



“HCL Technologies Limited’s Q3 FY23 Earnings Conference  
Call”

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**MANAGEMENT: MR. C. VIJAYAKUMAR – CHIEF EXECUTIVE OFFICER &  
MANAGING DIRECTOR, HCL TECHNOLOGIES LIMITED  
MR. PRATEEK AGGARWAL – CHIEF FINANCIAL  
OFFICER, HCL TECHNOLOGIES LIMITED  
MR. SRINIVASAN SESHADRI – GLOBAL HEAD  
(FINANCIAL SERVICES), HCL TECHNOLOGIES LIMITED  
MR. VIJAY GUNTUR – PRESIDENT, ENGINEERING AND  
R&D SERVICES, HCL TECHNOLOGIES LIMITED  
MR. RAMACHANDRAN SUNDARARAJAN – CHIEF  
PEOPLE OFFICER, HCL TECHNOLOGIES LIMITED  
MR. SANJAY MENDIRATTA – HEAD (INVESTOR  
RELATIONS), HCL TECHNOLOGIES LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the HCL Technologies Limited Q3 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' on your touchtone phone. I now hand the conference over to Mr. Sanjay Mendiratta, Head, Investor Relations. Thank you, and over to you, sir.

**Sanjay Mendiratta:** Thank you, Aman. Good morning and good evening, everyone. A very warm welcome to HCLTech's Q3 Fiscal '23 Earnings Call. A very happy new year to all of you.

We have with us Mr. C. Vijayakumar -- CEO and Managing Director, HCLTech; Mr. Prateek Aggarwal -- Chief Financial 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 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 statement in the formal investor release document and all the factors that can cause the difference.

Over to you CVK and thanks.

**C. Vijayakumar:** Thank you, Sanjay. Good evening, everyone. Thank you for joining us for HCLTech's Q3 FY'23 Earnings Announcement. A very happy new year to all of you from the entire HCLTech family.

Now to our results for the quarter, I'm very happy to share that we've delivered strong performance this quarter across all key metrics; revenue growth, margin expansion, booking growth, and people metrics.

As you would have seen, our revenues grew 5% in constant currency sequentially, and 13.1% constant currency year-on-year. The growth was attributed to our strong momentum in the HCLSoftware business, as well as our momentum in our Services business. Our Services business grew 15.4% year-on-year and 2.2% sequentially in constant currency. We posted an improved EBIT of 19.6% driven by improvements in our services business, and seasonal gains due to the peak performance in the software business.

Overall, we're continuing to see demand on themes like IT operating model transformation, cloud adoption. Both of these are helping clients accelerate their digital transformation journey. We continue to see great potential for vendor consolidation, cost optimization and large integrated opportunities in the near-to-medium term. And these opportunities have really contributed significantly to the bookings that we delivered this quarter.

We also enjoy unique position as the only IT service provider globally to be rated as a leader in all six Gartner IT Services Magic Quadrant. This when combined with the strong propositions and people skills, is reflected in a strong growth over the last many quarters and our future outlook. This is also a big acknowledgement of the effort HCLTechies have invested over the last few years to address every need of our clients. It tells the market very clearly that HCLTech has the 360 deg. propositions to address the IT services needs of Global 2000 clients. Today, be it clients sourcing advisors or analysts, acknowledge what we can bring to the table as a total package for digital transformation of our clients for employee value chains, be it cloud adoption, application or data modernization, or digital engineering, and digital workplace needs. This achievement is well aligned to the first of our strategic objectives, which is leadership through differentiated services and products.

In terms of segmental, vertical and geography performance, our HCLSoftware business delivered an outstanding performance growing 30.5% quarter-on-quarter in constant currency. HCLSoftware business scaled up impressively this quarter and has built good momentum in new type of deals with 26 new software as a service deals.

From a services perspective, our ERS business led the pack this quarter with 2.5% sequential growth in constant currency, followed by our IT and Business Services at 2.1% sequential growth, again in constant currency. This growth came up despite furloughs that were higher than anticipated at the start of the quarter, and higher than what we saw in the previous year.

HCLSoftware signed seven new clients across Fortune 500, Global 500 and Global 2000 clients in the last quarter. You may be aware that more than 25% of the Global 2000 companies are HCLSoftware clients and we see synergy benefits for our Services business as we get more clients here.

HCLSoftware announced a multi-year partnership with the legendary Formula One team; Scuderia Ferrari. The deal with Ferrari sees HCLSoftware become a strategic partner to the historic racing team with a focus on supplying high performance precision technology. The HCLSoftware logo will make its debut on Scuderia Ferrari racing cars. This follows our partnership as an official digital transformation partner of MetLife Stadium, New York Jets, New York Giants in the US. These are part of our brand transformation programs that we initiated last quarter to take HCLTech, the industry's best kept secret, closer to our clients, partners, communities and employees.

Now to verticals and geographies, our geography growth was once again led by Europe at 7.2% sequentially in constant currency, followed by Americas at 0.5% QoQ in constant currency.

Our top performing verticals were Life Sciences and Healthcare, Manufacturing, and Telecom and Media, delivering sequential growth of 5.5%, 4.9% and 4.5% in constant currency respectively.

In Q3, we also made good additions to our clientele; we added 3 in the \$50 million category and 2 in the \$20 million category on a QoQ basis. As you would remember, another of our strategic objectives is to be a preferred digital partner for Global 2000 enterprises in chosen markets. In line with that, a good number of clients we've grown to the next category, or new additions to our client list belong to the G-2000 category.

One of the highlights of the quarter is our booking performance. Our bookings increased 10% year-on-year on a total contract value basis, and 2% on an annual contract value basis, with 17 large deals across services and products among the large seven services wins, I want to call out a few.

I also want to call out that the top three deals that we won this quarter gave us a TCV of close to a billion dollars in this quarter. A US headquartered Fortune 300 Financial Services firm selected HCLTech to lead its global technology transformation program. This program includes modernization of clients IT landscape by building and operating a hybrid cloud infrastructure platform in collaboration with AWS.

We also announced the ODP Corporation deal. ODP, a leading provider of products, services and technology solutions, selected HCLTech as its primary IT partner. HCLTech will manage end-to-end IT operations and enterprise-wide digital transformation to enable ODP's business strategy in its office depot, ODP business solutions in their business units.

We also announced a new deal which we signed last quarter. We announced the deal today; Mattel, a leading global toy manufacturing company, and owner of one of the strongest portfolios of children and family entertainment franchises in the world, selected HCLTech to enable Mattel's future direction and product operating model, along with continued digital transformation journey. As the primary IT partner, HCLTech will drive transformation across Mattel's global technology landscape, cutting across applications, infrastructure and infrastructure security domains. These are some of the wins on the services side that sets us well for future growth.

On the Software side, we have 10 large wins, healthy mix across the portfolio as well as some good wins on a subscription or a SaaS model. A Global 50 automobile major has expanded its partnership with HCLSoftware to support its dealer portal and parts provisioning in North America, while enabling a secure environment to guard against potential cyber security threats. A Fortune 200 company has selected HCLSoftware to provide a modern and seamless digital experience to its customers and business partners. A Fortune 500 hospitality company has selected HCLSoftware to enable multiple business functions including HR, employee training, as well as customer-facing programs as a part of its growth strategy. Overall, our pipeline continues to remain healthy, well distributed across large and medium sized deals.

In terms of people metrics, we are making good progress to become an employer of choice and professional services across all key geographies. Our headcount ramp up continues; we had 2,945 net new additions to our family in this quarter, and 5,800 freshers during the quarter were

onboarded. Our people ramp up plants be it freshers or near shore or new vistas, are progressing in line with what we had announced as a medium-term plan during our Investor Day in May '22. We're starting to see moderating attrition and talent cost across the globe, unlike last year, where we saw an abnormal behavior on these metrics. I'm happy that we are making incremental progress towards hybrid operating model just as we had planned in a consistent and predictable manner. Our model continues to be flexible to address the needs of all stakeholders without constraining the business objectives.

As we mentioned in our medium-term objectives, weaving ESG into our business strategy is key to our success, we launched the HCLTech Sustainability School, and its first Comprehensive Climate Literacy Learning Series for all 220,000+ employees. This should help our employees to better understand our relationship with the planet and how we can make it a better place to live.

Looking ahead, we believe, there is near-term impact to a few industries, specifically, technology industry clients, as they optimize while they will end up as great growth opportunities in the medium-term with the right propositions. In this context, our propositions, global delivery, talent, position and the new capabilities will continue to give us an edge in the mid-to-long-term. Q4 will be a seasonally weak quarter as our P&P performance peaks in Q3 with renewals and new Deal signings.

Looking ahead, we remain positive of our medium-term growth, with confidence generated by good bookings and pipeline across every segment. I have no doubt that if we achieve the four strategic objectives and the progress we have made towards them, the fifth one to deliver top quartile TSR over the medium-term should logically follow.

Once again, I wish you all a great year ahead. With that, I will hand over to Prateek to provide More Details on our Financials. Over to you, Prateek.

**Prateek Aggarwal:**

Thank you, CVK. Happy New Year to Everybody on the Call. To give you some quick wrap up of the growth and then I'll get into how the EBIT has moved, etc.

Year-on-year in constant currency, we grew 13.1%; our Services grew 15.4%, and on a sequential basis in constant currency, we grew 5%, led by Software, growing at 30%-plus; and services also reported a robust 2.2% sequentially in a seasonally soft quarter. During the quarter, we also crossed significant milestones in terms of profits; INR 5,000 crores in EBIT and INR 4,000 crores in net income. The EBITDA margin came in at 23.9% and EBIT at 19.6% which is a healthy growth of 165 basis points QoQ and 57 basis points YoY. Our return on invested capital continues to improve; At a company level, we hit close to 30% and Services came in at 37.4% as compared to 36.2% last quarter.

Moving on to EBIT walk from last quarter to this one, we gave our second phase of increments this quarter for the middle management, and that is an impact of 70 basis points. At overall level, EBIT has improved 165 basis points, out of which 157 basis points has been contributed by

HCLSoftware, being most of the revenue flows down, the extra seasonal revenue flows down to the EBIT as you know.

Services margin improved by 8 to 10 basis points after absorbing the salary increment of 70 bps that I talked about. Furloughs and holiday season also impacted by about 60 basis points. And our margin improvement initiatives have been yielding results last quarter and this quarter as well. This quarter, we gained 40 basis points through pyramid optimization, deployment and billing of freshers as well as 30 basis points on top by realization improvements and other efficiencies, and FOREX gain was another 70 basis points as well. So, that's how the 19.6% got delivered, large portion coming from Software as I said.

On Guidance, we gave three data points. We've narrowed all three of them. So, the revenue guidance at overall company level, we are at 13.5% to 14%, which is the same as what we had indicated at our US Investor Day. So, all the three narrowing of the ranges is in line with that. Services is now at 16% to 16.5% and margin guidance is at 18% to 18.5%.

It was a good quarter for cash generation as well and cash conversion ratios. Overall DSO including the unbilled revenue current is flattish QoQ. But you will notice that our unbilled has reduced significantly in this quarter and over the last two quarters as we have billed faster, and this should help improve the collections in Q4, because what we have billed already by December-end, will get collected sometime in February.

Last 12-month Operating Cash Flow was at \$2,041 million and Free Cash Flow at \$1.8 billion. OCF being 111% of net income and FCF being virtually equal to the net income. Our balance sheet remains strong with gross cash at \$2.5 billion and net cash close to \$1.95 billion to be precise.

For shareholders, the last 12-months diluted EPS increased to INR 53.36, which is up 4.8% quarter-on-quarter and 13.1% year-on-year without the one timers in OND, so, we are taking the tougher compare there.

As per our continuing steady practice of quarterly dividend, the board declared INR 10 per share as the dividend for the quarter. The record date of the same is 20th January and payment date will be 1st February.

With that, I hand it back to the operator for Q&A.

**Moderator:** We will now begin the question-and-answer session. First question is from the line of Ravi Menon from Macquarie. Please go ahead.

**Ravi Menon:** As HCLSoftware product growth is even stronger than what we saw last year, we thought that was exceptional. So, are you confident that you will now see the segment being stable to growing from here on, your exit for the usual strong Q3 seasonality?

- C. Vijayakumar:** So, yes, we had a good growth and our expectation is the trajectory will continue. But however, it is early days for us to really provide any concrete guidance. We have put several foundational blocks in place, and they seem to be working in the right direction. But this is not a trend yet. So, we would be a little cautious, before calling out a trend, we will see a few more quarters before seeing a trend.
- Ravi Menon:** Any particularly large deals in this we might want to be aware of, difficult to repeat?
- C. Vijayakumar:** Are you talking specifically about the Software business?
- Ravi Menon:** Yes, yes, Software.
- C. Vijayakumar:** In Software, we had 10 deals, which we consider as large deals. And I think in a seasonally strong quarter, it's a little more than what we would have expected, number of customers increased their consumption, some new clients got added as we called out some of this, I mean, three or four new top logos got added who are going to consume the product for the first time. So, it's more broad-based, it's not because of one big deal or anything like that.
- Ravi Menon:** And Financial Services had a decline this quarter. CVK, I think you said in December, at the Investor Day in New York that you are looking at higher furloughs in Financial Services, so will this bounce back next quarter? And also, retail and hi tech, that is also little weakened. Here, was it due to furloughs or customers being distressed and should we think there were some projects being put on hold or even being cancelled in these other verticals?
- C. Vijayakumar:** Let me take it one-by-one. Financial services, largely due to furloughs, I think, we took the biggest hit in furloughs in Financial Services. So, I see good growth coming back in Financial Services. And this also is going to be enabled by two large deals; one, we had announced last quarter, one more half a billion dollar plus deal, which we signed in this quarter, both are Financial Services. So, I think we feel pretty confident of a very healthy growth in Financial Services as we move forward. And it also gives us good visibility of Financial Services for the next financial year. Coming to retail CPG, it's really due to certain clients who are stressed, which had an impact, and that's kind of little bit continuing which is causing the ramp downs in this client. Tech and services, as I called out, I think our concern really came from, we did not see furlough kind of impact in tech and services in the past, but this year, we did see especially some large techs trying to kind of optimize their spend for the year. So, we took some hits in some big clients, that's why it's flattish from a quarter-on-quarter perspective. I see a good mix of opportunities in tech. While they are being a little bit more frugal about what they're spending on, but there is also an increased propensity to offshore. In fact, a couple of large big techs which had a 50:50 ratio for onsite-offshore, they are significantly moving to a much higher offshore adoption. And there is also one vendor consolidation deal which we signed this quarter where there are three vendors who are going to take the lion's share of business. So, I think these trends that we've seen will help us stabilize and grow the tech vertical. The year-on-year growth is still very strong and we expect to continue growing here.

- Ravi Menon:** Margins for IT services is still 100 basis points below the pre-COVID, 3Q, 17.8%. So, with the attrition now starting to come off, do you think we can get back to the margin levels for IT services or are there any structural challenges that we should be aware of?
- Prateek Aggarwal:** At the company level, we said, we do want to get back to the pre-COVID level. The comfort band of 19% to 20% that we've had over a long period of time for four, five-plus years. So, that is the intent and aspiration and we are all working towards that.
- C. Vijayakumar:** If you see this quarter, while the Services margin is only 10 basis points up, but we have taken the impact of salary increases, as Prateek called out earlier, we've taken an impact due to the furloughs. Then, FOREX has benefited, but still I think on both fresher adoption and all the operational improvements, we've got 70 basis points benefit. So, Services margins are improving, and we will continue to see that kind of a trajectory as we move forward.
- Moderator:** The next question is from the line of Gaurav Rateria for Morgan Stanley. Please go ahead.
- Gaurav Rateria:** So, two questions. Firstly, what's been happening on the top-10, top-20 accounts? If I look at that as percentage of revenues, it's declined not just in this quarter, but actually for last several quarters. So any particular phenomena going on there?
- C. Vijayakumar:** There's a technical reason. I think it's largely because some of the revenue which was getting accounted under IBM due to the revenue which was coming through the transfer of contracts, that has now come into our books. So, basically, there's one continuing factor which keeps reducing. That's one. And FOREX is also another reason. I think these are the two. Otherwise, there are normal client movements up and down, but quite healthy growth, in fact, we see our top client categories grow very well. If you see, I think top-20 has grown faster than the company services growth rate.
- Gaurav Rateria:** Secondly, how is your portfolio growth skewed towards Europe both in terms of your order booking as well as in terms of your pipeline, just trying to understand that the concerns on macro is actually more weighed more towards Europe, so if macro were to deteriorate, how much of risk that maybe from your orders or the pipeline perspective?
- C. Vijayakumar:** So, I think we did not say that booking is skewed towards Europe. Our booking is a lot more skewed towards US, North America so that's one. Now the second aspect is Europe had pretty strong growth this quarter, followed by a previous quarter, which was also good. This is really coming from the execution of one deal, which we had won some time back, and that too in the telecom vertical. So, that is one reason. And there were also some projects where we had certain assets that were involved so, some of the supply chain easing, so they were planned to be delivered this quarter. So, these two elements helped almost a significant increase in the telecom business in Europe, and that caused this big uptick. But you will see that our overall telecom business is not showing the same type of growth, because we had some significant reductions in one large telecom account, which kind of neutralized that.



So, now in terms of macros our booking has been very strong in the US, in the last two quarters. And as I had mentioned earlier, the decision-making delays are visible in Europe. So, that should kind of maybe moderate Europe for some time. However, the pipeline in Europe is still very good. Some of the deals which have been delayed for some time, we expect the conversions in this quarter or even early next quarter. So, I think we will see Q2, Q3, next year, we will see continued traction. There may be a little softness in the interim.

**Gaurav Rateria:** Last question, CVK, on the bookings front, you last time gave an outlook that you expect very good bookings in December quarter. Any kind of visibility that you might be able to provide for March quarter bookings, if possible?

**C. Vijayakumar:** It's difficult to call it out, but I do feel confident, on a year-on-year basis, we are probably up 13%, I think YTD, 13% up from TCV perspective. I am hoping to maintain that, but it's difficult to I mean, there can always be spikes, right, some things which we expect to happen in March, could happen in April. So, it's difficult to commit to a number. But pipeline is good. And in fact, the number of deals which are coming into our unqualified pipeline, that is the deals which are coming in where we have not yet qualified to the shortlist, there is a very strong traction there.

And I think that will kind of compensate for some kind of softness in the discretionary spend. So, that's why overall whether it is vendor consolidation or cost takeout kind of deals and Cloud adoption, I think we are starting to see large transactions in Cloud adoption. Financial Services sectors has not kind of migrated a lot of workloads to Cloud. And I think we are starting to see good traction around that. So, all of this is giving us confidence that the pipeline and the order, the type of deals that we are winning, and the market share we are gaining all of them is giving us some level of assurance that bookings will continue to be good. And then that will eventually translate to revenues.

**Prateek Aggarwal:** I think, Gaurav, if I may just add, if you see our last five, or even six quarters, it's been very steady sort of numbers between \$2-2.5 billion in all of these quarters, so I think and as you know very well, these are all new bookings, new incremental booking net wins, there is no renewal in that. I think the steadiness is what I would like to call out in addition, which I think is a good way to keep the clock ticking.

**Moderator:** Thank you. The next question is from the line of Manik Taneja from Axis Capital. Please go ahead.

**Manik Taneja:** Prateek I just wanted to pick your brains around the aspiration to get back to that 19% to 20% EBIT margins that you suggested during the US Analyst Day. If you could help us understand how you are seeing the situation evolve from a wage hike standpoint going into next year. And if you could also call out the different levers that you think will play to your advantage in terms of margin improvement over the foreseeable future.

**Prateek Aggarwal:** Manik, you know, there are two buckets I would delve into. One is the bigger things which are sort of translating into revenue and EBIT every quarter, bit-by-bit, including this quarter and the

previous quarter. And then there is a long list of all the other metrics, right. So, the first one is, our constant hiring of freshers, if you take the last 12 months, we are at around 30,000, those freshers coming in at a steady clip, not bunched up in one quarter for example. And they are being trained and deployed on projects and start to bill. And the time to bill improvements that we have been making progressively is the first lever. And it is basically quarter-after-quarter, year-after-year as we keep building those layers, it is a layered strategy if you like, and that really forms the bedrock, the bottom of the pyramid over three-four years, and that is what we have been doing and that is starting to pay off.

The second one is obviously utilization of not only the freshers, but also the laterals that we have. Our entire workforce really and that utilization came under stress due to multiple reasons. One is the supply chain tightness. The second is a very heightened attrition, because when you have that much of attrition you are forced to keep a few extra people to backfill that, right. So, as our attrition is moderating, quarterly annualized attrition has significantly come down over the last two quarters actually, last 12 months doesn't show that to be honest. But in QAA terms, Quarterly Annualized Attrition, that has come down quite a bit. And that gives us the levers to reduce the unbilled people on the projects, and so on so forth.

So, utilization, to my mind is one of our biggest levers continuing. And then, of course, all the offshoring of the work, nearshoring of the work and improvements in the nearshore locations that have started expanding, and we are optimizing them, all those things will play into it. And I mean, whatever you may say about the environment, but we continue to see improvement in our billing realizations as well. So, last quarter was a 1%, this quarter, it's that 30 bps that I called out. Those are continuing and as more and more deals of the last 12 months come, some more percentage of the total will keep on improving I believe. So, those three, four things are the biggest levers, and then there is all the rest of it, which includes automation, and all the optimizations that we do, which obviously need to take care first of the salary increment, and then deliver higher EBIT and all the other metrics thereafter.

**Manik Taneja:**

And one last clarification question with regards to the typical seasonality that we see around our Services business between the 3rd Quarter and 4<sup>th</sup> Quarter. Typically, 4<sup>th</sup> Quarter tends to be higher in terms of sequential growth do you expect that trend to sustain in FY'23, given the current macro backdrop?

**Prateek Aggarwal:**

So, yes, I mean there is some bit of catch up that a lot of the teams do during the last quarter, but that is all baked in to the guidance that we have given. So, 16% to 16.5% kind of captures that quite adequately.

**Moderator:**

Thank you. Next question is from the line of Sandeep Shah from Equirus Securities. Please go ahead.

**Sandeep Shah:**

CVK, just wanted to understand within the TCV, which has been healthier for us, is there any major change in terms of proportion of deal wins, which are cost takeout, vendor consolidation led deals versus the discretionary transformational digital led deals? And will this trend continue

and the proportion may keep increasing, which may give us confidence that FY'24 could be again healthier especially in our services business?

**C. Vijayakumar:**

Yes, so Sandeep, in fact, the three large deals in this quarter, none of them are really driven by cost takeout. One is really realigning a product operating model. And right now, the client is already outsourced in an onshore/offshore model. So, it's really not a cost led deal. It's really a transformation deal, where we will lead with the changes in the overall IT operating model, that's number 1.

Number 2 is, again, vendor consolidation opportunity and it's really not so much driven by cost. The third deal is again, really transitioning from vendors or service providers who are struggling or who are not looked at by the clients as futuristic, right. So, these were the opportunities that we won.

Now the cost takeout deals, we are seeing a lot of them come into our unqualified pipeline at this point in time. So, only when we get shortlisted into three or four kind of shortlisted vendors, then we add it to the qualified pipeline. I see them coming into the pipeline in this quarter and next quarter, and they will really result in some kind of bookings in Q2, Q3 of next year.

**Sandeep Shah:**

And just last question, do you witness any slowness in terms of the Cloud adoption or Digital adoption for clients entering into CY'23, because that could be what has been implied from some of the hyperscalers where they see the last two years has been very great in terms of Cloud migration, which can normalize going forward now.

**C. Vijayakumar:**

No, I think, see, there is this whole hybrid operating model which was driven by or remote operating model which was driven by COVID, I think that definitely gave a huge spike to Cloud consumption. But that is just only one leg of opportunity and that was really led by more consumption and not much of a transformative services like modernizing applications or data and things like that.

Now, as I mentioned, even earlier and even during the Analyst Day, a lot of big customers have signed up for sizable capacity with the hyperscalers. And these are all just booking numbers for the hyperscalers. So, the customer wants to also make the best use of the booking commitments they have given. And the hyperscalers are also encouraging them to accelerate migration. So, I think that's creating a good opportunity pipeline for us.

I see it only accelerating, because big companies, with a committed spend on Cloud providers, they need to really leverage the capacity that they have contracted. So, I see more and more urgency to really drive this. However, it is still not, lift and shift is not very high. Unless they have a very aging infrastructure, they kind of look at it as an easy solution to do lift and shift, and they can do modernization and optimization later, but most large clients are looking at application modernization and re-architecting the landscape to perform financially in an optimal manner on the Cloud environment. So, I see that trend continuing, and I see it only accelerate.

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

**Surendra Goyal:** Any early Thoughts on IT budgets, timing, direction, what are your client conversation suggesting?

**C. Vijayakumar:** See Surendra, it is early days to get a sense of the budget. There are two things, one is the discretionary spend and I don't think anybody has a good grip on what is the level of moderation that can happen in discretionary spend. But what we saw in the last quarter was, wherever the projects were not critical, clients had kind of deprioritized that, but a lot of work that we are doing in Financial Services for example, we don't see clients kind of rushing to reduce anything, I think they are all continuing with the Digital Transformation program. So, I think that's one aspect where we have to go more into this year to realize what the impact will be.

However, a lot of deals are going to come out of the current spends customers are doing, either vendor consolidation or cost optimization. So, I think that's not going to be driven by what budgets they have. It's really a close to \$115 billion worth of vendor consolidation opportunities that are expected in the next two and a half years. I think that's where we are going to get a good outcome for ourselves.

**Surendra Goyal:** And just one more follow up. I think Prateek did talk about realization improvement. So, I just wanted to understand about realization for the deals which have been signed in the current quarter because obviously the realizations you are seeing today are from deals which were signed a while back. Has there been any change in direction from that perspective over the last few quarters?

**Prateek Aggarwal:** No, Surendra like I think we discussed maybe in the last call, we made a definitive change in our rate card somewhere, January last year. So, basically all deals signed since then have been at better rates, and there has been no change in that in this quarter or the previous quarter.

**Surendra Goyal:** And that includes the vendor consolidation, cost take out kind of deals, right.

**Prateek Aggarwal:** Yes, like CVK said, we have not had too many of them till now.

**C. Vijayakumar:** At least this quarter is driven by 3 deals, which has nothing to do with cost take outs.

**Surendra Goyal:** Just one last point on Software, obviously, you had a great quarter. And I don't want any numbers. But would you be comfortable to say that it's a growth business going into next year?

**C. Vijayakumar:** So, Surendra as I said, I mean, two data points really does not constitute a trend, we will have to wait for some more data points before we make that conclusion. So, I would leave it at this.

**Moderator** Thank you. The next question is in the line of Girish Pai from Nirmal Bang Institutional Equities. Please go ahead.

- Girish Pai:** The ACV numbers for the quarter on a year-on-year basis grew by just 2% versus in the first half it grew by approximately 20%. So, how should one read into the slowing number? Is it because the tenure of the deals you won in the quarter is larger?
- C. Vijayakumar:** Yes, so the large deals are slightly longer tenure, I mean a couple of them are five years, in one of them, one part of it is eight years, the rest of the part is five years. So, I think that has a skew. But one thing if you have to look at our YTD booking, and you were to do ACV growth, Girish, the ACV growth is 13% on a YTD basis. So, that's a pretty strong growth from an ACV perspective. This quarter, maybe the mix of deals was a little different so ACV was soft.
- Girish Pai:** Do you see the mix of deals, continuing the way you saw in 3Q, I mean will this mix continue into the next few quarters?
- C. Vijayakumar:** Difficult to call, I mean, deals come in all kinds of shapes and forms and tenures. We feel there is a reasonable market opportunity to at least create a 10% ACV increase so I will leave it there. I mean, what is not happening in Q4 could happen in Q1. But on a rolling 12 month basis I think that would be a good expectation and goal for us to go out.
- Girish Pai:** The third party hardware and software that you kind of incurred in the cost part, do we see a situation where customers are pushing more of this on to the vendors unlike say 12 month back, is that a phenomenon that you see amongst customers?
- C. Vijayakumar:** No Girish, I don't see any specific phenomenon, but I think what's happening is supply chains were very tight. And some of this hardware delivery and all started getting a little bit easier in the maybe September-October timeframe. So, that kind of helped us to kind of finish some of the project deliverables, which was all planned, it was expected, either it was to be included in Q2 or Q3. So, it really happened in Q3.
- Moderator:** Thank you. The next question is from the line of Abhishek Kumar from JM Financial. Please go ahead.
- Abhishek Kumar:** I just wanted your view on the ER&D services, given the fact that they generally tend to be more towards the development side, and also hi-tech is seen in some kind of pressure. What's our view on ER&D over the next few quarters?
- Vijay Guntur:** You are right, some of the decisions on product lines and the products discontinuing, are impacting. But we have a large set of business, which is about sustaining existing products, and also transforming. So, that, in a way, is giving us a cushion to take care of some of the headwinds that we see. And this is not across all of our engineering services business in the tech space, we see a little more, whereas in our asset heavy business, we don't see this kind of a trend.
- Abhishek Kumar:** Just for my understanding, how would, I mean, what percentage of ER&D roughly would be technology? Is it like the largest one or it's not very large?

- Vijay Guntur:** It'll be a little over 11% of our total ER&D.
- Moderator:** Thank you. The next question is from the line of Komal Ladha from Yellow Jersey Investment Advisors. Please go ahead.
- Komal Ladha:** Yes, I wanted to ask, do you face any major challenges with employee costs as startups are having higher packages?
- C. Vijayakumar:** No, I think that was an issue two quarters ago and even last quarter, but this quarter, we are already seeing a little bit moderation in the talent cost and attrition and all that. Attrition came down significantly. So, the situation has improved quite significantly in this quarter.
- Komal Ladha:** And what kind of fresher hiring are you looking at in coming quarters?
- R. Sundararajan:** Our fresher numbers, whatever we have planned for this year, we will be getting pretty close to the planned numbers. There will be some slight moderation as the attrition has started dropping quite significantly. We will be making some small moderation to that otherwise, we will continue with the plans that we have made for the year.
- Moderator:** Thank you. Next question is from the line of Kshitij Saraf from Tusk Investments. Please go ahead.
- Kshitij Saraf:** Wanted to know on the ACV for the Software wins, so could you shed some light on the size of the deals with Ferrari, and any indication you would like to get there on general size, tenure for the new deals you are winning?
- C. Vijayakumar:** We don't give deal specific numbers on both the Services and Software business. Wherever we could call out where permissions we have already given an indication. But usually the Software ticket sizes are small it could be anywhere from \$100k to maybe \$10 million, kind of ticket sizes. That's what we typically see.
- Moderator:** Thank you. Ladies and gentlemen, that would be our last question for today. I now hand the conference to Mr. C. Vijayakumar for closing comments. Thank you and over to you sir.
- C. Vijayakumar:** So, overall, we have had a fabulous quarter on all dimensions- revenue growth, improving margins, strong booking performance, and very good people metrics. We continue to remain positive about the overall tech spend of the clients. There can always be one or two quarters where there can be some moderation, but the strength of our propositions which is really very well balanced, and the very impressive recognitions that we have from analysts and the very satisfied clients that we have, we are very confident to weather any economic storm with a mix of vendor consolidation opportunities and continuing to double down on Cloud adoption and our digital engineering strategies. So, overall, I remain positive about the outlook for the future and thank you for joining us and have a great evening.

**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.