"HCL Technologies Limited Q2FY16 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the HCL Technologies Limited Q2 FY-'16 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anant Gupta. Thank you and over to you sir.

Anant Gupta: Good Day to all of you and Welcome to HCL's Second Quarter Earnings Presentation, another strong performance in the quarter. We grew by about 2.1% in constant currency terms and 1.4% in reported currency. Our LTM growth CY-'15 Vs CY-'14 was at 13.5%, largely driven by differentiated propositions in Beyond Digital, Next Gen ITO and Internet of Things. If you really therefore look from a calendar year perspective, we closed the year at $6,139 million if you take a 3-year CAGR, it is about 12%. Our EBIT closed at $1,239 for the calendar year, 16% CAGR over the last 3-years and net income at $1,103 million which is at 22% CAGR.

From a client category perspective, we added close to 19 customers in the greater than $10 million revenue customers and in this specific quarter we changed by about 10 customers -- 1 in the $50 million, 2 in the $40 million and 7 in the $10 million category. The growth was broad-based virtually every service line pitching in.

From a calendar year perspective, Engineering Services grew by 23%, Business Services by 23.9% and Infrastructure Services at 16.4%.

From a vertical stand point, the growth was largely led by Life Sciences at 27.7%, Telecom, Media driven by a significant amount of transformation in the Digitalization space grew at 23.6% and Public Services at 17.8% largely driven by growth in the Oil and Gas Energy sector, again a sector where we are seeing significant transformation in the operating model the company is kind of doing given the underlying price of oil and the impact of their business.

From geographies perspective, Europe continues to lead the growth at 15.1% for the calendar year, followed by Americas at 13.8% and 7.9% for rest of the world. So all in all healthy growth across the businesses.

If I would just look at the booking again a quarter of good booking; 8 transformational deals booking at about little over a billion dollars significantly being contributed from the rebid market close to about 70% and then 30% from some of the newer discrete offerings around Digitalization and IoT.

The way if we were look at the market, we kind of taken four cuts and really looking at the definite areas in which we see the market; the first really being the overall market and if you look at that at a constant currency basis to 2015 which is the year which has just gone by and as predicted was 3.6% IT Services spend growth which had a significant impact because of currency and therefore the market kind of really shunned to a little over 4.5% from the previous year. As projected going forward we see healthy growth anywhere between 3.1 to 3.8

from reported to constant currency and then looking forward in 2017 just around 4%. So from IT Outsourcing perspective the market continues to be still very strong largely driven both actually in all three fronts -- Independent Infrastructure Management Services we see continuously significant momentum in that market, Standalone Application Operation Deals and of course Integrated Deals between Infrastructure and Applications.

If you look at the some of the other predictions and again this is something we compiled from IDC and Gartner, the key over here is there will be a significant shift in the way customers would be looking at the experience they offer both to their end customers as well as internally that they offer to the business so that they can focus on productivity elements from an experience perspective internally within the organization itself.

The other big trend which we are watching very carefully is the fact that over 6 billion discrete devices are getting connected to the internet, therefore we believe there could be an opening for services around the Internet of Things as the smart products come out of the network and businesses look at how to create use cases around servicing them more intelligently.

Another big trend which we see which will drive significant automation not just in the way one runs technology but more so in the way business processes are being done and that really is the emergence of what we call as the autonomous software agents which would be outside the need for human control to actually do transactions over there.

And finally, the impact of Digital of course which will be there in all aspects of the IT budgets of corporations. It is interesting to see actually where is that money in Digitalization going to go and that is where really our focus and therefore what the theme in terms of our value proposition and Beyond Digital which we had launched mid-year in calendar year 2015 which we are seeing good traction is really the Digitization will be impacted in three large buckets. Till now it has largely been in the front office and that is where we have been seeing in the last 2-3-years of growth in the front end. That is really only 24% of where the spend is likely to be. The balance which is about good 76% is actually going to come from Digitalization of discrete process value chains in the middle office and the back office. Our focus really is to look at those processes which are front to back and kind of digitalize those and really create much differentiated experience for both the external customer as well as the internal user of systems going forward.

The next slide really talks about how we are positioning and this is something we have talked about previously as well; The period in which we continue to be is really the output-based market driven significantly by ITO, which is driven by Automation, Cloud and DevOps. Like I said Discrete Infrastructure, Discrete Applications as well as Integrated Application in Infrastructure deals continue to drive the market and the BPO as well significantly driven by little platform play in that specific area. But the way we see the market going forward really is around the themes which is more of integrated offerings because as we look at Digitalization, as we look at Next Gen ITO, and as we look at Internet of Things the need to service these solutions will require competencies coming in from our various business units, whether it is Infrastructure, Engineering, Application and Operations.

We did announce the launch of our Beyond Digital business mid-year last year, that is moving well and that is kind of drawing on the discrete strengths of the various lines of business, but as we see more integrated buying behavior we believe we are well poised to take advantage of that. Likewise Internet of Things, we formalize the construction of the business unit for that in the previous quarter and now that is on go-to-market mode again now positioning end-to-end offerings in that specific area. Next Gen ITO we have being doing it for a while. I think what is really new is the launch of our Third Generation Automation Framework in there which builds on the strengths of what we had earlier which is MyCloud and MTaaS™ which kind of looks at not just Infrastructure but across the board Application Infrastructure and Operations when we talk about Automation and Cognitives being used in delivery of those services.

With that I will sum it up; I think we had a good quarter, strong performance, in spite of the Chennai situation I think the teams did very well in making sure that all the machine critical operations for our customers continued with least breakdown, a lot of our customers also participated and made sure that we could prioritize on elements that were most critical to them and we have been able to mitigate significant amount of that impact in our financials as we report.

With that I will give it to Rahul to walk us through more details on the Financial Services.

Rahul Singh: Yes, thanks Anant. So I am on Slide #8. In Financial Services we had a moderate growth of 1.9% this quarter and we recorded year-on-year constant currency growth of 10.1%. The key drivers in our business which have affected quarterly performance and which I have given as growth for the future are around a couple of trends which we are seeing -- so the first is Vendor Consolidation. We are seeing Vendor Consolidation happening in our customer base, and as a result of which there is an increased focus on high levels of Automation, high levels of productivity and high levels of improvements of cost from a customer perspective. So that is affecting some of our quarterly performance in growth. We are also seeing our clients focus extensively on Digital and Fin-Tech Innovations and that is the theme which is driving some of the new investments which the customers are making and also some benefits of that are coming to HCL. We have repositioned our propositions to what as Anant explained the Next Gen ITO propositions which focus more on integrated service capabilities and also improving our existing propositions around production support into ALT ASM™ Alt AD and focusing on legacy modernization.

There are a few disruptive trends which we are seeing in the business and I thought I will talk about them and see how HCL is positioning for that for the future perspective: #1 is the Financial Services is impacted now definitely on the fringes by the emergence of Fin-tech organizations which have a T2C model which is essentially state from technology to consumer, certain amount of disintermediation happening in the Banking and Insurance space. Result of that is our Financial Services clients are therefore spending higher amount of expenses and higher amount of investments on Digitization of their own services both across banking and insurance, within that a larger spend happening in the insurance space and in the retail banking space. In order to invest for this change happening in the market, our clients are focusing on higher levels of Automation, Artificial Intelligence and Emergence of Cloud on the IT side so that the cost of run can be reduced.

Also, as the emergence of the Digitization happens in the Financial Services institutions, the delivery model which is being used by our customers for delivery of IT is moving into more agile, distributed and scalable solutions are being offered.

Also, we are seeing within Financial Services segment a clear emergence of various categories of buyers. So the buyers can now be categorized as Gen-3, Gen-2 and Gen-1 outsourcers. Essentially the Gen-3 outsourcers are Financial Services firms which have been outsourcing for a longer period of time… may be more than 20-25-years. So their preferences of vendors and how they approach the outsourcing market is certainly different from the way Gen-1 and Gen-2 outsourcer approaches the market.

So these are the trends which we are seeing in the market and responding to that we are building differentiators… I thought I will talk a little bit about those: The first differentiator is how do we attack the market from the point of view of emergence of the need for digitization for banks. So we have created Co-Innovation Labs. At this point of time for at least four or five of our key customers we have created Co-Innovation Labs in the geographies that the customers located in. These Co-Innovation Labs work on the principle of collaboration with the ecosystem so they work in collaboration with Fin-tech companies, they work in collaboration with the existing universities and colleges in the locations that they are located in and we bring this whole thing together from a customer perspective so that they can accelerate their own journey towards entire Digitization by bringing in Fin-Tech, by bringing in university kind of presence as well as right people and profile.

#2 is that we are leveraging… Anant spoke about this earlier, the entire Beyond Digital proposition which HCL has developed which looks at ways in which you can industrialize entire digitization journey of Financial Services companies. So we are leveraging the Beyond Digital framework which HCL has developed, bringing them into our accounts and industrializing the entire experience for creating new digital assets for our customers.

HCL is also differentiating in terms of creating Next Gen Propositions… I spoke about that earlier. But the Next Generation is now moving to Gen 3.0 where the focus is on higher levels of Cognitive and Automation Tools where you can perhaps eliminate some of the work which goes into production support and what we have branded as DryICE and other offerings in the market which we are taking to our customers. At the same time we are also focusing on transformational agenda, our clients are going in for legacy modernization, our clients are infusing IoT especially on the Insurance side, we are working with some of our clients in introducing these new techniques and new gadgets into their own framework as well.

Finally, we have substantially worked with clients on more outcome basis in terms of the way our business model is constructed. So we are accountable from the output and outcome of the services that would deliver and then we bring the whole thing together through our RBTC which is Relationship Beyond The Contract Philosophy. So with these differentiators we are trying to create a difference in the market. Our growth rate is dependent in leverage our differentiators and convert our clients into their focus areas for the future.

With that I will hand over to CVK to talk about Infrastructure.

C. Vijay Kumar: Thank you, Rahul. I am on Slide #10 talking about the highlights for the Infrastructure Services. In terms of growth last quarter Infrastructure Services grew 3.4% on a constant currency basis, on a calendar year, year-on-year basis we grew 16.4%. Last quarter, we saw some good wins on the Infrastructure Transformation and management deals. Some of the notable ones include a Fortune 500 US based manufacturer and marketer of a personal care products. We also won a large deal with a US-based Fortune 500 medical technology company. We also expanded our relationship with one of our clients in South Africa, an integrated oil and chemicals company to expand Infrastructure landscape operations to America and Europe. The growth last quarter was primarily driven by the momentum in the North America market through transformation-driven Infrastructure Outsourcing Deals. We are also seeing good traction in Nordics where we are very well positioned and we are really a clear "Partner of Choice" for increasing number of customers, our good momentum in this market will help us see good growth in the second half of this fiscal year.

In terms of disruptions, the similar trends that we have been talking about in the last 3 or 4-quarters, the same themes continue. While the 'run the business' spend is getting optimized by our clients as a part of Automation, as a part of Cloud adoption and things like that, there are definitely good investments going into building a Digital Infrastructure landscape which really serves as a platform for rolling out some of their Digital initiatives. So we are working with a few of our customers to build their Digital Transformation journey as a part of our overall Next Gen ITO and Beyond Digital Propositions. Hybrid Cloud Adoption continues with the client segment that we are in, we are seeing a greater adoption of Private Cloud Infrastructure, Software-defined infrastructure; Software-defined infrastructure is a key theme which number of large clients are piloting. This quarter we also launched a Software-defined Infrastructure Solution Center helping our clients to test and evaluate and play with some of the new solutions.

In terms of differentiators, as Anant spoke earlier, we launched our Third Generation Automation framework. This is really a continuation of our decade long journey on Automation which has evolved from MTaaS™ to MyCloud to ITSM Gold Blue Print to leveraging some of the newer technologies around Cognitive Solutions, Machine Learning and Orchestration Technologies which is really positioned to drive significant elimination of labor in some of our ITO engagements. We continue to work very closely with a number of partners primarily to deliver Hybrid Cloud strategy which is really helping in building stronger relationships and stronger joint go-to-market strategies which is helping us to retain business as the deals come up for renewals.

That largely summarizes the Infrastructure Services for the last quarter. With this I will hand over to Anil for the Financial Points.

Anil Chanana: Thanks, Vijay. So a very good quarter, as Anant mentioned; 1.4% quarter-on-quarter growth in reported currency terms while 70 basis points has been an impact of the currency, so it is 2.1% constant currency growth. At EBITDA levels, it is 5.4% quarter-on-quarter growth while EBIT level it is 5% growth, and net income has an element of other income which is one-off which is a sale of property which yielded gain of 21 million, and as a result of which that net income shot up by 10% quarter-on-quarter. There has been an improvement in the EBITDA margin by 80 points and EBIT margin by 60 basis points and even at the gross margin level. So there has been an increase at all levels I would call it.

Going forward, our hedge book is 1.1 billion. A significant portion of the hedge book is options which is around 678 million while the rest is close to 450 million are the forwards and the booking rate is Rs.67. Primarily these are in USD, INR.

So if you look at the FOREX gain this quarter, so we made a net gain of 1.7 million this quarter. The OCI negative is 5.7 million. This is basis of course December rate. On a held-to-maturity basis, there is a positive position and even if I take today's rate it is a positive position when the rupee has come off significantly. So the quarter number will vary depending upon where the dollar and the other currencies settle.

In terms of tax, our effective tax rate for the 6-months has been 21.2%. So it is within the guided range of 21% to 22% and we continue with our guidance on tax rate for FY'17 between 22% to 23%.

I also want to highlight that this quarter the dividend has been stepped up from Rs.5 per share last quarter to Rs.6 per share and the payout ratio works out to be slightly in excess of 50%. Our return on equity is at 29%. The revenue per employee this quarter is at $60,000 being the best in the industry. There have been strong client additions across the category. Earnings per share at Rs.55 are up close to 12% quarter-on-quarter.

With this we will hand over to the operator to take any questions.

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

Sandeep Agarwal: So a very good perspective given already on Financial Services, and IMS, but I have a couple of questions. What is happening on Application Services particularly, how do you see that going forward? And Engineering and R&D also, if you can throw some light because looks like little weakness in this quarter and even year-over-year growth in Engineering in constant currency is not that good and even in applications services. Secondly, what has dragged down Europe and rest of world in constant currency this quarter?

Anant Gupta: So let me take Application Services First. On a constant currency basis grew 2% sequentially and on a calendar year basis 6.4%. So I think it is chugging along well. I would say they are portions in there which are driven by some of the modern apps, some of digitalization, areas around transformational consolidation and ERP which are driving the market a little faster, and, of course, there is also consolidation happening in the marketplace which is why you see certain areas draw. If I just reflect that back into some of the other verticals because we did not touch upon that you will see that if we just look at some of the momentum verticals, Manufacturing also grew by 12.3% on a y-on-y calendar year basis, but largely the three sectors which grew significantly were Life Sciences, largely driven by Pharma and some amount of Payer and Provider by 27.7% Telecom, Media and Publishing grew by 23.6% and Public Services largely from Oil, Gas, Energy grew by about 17.8%. So from a sectoral point we see growth across the board as such Manufacturing being large momentum place continue to show 10% and 12% respectively but Applications like I said Q-o-Q 2% calendar year constant currency Y-o-Y CY-'15 over CY-'14 6.4%. Engineering services minus a quarter and I will come back to that in a minute, from a full year perspective which is calendar year '15 over '14 grew extremely well at 23%. So we continue to see significant momentum there. If you recall the same period last year we had announced three very large deals which happened in the JAS '14 and OND '14 quarters with significant day-1 engagements as they convert into the steady state, they have obviously kind of reflected in this specific quarter in the depletion in the Engineering Services in specific for the quarter which answers both Engineering Services, Europe and Manufacturing, all three of them in one bucket because largely the clients come from that specific segments. Otherwise from a pipeline perspective, we continue to see good pipeline in Engineering Services both driven by the Internet of Things as well as by Digital Engineering because if you look at our Digitalization strategy, it includes Application, Infrastructure and Engineering because customers buy an integrated offering rather than buying competency in one of those three areas.

Sandeep Agarwal: This is a broader question for Anant. We have been doing pretty well in the Infrastructure and Engineering, obviously, there was some toughness for some time now but Application Services if you see that has been quite a challenge for us and its composition is also going down in the overall business. But will it be fair to say that our extremely good amount of growth and good work is probably taken away to some extent by some weaknesses in the Application Services and do you see the parts of the applications which is doing this damage to kind of bottom out or do you see scope for higher growth there? So, do you see that these Application Services can also grow like the other verticals not exactly similarly but at least in double digit or so, so do you see that kind of trend coming in next few quarters?

Anant Gupta: So you are right and I think it is not a surprise to anybody. I think there is a certain sectors of the market in that which are obviously not growing as well, largely driven by the ERP and Packaged Application market. That is the market is the one which is most affected in terms of new implementations or large scale upgrades or whether we look at software-as-a-service. But on the other hand if you look components which are growing in double-digits and high double-digits things like Application Modernization, Modern Apps, Middle Ware, Analytics and in Digitalization they are growing much faster. So yes, there is obviously part of that portfolio which comes from Packaged Application where we are seeing very negligible growth. That is pretty much across the industry. So as the industry moves to looking at more let us say Digitalized Solutions I think the flavor really will be how do you enhance the experience for solutions around that and therefore being driven by those five or six areas which I just mentioned.

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

Pankaj Kapoor: Rahul, you referred to this growing tendency of Vendor Consolidation. This is something your peers also have talked about. But it appears that all the Indian companies are actually a net gainer. So I was just wondering if you could elaborate on this, who really we are gaining the market share from. Second, what kind of savings the clients are targeting from these exercises?

Rahul Singh: Pankaj, basically as I mentioned earlier you can categorize the Financial Services clients into three categories – Gen-3, Gen-2 and Gen-1 – Gen-3 customers are the ones who have been doing outsourcing for long period of times. There are large Financial Services institutions you can actually talk about those in that category. So these are the customers who are essentially going for Vendor Consolidation. Now, Vendor Consolidation is not a rate issue. The issue here is about how you can improve productivity and do more work with either elimination of work through Automation, Cognitive Tools etc., which we spoke about earlier or you can eliminate work by a larger amount of consolidation of across multiple vendors. So if there is a same activity which is done in pieces across three vendors, then obviously if you consolidate into two, there is some amount of hand offs which get reduced and that is how the efficiency comes in. Now, your question more specifically was that, who is gaining and who is losing in the Vendor Consolidation. Now if I look at Financial Services as a whole, the spend is expected is to grow in the same range as Anant mentioned ITO spend is going to grow; it is about 3% to 4%. So on an overall basis the market will continue to increase in that range of 3% to 4%. However, higher proportion of the spend will go towards Digital and it will go towards more the newer technologies which clients are using to perhaps get more closer to the customers through the customer connect journey and so on and so forth. The cost that will come down will be largely in the run side of the business. So that is where production support happens and where the run of our customers is sitting in. From a client perspective the way we are approaching it is we would like to have a mix of business both in the production side as well as in the digital side. So there is any reductions that may happen in one segment are compensated by increases which happen in other segment. Your question about who will be the winner and who will be the loser. It depends upon the strategy-to-strategy each company will follow. Our strategy is to focus on both the segments. So we have Digital strategy. Anant spoke about that Beyond Digital, which we are taking veraciously into our accounts and we have 4-5 very specific cases of that. At the same time our customers are expecting that the run cost will come down and we want to participate in that through appropriately reducing the quantum of work.

So these are largely margin protected, but to some extent top line dilutive cost reductions which happens in the firms.

Pankaj Kapoor: Second question is on margins. Anil, was there any one-time cost related to the Chennai in the quarter and if you could quantify that? Related to that is that since we are holding to our 21%, 22% EBIT margin band, just a clarification that is that band, when you refer is for the second half now because for the full-year number to be in that band, we would need significant acceleration in the next two quarters?

Anil Chanana: Pankaj, there has been an impact though we have been able to a large extent sort of deal with the Chennai situation; however, we have not called out that impact separately. That is one. Secondly, to answer your question on the margin, I think the range is 21 to 22 and that is what we are aiming at.

Pankaj Kapoor: So that is for the full year right or that is for the second half, because first half we probably will be just a shade below 20?

Anil Chanana: You are right, there have been factors in first quarter and there have been factors in the second quarter, its basically will be going forward.

Pankaj Kapoor: On this net headcount decline that we have seen in the last two quarters especially, is it possible to get a sense like what share of these would be from the natural attrition of head count that we took over as part of various deals?

Anant Gupta: I think we do not have a separate number quantified; there will be some element of that. If you look at the way we are doing the head count addition our business is quite significantly driven and based on a non-linear growth, so two things we are doing -- one is as we drive operational productivity, we are looking at rescaling our work force for some of the newer technologies going forward that to be needed as the market moves. In that situation, there is a percentage of population which has enabled to make that shift and we see therefore a larger attrition from that pool as well. So, that is the second element which is kind of adding to the attrition.

Pankaj Kapoor: Anant just a small clarification; is it concentrated in any of the verticals, any of the business lines or again is it spread out?

Anant Gupta: No, it is spread out. Prithvi, do you want to just add to that?

Prithvi Shergill: No, our involuntary attrition has stayed steady through the quarter. There is no variances and patterns that we have noticed. There will be some pockets here and there in a particular month in which it may happen but nothing significant or notable to address.

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

Ankur Rudra: The first question is, Anant that in your morning commentary you highlighted that of the 10 Infrastructure deals that were in sight earlier perhaps who have ramped up this quarter, I think you were indicating about 8 would ramp up in future. Would you have a sense of timing -- should this ramp up mainly in March and going forward growth will come from the other deals you have captured?

Anant Gupta: So we do anticipate a significant amount of those 8-deals should get into steady state in the quarter we are in right now. Of course, there are deals which have come in OND which will then move forward, but those what reference the deals which we had signed up at the end of JAS quarter.

Ankur Rudra: Second question is on this acquisition and the large deal signed with Volvo. If you could add any color in terms of the size of the acquisition in terms of revenue accretion going forward and timing and velocity of how this deal will come into numbers? If you can also add some color in terms of would there be any margin dilution because of transition cost because they probably have a very different cost base compared to our company average?

Anant Gupta: First of all, the reason I cannot talk much about the Volvo deal is still not signed, we signed the LoI in the previous quarter when we talked about the time when we had the earnings presentation in last time. The progress from the LoI to the contract is moving as per plan, there are various elements as you can imagine, it is a large size contract involving significant number of people, third-party elements and client contracts. All I can say is it is progressing well. We continue to look at conversion of that into revenue in the April-May-June quarter. So, once we have concluded the deal, we will be in a better position to give you full color on the contours of that both from revenue, margin and everything else in there.

Anil Chanana: We will be quite to close our books on 31st of March this year, so the next year which is FY17 for us will start, as for the other companies from April 1, 2016.

Ankur Rudra: I think probably Rahul refer to disintermediation that you are perceiving on the FinTech side in Financial Services customers. The broader question is, do you think that will potentially reduce the addressable market for HCL Services and perhaps even for the industry in general?

Rahul Singh: No, the way you have to think through it is that the FinTech companies are at the fringes. So they are not volume consumers at this point of time. So therefore, there is some distance before they start taking away the IT spends of the large Financial Services institutions. However, we are focusing on both segments. So we are looking at as an opportunity to also work with FinTech companies and kind of work with them in collaboration with them, as the way it is the Financial Services market.

Anant Gupta: Maybe just to add to that; I think it is also important to realize that those offerings will be very point offerings which satisfy specific point need and then therefore the need to integrate their into the large enterprise, integrate into the larger systems of the banks or institutions will have, still would need those services. Going back to the point on the consolidation around operations and run, I think organizations are not looking at bifurcating their operations into multiple side or pieces for various reasons, efficiency, responsiveness, regulatory. So we do not anticipate to see the run side of those getting diluted into niche because there is tremendous advantage both like I say compliance as well as efficiency that they are part of one or more large run buckets.

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

Sandeep Muthangi: Anant, I had a quick question on the ERP market. Currently, the market seems to still suggest that there is a challenge, it is a subdued environment. But lately we heard commentary from some of your peers about the newer ERP stuff start off picking up in a big way. I am just trying to reconcile the disconnect. Is it a portfolio issue of HCL Tech where you have not made the investments early or it is still a pretty small part of the business, so nothing much changes really?

Anant Gupta: I also am as bullish as everyone else when those new applications will hit the market. When I look at the market and the responsiveness to some of those very large upgrades around new technologies from the large ERP vendors, I still think there will be a time before they will. So there are conversations in the marketplace around we just take SAP as an example, whether companies will move to HANA or some of those newer technologies. I think from our perspective when we talk to customers, it is not in the next few quarters at least from what we see. I think there are some interesting ways in which different organizations can get similar benefits, especially when you look at a persona based user experience requirement which could be met. I think what we will see is potentially in two steps – one is where you really do need to fundamentally move to a new platform because one can take advantage of the economics of those large platforms, potentially could be a few at this point of time. That is what our read is of the market and what we hear. But, from a capability perspective on the ability to migrate to some of those new stacks, we have those capabilities I would say largely driven by our strong SAP presence. So from that perspective I do not see a concern.

Sandeep Muthangi: One more question on the large deal market. I want to quickly check if the competitive situation in that large deal area has been increasing of late either because of the incumbents starting to get more concern or newer players entering. If so does it mean anything for the margin or the pricing situation in that market?

Anant Gupta: Let me answer the second one; I do not see the second one being an impact of the form of in terms of whether the traditional players are gearing up. I think pricing is dependent on the business case. We continue to maintain that. It really depends on the ability and maturity of different organizations as an example if let us say our maturity in our DryICE, the Automation and AI is far-far superior. So, I think the comparison is no longer around dollar per hour, it is really about the overall business case. So, I think we do not see that as an issue. I think on the former one, yes, obviously, given such a large place there in the market, the larger players have been part of the final four if you may like. So there will be a good response from them I guess so. I think we will continue to do our own bid in terms of differentiating and winning more. And especially as we look at some of the couple of very significant deals we have signed in this quarter, we feel comfortable in maintaining our win rates in that marketplace.

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

Diviya Nagarajan: Anant, you talked about this acceleration in Infrastructure and even this quarter the deal wins have been quite strong. But the YoY trends in growth still seem to be tending lower. If you were to kind of keep up place in the market we are looking at the significant acceleration in second half, is that something that we can still expect in trend particular?

Anant Gupta: First of all, if I just do a calendar wise performance; Infra grew by 16.4% for calendar year '15 over calendar year '14. I did mention last time that our H2 will be better and we continue to maintain that; we do see significant conversion. Like I said, 10 deals at that time when we were talking about at the end of JAS quarter, 2 got converted into steady state in the OND quarter, we do anticipate 8 of them to get converted in the Jan-February-March quarter, and of course AMJ as well for the other deals coming in. So, yes, H2 is we continue to be extremely positive on the growth rates over there.

Diviya Nagarajan: Second on the head count trajectory that we have seen an acceleration in head count drop. As we look forward into the growth projections as well as the fact that there is increasing model change into Automation. Is this a trend that you expect head count will continue to decline?

Anant Gupta: I think there will be one element of that for sure. There will be two responses from our internal work force, some those who are able to bring that shift to be able to move into that ability to get the incremental earning and know-how on some of the newer technologies while some may not. So, I think it is two aspects. The drive is not about just because of non-linear growth we will be looking at reducing the work force. We are responsible and to that extent we extend training to do that. I think it is the ability of certain percentage of the work force which may not be able to kind of migrate to some of the newer technologies and that is where we will see some of the drop.

Diviya Nagarajan: My last to clarify; you said that the Volvo acquisition would be effective in numbers from the first quarter of next fiscal which is actually be the April, May, June quarter for next year onwards, is that correct?

Anant Gupta: That is true.

Moderator: Thank you. The next question is from the line of Sandeep Muthangi of IIFL Capital. Please go ahead.

Sandeep Muthangi: I had one more question on the margins. Going forward most of the traditional delivery lever seem to be peaking out… I am talking about utilization and the usual stuff. So, is this something that you guys also think that incrementally, most of it should come from your tool utilization and productivity, or do you think there is still some more room on the traditional levers and there could be cost take out possible?

Anil Chanana: You are right, to some extent the utilization has been increased but as I have articulated in a lot of one-on-one as well that when we consider utilization the fixed price projects and managed services projects whatever we have deployed as the people there are, 100% taken as utilized; however, I do understand while we are doing the exercise that there is a room to sort of gain savings there. So we will be sort of banking upon those savings. So this will be one of the savings which will accrue. Apart from the other optimization on particularly on the G&A spend which should yield savings. Though we have not put any number on that but that is another lever which we will continue to sort of explore as we expand.

Anant Gupta: Finally, of course, if you see every quarter our composition of managed services increases. So as customers get more comfortable in that approach, that allows us the ability to kind of do the delivery in the most efficient way we believe. So again, if you look at this quarter that is pegged up by a percentage point moving up to 57%. So I would say that could be the only additional lever for some service lines.

Sandeep Muthangi: Anant, quickly referring to your commentary about 2H being strong. I am trying to reconcile the weak hiring in the first half and the strong kind of commentary over 2H. Usually whenever there is a ramp up, etc., would it not make more sense to have a bit of a buffer to make sure projects get delivered on time and stuff and have buffer in terms of bench and stuff like that or is this linearity completely broken in your case, productivity benefits have been much higher than what you anticipated something like that, that is driving this trend of weak head count growth about strong 2H commentary on the revenue growth?

Anant Gupta: No, I do not think so. It depends on the service lines. Given that significant portion of them was either standalone Infra or IT Outsourcing, the ramp up of those already been done when the transition kicked in whichever quarter they would have kicked in. It could have involved in some deals taking over the entire staff and therefore duplication of the let us say steady state team which are doing knowledge transfer so to that extent, the headcount would have already got in place. As you move into steady state, as KT is completed, as transition gets completed, and you move to steady state, there is a plus headcount. So these are not engagements which come in and get ramped up in a month and therefore we have to look at that specific quarter headcount coming in from there because significant amount of them are really those mid to large size IT Outsourcing deals.

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

Ravi Menon: I have a question about the segmental margins for IMS. If you look at year-on-year the incremental revenue and look at the incremental cost, it seems that you have a lot of deals that are in early stages at low margin, because looking at incrementally it is like 44 million has been added in the revenue, but you add about 60 million in cost?

Anil Chanana: Essentially, as we discuss there are deals which are under transition and so there are a lot of investments in terms of tools, software, assets, etc., which is happening at the moment so which did impact the margins this quarter.

Ravi Menon: So just to understand how you structure the deal. Would it be fair to say that the first milestone is really when you end the transition and then more SAP revenue recognition would be different?

C. Vijay Kumar: Actually, depends on deal-to-deal and there are certain deals which are transformation-heavy where we use a percentage of completion method to recognize revenues and there are certain deals which are operations and transition-led, where we complete the transition, that is when the billing and revenue recognition starts. It is very difficult to kind of construct a financial pattern because the deal differs in their nature, complexity, duration, there are multiple deals in different phases. So you really cannot put a mathematical pattern to it.

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

Viju George: Anant, just one question for you on Automation. What is the kind of Automation benefits you are seeing right now either in quantification or all qualification, are you seeing a fair bit of value still available in Automation brought by possibilities from AI or do you think it is too early to talk about that. That is one. Second is that, do you think that there are runaway for Automation using traditional rule based workflow kind of Automation is behind us and therefore the large part of the Automation gains you are building going forward has to be driven?

Anant Gupta: It is a great question. It is not just one story. So if you look at DryICE and that is our full framework now which cuts across the organization, whether it is Infrastructure Management, whether it is Application Management or even portions of business operations. So there are about 12 components in there which impacted differently; some of them are obviously a lot more mature and some of them are less mature. That is one dimension. Second is when you get into a client engagement, you could have scenarios where even the first basically you may not have been exploited. So it will depend upon whether it is a first time outsourcer, whether it is renewal contract and then who were the outsourcers. There is a play for even basic work flow-led Automation to as advanced as AI and Cognitive and Machine Learning. So it would not be fair to say that everything in Automation is all about stuff which is hi-tech. There are some basic stuffs which in there. If I just roll back to the point what CVK mentioned that it is in our third generation, the way we look at the third generation is as follows: In the first one, it was focused at largely availability and performance of the technology stack. The second phase really was around integration orchestration, workflow and operations workflows in there. And the third phase is really about elimination of human work; it is about AI and it is about Cognitive and Machine Learning. So those are the three steps in which we are moving; the first two like I said is already has been there; the first one was launched about 10-years back, the second one a little over 3-years back and of course the last one in pockets has been working for a while and we have just ramped up that into the go-to-market and across all service lines. So you will see us a lot more in that, the model is mature, we do believe there are levers to extract significant amount, it depends on the construct of the engagement with the customer and elements of standardization within a client environment. I think those two elements would dictate the use of which component and to what extent.

Viju George: Just one follow-on question; how easy is to operationalize the third element as you mentioned vis-à-vis the second element which you have been doing for a while -- is it technically a little bit more challenging or is it more difficult to roll out within client environments because we do get some mixed reports on this, to be honest?

Anant Gupta: It is definitely technically challenging especially when you get into let us say the Global 500 kind of customers, but if you start going to the G2000 customers it is relatively simpler. Yes, it is technically complex, but I think we have a rich expertise in that area and I think we do have unfavour advantage if you may like, 20% of the company is Engineering, so we do have a lot of expertise in that pool which is actually working with technology OEMs which we are using for this work. So I do think it is not so much about technology challenge that we can to build the IP, I think it is about the client environment ability to absorb that the amount of standardization and the change management that needs to undergo within the client environment able to adopt that change. So, I think for very large G500 companies especially we are doing end-to-end, all technology stack outsourcing, it would take a much-much longer time but on the other hand if we do a single towel, let us say, like data center as an example or let us say SAP or ERP Management as an example for G500 companies it would be easier and of course for a mid-market customer it will be much more easier.

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

Sandeep Shah: Just on the question of IMS, CVK has said the Software-defined Infrastructure has been launched as well as we have started through this DryICE the Automation and Robotics. So, the question here is, has been any instance where a large deal of HCL take on the IMS has been rolled out or renewed through this new Software-defined data center or the Robotics? What was the experience in terms of the TCV in terms of cannibalization as well as the EBIT margin… whether the EBIT margin has improved despite the revenue going down?

C. Vijay Kumar: Software-defined Infrastructure from a maturity perspective it is still in the nascent phases. So what we are doing is for a number of our clients we are doing proof-of-concepts through our solution center. We have not won a large scale deal with Software-defined infrastructure as the fundamental construct. I think it is a little bit early days for that. So it is largely PoCs in existing clients and looking at certain workloads which can really run on a Software-defined Infrastructure stack. The technology is also in an evolution phase; a number of OEMs are launching newer solutions around this. So I think it is early days from a Software-defined Infrastructure perspective.

Sandeep Shah: Is it possible to give one example where I think if the same thing has been running on our traditional fashion and same thing goes on the Software-defined, how does the impact the vendor and what are the opportunities?

Anant Gupta: Firstly, when we say Software-defined Infrastructure it is targeting a very different market and we look at Automation, AI, Cognitive, it is impacting something else. So on the latter on which is around Automation, Cognitive, it is about operations and that is already in production, that is already having customers and we see significant benefit there. Software-defined Infrastructure is another way which would be competing with the Public Cloud which is does the private enterprise will have infrastructure that can get all the benefits of Public Cloud characteristic from elasticity, from quick scale up/scale down and so on. So it is more of a technology play in the industry which OEMs will build and then we will roll it out or we will include it as part of our design and then execute to that. So there are two different markets. If you look at some of the studies, Software-defined Infrastructure and including Software-defined Networks from carriers, would be competing with things like the traditional cloud stacks that are there. So that is one part of the market. I think that is the point which CVK was saying; it is new, it is nascent, we are doing pilots and that will be a while before that technology gets adopted. But, from what it looks like that could be a significant financial benefit for companies to look at when they compare what they want to move to Public Cloud versus Software-defined Private Infrastructure.

Sandeep Shah: Anil, clarification in terms of the margins for 21-22% as a target which we are looking is for the H2 and not for the FY15 as a whole?

Anil Chanana: That is correct.

Sandeep Shah: Is it possible to give us the contribution from inorganic acquisitions because with one JV there are three acquisitions, which had maybe a partial or a full quarter consolidation? I do agree it may not be material, but it will help us.

Anil Chanana: There is only one significant acquisition which got consummated within this quarter, rest are very-very small… less than a million dollar types, which is the PowerObjects which we had declared that is 37 million per annum revenue which probably will have about two months of revenues built into in the quarter. So that is the only one, rest all is so small, including the JVs very small at the moment.

Moderator: Thank you. The next question is from the line of Sashi Bhushan of IDFC Securities. Please go ahead.

Shashi Bhushan: Can you please deconstruct the margin expansion in BPO has expanded 10% point, quarter-on-quarter incremental revenue added by just $5 million, but incremental EBIT edition is around $9 million?

Anil Chanana: BPO we follow various models with our customers. One of the models we have been working on is basically like a cost plus model. In the cost plus model, we were having discussions with the customer and we could conclude the discussions only recently as a result of which that there is a bump which came in the margins. So that is one of the reasons and another reason is there are some certain recovery which had become now full and we recovered in this quarter. So there are two or three reasons which sort of a led to sort of increase so far this particular quarter is concerned.

Shashi Bhushan: What would be the EBIT margin going ahead for this segment?

Anil Chanana: It should be between 8-10%, that is a reasonable one to expect.

Shashi Bhushan: If I look at quality of earning both free cash flow to EBITDA and cash flow from operations to PAT for the last two quarters it has worsened. Can we expect mean reverse in H2?

Anil Chanana: Sure, because a lot of investments at this point of time are going into the business. As I defined that in terms of the transition which are taking place, there are a lot of assets as well as other investments which have gone in plus there was a Chennai situation where we had to sort of assist our employees with short term loans and then there have been some situations; though our PR has been very much in control, plus there are tech payments which come into this quarter and for some employees' long-term incentives got paid within this quarter. So, some of these elements will not be there going forward in the next quarter and therefore I do believe there should be a significant positive impact going forward.

Moderator: Thank you. We will take our last question from the line of Girish Pai of Nirmal Bang. Please go ahead

Girish Pai: Could you comment on the competitive intensity in the IMS space because over the last 12 months or so, we have seen some of your peers actually gain in some large deals in this space. Are you seeing greater level of competitive intensity now or say 12 months back?

C. Vijay kumar: Yes, we continue to see an increase in competition both from global players and IOPs. However, our strength of our proposition and the differentiation that we have under leadership that we have in the market is helping us continue to maintain our win ratios.

Girish Pai: Would this mean that you are taking on more capital-intensive projects right now versus say 12 months or 24 months back?

C. Vijay kumar: Our broader strategy continues to be an asset-like strategy. So we continue to maintain a certain mix of business which is desirable from the overall business plan and largely we are in line with the business mix that we plan. We do not foresee any significant change in that.

Girish Pai: This is regarding your TCV. You have been talking about a billion dollars of TCV over the last many quarters now. As you grow larger, do you not think you need to move up that number and what are you doing in terms of investments for this number to move up?

C. Vijay kumar: Definitely, several investments that we have talked about in the past few quarters around building global delivery footprint, investment in Beyond Digital and IoT works and practices are really geared up to increase our win rates and our ability to participate in some of the new disruptions that are happening in the market. So logically we would expect to participate more and win more and we hope to see that in the coming quarters.

Girish Pai: On the Public Services side which showed some very strong growth you mentioned, Energy being an area where of gained a lot of share this quarter, whereas you see some of your peers talking about pressure there, what is different that you are doing there?

Anant Gupta: You are right, in the Oil & Gas and similar even in Telecom, finally, we see some of the very large…and this is not only this quarter, I think it has been there as a trend for maybe a couple of quarters at least, in this sector specifically all the oil prices and so on and so forth, I think customers in general are fundamentally relooking at how could they restructure their operating model so that they can reduce their cost and be profitable. Therefore, they are taking what I call as fundamental structure change decisions which will pan out over the course of the next two to three years. As part of that, therefore, obviously what we are seeing is an opportunity because both these sectors were sectors where we were not necessarily present in that as compared to the others and therefore the alternate ways in which we are offering some of our next gen service line is a great option for some of these large firms and that is what they are looking at is how could they fundamentally move some of their Gen-1, Gen-2 constructs into next gen construct with HCL and which is where we are winning and that is why you are seeing those growths.

Moderator: Thank you. Ladies and Gentlemen, I now hand the floor back to Mr. Anant Gupta for closing comments.

Anant Gupta: So thank you very much for joining us in the earnings presentation for the second quarter. As I started, we delivered a strong quarter in spite of whatever headwinds we had in some pockets. All our businesses from a calendar year perspective did well. As we look forward given our order booking and given the pipeline that we have and some of the investments that we have made during the course of last year, we are extremely confident of a very strong H2 and the calendar year as well. So with that, thank you very much for joining us once again.

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