"HCL Technologies Limited's Q2 FY'23 Earnings Conference Call"

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Moderator: Ladies and gentlemen, Good day and welcome to the HCL Technologies Limited Q2 FY'23 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'o 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: Yes, thank you, Aman. Good morning and good evening, everyone. A very warm welcome to HCLTech's Q2 Fiscal '23 Earnings Call. Wishing you all a very happy festive season.

We have with us Mr. C. Vijayakumar -- CEO and Managing Director, HCLTech; Mr. Rahul Singh -- Chief Operating Officer, Corporate Function; Mr. Prateek Aggarwal -- Chief Financial Officer; Mr. Ramachandran Sundararajan -- Chief People Officer; Ms. Jill Kouri -- Chief Marketing Officer along with the broader leadership team to discuss the performance of the company during the quarter followed by the 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 the information presently available to the management and the company does not undertake to update any forward-looking statements that may be made in the course of this call. In this regard, please do review the safe harbor statements in the formal investor release document and all the factors that can cause the difference. Thank you, and over to you, CVK.

C. Vijayakumar: Thank you, Sanjay. Good evening, everyone and thank you for joining the call today. I'm very excited to be here surrounded by the new vibrant look and feel of a new brand, our new brand positioning, which is, supercharging progress.

Before we get into the quarter business performance, I want to take a couple of minutes to update you on the key organizational changes we've had this quarter:

Rahul Singh, after being President of our Global Financial Services business for many years, has been appointed as the Chief Operating Officer for Corporate Functions. Corporate functions include people, IT, marketing, risk and compliance and administration. I want to thank Rahul for growing our financial services vertical, which also is the largest vertical and has an annualized run rate of 2.3 billion.

Srinivasan Seshadri will be taking over the role of Head of Financial Services now. He's been with HCLTech for more than 20-years, and recently he was the Head of Financial Services for Americas prior to taking on this role.

We have a new Chief People Officer, Ramachandran Sundararajan or Ram, as he is more popularly called. Ram is a HCLTech veteran, takes over this role after successfully heading HR for our Americas region, and the global go-to-market HR function globally. Ram has been integral to the conceptualization and development of a recently launched employee value proposition. I'm confident he and his team would help us achieve our strategic objective of being the "Employer of Choice" in the professional services across key geographies.

Apparao, who's been our CHRO for the last five years, is moving on to an exciting new role as the Chief Delivery Officer, Near Shore. Near shore has been a very important strategic component of our delivery model, and today includes Brazil, Mexico, Guadalajara, Costa Rica, Bulgaria, Hungary, Poland, Romania, and a few other countries. During the last five years, Appa has been the CHRO. We've grown tremendously, both in terms of people, employee experience and the geographical footprint. I want to thank him for his great contributions to our success, and compassionately steering us through some of the most difficult times the world has seen.

Jill Kouri – our CMO, is also here with us. Jill and the team have been the force behind our amazing brand transformation, articulating our purpose, our positioning, and our employee value proposition.

Now, over to our results. It's been a spectacular quarter. I'm happy to share that we delivered 3.8% constant currency growth and 15.8% year-on-year constant currency growth, which is broad-based across all segments, all sectors, and geographies, and also a healthy margin performance.

Our services business continues to deliver strong numbers growing at 18.9% year-on-year and 5.3% sequentially in constant currency.

The growth momentum was led by both engineering and R&D services and IT and business service segments, which continue to ride the market trend of technology-led business model transformation.

Our Products and Platforms business now rechristened as HCL Software, declined 7.8% in constant currency sequentially, which was expected of a seasonally weak quarter. Excluding the impact of DXC, CFT divestiture, the decline is about 2.7%.

As I said earlier, our margin performance has significantly improved during the quarter. We posted an EBIT of 18% which is in line with our desired recovery plan. It's a result of significant operational efficiency measures, good outcomes from the bill rate enhancement program that we've been driving with our clients as well as planned deployment of freshers.

Important to note is that the wage hikes are going as per our regular plan, we have achieved our margin growth without compromising on any of our wage hike principles and policies that we have followed and are continuing to pay the variable compensation as per plan and not taking any reductions whatsoever.

From a bookings and pipeline perspective, we had a very good quarter. Our bookings crossed $2.4 billion, eight large services deals and three significant product wins. Our bookings growth was 23.5% on ACV basis on a YoY basis, and 6% YoY on a TCV basis. Our pipeline remains healthy and well distributed across large and medium-sized opportunities.

We won a mega deal this quarter. This will have minimal impact in FY'23. We expect this deal to give us an average ACV of US$125 million per year from FY'24. We are constrained to share the details due to client confidentiality reasons.

Apart from this, we won some more significant wins. A Fortune 100 company which operates one of the largest retail chains in North America has selected HCLTech as its strategic IT services partner for business operations transformation, and setting up intelligent automation platforms and experience-centric end user services. The scope also includes application and infrastructure support, modernization, and the retail stores operations.

A US-based Fortune 100 financial services firm selected us as a preferred partner for the transformation and modernization of their IT landscape, which included data, applications, cloud migration across annuities, life insurance, health insurance, advice and the CRM portfolios.

A leading US-based healthcare provider expanded its partnership with HCLTech for software testing services for its entire suite of applications and products. Our automation solutions will enable the company to mature to an automate first DevSecOps-aligned continuous testing model, which will accelerate their journey towards a product-based organization,

A US-based global technology company selected HCLTech to manage its enterprise applications. We will set up a global delivery model to support the company's enterprise portfolio, consisting of SaaS, commercial off-the-shelf applications, and several homegrown applications.

As you can see, these deals are a good proxy to our capabilities, which is very broad-based and the trust and confidence that our clients have in HCLTech's ability to digitally transform their IT operating models in line with the business operating models.

In Q2, we also had handsome additions to our client mix. We added 2 in the $100 million client category, and 1, 19 and 30 in the 50 million, 20 million and 10 million categories on a year-on-year basis.

Our headcount ramp up, we had net addition of 8,359 people to our family in this quarter, while we added 10,339 freshers during the quarter. We continue to work towards an optimal mix of experienced and entry level professionals that helps our long-term delivery model. This is not just being done at offshore, but in all geographies, including onshore and near shore locations.

From a segmental performance, ITBS grew 5.3% sequentially, followed by engineering and R&D services at 5% sequential growth in constant currency.

In terms of verticals, as you would know, starting Q1 FY'23, we've been aligning our metrics disclosure to the services and products business separately. In services business, we're providing you the split of geographic and vertical mix as well as the growth rates.

In geographies, our growth was led by Europe at 6.9% sequentially in constant currency, followed by Americas which posted 4.7% QoQ in constant currency.

In terms of vertical segments, manufacturing, energy, utilities and public services were top performing vertical segments, with 10.9% sequential growth and a 6% sequential growth respectively in constant currency. All other verticals had healthy quarter-on-quarter growth as well as year-on-year growth. Notable year-on-year growth performance comes from our telecom vertical, which significantly grew year-on-year 25%-plus, same is true with technology and services vertical.

At this moment, we see every client continuing to accelerate their digital transformation journey. And digital transformation journeys serve two objectives. They definitely provide significant business benefits, while also simplifying the tech landscape and reducing the operating costs. So, depending on the deal nature of deals, we see continuing acceleration in the sweet spot that we're playing in, where digital transformation delivering significant business outcomes, while also reducing the operating cost. It's the Venn diagram of these two which is really the powerful driver for our growth, be it in applications, data modernization, hybrid cloud, digital engineering, all of this have this sweet spot of the Venn diagram that I talked about, and we stand to gain from these investments through this business cycle.

Just talking a little bit about our brand transformation. As you all know, we unveiled a new brand identity and logo, underpinned by distinct positioning of supercharging progress that reflects our commitment to our clients, our people, communities and our planet. Supercharging progress captures the essence of what we do today, and the aspiration of what we want to do more of, at scale and at speed for our clients, for our people, our community, and the planet.

The new HCLTech brand, logo and positioning are at the heart of our go-to-market strategy, and represent our differentiated portfolio of services and products that supercharge digital transformation for enterprises at scale. The new branding was displayed in a massive theater in the US this quarter, as HCLTech was named an Official Cornerstone Partner for MetLife Stadium, and the Official Digital Transformation Partner for New York Giants, New York Jets and MetLife Stadium.

Through this partnership, MetLife Stadium, the Giants and Jets can benefit from HCLTech's deep experience in platform-driven business transformation, supported by market-leading capabilities to supercharge the adoption of best-in-class technology advancements.

I invite you all to visit our website to experience this new vibrant look, feel, and manifestation of our brand.

Looking ahead, we remain very positive of our near-term growth. Confidence is generated by our strong bookings and pipeline numbers across every segment. While there are variables in the external world and those have an impact to our clients business, during such times, we narrow down to those clients markets and opportunities and work out a strategy, that is mutually beneficial. As I look at our bookings and pipeline, I'm very confident that we would gain market share as we have done in the past.

Now, coming to the outlook for FY'23, we are now guiding for 13.5% to 14.5% constant currency revenue growth for the full fiscal. Basically, we had a 2% guidance range at the end of one quarter, we are narrowing it down to a 1% guidance.

We're also confident of our services business which continues to demonstrate strong growth. Of the five past quarters, four quarters we've delivered 5%-plus sequential growth, and the bookings and other pipeline performance will enable us to deliver a strong growth, and we are guiding for 16% to 17% in constant currency in our services business for this fiscal.

Operating margin, earlier, our guidance was 18% to 20%. We said we will come in at the lower end of the guided band. But with the improving success with our margin initiatives, we are now giving a guidance of 18% to 19% for the full year.

In parallel to this business momentum, we also continue to aggressively focus on delivering supercharged progress to our key stakeholders, our clients, people, communities and planet at large.

Finally, before I hand it over to Prateek, I want to wish all of you a happy festive season, and wishing you and your loved ones a very happy and prosperous Diwali in advance. And I will hand it over to Prateek to share more insights on our financials.

Prateek Aggarwal: Thank you, CVK. Let me start with wishing all of you a happy festive season. Good evening, good morning, whichever part of the world you're joining from.

We have an exciting bunch of numbers here. So, I'll go through them. HCLTech Services is what led the revenue growth this quarter, 18.9% year-on-year in constant currency, 5.3% sequentially, and overall HCLTech delivered 3.8% sequentially and 15.8% year-on-year.

EBITDA margin came in at 22% and EBIT margin at 18%. And this is despite wage increase that we had planned and executed w.e.f. 1st July 2022 for the largest portion of our population. The EBIT improve with several levers at play, billing rate enhancement, that is better realization from existing projects as well as the new projects that we've been winning over the last few quarters. Pyramid optimization, then better utilization as well as operating leverage, have driven the operational efficiencies and a little bit of help from Forex changes during the quarter as well.

The net income for the quarter came in at $436 million, which is 14.1% of revenue and it is an increase of 2.8% sequentially, though in dollar terms down 0.9% year-on-year, which in rupee terms is positive 7%.

I will spend some time explaining the new disclosures that we have provided on page 9 of our factsheet, it's a new page titled “Return on Invested Capital.” We've added further information differentiating our P&P business vis-à-vis our Services business to provide deeper understanding of their respective profitability and return on investment perspectives. So, the page is divided into three sections. As you can see, the top part is really the P&P P&L. The revenue and EBIT is something we have been providing you consistently for last almost three years now. We have added EBITDA as a new metric, and therefore that gives you the amortization, depreciation being very small, it's basically the D&A, the difference between EBITDA and EBIT as you know. So, that is the additional information on the EBITDA side on the P&P P&L.

We've also added a term called, NOPAT, net operating profit after tax, which is nothing but EBIT after charging the ETR for that respective business. So, in a way, we have divided the total depreciation and amortization between P&P and our Services business because the balance is services.

And similarly, the tax charge, which is without the other income, and those kinds of things in between, but the tax ETR is what you can figure out for the P&P business based on this additional information that we have provided.

The middle section then gives the estimated invested capital for this quarter and the previous four quarters. So, the first two rows give the invested capital in P&P business versus the HCLTech Services business.

And then of course, to tie it up to the balance sheet in the respective quarter, we have also given the cash and treasury balance which is the net cash that we carry on our balance sheet.

The invested capital, it shows you that as far as HCL Services is concerned, has been flattish across the five quarters between $3.8 to $4 billion and the average for the five quarters is $3.903 billion.

As far as P&P is concerned, however, it has continuously been dropping, for the simple reason that there is a significant amortization charge for the intangible assets as well as there is a Forex impact, because when we capitalized the acquisition of those seven products from IBM, they will capitalized largely in rupees in the India books, and therefore, that is also giving a Forex benefit as the rupee has depreciated over the period. So, as you can see it has reduced from 2.2 billion at the end of September last year, to now less than 1.8 billion, that's a reduction of 434, which means if we continue to deliver good EBIT, EBITDA and NOPAT, the ROIC should hopefully continue to be good in future.

And at the bottom section of the page, we've calculated our definition of return on invested capital, which gives the EBIT and tax and the NOPAT calculated for both the Services and the P&P business, and using the average estimated invested capital in the middle section, it calculates the ROIC for the two businesses separately, and also for HCLTech as a whole.

So, this hopefully provides you deeper understanding and this is useful to understand, you know how the two different businesses behave differently obviously, HCLTech Services delivering 36% plus ROIC is the higher ROIC business, also the higher growth business. Like CVK mentioned, in the last five quarters, we've delivered more than 5% sequential growth in four out of five quarters.

P&P is a seasonal business, more volatile. But despite this accounting metric of ROIC, which includes the hit of the amortization charge, which is a non-cash charge, even in accounting terms is delivering 14.3%. And like I'd shared in the investor day, that means the IRR, whichever way you sort of look at IRR, whether return of capital back in the bank balance or in terms of IRR, both continue to be very good.

Moving on, about the mega deals that CVK already talked about, I do want to mention this. Again, since I was talking about P&P, that we could sign that mega deal and we got the entry into that, we were invited by that client only because that client is more than existing client of P&P. We got this client membership through the acquisition of those seven products in June 2019. And this is the first large synergy benefit that we've got, of course, it will not probably show up in meaningful numbers on the P&P side, but this is really what synergy is, if anything, where ACV of $125 million over five years has been made possible, because we were a vendor to this customer. And that's the beauty of the synergy that we are experiencing.

Better account mining has resulted in 2 customers being added in the $100 million category on a year-on-year basis. So, we go up from 15 to 17 customers, more than 100 million each last 12-months. And in the 50 million plus category, we've added 1 more customer over the year.

To give you the mandatory margin walk, EBIT walk. So, as you know very well, as we had also announced, we have given competitive salary increases to the largest portion of our population this quarter, effective 1st July. Our margins improved despite that by a factor of 93 basis points at overall HCLTech level despite those headwinds.

And with the continued focus and efforts on both the top line and cost optimization levers, Services margin actually improved sequentially by 134 basis points. So, if you include the 92 basis points of the increment impact, and the 134 basis points net increase, the gross increase for the quarter in the Services business was a factor of 226 basis points. That is the size of what has been delivered by this business in one quarter as opposed to the previous quarter.

And there are three basic points that I will highlight, which has contributed to that. The biggest factor is the realization that we could increase from our customers, both existing customers, existing projects, where we could go back and get more from the same customers for the same project, as well as the benefit of having increased realizations in the deals that we signed in the previous quarters. As those deals become more meaningful, composition every quarter, that is also starting to improve our realization and utilization. So, the total impact of realization and utilization was more than half of that 115 basis points.

The second big factor was the operating leverage from SG&A scale. As we grow the business, the SG&A has virtually stayed flattish and other operational efficiencies. SG&A benefit itself is 45 basis points.

And last, but not the least, also, we have been helped by exchange gain of about 55-60 basis points as well on the Services business.

Moving on to the next topic, which is cash conversion, we continue to have a robust OCF and FCF; OCF came in at $2.05 billion and free cash flow at $1.82 billion. OCF was 114% of net income, and FCF at 102% of net income. Our balance sheet continues to strengthen. Despite the dollar being appreciating against every currency, gross cash is at $2.3 billion, $2.290 billion to be precise and net cash at $1.765 billion. From a shareholder perspective, the diluted EPS for the last 12 months is now virtually at Rs. 51, Rs. 50.94 to be precise, which is an increase of 3.7% year-on-year and 1.8% sequentially. The Board has declared a dividend of Rs. 10 for the quarter, same as last quarter and the record date for which is 20th of October, and the payment date will be 2nd November.

So, that's it. Over to operator for the Q&A please.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Sandip Agarwal from Edelweiss. Please go ahead.

Sandip Agarwal: CVK, I have just 1 question. While you have highlighted that the global macros and uncertainties are there, and you are keeping a close watch on that. But I wanted to just understand, have you really seen any kind of caution or any kind of red flag within your client universe who are material to you where you can sense that there is some sense of cautiousness in them or they would like to take a delayed decision rather than an immediate decision on things which are discretionary in nature, number 1.

Number 2, what are you seeing as a new development on the hyperscaler side? Is the implementation on that front picking up faster than earlier? Or you see the same pace of implementation? And finally, how much more dip we expect in the product and platform? While I understand that it gives us synergy like the way it gave it in the current quarter where we were able to get a client. But other than that, where do you see that these revenues will stabilize from where we can expect that the whole growth of IT services will reflect on the overall growth of the company?

C. Vijayakumar: So, Sandip, thank you for a number of questions. Of course, the macro uncertainty is weighing on a number of clients, and they are definitely prioritizing the areas where they need to spend.

So, accordingly, there could be projects where they are ramping down and they are prioritizing some other projects. So, that's a constant trend that we see in such situations.

But if I look at our overall demand, it is still a very supply-constrained market, right? Even if people are moved out of 1 project because of some ramp down, we have very strong opportunities to redeploy them, and there is definitely the number of open requirements, number of internal fulfillment, all of that, it is possibly a little bit moderated, but it is still very strong. So, I would say it's a very supply constrained market.

So, a little bit alteration in demand from 1 client to another, 1 project to another. I think it can be very easily navigated. That's one. The second is, of course, there is some prioritization of the spends, all our clients recognize that some of the transformation projects, especially around operating model change and things like that, which is where we've been phenomenally successful over the last 18 months, they are believing that there is no going back. And the operating model has certain velocity of changes to be delivered for their business. And right now, we don't see any change in the velocity of the change work that we're doing for our customers. The second question on hyperscalers. Again, there is a very interesting observation. If you really see the hyperscalers, their bookings continue to grow quite handsomely.

It has happened in the last 2 years or 3 years. But while they all have signed up for a certain consumption with hyperscalers, a lot of clients are lagging behind in consuming the capacity that they've subscribed to, and they all have subscribed to a certain capacity over a certain time period. So, they need to accelerate consumption of this capacity. It's like a perishable commodity, right? They bought certain capacity and they need to consume. So, that is also accelerating some of the transformation work that we have seen. So, at this point, I'm really not concerned about a little bit of slowdown in growth rates for hyperscalers because the book capacity is what we need to consume by accelerating the cloud migration for our clients.

On the P&P business, I think we are seeing some level of stability in the recurring revenue. We could not share the data this quarter. We are surely sharing that in the next quarterly report. Right now this quarter the comparison is a little difficult because of the CFT exit that was there last year. So, I see some level of stability. And I mean, we expect this to be a flat kind of business for probably this year and maybe some time to come. But I think what is very exciting is the products where we are focused on, we are seeing very strong analyst recognitions and we are seeing good adoption and growth in those products. And the synergy is something which we should not underestimate. While this was the large mega deal that we talked about, there are a few deals which we've signed in the past as well, where our client access across the world has significantly increased because of the P&P business and the clients that we onboarded. So, I would tend to think of this as a total package. It might reflect in Services sometimes and sometimes it might reflect in Products.

So, to help you analyze it better, we have given you a guidance on Services. Services margins are also very clear. So, I think that should give you a good view on how to look at it in the future.

Moderator: The next question is from the line of Mukul Garg from Motilal Oswal Financial Services. Please go ahead, Mukul.

Mukul Garg: First of all, CVK, Prateek, a great performance on the operational side, especially on the margins. I have one question for both of you. CVK, on the growth guidance, 16% to 17% services growth implies continued strength in the second half in especially volatile environment? Is it fair to assume that you are getting some gains from shift in spend towards cost efficiency work or has the demand environment remained broadly unchanged versus what you were seeing earlier this year? And Prateek, on the margin side, you spoke about 100 basis points increase in realization. It stands out across what we're hearing from your peers. What steps have you undertaken to achieve this? And did this require any difficult discussions or decisions at your end on your client base? Were you kind of refocusing on people where you guys can undertake price increase or margin improvement?

C. Vijayakumar: So, let me take the first question, Mukul. See, if you look at the growth in H1 in Services, it's about 19% constant currency growth. And for the full year, if we have given you 16% to 17%, obviously, there is some moderation we have assumed to get to the average of 16% to 17%. And this is driven by a little bit of furloughs in Q3. And even in Q4, we have factored in some furloughs and that's little bit reflected in the numbers. And I keep repeating this, it's about focusing on the right opportunities.

The market is very big. There is definitely some churn that's happening across vendor landscapes. And there is critical transformation work that customers are undertaking. Two of them are like the cloud migration and operating model change. And there is definitely sustenance, product sustenance, new product development. I think there is a good balance between these 2 in our portfolio, which is also keeping our engineering and R&D services quite optimistic about the growth. So, all of this is baked into what we are talking about. And to summarize, we've actually baked in some slowdown in services in the second half to get to 16% to 17%. But I think what we are confident of is to get to a good exit as we exit this year.

Prateek Aggarwal: Mukul, to your second question, yes, the realization increase is there what I have mentioned. As I also mentioned, it's driven by some renegotiations, COLA and those kind of things, which is for existing customers' existing work. You can call it a difficult discussion, but I would like to look at it as a cooperation between partners in business, where I don't think we are putting a gun to their head or anything dramatic like that. It is a realization at their end as well that costs have significantly gone up. For the last 1 year, the churn in the supply chain, the tariff war or whatever the words you use is very visible to them in their IT departments and I presume other vendors are also asking for that.

So, that's where I leave it. A substantial portion is also coming from the deals that we've signed in the last, say, 9 months. January onwards, we revised our rate card. And as those deals become a greater percentage of the total revenue of the quarter, that is also delivering the dividend.

Mukul Garg: I think, that clearly has worked out quite well.

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

Ravi Menon: I saw exceptionally high growth in Manufacturing. So, are there any mega deal ramp-ups or one-off factors that has led to this growth or any large deals that came out of transition?

C. Vijayakumar: I think it's broad-based. I mean, definitely, our Engineering Services has got a good exposure to manufacturing. And a lot of clients across the board had incremental ramp ups. If at all, I have to call out one, I mean one of the deals that we had won in France, which scaled up significantly coming out of transition. We had announced the deal as well in the past, and that contributed a little bit more, but it is more broad-based.

Ravi Menon: Great. And Prateek, are there any reversal of provisions or any such one-offs that have helped control SG&A QoQ apart from the normal seasonal factors like visa costs that are onetime costs every Q1?

Prateek Aggarwal: Simple answer, Ravi. No.

Ravi Menon: Thank you and Excellent performance on margin still.

Moderator: The next question is from the line of Manik Taneja from JM Financial. Please go ahead.

Manik Taneja: Just wanted some inputs on the fresher hiring strategy. While you had record fresher intake in the current quarter, how are you thinking about, from a second half standpoint, in terms of hiring?

C. Vijayakumar: I will request Ram to address this.

R. Sundararajan: You'll see that this quarter, our fresher hiring has been higher than all the other previous quarters that we have done. We're on track to reach the plans that we have for this year. So, the trajectory of what we have planned out for this fiscal, we think we will be close to achieving that by following the plans that we have for the next 2 quarters.

Manik Taneja: If you could help us understand, because we were initially looking at close to about between 30,000 to 35,000 freshers for the year, so, does that target still hold true for the year?

R. Sundararajan: It does.

C. Vijayakumar: It will be more closer to 30 than 35.

Moderator: The next question is from the line of Mihir Manohar from Carnelian Capital. Please go ahead.

Mihir Manohar: My question was primarily on the Europe side of the business. On a global front, we are living with challenges. But despite that, I mean, we have given good growth, specifically in Europe. So, if you could quantify what is driving the growth in Europe? And how should we see this panning out over the next 2, 3 quarters? Or what is your sense when you have interactions with clients in Europe? And my second question was on the IT Services business. I mean, we have seen margins coming back this quarter, largely led by operational efficiencies and operational improvements. Could we see ourselves scaling back to 20%-21% kind of number, which we used to have some 5-6 quarters back. And how long could that number be? So, yes, those are the 2 questions.

C. Vijayakumar: We will try and answer this to the best possible extent. I think Europe growth is driven by, as I said, Manufacturing and some of the new geographies that we had invested in the deals that are getting into execution. I think that's 1 big contributor from a Europe perspective. And from a margin perspective, yes, we have executed well, multiple levers, realization, as Prateek talked about, in existing engagements and all the new deals that we have won since January, we had a significant price increase. In spite of the price increase, we've been able to continue to accelerate our bookings. So, I think that, that gives us a little more confidence on the margin trajectory. At this point, we are not in a position to give you any long-term outlook on the margins. First half, we are at 17.5%. Full year, we are saying 18% to 19%. So, you will see incrementally margins improve. Even excluding the spike that we may have in the Product business in December quarter, we expect the margins to continue to improve.

Mihir Manohar: So, just on the Europe side, given the interactions that we are having, would you still continue to have double-digit kind of number over the next 2-3 quarters, I mean, just your sense on it.

C. Vijayakumar: Deal wins, yes, I think it's our aspiration to win between $2 billion to $2.5 billion every quarter. Europe, yes. I mean, if I were to do a comparative North American pipeline and deal momentum and conviction of conversion and timelines is more than Europe. But Europe, there are focused opportunities where we are engaged, where we feel reasonably confident. So, U.S. will obviously lead the growth momentum, and Europe may be a little slower than US.

Moderator: The next question is from the line of Abhimanyu Kasliwal from Choice India Limited. Please go ahead.

Abhimanyu Kasliwal: I know you spoke about the margins, you would not be able to give a lot of detail on it. But could you give an insight on at least the new deal wins and the margin outlook for those because some of the deals could be longer term, and we could extrapolate a trend of revenue and margins, whether they were up or downward or they're flat. If you could just help us out so we could make our estimates.

C. Vijayakumar: Actually, it's a very difficult question to answer. But all that I can tell you is since January, we had increased the prices, and we continue to win deals, which are at a higher margin than what we would have won in the previous fiscal. And when you win large deals, depending on the deal type, and we’ve have generally been engaged in deals where we don't have to take any major upfront kind of investments. That's been the strategy as well. So, there will be a little moderation to start with and then the margins will pick up in large deals.

Abhimanyu Kasliwal: Any more details, please?

C. Vijayakumar: Unfortunately, no, because I think we have given everything that we can.

Moderator: We take the last question from the line of Chirag Kacharia from Ashika Institutional Equities. Please go ahead.

Chirag Kacharia: Sir, I want to know your expectations with respect to the attrition moderation. And also on outsourcing cost side, what trends you are observing on ground check because now industry has slowed the pace of hiring as well. So, your outlook on attrition as well as outsourcing cost rate.

C. Vijayakumar: So, maybe Ram can address the attrition and Prateek can give some comment as well.

R. Sundararajan: So, attrition this quarter is 23.8%. If you see, compared to last quarter, it has already stabilized. We think that's hit the peak. While the previous 4 quarters, you would have seen the trend, we have seen an increasing trend, that has stopped. So, the early indication from that trend is very clear as to where we are. And also if you look at the current quarter number on an annualized basis, which is the indicator of what is the outlook going forward, there's a significant drop that we see. So, we think in terms of managing attrition, we are in a good space now.

Prateek Aggarwal: Chirag, on your second question, we have disclosed on Page 22 of our factsheet, a detailed breakup of the cost. If you look at the second line item, that's the outsourcing costs, which includes both third-party subcontractors as well as the work that we outsource to some of our partners. That number has for this quarter come in at 15% of our total revenue, which is virtually the same as what it was in September last year, but has reduced over the previous quarter, June quarter, by 30 basis points.

So, it was 15.3%, it's come down to 15%. That is what I think we had spoken about last quarter also. It had increased last quarter, and we've been able to bring it back to the sort of average levels that we've had over a longer period of time.

Chirag Kacharia: Sir, my question, what I want to know is that on ground, the hiring activity, the intensity of hiring has reduced as well as the freelancing work opportunity is also reduced. So, is this phenomena giving players like you a more bargaining power with outsourcing provider?

C. Vijayakumar: Not really.

Chirag Kacharia: And what levers we should consider for margin expansion?

C. Vijayakumar: We've guided for 18% to 19% for the year. So, that should be your reference point.

Prateek Aggarwal: I think the levers that you're asking, Chirag, continue to be the same levers. We have talked about realization improvement as the newer deals become a greater percentage of the total that will help. And we continue to work on the other customers as well where we haven't already got.

Apart from that, utilization continues to be a lever that we expect quite a bit out of. And as we keep bringing in the 30,000 odd, 30,000-35,000 freshers that improve the pyramid and the overall cost. So, all those levers are there. And SG&A leverage again is something we would like to draw up on. So, all these factors are there to improve the margins.

C. Vijayakumar: So, in closing, thank you, everyone, for joining us today. I know it's been a long day for all of you. I also want to highlight that we have an Investor Day scheduled on the 8th of December in New York. We look forward to seeing some of you there during the Investor Day. And in closing, it's been a great quarter. We have delivered on all fronts. It gives us a lot of confidence for the rest of the year. And thank you for all your support and look forward to connecting with you in the future. Thank you.

Prateek Aggarwal: Thank you.

Moderator: Thank you very much. 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.