“HCL Technologies Ltd. Q1 FY22 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY'22 Earnings Conference Call of HCL Technologies Limited. 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Sanjay Mendiratta – Head, Investor Relations. Thank you and over to you, sir.

Sanjay Mendiratta: Thank you, Margaret. Good morning and good evening, everyone. A very warm welcome to HCL Tech's Q1 Fiscal '22 Earnings Call. Trust you all are safe and in good health. We have with us today Mr. C. Vijayakumar -- President & CEO, HCL Technologies; Mr. Prateek Aggarwal -- Chief Financial Officer; Mr. Apparao -- Chief Human Resource Officer; Mr. Anand Birje -- Senior Corporate Vice President (Digital & Analytics); Mr. Vijay Guntur -- Corporate Vice President (ERS); Mr. Darren Oberst -- Senior Corporate Vice President (Products and platforms); Mr. Rahul Singh – President (Financial Services), along with the other members of HCL 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 we made are forward-looking which involves 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 statements in the formal Investor Release document and all the factors that can cause the difference. Over to you, CVK. Thank you.

C. Vijayakumar: Thank you, Sanjay. Good morning, good afternoon, and good evening, everyone. I hope all of you are safe and are keeping well. The past few months have been tough, especially for India based family as the second wave of pandemic rage across the country. During this time, the well-being of our employees and their families got our undivided attention, and we left no stone unturned to support their health and overall welfare. We offered a wide range of services to our employees, including hospitalization support, isolation facilities, ambulance services, doctor consultation, medicines, delivery, life coaches, mental health support, tie-up with food delivery services for those self-isolating, and family and many others.

Very sadly, we lost some of our colleagues to the pandemic. To support the dependence of our deceased employees, we put in place a "Special Family Assistance Program." As we speak, we remain very focused on all the preventive measures and have launched a massive vaccination drive for our employees across the country. Today, close to 70% of our eligible employee base are already vaccinated, and we expect to cover 100% of eligible team members in this quarter.

Coming to the Financial Performance:

Q1 revenue came at $2.72 billion, which is 0.7% sequential growth and 11.7% YoY growth. All the numbers are in constant currency unless called out otherwise.

Geographically:

Americas and rest of the world posted a good revenue growth of 13.5% and 20% year-on-year respectively. Europe had a bit of blip sequentially but remained YoY positive at 5.1%. We don't read too much into the sequential blip in Europe, as the booking and pipeline and the geography remains very heavy as the continent comes out of the pandemic impact. To leverage these opportunities, we continue to strengthen our leadership in Germany and France. That remains part of our global five focus countries identified for accelerated growth. We also announced country head appointments for Spain and Portugal and are scaling up our presence in these geographies as we are seeing strong traction for our digital transformation propositions in these countries.

We are investing in deepening our sales and solution capabilities onsite, both in terms of employees and delivery centers of excellence, more so in Europe, as we called out in the last quarter as a medium-term investment strategy. This when combined with a strong pipeline and bookings we have seen in the region, gives us confidence that we will have handsome growth in the upcoming quarters.

In terms of Segments:

Engineering and R&D Services posted a stellar 4.3% sequential growth at a 10.7% year-on-year growth respectively. What we see as a big positive is the revenue momentum in Engineering and R&D Services both in Europe and Americas, led by Digital Engineering demand in Hi-Tech as well as Life Sciences. We are already seeing green shoots of growth from the asset-heavy industries as well. With this, the outlook for ER&D Services looks strong in the upcoming quarters. IT and Business Services was flattish sequentially but remain very healthy at a year-on-year growth of 13%.

Our Digital business, which comprises of Digital Consulting, Application Services and Data Analytics, led the growth in this segment, which we believe is one of the highest, if not the highest among the peer group on a year-on-year revenue growth metric.

We continue to see significant participation by HCL in existing clients digital transformation spend, thanks to our strong Mode-2 digital propositions. This is reflected as our $50 million clients growing from 35 to 37 and even a very smart growth from LTM last 12 months compared to the previous LTM 12 months, and 20 million clients growing from 96 to 104 this quarter, and many of these clients are FG 500 clients and some of these deals are normally not included in our large deal communications. This is high quality growth based on great client satisfaction and strong relevance of our propositions and are executed through predefined rate cards and are not new deals. Even such rate cards when signed first time are not mentioned in our communication, but they make significant contribution to our growth.

P&P segment had a 1% decline this quarter while it grew 6% year-on-year. I would like to call out that our renewal rates in the P&P segment remains very healthy with net value capped at above 100%.

We would also like you to notice that some of our ERS product offerings are grouped under this segment starting this quarter. We have carved out a unit, it is called "Industry Software Group" focused on building next-generation products in 5G, telecom, manufacturing and enterprise AI. We've also reclassified earlier quarters as well to have a fair quarterly and year-on-year comparisons. We have a track record of delivering business value and this portfolio is leveraged by leading global manufacturers across automotive and aerospace industry, hi-tech and telecom service providers.

Also, to keep the growth objective in mind, we exited the IP Partnership with CFT, which was a stagnant revenue stream and we concluded that exit end of June this year.

Moving on to the mode wise growth:

Our Mode-2 business saw double-digit YoY growth of 29% and a healthy quarter-on-quarter growth of 2.3%, led by Cloud and Digital Transformation Services. The Mode-2 quarter-on-quarter growth would have been even higher, except for one professional services security engagement, which for business reasons we agreed with our client to transition back to them. Mode-1 and Mode-3 have posted a strong year-on-year performance of 8.1% and 3.6% respectively.

In terms of industry segments:

Our Life Sciences and Healthcare vertical continued its aggressive growth trajectory with a 5.4% sequential growth and a 22% year-on-year growth. We see a lot of opportunities in this vertical across all our business propositions, including digital transformation, workplace and digital engineering services.

Financial Services and Technology and Services verticals posted the next best performance with 2.9% and 1.6% sequential growth. Telecom and Media grew 17% year-on-year, reflecting strong medium-term recovery in this segment.

On the margins:

We continue to execute well, keeping our operating margins within the guided range at 19.6%. Later, Prateek will provide you a detail walk of the margins.

Our booking performance was a real highlight of this quarter; it remained in high gear in this quarter, with a new booking of $1.66 billion, which is a robust 37.4% year-on-year increase. This was enabled by 12 large wins across segments, geographies and verticals.

Some recent large deals we announced in the Cloud and Digital space are those with the Mosaic company, the Fiskars Group, McLaren Health Care, Hitachi, ABB Power Grids and UD Trucks.

I also want to call out a large deal we signed with a US-based energy company to operate and transform its downstream order to cash services, end-to-end and midstream operations by leveraging HCL's Commerce and Digital Experience platform from our software portfolio. This deal is a great proof point of how our services and product businesses work together to win significant client value and also win large deals. We are confident there are more to come of this kind. With respect to this particular deal, HCL will bring process efficiencies, industry best practices and innovation to deliver additional value to the clients operations. In addition, HCL will provide Analytics and Assurance Services around Access Management to the Clients Application and IT Assets.

With regard to our P&P business, we continue to see growth both QoQ and YoY in the new license booking. We continue to see our pipeline growing to new levels across the breadth of our Services business. The pipeline continues to have a positive trajectory in our P&P business as well. To support this growth, we continue to invest in a world-class sales and support organization, both internally and by hiring from the top software companies globally.

Both in our bookings and in our pipeline of our ITBS business, we continue to see convergence of infrastructure and application businesses as integrated deals. In the last five quarters, we've closed at least 15 integrated deals and the momentum is just picking up. And this is multi-year deals. We continue to see acceleration in Cloud business, reflected in the multi-year deals covering themes like Migration, and Implementation of Cloud Smart Strategy, Management of Large Hybrid Cloud Landscapes, Cloud Consulting, etc.,

Industry based approach of HCL Cloud Smart will help accelerate customers cloud journey and benefit realization through both rapid Application and Infrastructure Modernization, increased Data Security and Governance. We have migrated 100,000 instances to Cloud through our IPs, blueprints and certified resources in the last 12 months.

We also launched a data-driven experience framework that will drive next-generation customer experiences designed by a cross functional team of marketers, technologists and data scientists, the framework enables enterprises to create real-time personalized experiences at scale, and add the agility and speed required for implementing changes due to the evolving trends. The framework sits on top of HCL's Advantage Experience platform, and Omni-Channel ecosystem that provides a conversational and data-driven capability for marketers.

In our P&P business, we're about to launch HCL Now, which unlocks the full potential of HCL's products and service capabilities on a cloud platform of clients choice. It gives our clients the flexibility to control their data, mix and match among different tools and to build their own solution architecture. The Cloud Native as a service offers enterprise grade availability, unlimited scalability and flexibility built from the ground up as Cloud Native managed on public cloud of clients' choice. It gives access to experts on demand empowered and enabled by a cloud and HCL product experts that reduces the risk and costs while transitioning to a Cloud Native architecture.

Clients are starting to see the scale benefits of digital transformation, be it delivering user-friendly offerings more efficiently and cost effectively to customers or breaking down silos and enabling employees to work together using collaborative tools. Such benefits make digital technology in partnership with human ingenuity and resilience in what we call as the "New Essential"**.** The proposition designed by itself for this transformation of our global enterprises is the most elegant path to long-term sustainability.

As we expand our global market participation, we recently onboard local country leadership for South Korea, Vietnam and Taiwan, to accelerate growth in emerging pockets of Asia, and in Mexico, Brazil, Spain and Portugal. These countries, what we call "New Frontier Countries", would grow our business in the medium term, with its strong economic growth and digital adoption in these countries. This combined with the markets we called out as focused countries, Australia, Canada, France, Germany and Japan, where we deepened our participation a few quarters back. This should diversify our revenue profile. We continue to strengthen our capabilities in our key markets where we lead, like US, UK and Nordics to sustain the advantages we have.

As we look at our delivery talent, I'm happy to share that HCL was recognized by the Great Place to Work Institute as one of India's Best Employers in the Nation Builders Category, as well as One of the Best Workplaces in the Mega Employers Category for 2021. Such awards and others like Being in the Forbes Top-30 Globally Last Year, makes HCL a top Employer of Choice for Tech Talent.

In terms of talent ramp up:

We've added more than 7,500 employees during this quarter, while demand for technology talent continues to remain very high. We hired 3,500 freshers during the same period. Our attrition was 11.8% on LTM basis. While it is inching up a bit, but thankfully at a lesser speed than the overall industry.

We continue to act proactively to control this aggressively, be it through special allowances and retention bonuses for super niche skills and increase our reliance on freshers, not just in India but globally. Our onshore fresher hiring should also help us to reduce our dependence on visa talent even further and onsite subcontractors to the next optimal level. We will be implementing annual increment cycle as planned, with a special focus on zero to five years talent.

Looking ahead, I remain very positive of the market and the opportunities arising rapidly in the cloud and digital space, which we are really in a great vantage position to leverage. We remain optimistic about our growth trajectory, because I believe we are uniquely differentiated through a combination of solution and services mix, strong client relationship, employee commitment and a market aligned investment focus. We remain very confident of good QoQ pure growth for the rest of the year, enabled by the 37% year-on-year booking, preceded by all-time booking of 3 billion in the previous quarter, and also 7,500 plus net hiring during this quarter.

Before I close I also want to bring to your attention our No. 1 Ranking by leading Investment and Financial Services Group, Edelweiss, in their ESG Scorecard & Ratings. This is an emphatic validation of the hard work that HCL has invested on this very important agenda over the years. And we are taking this opportunity to reiterate our commitment towards building a truly sustainable enterprise, which makes a positive impact on both people and the planet.

On that note, I will hand over the floor to Prateek to provide more details on our Financials. Over to you, Prateek.

Prateek Aggarwal: Thank you, CVK. Before I get to the financials, I want to share with the people on the call, a pretty momentous occasion. So good morning, good afternoon, good evening to all the people on the call and I hope you're staying safe and keeping well.

The momentous announcement today. has been that Shiv Nadar has handed over the baton of the Managing Director to C. Vijayakumar, as we fondly call CVK. Shiv himself has been elevated to the position of Chairman Emeritus and Strategic Advisor to the Board. Roshni, of course, continues to be our Chairperson and CVK has been today appointed as the CEO and Managing Director of HCL Technologies. Congratulations, CVK and wish you all the very best in your new role.

I will now get to some more details of the P&L:

As we have already covered, just reiterating a few numbers, revenue stood at $2.72 billion, up 0.9% on the quarter and 15.5% on the year in US dollar terms. The growth in constant currency was at 0.7% QoQ and 11.7% YoY. Q1 EBITDA came in at 24.5% in US GAAP terms, whereas in IND AS, it is at 25.2%. The reason I call that out separately, because the rest of our peers published their results in IFRS, and there is a gap difference between US GAAP, IND AS and IFRS. And therefore 25.2% is the right comparable versus most of our peers. Q1 EBIT came in at 19.6%. It was down 77 basis points on a sequential basis and 93 basis points on a year-on-year basis. Net income for the quarter was at 16% of revenue, up 83 basis points quarter-on-quarter. And in rupee terms, it was higher by about 8.5% on a quarter-to-quarter basis. Mind you, the quarterly comparison is after excluding the milestone bonus, which was paid in the previous March quarter of about close to $100 million and net of tax it was around $79 million.

HCL continues to have very robust pipeline, highest ever, and we continued the strong booking momentum even in this quarter; this quarter's booking came in at $1.66 billion of total contract value (TCV), which I would like to remind everybody is only the new deal wins during the quarter, it does not include any renewals at all. So the 1.66 billion was a 37.5% increase on a year-on- year basis. This is further backed up by this very strong net hiring that we have been doing in the last three quarters actually. Just to give you the numbers of the last quarter and this one, we hired a net headcount of 9,295, let's say 9,300 as a round figure and this quarter is 7,522 which brings the total across the two quarters to about 16,800 in employee terms. Over and above the 16,800 were third-party contractors whose number also went up by about 3,000 over the two quarters, and therefore in the last two quarters if I include the third-party contractors as well as the employees, we have increased our net workforce by about 20,000 within the short space of two quarters.

During the quarter, as CVK covered briefly, HCL had to fight the challenges that were posed by the second wave of COVID especially in NCR, where we have a large population as most of you know. And the headwinds that threw at us was both in terms of revenue, as well as cost from employees being on pandemic leaves, which we give to our employees as and when they required either for themselves, or for their family members so that they could take care of their loved ones.

We focused largely on two broad areas. So the first one was the "COVID Care Support" and the second one was what we call the "Family Assistance Program." So as part of the first one, the impacted employees and their families, they have been supported with medical infrastructure of all kinds, for example, in terms of reserving some hospital space, isolation beds, ICU beds, procuring oxygen concentrators and moving them to where they were most required, insurance top ups on exhaustion of insurance limits, and so on so forth. The list is pretty endless.

And as far as Family Assistance Program was concerned, to support the dependents of the colleague that we unfortunately lost, which included compassionate allowance, potential jobs for the spouse if they were willing, or if they require training we are providing that as well, and continuing education for the children of the employees. So all in all, it was almost a war effort fighting the COVID menace.

HCL also launched vaccination drives for the employees and their dependent families. And we have been able to reach a decent percentage of eligible population and continue to make strides to reach 100% this quarter.

So getting to the numbers in some more detail, the revenue was impacted by about $7 million, which in growth terms is something like 25, 26 basis points due to the impact from COVID-related leaves, the impact was of course higher to start with, but we could battle out some of that by redeploying resources.

And to give you a quick walk, for the EBIT, the EBIT contracted by about 77 basis points and there was a gain from FOREX of 20 basis points and last quarter, we had the higher amortization which was about 60 basis points benefit for this quarter, because it was a hit last quarter. The drop was primarily driven by pandemic, it was a drop of close to 90 basis points, which had three components. So the first one was the impact on revenue, which itself hit the EBIT by about 20 basis points. The second one was the leave cost because these leaves are over and above the entitlement of the people. This was a special pandemic leave. So that cost us another 24, 25 basis points. And the third component was on the COVID support costs, which was another 45 basis points. So all these three factors put together constitute the pandemic impact of about 90 basis points. Over and above that we had other hiring and retention costs, given the demand and the supply gaps that we have, that was about 35 basis points. And the last factor was really the investment in new markets and higher R&D spend, which was another 30 basis points. So that gives you the movement of 77 basis points from the last quarter to this one.

I will now move on to Profit after Tax. Apart from all the other factors, there was the effective tax rate for the three months, which was at 21.7%. The normalized number for this quarter is about 23.5% really. But we had the benefit of about $10 million due to the conclusion of an uncertain tax position, which came in favor of us during this quarter. So that $10 million added to the profit after tax for the quarter.

The other notable happened during the quarter was unwinding of the IP partnership with CeleritiFinTech, for banking products. As CVK already talked about it, their revenue was running stagnant and we prefer to get out of it rather than invest more. You may remember, there was a $25 million second payment for the intellectual property which was due to be paid coming up in this year. And instead of paying that 25 million, we negotiated an exit instead. This has given us decent IRR on that investment over the years and the work that we have been doing on those products will be transitioned back to them over the next two quarters, and this part of the revenue stream will come down to zero by the end of the financial year, the fourth quarter will be pretty much zero.

We have successfully recovered our investments, as I already mentioned, including the 25 million otherwise payable, and this has been appropriately reflected in the balance sheet.

This quarter continue to be a good cash generation quarter. In line with the profit after tax or net income, we generated operating cash flow of $447 million and a free cash flow of $403 million during the quarter, which is respectively 102% and 93% respectively of net income. Last 12 months operating cash flow is at 2.23 billion and free cash flow was close to 2 billion at 1,986 million. And those numbers are 129% of net income and 115% of net income.

Our OCF and FCF yields remain highest amongst peers at 6.2% and 5.5% respectively.

Our balance sheet continues to be strong with gross cash at the end of the quarter at $2,584 million, which is up 32% year-on-year after making the payment of the milestone bonus of about $100 million last quarter and the special dividend payout during this quarter of $588 million during the quarter This is the Rs.10-plus 6 per share that we declared in the last board meeting.

The last thing on the Earnings Per Share. Last 12 months, diluted EPS has come in at Rs.49 per share, which is up 13% year-on-year and the last 12 months diluted cash EPS is at now Rs.60, which is increase of 5.1% year-on-year.

The board declared a dividend of Rs.6 per share at the end of this quarter.

That is all from my side. Moderator, back to you.

Moderator: We will now begin the question-and-answer your question. First question is from the line of Pankaj Kapoor from CLSA. Please go ahead.

Pankaj Kapoor: CVK, my first question is on the revenue momentum that we lost because of the wave 2. As Prateek quantified, it was just about 7-odd million. So the growth itself was slightly weaker. So what would you attribute this to? You also mentioned a professional services contract that was given back to the client. If you could quantify the impact of that? And going forward how do you see the quarter shaping up -- do you see some bump up happening in the second quarter because of the loss of momentum picking up in the Q2 and a more normalize second have, your thoughts on that please?

C. Vijayakumar: Pankaj, see, Q1 generally is a seasonally weak quarter for HCL. So, we probably expected maybe another 60, 70 basis points more than what we delivered, I think we delivered 0.7, maybe our initial plan was to be between 1.3, 1.4. And that was because of the large deals that we signed in Europe. We've pretty much signed towards the last end of the quarter and then some of the transitions, were going to take a longer time and slow revenue realization was expected. And of course, being the last quarter of last year, there was obviously some completion of projects and things like that, which cost a little bit of bump up and there was a one-timer impact. So those were the two aspects and then of course, there is a 60, 70 basis points reduction due to one, of course, pandemic leave impact is what Prateek quantified, but there is also some slippage and some milestones and things like that, which cost a little bit. And then we talked about the professional services, which is one of the partnerships that we signed, there is some part of it, which we jointly agreed it is better done in-house for the client and we transition. So that's really the Q1. Now obviously, this will have a positive impact in Q2. So I expect a strong quarter in Q2 and clearly normalized growth in the second half. And we are continuing to be confident of the double digit growth that we talked about in the beginning of the year. And I think the right way to look at it is the headcount ramp up. Obviously, this is all driven by demand. And sometimes the revenue realization takes a little longer, it depends on the ratio of your freshers versus laterals that you have ramped up. So those kind of factors drive some kind of timing of revenue realization.

Pankaj Kapoor: Just going back to the previous quarter also, you mention the pipeline continues to be at a record high, at this time also we spoke of a record high pipeline, so how do you look at the actual conversion of this pipeline, are decision-making taking longer, which was the reason why maybe there was some lower actual order booking compared to the previous quarter or is the pipeline getting more and more by the smaller size deal and which is the reason why there was may be a kind of moderation in the deal wins?

C. Vijayakumar: So Q4 is always the peak, and if you look at even the previous year, Q4 was one of the best ever quarters. So that way comparison of Q4 to Q1 from a booking perspective would not be right. The right comparison will be Q1 of FY'21 and Q1 of FY'22. You may say that Q1 of FY'21 was a pandemic driven first quarter, but even if you compared to the previous year, it's about 37% higher. So, I think booking momentum is very, very good in this quarter. And the pipeline is high and we will again book very strong deal wins in this quarter, I am pretty confident of it.

Now, all of this, at some point will have to translate to revenue, so I am pretty confident of good growth in the rest of the quarters. But the highest pipeline that we have, I think that augurs very well for FY 2023.

Moderator: Thank you. The next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: My first question is for CVK. It will be helpful to get some color on how the renewal deals are shaping up. And also, within the strong new deal wins which you announced, how much was due to very strong pipeline and how much is due to a better win rate for HCL, let's say, versus last year?

C. Vijayakumar: Gaurav, I do not have specific numbers on the win rates. But generally looking at it, I feel our win rates have gone up significantly in the last two quarters. I would want to make that as a qualitative commentary. The qualified pipeline is of very high quality, and we do believe we will have very strong win rates. Now, I don't know what was your first question, I missed it.

Gaurav Rateria: On the trends in the renewal deals, because most of the deals which you now boast of large deals, is the new deal wins, right?

C. Vijayakumar: Yes, yes. The new deal wins is what we announced. Renewals are as usual; I don't see any major concern. Usually 95% to 97% of our revenue gets renewed, so that trend is definitely pretty intact, very positive renewal trends.

Gaurav Rateria: Second question is on the sales and marketing spending, it has picked up in the current quarter, you quantified that as well. But is that largely done and reflected in the current quarter numbers? Or do you think this built up will further happen over the coming quarters? And then you will reach kind of steady state with respect to all the investment dollars which you talked about last quarter?

C. Vijayakumar: I think there's some more way to go till it reaches a steady state run-rate. Because new countries, we have onboarded leadership, I am sure there's going to be more cost. Products and platform, again, I think we are pretty much done with the capacity that we planned. And some of the new geographies and engineering services, some solution and COE build up on the digital engineering side; they are still work in progress. Next two quarters, I think it should kind of stabilize.

Gaurav Rateria: Last question on, what would be the impact from the transition of work back to the client? And is it fully reflected in current quarter? Or do you expect some more impact to come through in the next two to three quarters? Thank you.

C. Vijayakumar: I think it's largely reflected, there could be a marginal impact in the next quarter.

Moderator: Thank you. The next question is from the line of Sudhir Guntupalli from ICICI Securities. Please go ahead.

Sudhir Guntupalli: CVK, congrats on your elevation and all the best. My first question, this is the second consecutive quarter of poor growth, and any way we dissect and look at the data to Q-on-Q or Y-o-Y or segmental, etc., our numbers look very weak versus our own historical average performance in a June quarter. Despite the massive benefit we would have gotten from a low base in June 2021, IT and Business Services would have grown roughly 11% year-on-year, ex DWS. And surprisingly, this is lower than many companies outside the IT sector where, let's say, physical processes like footfalls or paperwork, processes in case of banks, etc., would have gotten majorly disrupted due to the second wave lockdowns.

So when you think about the deflationary environment we live in and growth becoming a commodity everywhere in the world, CVK, just your thoughts on what has not gone right or what is not going right for HCL?

C. Vijayakumar: Sudhir, honestly, I strongly believe everything is going right. And the growth itself is a factor of the nature of deals that you win. I think the right way to look at our numbers is really based on the headcount ramp up, all of that will translate to revenues, some of that is taking time. Other than that, whether it is the strength of our propositions, scale up of our large clients, largely driven around digital business and engineering business, all of that is very, very strong. I agree, couple of quarters compared to the industry our performance is muted, but it's very strongly supported by the bookings and I think we will recover very smartly as we go into the next few quarters.

Sudhir Guntupalli: And one question if I may, second wave had a pan-India impact with even cities like Bangalore, Bombay, etc, seeing massive contagion at different timelines, and our competitors who have sizable delivery operations in these cities seem to have not called out a double whammy impact both on revenue and margins like the way we are calling out. Of course, one company flagged off second wave issue, but that's more driven by passport Seva Kendras, etc, where physical presence of people is needed. So, why are we calling out a higher impact?

And second thing is, COVID support costs also, most of the other companies would have also incurred COVID support costs in terms of supporting their employees, so on and so forth.

C. Vijayakumar: Sudhir, it's very difficult for me to comment on this aspect in comparison to others. So, maybe we spent more on taking care of our employees, that's quite possible. And the second aspect is, I don't know how everyone is treating the pandemic. We gave pandemic leaves, not just for our employees, but also in the situations where the family members are unwell. And this leave was over and above the regular leaves. So, maybe different companies approached it differently, I don't want to comment on others. But we have shared with you very transparently on what the impact on us was.

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

Mukul Garg: CVK, I just wanted to focus on the P&P business, the growth this quarter on a Y-o-Y basis slowed down to 6% versus almost I think mid-teens kind of a growth of few quarters ago. If you can help us, A, was there any impact of the product discontinuation on this? And B, on an overall basis, how is the growth happening in the P&P side? You recently had a launch of Domino V12 also and if you can also mentioned whether you had any impact from the recent tough migration at IBM on the node side, given that they are the largest user of the email in the globe?

C. Vijayakumar: Mukul, maybe I will ask Darren to respond on the year-on-year growth. But before that, just to kind of set the context. Our outlook was to grow low single-digit this year in our P&P business on a year-on-year basis, so that should be the reference point. But Darren can provide more color on product discontinuation and the new launches and the impact of various initiatives. Darren, over to you.

Darren Oberst: Absolutely, thank you. So the current quarter was actually a strong quarter for us in terms of new license bookings. As we have highlighted over the last couple of earnings calls, that's the key area of priority as we continue to ramp up our direct go-to-market. We completed two years from the date of the closure of the large divestiture with IBM. Our top priority in the first several quarters was in customer transition, stabilizing renewals. We have incrementally been focusing on more new license, more growth. And again, we have seen that reflected in the investment we have made from a go-to-market point of view.

In terms of the overall growth rate, as CVK said, we are in line with the expectations that we have set to the market. This would be sort of in the low to mid-single-digit growth business. Again, over time and over a number of quarters we do see a significant potential to grow above that, and to get to company norms in terms of growth. But that is the growth rate that we would expect for the business today. We did launch, as you mentioned, Domino V12, along with a number of other pretty significant releases in AMJ. This continues as a pattern for us over the last several quarters of investment, modernization, innovation, new capabilities in our portfolio. There's a lot of new stuff coming this quarter as well, again, things that we believe will be impactful and continuing to improve our growth rate.

And finally, as you mentioned IBM, it's not our place to comment on any of our customers, and so there's really nothing that we could say about that, other than perhaps just to allay any concern that there's some sort of financial impact that would be dimming our growth, that certainly is not the case.

C. Vijayakumar: I also want to add that, we also discontinued our SaaS offering. I mean, as I mentioned, we had announced it a year back and we also mentioned it in the last quarterly call. So, that also has certain impact. And that was a conscious call to discontinue the SaaS offering and those clients are migrating to on-prem for the solutions.

Mukul Garg: Sure, thanks. I have one question for Prateek. Prateek, this was on cash usage, you currently have about $2 billion in net cash. If you take the Q1 run rate, you probably will add another $1.6 billion in the free cash flow this year. How is management actually looking at the usage of this cash? I know you indicated a Rs. 6 run rate last quarter, but this will imply that you will pay out between $800 million to $1 billion to shareholders in FY 2022. What factors are making it difficult for the board to increase payout, given that you have doubled your net cash in last two years?

Prateek Aggarwal: Mukul, that we have doubled our net cash is a factor of what it is today as well as what it was before, in a sense that our net cash had gone down pretty much after the closing of the acquisition. And then we had 50:50 kind of breakup of the acquisition of 1.8 million, leaving aside the contingent payments, which was $812 million at the end of June 2019 and another $812 million at the end of June 2020. So, $2 billion is frankly not much. We do need to build the cash on the balance sheet. By comparison with peers, we are by far much lower compared to most of our peers. So that's the statement on the cash balances.

But as far as dividends are concerned, I think we already took a largish step in the previous board meeting where we said, apart from the Rs. 6 which we declared for that quarter, and apart from the Rs. 10 which we have declared as a special interim dividend to commemorate the $10 billion milestone in revenue terms, we also confirmed that going forward we will maintain Rs. 6 per share per quarter, which is what we have maintained. To my mind, it is too soon in the day to keep changing on a quarter-to-quarter basis. I would assume the board would probably look at something maybe in the last quarter or something like that is all I can say. It is obviously a board decision. We take your feedback and leave it at that.

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

Ankur Rudra: Just one sort of overarching question on guidance. Last two quarters, as you highlighted, close to $5 billion worth of net new deal rents, how should we think about this and when should we think about this to come to stronger revenue growth? Are there still remaining drags in any of the business, either legacy IT side, engineering or IP, or anything else in the horizon which keeps you from articulating your growth bands more granularly?

And as an addition to that question only, it is not a separate question. The ask rate at 10% is about 2% sequential for the next few quarters, how should we think about your confidence of achieving or beating that? Thank you.

C. Vijayakumar: Ankur, except for the Products & Platform segment, where we specifically called out the growth profile and the mix of growth products and the declining products, we believe all other aspects of our portfolio is in very good shape in terms of the growth profile. Obviously, in FY 2019 we did a very large deal, that had revenues in 2021. There is always a year-on-year decline when you do these mega deals. So, except for situations like this, and where we have taken conscious calls to exit a business, like the Professional Services, I do not see any headwinds. In fact, all the aspects are pointing to a lot of traction in existing accounts. And those are not even into our booking because they are extensions of rate cards where we are scaling up. Obviously, in the current demand environment, it is not always possible to get a fully ready billable person, so either it is freshers or we hire lateral talent with maybe one level low and then train them. So that is the approach. I think we are approaching this in a truly organic manner to create high quality growth. And the rebadging and all those transitions, it definitely has an impact in the subsequent years. Not that we are averse to it, but I think we are happy here where we are. I don't recollect the second question.

Ankur Rudra: So the second question was, the ask rate for your guidance is double digit, if we assume that as the bottom, the ask rate for that is about 2% CQGR, how do you think about your confidence about achieving that or beating that?

C. Vijayakumar: Ankur, I think the CQGR to get to a double digit is about 2.8% from where we are on a constant currency basis. And we are pretty confident and we will make up for the shortfall of Q1 and Q2, I feel pretty confident of that. And then our growth, some of these transitions will come into steady state and all of that will deliver a pretty good growth in the second half.

Ankur Rudra: If I could just put in one last, is supply the main risk to that? Thank you.

C. Vijayakumar: Yes, supplies, I think we are pretty confident of our current hiring numbers because we see the momentum, the recruitment, the multiple metrics that we track on recruitment across the globe, we are hiring between 8,000 to 10,000 people; about 2,000 to 3,000, or a little more than 3,000 freshers. So, I think both are lateral capacity and fresher capacity. I do believe we will be able to hire at this levels for the next few quarters. Obviously, market situation is very high demand and people have multiple offers, the renege-ratios are high. But I think the locations where we are and the work that we have done in the pandemic, how we have really handled our employees, I think it's created a tremendous amount of positivity. Our own attrition, while it has inched from the last quarter to this quarter, we believe it probably may not be the best, but maybe second best in the industry. So, all those metrics points us to a good ability to hire and fulfill. But the demand, if we could hire 15,000 people a quarter, we have demand, and if we can fulfill then the growth will be much higher. But I think the right levels will be 8,000 to 10,000 so that we can scale up in a very manageable manner.

Moderator: Thank you. The next question is from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah: CVK, just a follow-up to what Ankur has asked. Now, with the worst of Q4, 1Q soft growth being behind, what is curtailing us in terms of not giving a Q-on-Q growth guidance when we have a very strong track record of meeting guidance either on a Y-o-Y quantitatively or on a Q-on-Q which we have started from FY 2021? What is curtailing us not to give guidance for the next three quarters, when we have a solid order book, both in FY 2021 as well as in the Q1? And your comment indicates that even the 2Q order book would be even great.

C. Vijayakumar: I don't think technically there is a problem, it is more a conceptual thing. I think, we believe giving very precise guidance on a quarterly basis drives a little more short-term focus. And we have consciously taken a call that we will focus on the mid to long term and not get very narrowly focused on the quarter. Like last year, we pretty much gave guidance for every quarter. So, I don't think that is in the right interest of the long term of the company. So, even precise guidance also in this environment, while there is very buoyant demand environment, but like when we when we spoke during the quarter in April, we did not realize the level of pandemic that we witnessed. So, I think it's better to be a little bit cautious. And to kind of tell you the booking numbers, which is a true indication of what the future growth is. And that's the only certain thing, right, booking is done and dusted and that only has to be executed, it will show up in growth in one quarter or the next quarter issue.

Sandeep Shah: That is well understood, CVK. So, I think both booking and guidance are actually interdependent rather than being exclusive, but your comments been understood as a whole. Second question to Prateek, whether this 90 bps which you call out as a COVID related cost, that could be a tailwind in the second quarter, that is the way one has to see? And generally, we split our wage hikes over next two or three quarters, so in that scenario our margin may have an upward bias on Q-on-Q basis in 2Q, is it the right way of looking at?

Prateek Aggarwal: Yes, you are right. We certainly hope and pray that we don't run into a third wave. Your comment sort of assumes that, but we continue to be prepared to handle any eventuality. We certainly don't hope that COVID comes or third wave of COVID comes knocking and such a devastating one as the second one. So, yes, we would have other things to take care of, which is obviously the wage and salary increases, which would require their own depth handling in turn.

Moderator: Thank you. Next question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: CVK, in the prior question, you had basically said that you would make up for the shortfall of Q1 and Q2 and make it up in the second half. Were you referring to the calendar or do you expect the Q2 of this fiscal to be weak?

C. Vijayakumar: No, Nitin, maybe there is some gap. I didn't talk anything about Q3, I said, we are likely to make up for the shortfall in Q1 and Q2, and H2 should be normalized growth numbers.

Nitin Padmanabhan: Okay. You were referring to the calendar, is it?

C. Vijayakumar: This is a financial year for us, because we just finished Q1.

Nitin Padmanabhan: So the expectation is that the Q2, which is the current ongoing quarter will also be relatively weak, is that the clarification?

C. Vijayakumar: No, no, in fact it's the reverse. What we said is we will make up the shortfall in this quarter, which is Q2.

Nitin Padmanabhan: Sir, the second question was on the exiting celerity. How much of that would be an impact? And is that already baked into the low single digit kind of number on the production platforms business?

C. Vijayakumar: So, we don't want to call out client specific numbers. I mean, the fact that it doesn't change anything in our guidance and outlook for this year, you should just assume that we are soaking that in.

Nitin Padmanabhan: I think if you look at the last quarter, you mentioned that the average tenure is three to five years, and you said the quality of the bookings were really good. How is it this quarter? And the second, when you speak about much higher quality of bookings, what is it that is better this time versus whatever we would have won maybe way back? Just your thoughts on both, one is the average tenure for the current booking; and second is, what is driving the better quality, what is the quality aspect about?

C. Vijayakumar: Prateek, you were responding to the previous question, maybe if you could just complete it and then I will answer to this.

Prateek Aggarwal: No, I was just trying to add that there could be some quarter-on-quarter volatility, but our guidance on a full year basis, which CVK already mentioned, is not changing because of this.

C. Vijayakumar: So, Nitin, just remind me of your question.

Nitin Padmanabhan: My question was about, one, what is the average tenure year of the booking in this quarter, you had mentioned that the quality of booking in the last quarter is much better. So when you say improved quality of booking, what are you referring to in terms of underlying characteristics?

C. Vijayakumar: See, first is, I will comment on the tenure. I think the tenure is also somewhat similar, but maybe more skewed towards a five year kind of average now than the three to five years in the last quarter. In terms of quality of booking, what I was referring to is, if you do a large rebadging deal and it does a huge bump up in revenue and then it brings you down in the next quarter, I mean, we would definitely do the deals but, I will say, it's a slightly lower quality. Or if you to want to take over a lot of data centers and assets, I think they are just one-time revenue, or like the deal in Germany where we have to rehire 2,000 people, which we did not really do it because it was a distraction in a time when there is good organic demand and focus on building the business by just scaling people and talent that's much more sustainable in the long run. That's what I meant.

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

Rishit Parikh: Congratulations, CVK, on the elevation. I have just got one question on the TCV front. You have talked about getting aggressive into some of these newer markets, have you started to see some of the contribution in the TCVs? If not, when do we expect some of those investments to come through?

And just is a related question on TCV. I think we have seen an improvement in TCV in the last two quarters essentially, and you talked about general aggression in the market. So, are these deals margin dilutive over the longer term? Or what's contributing to a sudden improvement in terms of our TCV wins in the last two quarters? What are we doing right, if you could just elaborate on that? That will be helpful. Thank you.

C. Vijayakumar: Yes. I think our win rates are better, that's definitely one. And these geographies, I think I want to segregate this into two categories. One is, what we call as focused geographies, which is five countries; Germany, France, Australia, Canada, and Japan. I think there is already a good momentum and our incremental investments will continue to deliver revenue, and they will more or less get into the run rate very soon. I think the seven countries, what we call as new frontier countries, which is three in Asia; South Korea, Taiwan, and Vietnam; Spain and Portugal; Brazil and Mexico, I think it's a long haul, because we have pretty much zero presence and we are really building things from scratch. So, I don't expect a meaningful contribution from that for the next

12 months or 18 months. But it's a good investment to make, because some of these geographies are where business is and we are not present.

And also, it will help us to serve our global clients in these geographies. If I take my top 100 client partner accounts, many of them have presence in some shape and form. So that uptick may come a little quicker. But truly, customers domiciled in these countries, it will take time. But Mexico is one area where we may start seeing results much faster because even though we didn't have the leadership there, we put in a lot of effort otherwise, so some of that is going to show results a little quickly.

Rishit Parikh: And on these large deals, will there be a meaningful margin or it will be similar to where the company average is?

C. Vijayakumar: See, I think it's a question of the timeline. Maybe the margins will be dilutive for the first year, in some cases maybe even the second year. But we don't sign up to deals where we don't have a clear visibility of delivering company level margins, at least in year three.

Rishit Parikh: Sure. And just one last question on the overall revenue. When you talk about the double-digit revenue growth, on an organic basis when you look at it compared to peers**,** it's a little softer and this is despite an easy base in the ER&D business. And I know we have got a weaker piece in the product business for this year. But apart from that, any leakage that we should sort of know of which keeps us from delivering similar to the peers or maybe even higher?

C. Vijayakumar: There is obviously some leakage which happens, because not 100% of the deals get renewed. Sometimes there is an M&A, sometimes they want a much better pricing which we are not able to. So, usually 2% to 3% is lost on those dimensions, outside that there is really no leakage.

Moderator: Thank you. Next question is from the line of Girish Pai from Nirmal Bang. Please go ahead.

Girish Pai: CVK, in the earlier part of this conversation, you mentioned that the strong hiring and the strong order booking means that it augurs well for FY 2023. So are you kind of hinting that you have actually seen acceleration in FY 2023 compared to FY 2022?

C. Vijayakumar: Girish, maybe it's a little early to comment on it. But my sense is, you are right, it's a very qualitative commentary I am giving you, but it is not a guidance, it's just a sense based on what we are seeing, I would see an acceleration in 2023.

Girish Pai: CVK, last quarter, you mentioned that you kind of walked away or you were picky with your choice of orders, was it specifically with reference to the rebadging? Or was it because margins were lower for whatever other reasons, or you had some issues in terms of talent not being available to execute those orders? And how are things panning out as we speak now, are you still being picky with the orders as we speak?

C. Vijayakumar: No, I think, Girish, we never had a situation where we walked away from a deal because we didn't have talent. So maybe that's some wrong communication. But we have walked away from deals if it meant taking over a lot of data centers, taking over a lot of assets, or rebadging with no real long term value, it gives you a huge revenue uptake in one or two quarters, maybe stays for a year, but customer is going to merge all the systems into another system, and then you have to deal with the people. Those kinds of things what we, as a management team, what we thought is, in this environment it's better to focus on building it very, very organically, rather than spending a lot of management time on those type of deals. And it's case to case and when we find deals which we believe will not create long term value, but obviously it's a very competitive market, somebody or other is interested, for them there may be some strategic reasons. But if it didn't make sense for us, we would drop it.

Girish Pai: Just one last question, if I may squeeze this through. The P&P margins, last year EBIT margins were closer to like 28%, if I recall, they were down in 1Q to some 23%. Is this a seasonal issue or you think you can go back to that 28% number for the full year?

C. Vijayakumar: Girish, we explained it in the last quarterly call. But what's happening is, traditionally it has delivered close to 28% to 30% kind of an operating margin. And we believe our sales team needed a little more scale up, and we consciously decided to invest in it and we took a hit on the margins. And that was also the reason why we slightly expanded our margin band, which is with 20 to 21, to 19 to 21. Because we are investing in a little more scale up of the product business from a sales perspective and then we are expanding in some geographies and then we are investing in some digital engineering capabilities, so these were the reasons. I would think, over a period of time, once the sales investments are over, which I do believe it's more or less complete. As the sales picks up, I think it should flow into the margins. So, I would expect the margins to inch up, may not be immediately but maybe in the next year.

Moderator: Thank you. Ladies and gentlemen, due to time constraints that was the last question for today. I now hand the conference over to Mr. C. Vijayakumar for closing comments.

C. Vijayakumar: Thank you for very, very engaging conversations and very, very good questions. So, in summary, I think I very strongly believe we are doing all the right things for the medium to long term. And it may not reflect in exciting quarterly numbers, but the outlook for the upcoming quarters, I feel, we will deliver a strong growth momentum. And long term, again, I continue to remain very positive. And I look forward to these calls in the future. And thank you for joining us today.

Moderator: Thank you. On behalf of HCL Technologies Limited, that concludes the conference call. Thank you for joining us. And you may now disconnect your lines.