"HCL Technologies Limited Q4 **&** Annual Year 2015 Earnings Conference Call"

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Moderator: Good Day, Ladies and Gentlemen and Welcome to the HCL Technologies Limited Q4 & Annual Year 2015 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this 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. Anant Gupta from HCL Technologies. Thank you and over to you Mr. Gupta.

Anant Gupta: Good Day to All of You and Welcome to 4th Quarter Results and the Annual Results for the fiscal '15. Another good quarter from a growth perspective and from a fiscal perspective, a consistent performance; our 3-year growth rate on revenue delivering about 13% CAGR, our EBIT delivering about 26% CAGR to end the year to $1324 million and net income growing by 34% over 3-year basis to $1164 million.

From a client perspective, we had good additions; we added one client in the $100 million category in the fiscal, two in the $50 million plus three in the $30 million plus and I think more importantly, we added 47 clients in the million dollar plus category and I will share the relevance of that in a minute. If you look at where this growth really came from on a yearly basis in constant currency, we delivered 15.1% growth rate on a full year basis. Sequentially, the growth rate was 2.9%. The growth really was broad based consistent across different service lines, horizontals, geographies as well as verticals, but there were really some industry-leading growth rates during the fiscal. Americas grew by 14.1% and Europe by 18.7% both industry leading from a growth standpoint, ROW not bad at 10.3% given our selective focus on few markets in the region.

If you look at a couple of key milestones that were really delivered in the fiscal, Infrastructure revenue exceeded $2 billion in milestone, Engineering Services by a billion and Financial Services by $1.5 billion. Service Lines: Engineering and R&D Services and BPO both delivered 25.8% and 25.6% y-on-y growth, Infrastructure catching up with the significant growth rates in the previous year delivered 18.3%, and more importantly, a sequential growth of 5.2% sequentially over the quarter, and Application again a good growth of 7.7% in both Enterprise SI and IS showing good traction in the marketplace. From a vertical standpoint Retail and CPG or Consumer Products led the growth by 24.7%, Public Services which includes Energy, Oil, Utilities and Logistics for us grew by a healthy 18.1% and then followed by Financial Services which was at 16.6%, all three of them delivering industry-leading growths. Telecom, Media, Publishing 15.5%, Life Sciences 16.3% and Manufacturing 13.9% were pretty much in line with the top quadrant of the market performance.

If you look how we look at the market and how the market is shaping up, we have talked about some portions of the slide previously and the Gen 2.0 strategy which was rolled out the year before in terms of Enterprise of the Future delivering the Next Gen Infrastructure proposition DSI which is Digital Systems Integration offering the transformational capabilities around Application Services, ALT ASM™ which was the new way of delivering Application Management Services, and at the process level the enterprise function as a service and ZCMO strategy and then the R&D by Innovation Monetization. Now, as we look forward, what we see in the marketplace, we have both strong capability in each of the service lines and the way we see markets buying some of these service is really on an outcome-based model. So it is really leveraging the capabilities in the four service lines which are largely a competency-based service offering, but as we look forward and as customers in the 21st century enterprise look at how we could impact their growth we really believe that these would be really consumed more as outcome. We would be leveraging what we call as our Next Gen ITO something which we rolled out earlier in H1 of this calendar year, Automation which has been going on for a while within the company touching each service line obviously moving up to the next level, and Digitalization which is a component which is integral to each and every service line that we offer.

I think another key important thing is we booked over $5 million of business in the last fiscal which really pretty much across the board in line with the mix of different service lines and geographies in the marketplace.

From a CSAT perspective we continue to deliver industry-leading customers satisfaction. Our client retention rates are 98%. From a people stand point we actually are at 27% growth in headcount outside India with a significant number of around 3000 people in onsite resources through large scale re-badging engagements which we did over the year which was roughly about 4x of the quantity of employees who had joined us in the previous year from large scale customer acquisitions.

Another interesting trend is for the first time there has been a competitive report on the Digital Transformation Consulting and System Integration Vendor landscape and I am pleased to report that HCL has been included there as a major player in that category, A), in terms of some of the engagements which have delivered value in the last four quarters as well as the service offering from a go forward standpoint.

With that I will hand it over to Steve who will walk us through both Application Services and Diversified Industries.

Steve Cardell: Great. Thanks, Anant. So if I just pickup first on Application Services, so this quarter Enterprise Systems Integration saw 4.6% Q-on-Q growth, specifically led by a number of new deals primarily either on the SAP product set and also on the Microsoft platform set, particularly, Microsoft we are seeing a very strong growth in the market as people integrate the various elements of the Microsoft Stack including Dynamics and AX sitting on top of Azure. IAS had a small degrowth of 0.2%, 7.5% growth on a Y-o-Y basis. And what we are really seeing is the fulfillment of the market trends that we have been discussing over several quarters and that really the move to digital technology is becoming the dominant driver that is shaping the Applications marketplace. But, what is really starting to become clear is how companies are migrating to that technology and the steps that they are taking in order to move there. So, we are seeing some elements of that shape up in how demand happens; so firstly, we are seeing the move of core ERP into semi-digital technology, so the arrival of the SAP S4 product moving large transaction processing into that manner, the significant increase in legacy modernization across different elements and moving to interim solutions, putting in place steps to an end option particularly around Data, Data Management, Data Lake and Middleware Solutions that allow that to happen and actually we are starting to see some increasing capital budgets to enable some of the transitions that are necessary to Digital as a platform, and the other thing that we are seeing is the integration of not just Digital build but Digital run. So company is trying to take a more end to end view of key processes particularly those to do with customer engagement or to do with trading to understand how to see that in an end-to-end basis and to find the partners like HCL that can help run the operation as well as build some of the Digital technology that supports that.

Just in terms of some of the progress that we have made in this quarter on a shift to Digital, our DSI offering continues to be popular in the marketplace and specifically linking that back into particularly the SAP and Microsoft products that has just been helpful. This quarter we were ranked by Gartner as a leader in the SAP Global Implementation Quadrant which places us as one of the only three companies that now sits in the Global Implementation Leaders Quadrants for Forrester, Gartner and IDC. And we continue to have a strong bookings quarter on the Application side. So particularly on SAP migration to S4 and on to the HANA platform the Microsoft products that and also on the BI and Analytics space particularly the creation of Data Lake, particularly with relation to Hadoop as a product.

And then if we move across to the diversified industries set in terms of growth, so the strongest growth this year was Retail and CPG 24% year-on-year 7.1% in the quarter, particularly driven by a strong growth on the Consumer Products side. So again a lot of our Digital offerings in terms of Digital Marketing, Digital Campaign Management and linking that through into Customer Experience Management has given us strong momentum in that marketplace. Telecom, Media, Publishing and Entertainment 15.5% growth year-on-year, 9.6% in the quarter, HCL always held a market-leading position in the Media and Publishing space and we continue to see strong ramp up with new customers and again the adoption of digital technology in that market segment aligning very much with our areas of investment. Life Sciences 16.3% in the year, 10.2% in the quarter and that has been quite broad based growth both across large pharma which again has been a strong hold for HCL but also in the payer-provider marketplace. So particularly the use of digital tools to give insight back on the BI and Analytics area. Public Services 18.1% in the year, de-growth in this quarter primarily just due to a ramp down on a specific project, and then Manufacturing 13.9% in the year, slightly muted this quarter 1.1%.

So just in terms of where we are seeing growth in the marketplace, Manufacturing we continue to see the primary shift from investment in the Manufacturing of the core product to the life cycle revenues that come from servicing product, integrated supply and operation planning in area that we are seeing demand on at the moment, and then this is where we are really seeing Internet of Things being deployed in many different arenas particularly through Sensors and Automation. Consumer Services: Digital is the big trend for us in that, so multi-channel and cross channel solutions and the Customer Experience Management tools allow us to read customer behavior and drive proactive campaigns. Life Sciences: A lot of this for us has been around deployment, so Mobility and Internet of Things and taking solutions and putting them into the hands of field sales and into the hands of patients and then Public Services probably our continued growth specifically around our Utilities practice which remains a market-leading position. So just a few of the recognitions: So in Manufacturing, IMRO continue to progress well, we closed two more IMRO deals this quarter. Our supply chain intelligent solution for Hi-Tech and Manufacturing continue to pick up clients as well. On Life Sciences, as we continue to build a differentiated position in that market place two of our solutions filed a patent in this quarter on connected health and on commercial analytics and then in public sector HCL was placed as a major player in the IDC MarketScape for Utilities and Berkeley is currently writing a case study for our Life Sciences team on our proprietary starting point system.

So those are the highlights for Applications and Diversified Industries. And with that I will pass across to Rahul to talk about Financial Services.

Rahul Singh: Thanks, Steve. I will quickly talk about Financial Services and then touch upon BPO as well. So Financial Services we ended with a full year growth at constant currency of about 16.6% and I would like to mention here that this is industry-leading growth for Financial Services that we have seen this year and we continue to have a good pipeline in terms of service lines into the future. In terms of demand environment, what we have seen changing essentially is, if you look at the market, the market can be broken up between the developed countries, essentially, the banks which are based out of the Europe and the North America and Europe and developing countries, so the financial institutions which are based in Asia or Latin America, Africa so on and so forth. So we see different trends emerging in these two different distinct Financial Services segments essentially in Europe and North America, it is all about cost, it is a lot to do with consolidation clients are looking in these geographies to consolidate existing vendors to look at more strategic buying and move out from transactions buying to more strategic buying from their service providers. At the same time these banks and these financial institutions are also looking at ways to modernize their legacy technology. Most of the financial services firms in Europe and North America invested in technology many years back 30-years, 40-years in some cases and there is a built-up demand for legacy modernization, Cloud enablement which is driving the buying behavior of clients in these geographies. At the same time we are also seeing a trend towards Digital initiatives; most banks and financial service institutions are looking at ways in which they can meet their customer demands as well as have a more connected work force and that is driving Digital initiatives across the Financial Services sector. Financial Services firms are also realizing that no single service provider can meet all their needs and therefore there is a lot of demand towards what we call as "Co-Innovation" where they build new products and new services in a Co-Innovation collaborative manner with their service providers.

So from HCL's perspective we are seeing our market share increasing primarily because we have been able to win certain consolidation and vendor consolidation deals from our existing clients, in some cases we won against other incumbent players who also have the advantage of

India base. So we have been winning on the basis of superior delivery and I would think a higher amount of client satisfaction as well.

Our offering focus continues in Financial Services. We believe that clients will buy if you have got more distinct offerings. So we have got offerings around cost reduction which we term as ALT ASM™ which looks at ways to cut the production cost for our clients, at the same time on the Digital side we have Co-Innovation Labs created for a couple of our clients in Europe and in the US as well where we look at ways in which we can bring in new technologies, modern applications, etc., into our client's environment. And are also focusing on what we call as "Vertical SI" where we look at transformation happening in our clients on the basis of Vertical System Integration capabilities.

All this is being recognized now in the market place; This quarter Everest has rated HCL as a Leader and a Star Performer… in fact, we moved a couple of notches in terms of the overall ratings and there are only a few service providers today which are in the leaders in star performer category in Everest and HCL has moved into that category in this quarter. We continue to be also rated well by other institutions and we were rated as Best-in-Class by Tower Group. One of our clients has also been awarded Celent Model Insurer award. So for this client we have developed a lot of digital technologies and we were very happy to note that this client was in turn selected for operational excellence in internet activities.

With that I will move quickly into BPO: BPO saw again I would think industry-leading growth for the year, closed the year at 25.6% year-on-year growth and a 4% growth in the quarter. The BPO strategy of focusing on specific products and services and focusing on Fortune 500 G2000 customers is paying off and I think that is what is resulting in the growth in the business because of demand environment we continue to see a lot of domain-led BPO which means that clients want to buy from service providers who can in addition to cost also provide very specific capabilities in the industries or in specific service lines. There is a lot of demand for Robotics and Process Automation. So HCL is also in turn tied up with a couple of Robotics firms as well as we have got some in-house tool kits, etc., which enable high level of Automation to happen and that is a demand which we are seeing in the environment. We are also seeing a demand in the environment in terms of what we call as integrated operating model; integrated operating model means ability to deliver for global clients across multiple parts of the globe, so capability to deliver on a seamless end-to-end basis across India geography, Europe, North America on an integrated manner from clients perspective and a move towards more innovation and efficiency versus just pure play costs. And the growth drivers from HCL's perspective has been the very sharp focus on select verticals. So I think Financial Services and Banking are two verticals which BPO group is focused on and a very sharp definition of service lines across back office and front office also driving specialized capabilities across as I explained earlier across Automation in these particular areas.

In addition to that, BPO continuously recognized well by the industry; Everest has rated HCL's Mortgage Business and Financial Services amongst the major contender in terms of our BPO offering and we have been positioned as a challenger by Gartner in Finance and Accounts

With that I would like to hand over to CVK to talk about Infrastructure.

C. Vijayakumar: Thank you, Rahul. Let me talk about the Key Highlights for Infrastructure Services for the last fiscal as well as the last quarter. Infrastructure Services revenues exceed a $2 billion milestone, it is a significant milestone for us. In terms of the quarterly growth, sequentially, we grew 5.2% and from a fiscal '14 to fiscal '15 perspective we had 18.3% growth. In terms of the trends in the demand environment, as we had talked earlier, Hybrid Cloud adoption is the core of the Cloud strategy for all the enterprises that we are engaged in; there is significant adoption of Private Cloud as well as Public Cloud solutions backed by some of the new technologies around software-defined infrastructure and converts to multiple options of converged stack and so on. But close to a 3rd of the deals that we signed in the last fiscal had a Cloud enablement or some component of workloads on Cloud, be it Public or Private Cloud as a part of the deal.

Another important trend that we are seeing which is maturing now is, we see a lot of Next Gen ITO deals to be lot more integrated, comprising of Application and Infrastructure Services on the Run side. There is tremendous amount of synergies between these two services from a Run perspective and that is what we are seeing in Next Gen ITO deals. Also Cloud and Automation are two important levers which we apply which the customers expect us to really apply as part of our solutions.

Again, Digital and IOT are driving new Infrastructure investments in what we call as the "Elastic Infrastructure" with virtually zero touch operations or very low touch operations. In several of our deals, there has been a significant uptick in terms of adoption of near shore centers, we had opened a couple of near shore centers in the last couple of quarters, and we are seeing good adoption of those centers in our client solutions.

In terms of Services, Security and Service Integrational Management are two specific call outs where we are seeing a good increase in spends from our clients overall budgets.

In terms of Growth Drivers, ITO deal pipeline continues to look very healthy across all the geographies where we are playing in, and HCL as a leader in this space continues to be well positioned to benefit from the rebid market as well as all the ITO deals in the pipeline.

In terms of Wins, we had several wins in the last quarter; a couple of them are notable, IT Infrastructure, Transformation Engagement including work place and SIAM services for a global leader in locomotive and locomotive design and manufacturing across 300 plus locations in 62 countries. That was a notable win. We also had a significant win in terms of providing IT Support Services for a worldwide multinational financial services firm.

In terms of Client Satisfaction, we were this year was among the Highest Client Satisfaction Scores that we had basis on 3rd Party Survey. We continue to be Best-in-Class in Infrastructure Services for Customer Satisfaction. HCL was also rated as a Leader in Everest Group's PEAK Matrix Survey for Global Work Place in 2015. With this we are the only IOP to be rated as a leader by Gartner, Forrester and Everest. We are also rated as a leader in the IDC MarketScape worldwide for the Data Center Consulting, Transformation and Implementation Services. So in summary it has been a good quarter in terms of growth and new wins and good recognitions.

With this I will hand it over to Anil.

Anil Chanana: Good Day, Everyone. So looking at the financials this was a great quarter; 3.2% growth quarter-on-quarter in revenues and 3.1% growth in net income, there were certainly headwinds in EBIT margin which continued partially from the previous quarter and partially the specific circumstances associated with this particular quarter, so I am going to talk about that in a minute from now. If you look at year-on-year reported terms 11.1% growth in revenues and 12.2% growth in net income. In rupee terms of course, the growth was much better 5.5% quarter-on-quarter in revenues and 5.9% in net income. So in terms of EPS, we were able to maintain our EPS at Rs.51 which is up 14% Y-on-Y.

So going on, if you look at the EBIT, EBIT was lower by 120 basis points, and as I said partially basically associated with the nature of the business and the type of business we have picked up during this year. So Anant talked about close to 3,000 people being rebadged during the year and most of these rebadging took place onshore a year before which was in FY-'14, it was almost 1/4th of that. So this is a huge cost which will over a period of time will get into offshoring mode and a steady state mode. Other headwind during this particular quarter was the visa which impacted us by 60 basis points, the higher SG&A 70 basis points, we were of course, helped by recoveries against provision for doubtful debts by 60 basis points, so what you see in the P&L statement is 10 basis points for this particular quarter, we were also helped by the currency by 40 basis points, but the new deals which came the onsite shift in the business which has happened and the investments which have been happening has impacted us by 100 basis points this quarter. Though we have recorded 20.1%, but we do believe that going forward for the fiscal FY-'16 our targeted operating margin range is 21% to 22%. There are various levers which are basically associated with the ITO deals — one is that we have a huge Managed Services business, in the Managed Services business we can sort of take out the efficiencies by moving the work offshore, so we took on a lot of engagements onshore which work we will move offshore. So this will not be visible in the utilization because in the Managed Services project we do not calculate the utilization, the utilization is assumed to be 100%. But today because of the transitions happening, a lot of teams which are associated with that particular task, and lot of onshore sort of the effort being made to transition the work to get into the steady state, so part of the work will move offshore. There will of course be an opportunity to do optimization of G&A on account of this with the scale, in general, there will be increased offshoring and the GDCs, we have formed the Global Delivery Centers, will also start delivering results, we made huge investments in the Global Delivery Centers during the year and we have been talking about it.

The other thing I wanted to highlight is that in terms of the Increments: The offshore increments is 6% with high performers getting double-digit increase and onsite will be up to 2%. The total impact is 180 basis points at EBIT level which impact will be spread as follows:

It will be 85 basis points in Q1 which is July to September quarter; 75 basis points in October to December quarter and 10 basis points each in Q3 and Q4 respectively.

Going further, our receivables position improved. So we were able to recoup 4-days from the DSO — it is one of the best in the industry 87-days — but we could not come to the level which we had experienced in the month of June '14 but we are still a much significantly better.

Going further, in terms of the cash conversion, so we have been able to convert 84% of our net income into operating cash flows during the year…I am not talking about the quarter, quarter was much higher than that. The free cash flow to EBITDA ratio was 56%. If you look at return ratios, the return on equity was 33% this year.

In terms of dividend, our payout increased to 37%, it used to be 28% last year which was FY14, so this year it has been 37%.

Moving on the Hedge details: Our hedge book continues to be about 1.4 billion. The mix of options increased in the hedge book, the book rate is significantly better both for within one year and more than one year. Going forward, if you look at the OCI position is (-$8) million, if you take the mark-to-market position of the hedges; however, on a held-to-maturity basis it is not so, it is actually positive about $30 million. So, using that rate of Rs.63-65 which was prevalent at the end of June, there will be a positive impact of $300,000 in September quarter on account of cash flow hedges.

Moving on in the Tax side: We were slightly better than what we had anticipated; we had guided 21-22%; however, we could manage at 20.8% that has turned out to be the effective tax rate for the fiscal year and for FY16 we expect the rate to be 21-22% and for the year thereafter within 22-23%.

I will hand over to the operator now for Question-and-Answers.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Sandeep Muthangi from IIFL. Please go ahead.

Sandeep Muthangi: I have a question on BFSI vertical. Rahul, while you highlighted that the year has seen good growth, we have seen growth moderating over the past couple of quarters. I am a bit surprised because there has been a lot of progress on the CSC relationship front and also a lot of large deal wins have been announced. I wanted your thoughts on any headwinds in the space and overall how do you see the growth rates in the medium-term for this vertical?

Rahul Singh: So, there are two things happening as I explained earlier; most of our large clients are going for what we are calling as "Vendor Consolidation." Vendor Consolidation essentially means that a customer looks at his current landscape and tries to optimize between vendors. Now, the good part for HCL has been as I explained that existing client base we have been winning vendor consolidation program which means that they are suitably satisfied with the quality of our delivery and they have got trust in us in terms of how we will transform their landscape going into the future. Now, at the same time when vendor consolidation does happen, there is a certain amount of consolidation that happens to your current base of business as well. And to that extent, you do find a little bit of growth getting impacted because of that. But, as I explained, if you look at the future, our pipeline continues to be a large and good. Also, across multiple facets of our business profile, so we have got pipeline in Application Services, in Infrastructure and BPO, all three in our current pipeline and some good traction happening especially in Europe, where we have invested in new people and new management. Now, on the CSC joint venture, I will ask Anant to kind of give an update and then I will pick up from there.

Anant Gupta: I think the joint venture which we announced with the CSC is relatively new and the background to that is as follows: So, what we see in the marketplace is customers wanting to transform their core banking and payment systems and it is a place where we see CSC having a strong installed base with products especially on Hogan and some of the newer products around Celeriti. So, what we see is while customers as they move forward and look at modernizing their application estate, there would be a significant amount of surround services around a core product which is already installed and which is where we believe that HCL can play a big role in helping in that venture by focusing on that service stack. So, as the more short-term immediate opportunity which we see on the table, there is a large installed base of those products, that are close to more 160-odd banks worldwide, some obviously Tier-1 banks and then a lot of them being Tier-2 and then therefore, the joint venture is targeted at that specific landscape as I mentioned in the short-term. From a long-term perspective, we believe that there is a significant play to transform the CSC products, the Hogan and others to more open Digital platforms. Given our strong expertise around Product and Platform Engineering and ERS, we believe that would help accelerate some of the Platform Reengineering and reposition the products in the mid-term duration. So, that is the rationale behind the joint venture. Like I said, it is relatively new but initial reactions from the customers is positive and of course we will report back on how we progress over there.

Sandeep Muthangi: Just a quick follow-up on the ER&D space as you have also touched on that. After a couple of quarters like really robust growth, things have slowed down a bit in the quarter, you highlighted in the past that it is not yet turned a corner and the volatility may be there. Was there anything abnormal in a quarter or is this in sync with what you were expecting at the start of the quarter?

Anant Gupta: As you rightly said, when I shared, I said we are seeing two kinds of consumption of services – one, which was the traditional statement of work by statement of growth in the traditional business model, the other one where we really said that we are seeing signs of trend towards large scale end-to-end Engineering Services Outsourcing, we saw four of them in the last fiscal and that is why you saw a significant growth in there, that business grew by 25.8% in the year, it will follow a trajectory much like Infrastructure. Any end-to-end deal will have significant ramp up on day one because that is when we take over the people, we get a big revenue jump, margins are normally little lower because they are largely onsite-centric. And as these services move towards a more balanced steady state, revenue tapers off and margin will enhance. So I would say that the growth has been good. We continue to see few deals of end-to-end large scale in nature and we will continue to watch that market in there. There is nothing really from a QoQ which is an aberration.

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

Yogesh Agarwal: A couple of questions from me if I may: Firstly, Anil, from a quarterly perspective now EBITDA margins are down like 500 basis points. Is it largely only the rebadging because the margins are down in Infra as well and I would have assumed rebadging is largely in the Engineering and R&D new deals? So, a little more color on that will be helpful.

Anil Chanana: Rebadging is both in the Engineering as well as in the Infrastructure Services business. And other thing which is happening is that the business has sort of taken a more onsite shift because of the large transformational component in the Infrastructure deals which we are executing currently and that Infrastructure part has to be delivered onshore. So by headcount you see that huge jump; one-third of my people added in this year which is very unusual, is all onsite. So, I think it is a year where a lot of these changes which are taking place and the investments which we are making. So, everything is sort of happening together I would say.

Anant Gupta: Just to add to that, it is representative of any large scale end-to-end deal where one does a day one takeover of the service offerings we will see that similar performance. As long as the maximum similar, we should be able to kind of balance that, but like I said, 3,000 people were transferred in the last fiscal compared to 700 plus in the year before that. So, that is the nature of the end-to-end deals. So given the complexity and size and scale of some of these engagements, we will see a similar pattern. It really depends upon what gets booked within the quarter and in which phase of transformation it really is in. I think that is really the first one.

Anil Chanana: So this is one and the secondly of course the Global Delivery Centers we have set up which was an investment which was done basically to reduce the dependence from the visas as well as being close to the customer and provide services to the customer. Thirdly, is the assignments which are Digital or new age applications. So those are also sort of leading to an onsite presence becoming more heavy which is in fact hit the margins, particularly, when we take on the deals, we do sort of put on a lot of effort initially in making sure that the transition is successful. So, we will be able to sort of remove that and as these move into a steady state and able to gain margins back. So there are very unique levers in our business model which are not like just linked to the utilization, which we believe we should be able to reach that targeted margin range of 21-22% in the fiscal year ahead.

Yogesh Agarwal: Although it may sound little repetitive, so the $5 billion deals in this year are quite encouraging, but it is the same for us last year as well. So, looking ahead, should we expect therefore moderation in growth because the base is larger or a lot more mining and smaller deals will happen during the year?

Anant Gupta: I think the booking is marginally higher than the previous year and obviously as quality is shifting more to recurring, it will make it easier in terms of what needs to be booked, but you are right, if we need to get more growth, we will have to obviously book more. The market offers us the opportunity. We fundamentally believe there are opportunities in the market. The pipeline we see as we stick is higher than what it was and therefore, from that perspective our focus is on a selective play, improving our win rates and making sure we maximize the booking and the return from our sales investments. Coming to the second point which is an interesting theme you mentioned which is one of the reasons I made a comment in my opening which was we booked 47 deals in the million dollar plus category. The relevance and importance of that we believe is as customers look at Digital, as part of their modern application bid, we will see them continue to give smaller scopes of work and move on that journey rather than give a big bang approach to one big transformation program. That is the nature and reality of what we believe is there in Digitalization. So we believe some of that would help us mine more and as customers take advantage of the Co-Innovation Lab, the higher experience in those Co-Innovation Lab and actually get more comfortable with the pilots proof-of-concepts which come in from those labs is where the opportunity for growth in some of those areas are. So, actually, if you look at this quarter, revenues from new customers also grew by about 7.1% which is double of what it was in the previous quarter same period. I think the only time we saw a similar number was in the 9-10% range in 2010. So, yes, you are right, we will have to book more and we will have to keep mining and transforming some of these modern application deals going forward as well.

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

Sandeep Shah: Just the question is in terms of the margin, is it possible to quantify the impact of the rebadging and the onsite effort mix which has gone up, which should be considered as investment for the ramping up of the deals in this year?

Anil Chanana: Sandeep, to answer your question, it is all embedded into the results, we do not segregate it because there are different businesses running in different ways. So, a very difficult to sort of try and sort of come to a common denominator. We go project-by-project and identify what the opportunities are and looking at how we are sort of budgeting ahead, we believe that we will be sort of achieving that targeted margin range. So, we definitely see it that incremental investment has come into the business significantly. We had anticipated that, we had planned for that. So this is where we are.

Sandeep Shah: Looking at the pipeline of the deals and the negotiation and the type of size of the deals going on, do you believe that this kind of a rebadging as a scale may continue or this was a one-off here and the rebadging scale may come down going forward?

Anant Gupta: To answer your question, the answer is ‘yes’, we see larger deals as well, we see much larger deals in the pipeline and also the number of deals itself. The year before you would have noticed we signed a couple of large $500 million plus deals, last year witnessed more number of deals in the $100 million to $300 million range… this is especially from the renewal market

I am talking about. We see a mixed bag in terms of an overall; we have large complex deals of similar size which was there in the year before. Our perspective would be depending on the client brand, like I said, we reparticipated in that market selectively, right, let us just roll back, the market opportunity for us is about continues to be very large; $40 to 45 billion, whatever number you take from a renewal standpoint is what is there on the table for the next 3-years. If you have noticed the ISG Report, talks about an increase in the integrated deal decision-making, that number was 6% out of the overall pie for last year which they are now projecting it to be 16% in the next calendar year. So, we see a great opportunity for ourselves to be able to get back into those engagements where historically we were not there from an Application standpoint by offering an Integrated Application and Infrastructure proposition together which is the “Next Gen ITO” we refer to in the beginning over there. The other thing which we are seeing is there are markets which are opening up and therefore as long as these markets allow us to create a similar growth trajectory going forward, we will use the same yardstick as we have been successful in doing historically when we opened up new markets or new countries, so, as an example, if you look at our performance in the Nordics, all the four countries, we are the leading brand over there in terms of both client satisfaction and growth, we see a lot of that now moving into Central Europe, a commentary which I had given earlier as well, you see Germany open up, it is a very large addressable market which has historically been locked out, likewise, France. And if you really fast forward into a selective play in the rest of the world, you would come across a report which is published in (ENZ) very recently where we are amongst the fastest growing IT Outsourcers in that market and the top outsourcers are actually showing degrowth. So the point I am making is that there are significant opportunities for us and we will look at booking those engagements and executing to that as a preference when it comes to opening up certain markets.

Sandeep Shah: The attrition continues to remain high for HCL Tech, which is on the quarterly annualized looks like one of the highest amongst the large cap peers. So what is our comfort level here? The dividend payout… is it a policy now to continue with this kind of a payout going forward or to improve it going forward?

Anant Gupta: On the first one, so you are right, we are equally concerned, but I think we are also equally happy with our performance over the year, we have been able to stabilize at around 16.2 to 16.5 range. So, yes, we have a lot to do and we continue to enhance our capability around the people practice. A number of initiatives have been rolled out and we believe they should help us going forward, especially when you look at a volatile market where individuals need to be future-ready, they need to reskill themselves especially around some of the emerging technologies we see. So, we are confident that some of those in the long run will definitely improve our attrition performance or actually lower the impact.

Anil Chanana: The payout this year was 37%, higher than 28% which was announced last year. We try to sort of always keep a very substantially good payout ratio. So I do not believe that there will be a reduction but it is something which is the board’s prerogative to sort of decide from time-to-time.

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

Ravi Menon: I just wanted to ask you about the CAPEX, this year was significantly higher than last year at $194 million compared to $118 million. Was mostly this due to construction of new seats or what could we expect for next year?

Anil Chanana: We try to fund the CAPEX, so it is quite possible that the amount you see in the cash flow statement is net of the funding. So on a gross level if I take as a committed or as the incurred CAPEX, so last year was 3.2%, this year which is FY15 it is 3% of my revenues, so going forward, I would say it could be between 3.5% to 4%, that is the range one can take. To answer your question, we continue to build great sitting capacity in India, we continue to sort of give up rental spaces and move into our own facilities and into larger campuses, so that is a very continuous exercise.

Ravi Menon: Do you see any SG&A leverage coming as a result of this?

Anil Chanana: Yes, certainly, it should, as I said, G&A leverage, but over the year it will operate.

Moderator: Thank you. The next question is from the line of Pankaj Kapoor from JM Financial. Please go ahead.

Pankaj Kapoor: My question is on the growing instances of the vendor consolidation that Rahul mentioned. I was wondering if you can give some more color around this. Is it localized to BFSI or are you seeing this in other vertical as well? Is there any geographical flavor to this? Also, who are you essentially replacing — is this largely you taking market share from the other Indian vendors or they are coming in from the replacement of the local players?

Anant Gupta: Let me first give you a color on the overall scheme and then Rahul can go deeper in the FS. In general, it is fair to say that we are seeing it in most large organizations, typically G500 companies, the companies who have north of a billion dollar in IT spend and who historically have relationships with a multitude number of vendors, maybe 10 plus vendors on the strategic side and even more longer list on the niche vendor side. So, as customers look at consolidating and looking at the Run budgets and looking at their change and build budgets, I think they are obviously looking at being able to take advantage of the consolidation, most importantly, first in the Run side, because there is a great synergy or value in moving away from the historical time and material build-up which has happened over the last decade with multiple vendors and with all the tools, technologies in there, there is a great business case for them and a great business case for the service providers who take that on. So, we continue to see that like I said in large G500 customers. On the build side, again, there will be traditional support and change management kind of work, again, that could kind of get aided by consolidation, as an example, testing, we continue to see in a lot of deals where we position ourselves where testing is pertinent to the codes that you can actually eliminate certain towers of testing. So we see some of that also come in.

Rahul Singh: The question also was is there any regional differences which are there. So the consolidation in UK and in the US, you do consolidate between IOP and also some of the global vendors because you need to remember that most global vendors now also have a large India footprint, right. So there is a mix of those in UK, Ireland and North America. In Europe, consolidation is with the regional vendors as well.

Pankaj Kapoor: Just continuing on this a bit more further, what is driving this from the client side? Of course, I guess they are looking at some cost savings out of it. So, does it mean that near-term this is creating or could create some realization pressure for us although on a volume side we will be a gainer, but near-term there could be some realization pressures?

Anant Gupta: I alluded to you, right, the driver really is that over the last decade, customers have built time and material work industry portions with multiple vendors; a) the basic shift to Managed Services around Run itself brings a lot of business case benefit to customers. There is obviously a lot of change in the technology landscape; technologies become a lot more stable. So the need for eliminating work by using different Managed Services constructs which is the point I was mentioning the Gen 2.0 model which is where our ALT ASM™ proposition is heavily embedded, really is around trying to reduce the workload for Application Management either through better operational constructs, through better tools and technologies in management, or by actually eliminating applications which are no longer required, so which is what we call as the "Application Portfolio Optimization Benefit. So, I think customers will continue to leverage as they move forward. From our perspective, we continue to see a benefit in there because then we are freer to put the type of the people and the geography from where they should deliver. So, that becomes more of a choice that we can take so that we can ensure that we retain or enhance our margin profile in such operations.

Pankaj Kapoor: So just tying it up do you think that maybe in a quarter or so there could be some volatility where we might be lower than our guided band of 21-22% like it happened in this quarter because of multiple things coming together or you think that 21% is basically a base from wherein we should be looking upward of that rather than anything downside risk to that?

Anant Gupta: The question is related to vendor consolidation and whether we see any negative impact of that. Like I said, we have historically had a client retention rate of 98%. So, we feel comfortable in being a challenger in those markets.

Anil Chanana: But I think if your question is with reference to the quarterly variability, the answer is 'yes' there will be variation; 21% is not a floor here, 21-22% is part of the ES. Our targeted operating range for the year is 21-22%.

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

Sandeep Agarwal: I have only one question. If we would not have got the benefit of below the EBITDA line item this year, then probably our profits at the EBIT level would have been broadly flattish kind of maybe there would have been some growth. So, what is your sense for future? I agree that you have given a range of margin, but do you think that in pursuit of investing more and more due to the disruption happening in the technology space, we might have some years where we can have a decent revenue growth, but our EBIT growth or PAT growth if not helped by other income will be probably lower than the revenue. Is that a good way to look at it?

Anant Gupta: Firstly, we will try to be within the range, we will watch the market, we will look at the opportunity which the market is laying out, the investments that we have put as to how they are shaping up from creating an incremental leadership position in those markets and obviously we see anything which we believe is something which we will be concerned with and we will relook at those. But from what we see the market opportunity which is there, we will continue to press forward on our strategy of a) growth around the newer market which we see, that is a great market for us, we are the leader there and including the Next Gen ITO with the 6% to 16% integrated opportunity which is there we believe that is an important area to play, likewise around Engineering Services, they are like I said a few deals inflection point for large end-to-end deals is still not there and hence we will look at each and every deal and make sure that as long as within our technology areas where we would like to grow in Engineering we will continue to win then. And finally, of course around Digitalization which touches each and every service line, I think that is the way the market will be after 3-5-years, it is not about offering a Digital service today, but it is fundamentally the way Applications, Infrastructure and other technologies will really be. So, we will continue our investments on that in the mid-term.

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

Nitin Padmanabhan: The attrition overall if we look at that, it looks likes involuntary attrition has consistently remained extremely high versus industry of maybe 2.5%-odd. I was wondering why is this so high for us and it has been that way for some time. If you can just give us a sense of why that is the case?

Prithvi Shergill: This is Prithvi. Voluntary attrition has actually stayed steady through the year at about 16-16.5%. So I think we have been working hard to keep it at that way vis-à-vis many of others in our target market group. I think there are seasonalities, there will be ebbs and flows in particular quarters where you will see increases in some of the attrition trends that we are seeing. Our performance management process occurs over the next couple of quarters so you will see some fluctuations in the trend as that progresses. As Anant said earlier, this is a key focus for us and some of our programs that we have defined around what we call "Design U2.0" is really around ensuring that we provide a meaningful value proposition around career and learning management for our people, we have introduced significant platforms to enable them easier access and availability and we believe we will continue to improve the experience for them and impact that number.

Nitin Padmanabhan: No, I am not talking about the voluntary, but the involuntary attrition, which seems quite high and I was just wondering why that is the case… that has been the case for quite some time.

Prithvi Shergill: I think involuntary through the year depending on various actions that occur around optimization or around performance that we are seeing, actions will be taken, so I think that has been a steady number across over the year, I am not sure it has significantly changed.

Anant Gupta: I think a specific attribute to the business model also does contribute to that which is really our end-to-end-outsourcing nature and therefore, the offering moves into a steady state and the right shoring happens in those engagements, we see some of that as well add into that specific area for us.

Nitin Padmanabhan: So, this would be largely because of the rebadge or whatever that has been consistently a practice over a period?

Anant Gupta: Absolutely, that is one element, yes.

Nitin Padmanabhan: Overall what are the offsets that we could have from a margin perspective for the wage increase impact over the next 2-quarters?

Anil Chanana: The PPS impact first quarter, the Q1 which is July to September will be 85 basis points and Q2 which is October to December will be 75 basis points and going forward will be 10 basis points each.

Nitin Padmanabhan: Do we have anything to really offset that at this point?

Anil Chanana: We talked about the offset; offset being in terms of the increased offshoring, taking out efficiency from the Managed Services projects, so the utilization which is there is being tracked more with reference to the T&M side of the business but not in the Managed Services or fixed price project side of the business. This is where more effort is put front-end when the business is being taken up and when the transitions are happening. And that is over a period of time, we have the flexibility to sort of reduce that manpower. So that will bring in efficiencies in the business and plus there will be G&A optimization.

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

Deepesh Mehta: Just to get some sense about our top-10 client performance perspective. If I see last year or last 2-years kind of thing top-5, top-10, top-20; absolute number remain broadly similar, there is marginal growth. So if you can help us understand how we see this major client performing for us in the coming quarters or a year?

Anil Chanana: Deepesh, a very good question. What is happening is this metrics is getting colored by the currency changes which are taking place. So about 64-65% of the revenue which we derive from these customers will be in US dollars, the rest will be in other currencies. So since the currencies have undergone a huge depreciation, in reported currencies, that growth will not be visible, but if I take the April-May-June quarter and try to look back what has happened, I think it is a fantastic growth, the growth has been higher than the company growth rate in all the categories, whether it is top-5, top-10 and top-20.

Deepesh Mehta: Is it possible to share that constant currency growth rate number for either quarter or year for these clients?

Anil Chanana: I do not have it handy now, but certainly offline we will be able to share.

Moderator: Thank you. The next question is from the line of Jai Doshi from Kotak Securities. Please go ahead.

Jai Doshi: My question is around margins. Would your target margin then change from 21-22% range if you see similar level of rebadging in FY16 as well?

Anant Gupta: I think we factored for the similar performance we should be able to derive out the similar range. The question is that we see larger engagements which go beyond the 3,000 number, then that is a different question, which would be good in any case because if you pick up larger engagements there then there will be a lot more stickier number. As we see our pipeline at this point, we do not believe that should be the case.

Jai Doshi: My second question is since most of the rebadging was onsite this year it would help your revenue grew to some extent. Now, since you intend to move a lot of that work to offshore, do you see that affecting your top line in FY 2016 or you…?

Anant Gupta: Partially yes, it goes to what I said, right, like when we have the comment on Engineering Services, a fairly depends on how many new deals are coming in for each service line which is signed last year, which is moving into steady state and then those new deals which are coming in for a transition perspective. So, it would be a function of both those two which is there. In some lines of business, they had reached a steady state position, a balance between the two like in Infrastructure, which we talked about a couple of years back, but in Engineering Services, the number of deals which are coming in every quarter of that size and scale are lesser. So to that extent, the revenues will slightly reduce and the margins will become better.

Jai Doshi: Your wage hike looks a little below what peers have announced so far and the attrition is at a high level. So I was wondering if you are confident with this?

Anant Gupta: We have done a study in terms of where we want the money to go and we believe that it is appropriate for what we want to do. In fact, we have a lot of double-digit. So, we have different categories in terms of how we look at, how the reward is distributed, we look at it by skills, by levels and so on and we believe that yes, it should be adequate but you never know, these are the things which you can never predict.

Moderator: Thank you. The next question is from the line of Ritesh Rathod from UTI Mutual Fund. Please go ahead.

Ritesh Rathod: Just on this operating margin guidance, I believe EBIT and if you see your depreciation which has come down in last 8-quarters from 2.5% to 1.25%, so does that mean your EBITDA margin guidance has come down in last 7-8-quarters?

Anil Chanana: If you see the depreciation, because of the new asset acquisition and the campuses which we are constructing, in April to June quarter as compared to JFM quarter itself the depreciation charge has gone up by 10%. So, it is further on the increase with the CAPEX spend which is happening. I think the reset was done effectively July 14 was the New Companies Act came, but I am sure the depreciation is fast catching up again.

Ritesh Rathod: So, would it come back to 2.5%? If it does not come back, it means that your EBITDA margin guidance has been downgraded in the last 1.5-years sort of?

Anil Chanana: But, always we have been looking at from the EBIT level.

Ritesh Rathod: Because of the company policy, the depreciation has come down from 2.5% to 1.2%. So if I adjust this depreciation, it seems that the EBITDA margin guidance has been down. Second question is what happened suddenly in this quarter on the finance lease receivable, it is down 41% if I add back both current and noncurrent? So is there some discounting we have done or some change in policy of recognizing this finance lease receivable?

Anil Chanana: There is no change in any policy, we consistently follow the accounting policy. So what we do is some of the deals is an integral part, if we have provided the assets to the customers and looking at the quality of these customers, there are banks who are ready to take on these on their books. So, it is basically sort of selling them off of our books without any risk to us. So the banks carry that irks from thereon.

Ritesh Rathod: So, we will take it down further to zero kind of because right now I can see we have $75 million and it was once upon a time $157 million?

Anil Chanana: Recovery also happening, sometimes it is a part of treasury updation. So it is a mix of that I would call it.

Ritesh Rathod: But it would not go down to zero or $10 million a negligible number because if this is not there, next year cash flow would not be good enough what we saw this year?

Anil Chanana: As I said, we look at the portfolio from time-to-time and then sort of the treasury decides whether we want to hold on our balance sheet or sort of pass it on to the bank who can make money out of it.

Moderator: Thank you. The next question is from the line of Pratik Gandhi from GeeCee Investments. Please go ahead.

Pratik Gandhi: I think my question pertains to the segmental margin for Applications and also for the Infra. On a year-on-year basis I think both have seen a decline especially higher decline is more towards your Application segment where the margins have declined by around 280 bps. So what was the reason behind the same despite I think we are seeing improvement in the growth trajectory in at least Applications?

Anil Chanana: So the Application portfolio for us also includes the Engineering and R&D deals. Engineering Services, as Anant explained, we did large end-to-end outsourcing deals very similar to what we have been doing in the Infrastructure space and these deals also have a similar margin trajectory as Infrastructure deal typically have. So, it is basically that margin sort of counteraction because of the particular deals which have been done which are heavy onsite and as they move into offshore as we transition, we will be able to get back our margins.

Pratik Gandhi: Can you give me a number in terms of number of people rebadged in the current quarter?

Anil Chanana: It is a very constant exercise, the total as I said for the year is like 2,900 and year before was like 700-odd, I do not have the numbers in front of me in quarter-on-quarter.

Pratik Gandhi: Again, the reason for asking this is the way you guys split your wages, as you mentioned that 85 bps impact will be in Q1, 75 bps in Q2, 10, 10 bps in Q3, Q4, I assume similar kind of nature would be there in the current year as well and despite that your margin has seen a huge impact. So that is why I was wondering whether most of the rebadging happened in the current quarter and that is why basically we are seeing a sharp dip in the margin, which will be recouped in the coming quarters?

Anil Chanana: So far as the wage hikes are concerned, they follow a cycle for certain categories of employees, it happens from July, while for others it happens from October and then there are some categories which get shifted into January and March beginning quarter, I think both are not correlated, both are entirely different sort of streams. So far as the rebadging is concerned, it is very sort of a business-specific which happens from time-to-time.

Moderator: Thank you. The next question is from the line of Srivatsan Ramachandran from Spark Capital. Please go ahead.

Aishwarya: Aishwarya this side. My question is more on the Infrastructure space. This space has seemingly changed a lot because of Cloud vendors and increased competition. Do you think as an industry, we will be moving to lower margins than history in the space?

Anil Chanana: From an Infrastructure business perspective, we continue to be selective in the markets and the real deals that we want to chase. So, in those specific markets and chosen areas, we continue to be the leaders. We do not see any change in margin profile due to specific competitive activity because a lot of this Infrastructure deals are end-to-end ITO deals which are largely business case-driven and clients do have higher expectations from us in terms of overall business case savings and we build in a lot of levers which deliver these business case expectations of our clients. So, I really do not see a specific change.

Anant Gupta: Maybe just to add to that, if you just go back and look at end-to-end IT Outsourcing deals in Infrastructure, there will obviously a play of technology provisioning as one of the engagements. Historically, our view has been we will be asset-light and we used to construct a model where we have third parties provision that for us unless the asset was very integral to the delivery model itself. So, in fact, we look at Cloud Infrastructure as a service has a benefit where we can provision these services as part of our overall portfolio, then we have an equal play in terms of what the technology is when it has been bundled in as a full solution. And the whole aspect of MyCloud which we have released a couple of years back which talks about …we have shared this before as to how we see ourselves being an orchestrator of the end-to-end solution. That is the position we will continue to take. Therefore, yes, Cloud will impact the way services are delivered and to that extent we have obviously looked at as to where the value plays versus what type of task actually move to the Cloud when it really happens.

Aishwarya: My second question is on factoring, I think you guys do factoring without recourse. Would it be possible to say as a company policy how much of your receivables is being factored?

Anil Chanana: We have not done any factoring. I think the amount for factoring which will be there as of end of June will be very marginal less than a million dollars. It is a very treasury decision which do from time-to-time but at the end of June it was hardly anything, less than a million dollar I would call it.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Anant Gupta for his closing comments.

Anant Gupta: Just to summarize before I close, I think from our perspective we saw the year to be an extremely robust year. I am pleased that our growth was 15.1%. Yes, we had a shift in our business mix and our investments in technologies and capability for the future and we believe that it reflects the pipeline that we see; the pipeline that we have today continues to be strong and we seem to be well poised for growth going forward as well. With that I would like to close this specific call and we all look forward to seeing you next quarter. Thank you.

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