have created some service offerings which we are defining as next-generation services and put them under Mode-2. In terms of growth, Mode-2, we should continue to see similar growth rates because there is a lot of momentum in the market. Mode-1 largely led by Infrastructure Services, I think we have had some challenges earlier, but I think those challenges are behind us. Our bookings have been good in Infrastructure business and our pipeline is good and there is not some new element which is coming in. Our renewals have been on track. The level of productivity benefits that we expected to provide our clients, that was also more or less stabilized. So, I see good prospects ahead for our Infrastructure and Engineering Services. So overall quite bullish about the growth ahead, that is possible.

Moderator: Thank you. The next question is from the line of Ashwin Mehta from Nomura. Please go ahead.

Ashwin Mehta: One question that I had was on our guidance. Like the fourth quarter requirement at the top end is just about 1.7%. So are there any factors that are holding us back from raising our guidance?

Prateek Aggarwal: I do not think the math is right. Possibly, I think the way we look at it is if we are flat we will be at 10.8% and if you get to 2.4% growth, we will be at the higher end. So Ashwin, I am not sure if you are missing a point here.

Ashwin Mehta: Sure, I will maybe crosscheck that. The second question is in terms of the revenues from our earlier signed IP partnerships, are all of them there in the revenues or there is something that is left to be integrated or paid for?

Darren Oberst: All the deals at this point have fully transitioned, they are reflected fully in the revenue.

Ashwin Mehta: There is a $48 million payout for IPR this quarter. Is there some incremental investment or is it related to the earlier IPs?

Prateek Aggarwal: Ashwin, those numbers are basically from deferred payments that we have on some of the earlier IP deals. To your earlier question, there is some small amount still left for some of the large deals that we did, practically the ones that we did in June and December, but, otherwise, most of it has already been paid for. In the cash flow, you obviously, see it as and when the payments are made.

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

Ravi Menon: First wanted to check about the seasonality of the IP. How much do you think that would have helped your revenues this Q3 and should we expect that to be a slight headwind going into Q4?

Darren Oberst: Typically is seasonality in the product business. The seasonality was not as pronounced in December quarter as we have seen in some prior years. Some of the 6.2% quarter-to-quarter is also reflection of the fact that we had a pretty strong Q2. So in terms of the seasonality, we would ordinarily expect the weakest quarter to be that September quarter. In the summer months, typically pretty weak in terms of capital spending on new software licenses, then coupled with very strong December. In this case, what we have experienced over the last few quarters is probably an average seasonality in the December quarter. It was not as strong as we have seen in the past combined with actually a stronger September. So where we had expected probably more weakness and more of a seasonality effect in Q2, we did experience that. In terms of what that means going forward, I think we would expect some seasonality to continue as usually the first calendar quarter of the year which would be our fourth quarter is typically a little bit weaker. At this point, that is probably all that we can say. We would not expect it to be a big effect, but there probably will be some small, normal seasonal effects in this quarter.

Ravi Menon: Secondly, I think CVK, you spoke about the productivity gains for IMS, that being largely behind us. So should we see closer link between revenue growth for IMS and headcount as well?

C Vijayakumar: Very marginally because the business is at a certain scale and we probably have significant headcounts in Infrastructure business. So I expect the margins in Infrastructure business to be stable and I do not expect it to go up due to the non-linearity and things like that.

Ravi Menon: Both utilization and attrition are close to record high. Should we expect utilization to start coming down in FY'20 and factor some margin impact towards that?

C Vijayakumar: Actually, we do not track utilization so closely because if you see very large percentage of our business comes from Managed Services. So I would not read too much into those numbers about peaking utilization. I do not know if Appa, you want to comment anything?

Apparao VV: No, I do not think so. Marginal fluctuation of 50 basis points here or there could be there. But we do not expect dramatic changes there.

Prateek Aggarwal: I think apart from the utilization number, Ravi, what you should look at is three consecutive quarters of net hiring of about 4,000 people. I think that reflects the confidence that we have been talking about on the growth projection for the fiscal.

C Vijayakumar: Keep in mind, some of the headcount addition this quarter was also due to integration of H&D.

Ravi Menon: The transformation deal in Financial Services, you talked about the passing of construct. So is that platform something that you can use potentially for other financial services clients as well?

C Vijayakumar: We are not allowed to talk about the details of this deal. So I would not be able to give you more details, Ravi.

Moderator: Thank you. The next question is from the line of Viju George from JP Morgan. Please go ahead.

Viju George: I had two questions. I think you had mentioned that a large part of your Mode-2 is digital-related. But at the same time, you also ask us not to compare your digital contribution to that of peers, point taken. But given the relatively tepid growth in apps, I am just wondering whether your digital hits lot of offerings outside of apps. Is that the right interpretation, maybe hits IMS or whatever, is that true, because generally we thought that apps is getting a revival because of digital.

C Vijayakumar: Basically, four offerings, almost all of digital and analytics, 100% goes into apps. So, cloud and security are still smaller components because we are really calling out public cloud components only under Mode-2 cloud and IoT is also a small component, some of IoT revenues would get classified under engineering because the nature of the work that we do and a little bit in the apps. So overall I would think a big part of Mode-2 would be in apps and smaller part will be in infra. I do not have the exact numbers, but maybe sometime later we can provide you that. However, if you look at our apps business, we have three components -- One is the less of AD, traditional ASM, second one is on the packaged apps, and the third is largely around modern applications and digital analytics and things like that. I think the first two components, the first one is more or less flat, we still have some declines in the SAP component and these are being overcompensated by what we are doing on the digital side.

Viju George: CVK, is there any ballpark number that you can put to what contribution comes from the first two sub-segments within the overall apps, would it still be a large portion of the apps piece?

C Vijayakumar: I do not have the exact numbers. Maybe we could provide you that offline, Viju, if you do not mind.

Viju George: The other question I had was on this observation on your bookings. YTD is 40% higher than the same time last year. Now I do not know what percentage of this is renewal versus new. But given the confidence that you are saying that the ramp downs are getting to be largely behind us, does

that mean that we should see a stronger correlation of this better booking growth into revenue growth going forward?

C Vijayakumar: Two points. As always, our booking numbers does not include renewals, we keep renewals outside booking. All of this is growth in existing customers or net new bookings, that is #1. Second one is, this is the gross booking, the new bookings that we do, there could always be some accounts where there could be declines, so that somewhat offsets to create a net booking number. But since it is a healthy 40% higher than last year, it definitely augurs well for an increasing momentum from an organic growth perspective.

Moderator: Thank you. The next question is from the line of Sandeep Shah from CGS-CIMB. Please go ahead.

Sandeep Shah: CVK, just on the higher end of the guidance, if I annualize that 2.4%, 2.5% ask rate, the annualized growth rate comes to close to around 5%. So, is it fair to say, directionally, entering into FY20, your organic growth rates could be in line with some of your large peers?

C Vijayakumar: So, you are doing the exit quarter into four and seeing what the growth that is already there?

Sandeep Shah: Yes, so it comes to as big as 4.8%?

C Vijayakumar: If we hit the higher end of the guidance, right? There are lots of variables. We will see how this quarter pans out, but I think, technically, what you are saying is right. We are going to exit strong, which is going to provide tailwind into FY'20 revenue growth and the bookings that we have done should also give decent incremental quarter-on-quarter growth. So I will leave it there and maybe we should leave some things for next quarter conference call as well, and maybe that is the time for us to being more specific on what the FY'20 looks like.

Sandeep Shah: Just follow-up to that, if you look at the growth pattern for the last two, three years, there is a lumpiness in your business or a concentration to some of your traditional services where the deal wins to some extent are lumpy as well as the productivity gains were hampering the growth. So, going forward, you believe that these issues to some extent would be getting addressed because of the diversification, point #A. Point #B, also you believe that the renewal pressure entering into FY'20 would be negligible. So, these issues going forward will not be there in terms of volatility of organic growth, it could be a slightly stable scenario post FY19?

C Vijayakumar: We cannot assure on a stable QoQ growth, but when you look at a year-on-year perspective, I think it should be fairly stable, I would say that. Productivity benefits of course there were some big pieces which were there in FY'19, it will be slightly lesser in FY'20. So, all of that we will factor in when we provide you the guidance for the next year. At this point, we are very focused on executing and ensuring we have a strong exit and also the pipeline is very good. So, it also depends on what kind of closures happen in this quarter. So, we will be in a better position to give you all the dynamics that goes behind FY20 in the next quarter.

Sandeep Shah: Prateek, just a bookkeeping. If I look at the license IPRs, which has been shown in the fixed asset schedule, this quarter it is close to $1245 million versus last quarter it was $1188 million. So, on QoQ basis, this capitalization has gone up by $57 million. So, is there another deal which we have done on the licensed IPR in this quarter?

Prateek Aggarwal: No, Sandeep, there is no incremental or additional deals that we have done. I think somebody asked me this question last time around also. This is purely exchange related because we keep the books in rupee and September end was at 74 or close to that number. So if you multiply the number in September end by 74 and kind of divide it by the number, whatever was the closing of December, that is where that number should be on a gross basis. Of course, we keep amortizing every quarter. So that reduction will be there in the net number. It is just exchange rate.

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

Nitin Padmanaban: So, if I look at the Mode-3 this quarter excluding Actian, I think it has been a little soft despite seasonality and I think Darren sort of mentioned the reasons for that. But that said I think if we just look at considering that Q2 was seasonally better versus historics, it still appears that margin seems to be trending down every quarter in Mode-3. Sir, just wanted your thoughts on what is driving that and what has been the experience in terms of products overall and what is your thought process in terms of what proportion of this portfolio can you convert towards SaaS-based offering maybe at some point?

C Vijayakumar: So, do not read too much into the quarterly variations. I think it is too early to kind of start looking at the variation and profitability from Mode-3 perspective. In terms of how products are doing, maybe Darren can provide a little more color to all of you.

Darren Oberst: The performance of the products as an aggregate portfolio has been in line with and ahead of our expectations and our deals business cases. Of course, there are some variances on quarter-to-quarter basis, of course, there are some variances among individual products in that portfolio. But in terms of the overall trends, through the course of this year, the performance has been in line with what our expectations are. As I mentioned earlier, the Q1 and Q2 were stronger and they were ahead of those expectations. In Q2, in particular, we saw the opposite of seasonal trends. We had very strong Q2 less muted than some of the seasonal effect that you would expect this quarter. This quarter was average, it was not an especially strong seasonal effect. So, it was not as if we had one of those big hockey stick in December quarter which does happen sometimes in the product business. In terms of your question then in terms of rolling out SaaS, what we have communicated in the past, what remains our strategy is really embracing a lot of architectural modernization as well as simplified commercial models around the products in this portfolio. So, where we are focused and what we are driving across all of these products is containerization strategy, micro services strategy, really enabling these products then for deployments across multiple cloud environments. In fact we see that as a compelling advantage that we can bring to the market is just being agnostic, not trying to lock our customers into any

particular cloud and then just supporting whatever their cloud choice is, including on premises or hybrid cloud or other options that we still see very strong demand in many large enterprises. So, again I will probably reframe your question that it is really about how we continue to modernize and innovate across these products and bring the right type of cloud architectural principles across the portfolio.

Nitin Padmanaban: CVK, what I was asking on the margins was that considering the positive seasonality in Q2, we did not actually see a bump in margins there, but over three quarters, it has just faded down. Are you suggesting that because there are investments involved in the initial phase, we should not look at margins for now and that is why the seasonality did not reflect in higher margins, is that how you would want us to look at it?

C Vijayakumar: We mentioned about some investments that we made and even in P&P this quarter, as we prepare to kind of get control of the potential closure that will happen in the next quarter, there are some preparatory works and investments which are going on. I would take a more annual view on this and even with the overall seasonality of the P&P business, we have probably seen only one, and this is possibly the second cycle at a slightly larger scale. I would wait for a couple of more years to really kind of get a better grip of the seasonality in this business because it is also the mix of portfolio which is very important to see which one has seasonality, which one is more like a subscription revenue and things like that. So, we will learn as we go.

Moderator: Thank you. The next question is from the line of Deepesh Mehta from SBI CAP Securities. Please go ahead.

Deepesh Mehta: Couple of questions. Can you help us understand about or provide outlook for two, three business verticals? First, about manufacturing. I think it remained for quite some time. This quarter some deal intake indicators. So if you can provide some outlook there? Second about communication. Is it largely driven this quarter by acquisitions or we have seen some organic growth, significant uptick kind of thing, and how you look at it going forward and the retail one? And the second question I have is about what kind of headwinds do you see entering into calendar '19. I think broadly you indicated positive factor, but if you can see some of the headwinds as we enter into '19?

C Vijayakumar: Manufacturing, based on the bookings that we have done, we do believe this softness will definitely improve, we should see better growth. Even this quarter, from a quarter-on-quarter perspective, we have done well in manufacturing but year-on-year is a little soft. I think this will get addressed and I am not concerned at all. The second one on Retail CPG, I think, broadly, the growth momentum is very strong. Lot of digital transformation work in the Retail segment is what we are participating in, in a number of our clients and in some of the prospects. Telecom communications, I think there was no contribution from inorganic, it is all organic, and of course, a bit part of it is contributed by the large deal that we had announced; however, there are three deals -- One in Europe and two in US, one is an existing customer and two of them are new clients that we acquired. All of them got into full execution in this quarter and that is why you

see a very strong quarter-on-quarter growth and year-on-year growth in telecom and we had highlighted that this was something to be expected based on how we were looking at the market.

Deepesh Mehta: Entering into calendar 2019, what kind of headwind we…?

C Vijayakumar: I think I answered the macro scenario, right. Discretionary spend is really no longer discretionary in most areas. So, the client projects that we are engaged in and in some things where we are bidding, we feel it will continue to get the attention of the leadership of the clients and they will perceive it to be very important for them. So I do not see that impacting us. Of course, if there is some slowdown, I do believe some of the efficiency-led and robotic process automation and all the deals that we are winning around DryICE, all of that will only find some tailwinds if there is some softening in the economic situation.

Deepesh Mehta: So, no company-specific factor you foresee entering into '19 which can impact our growth trajectory?

C Vijayakumar: No.

Deepesh Mehta: Can you help us what would be the expected tax rate going forward?

Prateek Aggarwal: Deepesh, we would expect effective tax rate to be around 21 to 22 percentage points.

Moderator: Due to time constraints, that was the last question. I now hand the conference over to Mr. Vijayakumar for closing comments.

C Vijayakumar: Thank you. Overall, we have had a fantastic quarter and the bookings this quarter continues to give us the optimism and the pipeline continues to give optimism for the next year. So, we look forward to talking to you in the next quarterly conference which will also be our annual and we will have an opportunity to share our FY'20 plans. Thank you for joining and good night.

Moderator: Thank you. Ladies and gentlemen, on behalf of HCL Technologies Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.