



“HCL Technologies Limited Conference Call”

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Moderator:

Ladies and gentlemen good morning, good afternoon and good evening, this is Rochelle the moderator for your conference call. Welcome to the HCL Earnings Conference. Please note that for the duration of this presentation all participant lines will be in the listen-only mode and the conference is being recorded. After the presentation there will be an opportunity for you to ask question. Should anyone need assistance during this conference they may signal an operator by pressing * and then 0 on their touch-tone phone. At this time I would like to turn the conference over to the HCL management. Thank you and over to you.

Vineet Nayyar:

Good evening friends, on behalf of the HCL management team a very warm welcome to the HCL Investor Call. I am joined in this call with our CFO Anil with the senior management team Anand Gupta who is the President of Infrastructure & Services. Ram who is the Head of Enterprise Application and also Enterprise Transformation Services. Suresh Sundaram who is Head of Marketing, they all would be with you when we come on 24th September for the Road Show in Bombay plus along with my other senior colleagues through what I call Meet the Management.

Going through the results, it is an interesting time at HCL where I believe that we have delivered industry leading growth and expanded the margins that I do understand there were some concerns around that. We have increased both the customer satisfaction and the employee satisfaction by focusing on value we are delivering both for the employee and the customer. We have accelerated our investment in growth so therefore we have demonstrated that in recessionary times we invest in growth, you potentially could deliver those growths. We have also arrived at a point in our transformation journey where our diversified business portfolio, our thought leadership is recognized in the world, our improving market share is getting noticed and most of all our employees are leading from the front.

I want to make a couple of quick comments on the results. A 7.6% quarter-on-quarter growth rate for the current quarter was backed by a quarterly EBIT growth rate of 18.4%. Annual revenues grew by 17.1% and annual EBIT grew by 18.4%, sound performance all across. This has to be seen in the background of what has happened in the last four years of our transformation journey and I constantly keep reminding you that in HCL in 2000/2005 is different to HCL in 2005/2010 and a three times growth in four years is delivering a consistent 6.9% CQGR growth rate is what HCL's performance has been. So the current quarter, current year performance has to be seen with that lens. Not only there is a growth also the quality of portfolio you put together it is very clear that the custom applications is de-growing and if you believe the NASSCOM numbers which constitutes only 30% of our revenues, engineering services and R&D constitutes about 19.4% of our revenues which has shown a de-growth but fortunately for us the de-growth in engineering is far lower than other services. Enterprise Application Services is at 23.6%. Infrastructure interestingly because of its aggressive growth is moving to 17.6%. If you look at **MTPO** because we are transforming the BPO services and I will talk a little bit more of that it is about 10% now. So, therefore it is growth or lack of growth does not impact the overall

revenues of the company or the profits of the company. What you see interestingly in this diversified portfolio is, its a different business model to some of our high performing colleagues in the industry. And therefore when you look a HCL you have to see this in perspective, you will have to see the geographic mix in perspective and also you have to see that there is no dependence on single vertical. So manufacturing is 31% which is the largest vertical, financial services is at 25% and the third vertical comes at 12.5%. The emerging geographies, the emerging verticals are what is driving the growth, which is the interesting part of HCL. Customers are very important in such times and we are focused on creating value rather than focusing on revenue increase, it was troubled times to begin with but the fact we have delivered 8% quarter-on-quarter growth on our Top 20 customers indicates to you that the customers are pretty pro HCL. So their IT budgets have not increased and I will make a comment on that, however HCL's revenue share in their portfolio have increased and that is largely driven by the customer satisfaction. So we have finished our customer satisfaction survey which is done by a third party and we have seen a phenomenal 43% increase in CSAT. And this is because of two reasons 1) Of what we did that means we focused on value and went to the customer and saying we will be part of your solution. 2) Interestingly is the lack of such noise from some of our competitors and that helped us not only win new business but also win new business in existing customers.

It is not just about numbers it is also about recognitions across the board for HCL, are being profiled as a chapter in "Blueprint to a Billion". The fact that we were one of the few companies to win the "SAP Pinnacle Award" which is largely been going to IBM and Accenture till date, now comes to HCL-AXON. Leader in the new generation of thinking around SOA system integration the global IT outsourcing outlook being rated as leaders. Infrastructure utilities around SAP is again an example of what Gartner is saying -what I had said that why we are doing the acquisition is not only for blueprinting but also looking at the new paradigm in the way services will be delivered and investing in that. Being #1 in the 50 Best Managed Global Outsourcing Vendors as per Black Book of Outsourcing #1 not #2 and being the Top Employer not only in India after US but also in Britain. These are important elements which are the recognition of this year beyond just numbers.

What do we see, what are the market strengths and what is HCL's strategy, a quick word on this and this graph you would have seen as you would have computed on your own, that the fact that the positive quarter-on-quarter growth of S&P 500 companies has dramatically comedown from Q3 it has comedown. So now we are about 26% of the companies in S&P 500 are growing positive quarter-on-quarter and the balance 73% are growing negatively. The projection if I believe of the S&P 500 analyst projection, it believes that we will see two quarter down the line a 50-50 and then we will be back to square one four quarters from now. Now if this is the reality to point a more positive picture is not real and that is the reason we are cautiously optimistic about the environment and saying that we do not see a trend in IT improvement. And I will come and talk about our business model in a bit. The business growth recovery, the other way to look at this is that if you look at on the left hand side this is the year-on-year growth rate of S&P 500 companies. Now the average if you see the line in the dotted red is 9.73% now what

happened in the last three quarters is it suddenly dipped down, it has grown year-on-year negative. Now all of you are aware of it. Now we have projected as we saw in the previous graph to go up. The point I wanted to make is when it goes up, the average will be 6% against the average of 9.73%. This phenomena at HCL we call the new normal. The normal will come back yes whether it is two quarters away or four quarters away, but it will be a new normal which will be a lesser growth rate than we have historically seen, now that means that HCL will have to prepare itself as it has prepared itself to respond to the new normal, we have to be good while it is going down, we have to be good while it goes up.

Now if you look at what is the HCL business model it is predicted in this complex graph and I will take a few minutes to explain this to you. The first blue line indicates the business growth which is what we predicted in the previous chart, so it was very high and then it has come down to the negative growth trajectory and in a period of time we will see it go up. So that is the business growth graph. Now whether it is quicker to come up or will be laid back is a different issue, which is not my concern at this juncture. The other line which is the IT spend growth rate which is in brown color you would see that growth rate again it will track the business growth, there is no reason that IT spend is going to grow faster than the business growth and therefore that line shows that projection. Now that is where we start departing in our thinking, we break the market into two kinds, one which is efficient in IT spending and another which is not efficient in IT spending. The blue line the line there which is efficient in IT spending in my mind will also follow the total IT spend which will follow the business growth, because these guys are efficient, do not need transformation and therefore they will go with the flow. However the interesting market which HCL has focused on is the total IT outsourcing market or transformation market which is our business benefit market where we are driving the business benefit case is the dotted red line market which I believe will move in the reverse direction of the growth. And by capitalizing more market share in this market you would be able to reduce the impact of some of the growths which we are seeing in the market space. So what can HCL do? I believe there are four strategies HCL has adopted which has demonstrated growth this quarter and which will also demonstrate growth in the subsequent quarter.

1) Launching new services and launching them in new models. So cloud computing, utility services, SOA, business benefit realized services, device based pricing, output based pricing, fixed contracts all those belong to this new service models.

2) The second is to drive best in class discrete services. So by using discrete services the best efficient company we would be able to get more out of them. So wherever there is vendor consolidation and you would have seen the fact that we have grown our existing Top 20 customer at 8% quarter-on-quarter and the reason is that our best in class service strategy which we launched six months ago is turning out to be quite effective in getting more evidence out of existing customers. So enterprise application, infrastructure services, micro vertical domain capabilities are best in class services.

Now let us go to the inefficient IT spend companies, there the micro verticalization like the energy utilities, healthcare or new geographies like Continental Europe, China and Brazil is the way to grow and also the total IT outsourcing is the way to grow where you do the run the business and change the business. So the overall what are we saying? Overall what we are saying is that when the Lehman Brothers event happened, HCL radically changed its strategy to go after clicking the deals in the pipeline so that we can win where the win was happening. If you look at the data monitor deals from non-government deals of \$8 Billion in September it is down to about \$2 Billion per quarter now. We cannot do anything about it and we have also seen the softness in new deals in April/May/June and in July and August also. We don't know what is going to happen going forward.

Now therefore while the great work which we did when the deals were happening has got us till this point. Going forward we would need a new strategy and some of those new strategies will continue to be total IT outsourcing but will be around new verticals, new geographies, best in class on discrete services and new services and models. So our projections going forward continues to be the fact that our business model is different compared to some of our competitors and we believe based on the investments we have made our growth will be within the band of these four major IT services companies, both in revenue and services because of the way we are approaching the markets. With this I handover to Anil to walk you through the financials and then we will very quickly go onto question and answers.

Anil Chanana:

Thank you Vineet. What you see here is just a recap of the profit & loss account. First the yearly numbers so this year 30th June 2009 we closed at 2.2 Billion up 17.1% year-on-year. EBIT growth 18.4% so EBIT margin has grown from 17.4% to 17.6% for the year as a whole. For the quarter our revenues were at 607 Million and EBIT margin at 18% which is an expansion of 160 basis points. And if you look at the numbers here after the EBIT line the cash flow hedge accounting loss and the FX loss put together constitute a negative (-19) Million opposite (-40) Million negative January to March quarter so there was a savings here more because of the appreciation of the Rupee. I will talk about the rest of the elements as we go forward.

So now where this revenue increase of 42.7 Million came during this quarter which is 7.6% quarter-on-quarter increase, the volume lead growth was 15.3 Million out of this, which includes the higher number of billable days in this quarter as compared to January to March period. The pass through which is more relevant to the infrastructure services business is 7 Million. It is a bulge in the revenue as well as bulge in the cost. The favorable exchange rate gave us 20.8 Million so outside of exchange we grew by 3.9%. There was a marginal negative impact on account of realization. If you move to the EBIT analysis there was a QoQ increase of 164 basis points which has been mainly contributed by efficiency including on account of the higher number of billable days during this quarter. And the exchange had a negative impact on the whole so 52 basis points were taken away. So this quarter is post January to March quarter when we had absorbed the AXON acquisition.

Moving on the hedge position, currently we have 813 Million in hedges at an average rate of 40.69 opposite they have been mark-to-market at 48.83, they are all forward covers. And the mix currency wise you can see 773 Million in terms of USD/INR and 13 and 50 Million in GDP and Euro respectively. Hedge covers where we do cash flow hedge accounting is 717 Million. The un-hedged meaning the mark-to-market accounting has come down substantially from where they were a quarter back. So, this 813 Million is net of 245 Million of covers which were cancelled prior to 30th June 2009, but released through the period from July to December.

Coming over to the negative OCI which is sitting and has been subtracted from our shareholder's equity as of 30th June, this number has come down partially by the 32 Million charge you saw in the P&L account and partially with the Rupee appreciating in this quarter. So we have OCI losses of 161.8 Million out of which 127 Million are going to come in the next four quarters and 27 Million in July to September quarter. Thereafter in the quarter subsequent to September 2010 it is about 8 Million, so in total 162 Million. So, this 162 Million includes 47 Million of loss in respect of covers which were cancelled off of 245 Million.

Moving on to the tax provisions, you will see the tax provision in this quarter being double than it was in the January to March quarter. The primary reason has been a one time tax expense of 6.6 Million we have booked in this quarter. As you are aware the industry has been demanding, has been requesting the government to modify the law so that the provisions of Section 10AA relating to the benefit for SEZ units are clear. This amendment though it has been made but has been made with prospective effect, effective 1st April 2009 and not retrospective effect. What it does is this means whatever profits on the SEZ unit we earned last year which is April 2008 to March 2009 will be taxable. We will contest this however going by conservative accounting we thought to be prudent to make a provision for that. If you ignore that our effective tax rate on business income has been 12% and on other income has been 34% with being the income on the treasury asset. In terms of what our tax rate will be in future, we had a look at it once again. For FY2009/10 it is going to be about 18% same for FY2011 and FY2012 it is going to be about 26% and thereafter it will be reducing. So this is what we see at this point of time.

Going further where we are in terms of our fund positions? Our net debt position is 218 Million; it was 267 Million negative as on end of March. Our total loan points are 622 Million out of which 32 Million has been paid off post June. So today it is only 590 Million. You will recall that we had taken 585 Million of loan from Standard Chartered Bank as a bridge loan in order to pay for the AXON acquisition and the rest we had borne out of our funds. 85 Million of that money of that loan has been prepaid much in advance of the due date and 500 Million we had tied-up the long term financing for it. The 300 Million out of which is by way of long term foreign currency loan and there we grew at 200 Million which converts to 1000 Crores by way of Rupee bonds which have been placed in the domestic market last week. When you look at our net treasury and other

income it is 2.5 Million negative in April to June quarter which converts into an interest expense of about 4.1%.

Moving on, dividends this quarter, the board has declared Re.1 per share of the same dividend that it had declared for January of March quarter. So our payout on net income has been 43%.

This is very interesting slide, it is a snapshot of the last eight quarters, the cash profits we have been generating, the operating performance and we have in this quarter April to June crossed 100 Million in EBIT and you can see the gross margins, the EBITDA margins also increasing substantially by 15 Million this quarter. Thank you very much.

Moderator:

Thank you. Ladies and gentlemen we will now begin the question answer session. At this time participants who wish to ask a question may please press * and then 1 on their touch-tone telephone. If your questions has been answered and you wish to remove yourself from the question queue please press * followed by 2. You are requested to use your handsets while asking a question. Participants with questions may please press * and 1 at this time. Our first question is from the line of Sandeep Muthangi of IIFL. Please go ahead.

Sandeep Muthangi:

Hi, good evening, congratulations on the good results. Vineet you briefly mentioned on the new deals, could you throw more color on the environment that you are seeing for new deals specifically in terms of decision times and pricing?

Vineet Nayyar:

Let us go into the external data point and then the internal data point. External data point is largely from data monitors and that is showing a 4X reduction in the total deals outside the government sector, which is what HCL is also seeing that the deals flow which we had seen from July to September, if you remember October-November-December I think we did about a Billion dollars worth of deals. In JFM we announced, May-June we have not announced because the amount of deals has not been very satisfying. And that is not because we are losing deals, even if we were losing deals then that would have been also, overall deals have softened starting sometime in March-April but more around May- June and the same trend seems in July/August. So data monitor indicates that and HCL internal data also indicates that. So therefore now what would happen going forward, I think somehow I am seeing a direct correlation between S&P 500 quarter-on-quarter growth versus the deals, now why I don't know but I am seeing the correlation. So therefore going forward, I can definitely predict that maybe it will take a two quarters flow to come out. Now are the deals on the table? The answer is yes, the deals are on the table and we are pursuing them they either get aborted or the decisions get elongated or the decisions do not get taken and therefore I am counting deals starts rather than deals being pursued. The deals in October-November-December were happening in a hurry, you are absolutely right that the deal timelines were shorter; the deal timelines are longer right now. And the pricing regime has remained about the same from the time I am believing that when we saw the Lehman Brothers meltdown we actually, the deals started re-pricing themselves at

a different level. And I do not see substantial difference in pricing of new deals it is just the fact that deals are not happening and the price cycles are getting elongated.

Sandeep Muthangi:

Okay thanks.

Moderator:

Thank you Mr. Muthangi. Our next question is from the line of Tarun Sisodia of Anand Rathi. Please go ahead.

Tarun Sisodia:

I had just missed out that point on pass through on IMS number one. And number two I also wanted to understand one pricing part of it, has there been some hikes?

Vineet Nayyar:

Hikes? No.

Tarun Sisodia:

Because sequentially it seemed that the pricing is seemingly much better if I just generally do this average realization per INR and if you just look at it, it is looking slightly better off.

Vineet Nayyar:

Okay, you are talking about not pricing but realization it is because of the AXON impact. The kind of services post AXON, the kind of deals we are winning have better realizations which is what was anticipated. So our offshore realization if I am right has gone up by 4% and onsite also about 3.9%. And the reason this is happening is because we are winning more transformation services behind AXON and it is also an indication of the fact that AXON is getting into a lot of existing HCL customers which fortunately we are getting new rate cards for those services so that is a good news. In pass through revenues, I don't know why we use the word pass through these are what I call either third party services in a total IT outsourcing contract which you takeover AMC's or the third party contracts or telecom expense management or you takeover ---- resources which you takeover the existing resources, I think the reason been we mentioned it separately is to indicate the fact that the \$7 Million will come at a significant lower margin than the rest of the business comes in, but it is a necessary condition for taking over a total IT outsourcing deal. The \$7 Million is not a one time revenue it is part of recurring revenue which will remain throughout the period of the contract.

Tarun Sisodia:

Right, thank you very much, all the best for future.

Moderator:

Thank you Mr. Sisodia. Our next question is from the line of Sandeep Shah of ICICI Securities. Please go ahead.

Sandeep Shah:

Yeah sir, congratulations on good numbers, just if we look at the cash flow statement, the acquisition related payment has gone up by 13 Million so is there any new acquisition also being integrated beyond AXON, because AXON has been already integrated around four months back..?

Anil Chanana:

Sandeep, there is no payment which has been made on account of acquisition this quarter, it is more of an exchange impact which is reflected there.

Sandeep Shah: Okay. So the South African SAP company as well as the New Jersey data center, all these consolidation would come in the coming quarters?

Anil Chanana: The UCS which is the South Africa acquisition will be in this quarter and the New Jersey data center is already built into numbers

Sandeep Shah: I missed the second part of the New Jersey data center.

Anil Chanana: It is already there in the numbers in April to June.

Sandeep Shah: Okay. So this is like consolidated for the whole three months?

Anil Chanana: That is correct.

Sandeep Shah: Okay. Sir if you need to breakdown organic and inorganic infrastructure revenues for this quarter, can you breakdown if you take out the New Jersey data center?

Anant Gupta: The entire infrastructure revenue is organic, I think the data center which has been purchased to New Jersey is purchased as a data center asset and it is part of provisioning data centers services therefore a larger engagement, not to the customer so it is not an acquisition. It comes with no revenues.

Sandeep Shah: Okay. And the intangible assets have also gone up by almost \$88 Million what does it relates on a Q-on-Q basis?

Anil Chanana: So what it relates to is, I mean you know this AXON acquisition we completed in the month, on 15th of December. Since then the exchange rates have moved. And this asset has been pushed into the books of the operating entity, it was acquired in a SPV and the goodwill is required to be pushed into the operating unit. So once it was shifted into the units, it was pushed into the accounting wise into the unit. It is now subject to be exchange fluctuations. So this is basically a reflection of that exchange movement which is taking place, other than that and its the changes which will keep on taking place small things here and there which will impact either the opening balance sheet and thereby the goodwill and the intangible. So under the US GAAP there is a period of one year which is allowed in order to sort of reset this number and that change is happening in line with that.

Sandeep Shah: Okay. So you expect more changes to come in future?

Anil Chanana: I think most of it is already in except the exchange. So far it is in the hand of US order book, it would not get impacted so long it is as in the GBP books, as the GBP book it will impact.

Sandeep Shah: Okay. And will this have any impact on the amortization which you used to share earlier in terms of?

- Ram Krishna:** It does not have any significant of the impact on the amortization schedule we have shared with you.
- Sandeep Shah:** Okay, thanks and I will come for the follow-up.
- Moderator:** Thank you Mr. Shah. Our next question is from the line of Pankaj Kapoor of RBS. Please go ahead.
- Pankaj Kapoor:** Yeah hi, three questions from my side if I heard right, you have mentioned that the 7 Million flow through revenue that we saw in the IMS business this quarter, that will continue going forward as well if you can just confirmed that. And related to that would be if it is possible for you to breakup in terms of the large deal flow that we have seen in the last year as well as this year, if you can give a breakup in terms of how much of the revenues came through them and what is your outlook on the revenue flow next quarter from those deals? Second if you can give some sense on the deal pipeline that you are seeing again on the large deal side, and how has been the experience in terms of translating them, decision making on those deals and so on? And thirdly on the software business where we are seeing flat volume for the last couple of quarters if you can give some sense when we can see a recovery as far as the headcount addition is concern because utilization seems to be now running at almost your historical high levels so what is your take on that, thanks?
- Anand Gupta:** So let me answer the first question 7 Million pass through is really not pass through, it consists of third party services, warrantee and maintenance services that we provide to customers, the development expense management services which we do on behalf of the customers. So these are recurring services in nature with lower margin and that is why they have been reflected separately. So as part of the large engagement we do take on some of these third party services to provide a full portfolio to our customers.
- Vineet Nayyar:** And that normally covers about 10% margin. So the pass through definition is wrong, it would remain recurring. Anil, revenue recognition of the large deals we have shared the last quarter numbers if you can give it...
- Anil Chanana:** Correct so we had shared that this year we will be recognizing 231 Millions which is year ending 30th June 2009 from 1 Billion of these we signed in the financial year 2008 and 1.5 Billion which we signed in the first nine months of financial year 2009. However anticipating 43 Million to come from 1.5 Million however what has come is 63 Million. So we thought we were able to sort of realize more revenues since we were able to finish some of the transitions ahead of time and as a result of which we have been able to recognize more revenues. Now to answer your question as to how much revenues will flow from the big deals, we had guided that it will be 458 Million next year it will continue to be 458 because these are multiyear deals. So that number does not change.

- Vineet Nayyar:** Can you repeat your third question again.
- Pankaj Kapoor:** Yeah actually there was another part of this that what kind of a pipeline you are looking at the large deals today, the kind of deals that we have been signing in the past any changes that you have seen in terms of decision making on those deals. And the third question was on your software services business, we have seen headcount reduction again this quarter and our utilization now seems to be running at historically high levels, volumes have been keeping flat for the last two quarters. So what is your take on that when we can see volume recovery there and what will be guiding it, you think it will be more utilization led or you think that probably we had need to see for headcount addition to pickup?
- Vineet Nayyar:** I have given a detailed explanation on my presentation. The summary is that the deal flow has significantly softened in April/May/June and July/August and that is the indication, that that is happening because of elongated decision making and also more number of deals coming into the pipeline so far so that is the answer to question#1. Quesiton#2 is that you say we are at a historical high utilizations but if you look at our utilization excluding trainees we are still more inefficient than some of our competitors, I believe I am looking at the competition numbers they are far more efficient to utilization excluding trainees compared to us. So from my point of view there is a headroom for growth in utilizations, would we be able to do it really depends on what kind of deals we get. So I am not guiding whether we will increase utilization or we will hire more numbers. We will do whatever is required depending on the kind of deals we get.
- Pankaj Kapoor:** Okay, I will come back for a follow-up, thanks.
- Moderator:** Thank you Mr. Kapoor. Our next question is from the line of Sunil Tirumalai of Credit Suisse. Please go ahead.
- Sunil Tirumalai:** Hi Sir, firstly could you just give a bit of light on how much AXON contributed during the quarter?
- Vineet Nayyar:** So I had said that we are running this division at EAS, I am also happy to report to you Steve Cardell the President of HCL-AXON has taken over as President of EAS and that is not just HCL-AXON, in line with what we wanted to do, we wanted to use HCL-AXON a horizontal capability in the rest of EAS and therefore we are not tracking AXON number separately but EAS numbers combined.
- Sunil Tirumalai:** But any indications as to whether the run-rate has remained the same or has it gone up since the time...?
- Vineet Nayyar:** AXON is doing well, the erstwhile HCL SAP business was more challenged because it was not creating that significant value, the AXON business as of now remains robust.
- Sunil Tirumalai:** Okay. And the next question is for Anil, sir in the data sheet on the number of billed manmonths, you have seen the non-billed man-months coming down drastically without

any corresponding change in the headcount and also you said that the number of days are higher in this quarter, just wanted to get an explanation on that?

Anil Chanana: If you see the nine months billed which were offshore 50500 in March quarter it was 50640. This nine months do not reflect the hourly billing, the number of billable hours, in April to June are higher than in the January to March period and that effect therefore I had shown separately in the analysis which is 5.1 Million.

Sunil Tirumalai: Yeah that was useful; I was referring to the non-billed manmonths.

Anil Chanana: The non billed has come down because the utilization has improved. It is basically reflecting the patch.

Sunil Tirumalai: Okay, that was useful, thank you.

Moderator: Thank you Mr. Tirumalai. Our next question is from the line of Nihar Shah of Enam Holdings. Please go ahead.

Nihar Shah: You have shown fantastic growth over the last few quarters on the infrastructure but the margins on the gross side have remained more or less stable, it is the business that we understand had a good scale economy, so can we expect some sort of increase in the margins on this side of the business?

Anand Gupta: No I do not think so the margins that we are doing in fact is reflective of the business.

Nihar Shah: Okay. So you expect the gross margins to sort of remain at that 35% mark or so where it is right now?

Anand Gupta: Yes 33%.

Vineet Nayyar: Yeah unless the environment worsens.

Nihar Shah: Okay. And another thing on the IT services front, do you have any hiring plan for the next financial year that you could share with us?

Vineet Nayyar: Out of the 15000 people we hired last year only 4000 were campus hires the rest were just in-time hires. In this recessionary period we will continue to be having just in-time hiring philosophy which will have a negative impact on margins, but we believe that it is better because we have the philosophy of not firing people. So therefore we do not have a you know what I called a plan for hiring next year because we do not have to hire, trained and deploy. We have more around just in-time hiring.

Nihar Shah: Okay thank you sir that was all from my side.

- Moderator:** Thank you Mr. Shah. Our next question is from the line of Yogesh Agarwal of HSBC Securities. Please go ahead.
- Yogesh Agarwal:** One, the contribution from the Top 5 and Top 10 clients seems to have declined 2% to 3% compared to overall strong growth outside the top clients so just wanted to know what is going on there. And secondly the revenues of public sector have declined and I assume these were the clients which were acquired through AXON. So just wanted to know the reasons behind the decline?
- Anil Chanana:** Yes Yogesh, to answer the data on Top 5, Top 10 and Top 20 clients revenue contribution is given on the LTM basis. However if I just take the cut of these Top 20 clients and look at their April/May/June numbers and look at their January to March numbers, my Top 5 clients have grown 2% quarter-on-quarter, my Top 10 clients have grown 6% quarter-on-quarter and my Top 20 clients have grown 8% quarter-on-quarter inline with the overall company growth.
- Ram Krishna:** This is Ram, here so I will try to answer your second question on utilities, you are right that yes we did acquire the energy utilities in public sector business mainly through AXON and we have been seeing some of the business traction over there. In the last quarter you would have seen some kind of a reduction there, yes we have seen public sector going a little slow in the way the business acquisition is happening. However I would like to basically caution that sectors like energy utilities and public sector has to be viewed in a much more longer term than on quarter-on-quarter basis, one has to view it on a yearly basis because these are long gestation kind of businesses and we thus take some amount of time for a new business to really be acquired and made operational. So I would not attribute too much to a quarter-on-quarter but wait for the year to really see how this particular vertical has done.
- Yogesh Agarwal:** Okay great. And just lastly the BPO decline, is it mostly coming on the voice front?
- Vineet Nayyar:** That is correct, it is mostly call center driven jobs which are varied have come down. And which is the part of our strategy.
- Yogesh Agarwal:** Correct, perfect, thanks a lot gentleman.
- Moderator:** Thank you Mr. Agarwal. Our next question is from the line of Ashwin Mehta of Motilal Oswal Securities Limited. Please go ahead.
- Ashwin Mehta:** What are the terms of financing for the 300 Million foreign currency loan that we have taken and the 1000 Crores domestic bonds that we have issued?
- Anil Chanana:** Well the domestic bonds which have been placed are of varying majorities which is two years, three years and five years and the related earning cost nearly coming to the 8.4%. So far as the foreign currency loan is concerned we are not allowed to share the details, we are

under a confidentiality with each vendors and nor we can share the name of the vendor party.

Ashwin Mehta: Okay, just another question in terms of our IMS practice what could be the equipment portion of revenues in this particular quarter?

Vineet Nayyar: Our equipment portion has been less than 3% to 5% of our overall revenue of the company historically and it continues to be the same.

Ashwin Mehta: Okay, thanks a lot sir.

Moderator: Thank you Mr. Mehta. Our next question is from the line of Ankur Rudra of Noble Group. Please go ahead.

Ankur Rudra: Sir thanks to take my question and congrats on the strong quarter. Just Vineet if I understand you correctly you are saying the deal pipeline in the market has weakened and in the same ratio has HCL's pipeline also, so the deal win ratio has remained constant.

Vineet Nayyar: That is correct.

Ankur Rudra: Can you comment on how the softness in deals flow may impact the performance in the various service lines differently, so would RIM and Enterprise Applications perform better than the other two services over the next 8 to 12 quarters?

Vineet Nayyar: The engineering business is the only business which is not impacted by deals flows which is independent which anyway is a challenge in a different way. The rest of the business growth will get impacted by deal flows. What has happened is what Anil shared with you that \$63 Million of revenues have crept in into this year because of deals which were signed in this year alone. So, book in bill was \$63 Million and these \$63 Million would become about \$270 Million next year. Now, if the deal pipeline is continuous to be slow then we do not have an equivalent of \$270 Million the year after and that is the concern. Now, to answer the question what I was saying is therefore we are changing our track on focusing on discrete services focusing on emerging geographies; those are the four trajectories, which we are focusing on to try and make sure that whatever de-growth happens because of project endings we are able to make them go through an alternate strategy.

Ankur Rudra: Right, so \$270 Million drop will be the deals, which you won in FY08?

Vineet Nayyar: No, not drop so what I said was it is FY08, whatever we won in 2009, it had a \$188 Million impact and in 2010, the same \$188 Million will continue, theoretically it would be few Million dollars here and there. The \$1.5 Million, which we did in 2009, \$63 Million was the impact in 2009 that positive revenue was \$270 Million. So the total, which was \$260 Million in year 2009, which \$188 for 63, will look like \$460 Million, which is worth 188 mn plus 270mn, next year.

- Ankur Rudra:** Alright I got that, just another question on the RIM, the market decline is mainly to pass through business of \$7 Million that you highlighted that is the main reason for a margin decline this quarter sequentially?
- Vineet Nayyar:** That is correct and I unfortunately used the word pass through, these are third party services with lower margins.
- Ankur Rudra:** Last question on that decline in the depreciation and amortization in the quarter, could you just maybe add some more color why that happened, is that likely to maintain at that level?
- Anil Chanana:** There is only depreciation in this and the businesses there, total the yearly depreciation is 15.4 Million that we continue at that level.
- Ankur Rudra:** Sequential decline, sir you can highlight worth, any reason for that?
- Anil Chanana:** The sequential decline is more because of the fact that certain; we have lot of large campuses, which are currently getting completed. So, we had sort of taken that as completed and capitalized it but when we probably completed our audit, it was sort of we discovered that we should not have capitalized it, it is yet to be sort of receive and yet to be handed over, so to call.
- Ankur Rudra:** Then there would have been retrospective effect?
- Anil Chanana:** Yeah so that sort of an impact which has coming in there, but on an average it will be \$4 Billion.
- Ankur Rudra:** Thanks sir.
- Moderator:** Thank you Mr. Rudra. Our next question is from the line of Nitin Padmanabhan of Centrum Broking, please go ahead.
- Nitin Padmanabhan:** I have couple of questions #1- we planning salary hikes for FY10 for next quarter and what would the quantum be?
- Vineet Nayyar:** Well, we have not taken the decision as of now. We are still looking at the environment.
- Nitin Padmanabhan:** Okay and #2 with reference to the existing clients, maybe as compare to let us say a quarter ago, and we look at it today maybe going forward into next year, does it look like we are into reasonably stable phase and in terms of risk of ramp downs or things like that?
- Vineet Nayyar:** It is a generic statement, which is very difficult to make, whether it is varying from client to client, but if I just look at the trending of top 20 customers and looking at the positive nature of those top 20 customers, when I did the analysis we are actually increasing our market shares present in the fact that in these accounts, there has been the fact that the existing projects were not clearing off. It's difficult to predict, if I were to predict, I am

and want to answer your question. I would say that the depletion is less severe today than it was a near quarter ago, but I just want to wait and watch what happens to the environment.

Nitin Padmanabhan: In terms of BPO, where exactly are we today in terms of broad strategy and are we looking at acquiring something in the space?

Vineet Nayyar: I have been constantly talking about BPO strategy. What really happened, it is slightly application to development, we identified in 2005 the application development will slow down and it has to be replaced with something else, which is what would be replaced with enterprise application and total IT sourcing. The contract system business at HCL we believe that the future is bleak, it can grow but if it doesn't integrate with the IT services and now the ability to grow that revenue on a standalone basis will continue to be a challenge, so what we did was that we started putting together a strategy of platform based services like Liberata and Control Point and another services, which I call business services, which are integrated well with the IT services. Now, we did not have a capability in those areas, which is what we went ahead and acquired and some of them we have build in and we will acquire more of those capabilities because we are the big believer that people leave that the IT services, business services, and the infrastructure management services will triangulate together and will be offered either as utility or cloud computing or Total IT outsourcing. The dynamics of total IT outsourcing will radically change in the next 24 months and business services are not to contract services, but business services, which is not much of exist in India today will play a dominant role in that happenings and the only way we could do to that is through an acquisition and with AXON we have the platforms, which are used for HR or F&Os and therefore it is a logical extension of services, when we build platform, we maintain the platform, we might as well take the services, associate it with the platform. So, we either build the capability or acquire the capability in business services to be able to put the whole three triangle put together.

Nitin Padmanabhan: See, over the past three couple of quarters I think BPO as a whole in terms of headcount has been consistently coming down but this quarter is there, you are seeing that headcount add up and I think we have seen a cut in SG&A this quarter and support staff has been trimmed down, so net-net going forward is BPO in positive territory we are likely to see coming back to growth and see margin improving as well?

Vineet Nayyar: Not for the next 18 months.

Nitin Padmanabhan: Okay alright sir thank you.

Moderator: Thank you Mr. Padmanabhan. Our next question is from the line of Kunal Sangoi of Edelweiss, please go ahead.

Kunal Sangoi: Anant if you can just repeat the top clients' growth that you said is 2%, 6%, and 8% for top 5, 10 and 20, I did not quite catch that, what is the calculation there?

- Vineet Nayyar:** Well, before that what is happening is the release which we have given is LTM data because this confusion gets created unfortunately and-
- Kunal Sangoi:** No, based on that also when I am looking at I was not getting there, so I just thought I will reconfirm.
- Anil Chanana:** So, if we take the January to March data and April to June data for these customers, not on LTM basis but just on a quarter basis and we compute what has been the sort of the effects, so that is where the top 5 contributed 2%, and top 10 contributed 6%, and top 20 contributed 8% growth quarter on quarter.
- Kunal Sangoi:** Okay, second question is with regards to the loss that you have incurred because of the cancellation of contracts, \$47 Million you said is there in the OCI, when is that going to come in the P&L?
- Anil Chanana:** So, it will formally schedule, which talks about the OCI loss of 162 Million and the various quarter over which it is spread, so that includes that element of 47 Million, which will come in July to September and October to December quarter, it already makes sense.
- Kunal Sangoi:** Okay so that is included in the 127 that is going to be debited in FY10, right?
- Anil Chanana:** That is correct, to that extent the moment in exchange will not impact that way.
- Kunal Sangoi:** Yeah sure okay thank you.
- Moderator:** Thank you Mr. Sangoi. Our next question is from the line of Sandeep Muthangi of IIFL, please go ahead.
- Sandeep Muthangi:** Hi I just needed one clarification on the cost structured infrastructure services, though the employee growth was fairly low at about 3% in your infrastructure services division, the cost base has increased by almost 22% Q-on-Q, even if I knock off maybe the costs due to 3rd party services, I am still getting about 13%, 14% increase in the direct plus SG&A cost, can you just take me through why this sharp increase in cost is happening?
- Vineet Nayyar:** I think what we are doing in infrastructure services, the way you have to look at it is there are huge investments that we are making in new services acquisition. Infrastructure services announced new services with Xerox in partnership as print services. They announced acquisition of a data center in New Jersey and you would see more acquisitions coming in. They have announced extension of service delivery from Poland, China, and Brazil. So, they are going ahead and making significant investment in both marketing and in direct cost to expand their service line and expand their geography extension, that is what you were saying in increased investments from infrastructure side in their P&L.
- Sandeep Muthangi:** Okay thanks.

Moderator: Thank you Mr. Muthangi. Our next question is from the line of Shrivatsan Ramachandran of Spark Capital, please go ahead.

Shrivatsan Ramachandran: I just wanted to have your opinion, SAP's license sales has gone by to an average 30% for the last three quarters, do you think that EAS division are always bad numbers factored in or do you see more decline in the divisions?

Rama Krishna: Continuing on the market sentiment, which Vineet just indicated in an overall level, we do see that EAS or package application market is under pressure. As you rightly said yes the license sales have been declining on a quarter-to-quarter basis, so hence the business in enterprise application space is going to be more challenging at this point of time. However, we do see some amount of positiveness only from the way we approach the market. We approach the market through specific sector solutions and we approach the market to resolve a business problem of a client and indicate mainly through the business benefits. So some of those specific propositions, which we have put in place through HCL-AXON is something which is seeing some positiveness. However, I think your point is right, the business will continue to be challenging over the next couple of quarters.

Shrivatsan Ramachandran: In terms of the existing licenses that typically stay in over a period of 6 to 9 months get implemented, do you see there has been any more backlog in licenses that is getting implemented or do you see that this kind of the drop in license sales is directly correlated into revenue drop in one or two quarters down the line for any system integrators including HCL?

Rama Krishna: Generally after license sale is done, the license usage will happen anywhere from 6 to 18 months from the license sale period that is the time when new systems will get implemented and the license usage will start happening. So, obviously I think current services which have been granted or we can assume or the licenses which have been actually procured much earlier. You cannot say it is 100% but mostly that is the kind of thing which you can assume that licenses have already been procured for current implementation and some of the new licenses will start impacting over a period of maybe next 6 to 18 months' period.

Vineet Nayyar: I think your question is very valid. If HCL does nothing or all system integrators do nothing the services revenue should go down, which will trail the downward trend of the license that is logical. And that should trail by 6 to 12 months is what our sales saying. Therefore, the only play for system integration will be market share play. If HCL is not able to succeed in the market share play, you are right in terms of that the revenues on services somewhere now will start trailing off. So enterprise application services, purely on new license basis is going to be under significant pressures in the next 4 quarters.

Shrivatsan Ramachandran: Okay and I just wanted to know the \$300 Million loan that has been taken, can you tell me the currency in which it is been taken? Is it a dollar or pound loan?

Anil Chanana: US dollar loan.

Shrivatsan Ramachandran: Repayment starts immediately over a period of time or any moratorium is there?

Anil Chanana: It has a moratorium of 18 months.

Shrivatsan Ramachandran: Okay sure thanks a lot, yeah I will come back later thanks a lot.

Vineet Nayyar: Right, so I would like to answer the previous question, I do not think I answered it appropriately on the direct cost. Anant can you answer this question as to, this question had direct cost with reference to infrastructure services?

Anant Gupta: Yeah the question really was on increment on the headcount, the direct cost is lot more larger, I think one of the reasons for that besides the investments in the front end direct cost in new services is the fact that lot of headcount is really onsite involved in accelerated transition of the services, remember a lot of the projects and the large deals which are closed and they have lot more accelerated transition in this quarter and secondly the mix of onsite headcount was slightly more, so that is the reason for high direct cost in spite of a lower headcount.

Vineet Nayyar: Okay, next question please.

Moderator: Thank you. Our next question is from the line of Yogesh Agarwal of HSBC Securities, please go ahead.

Yogesh Agarwal: Could you give some color on your initiatives in the Asia Pacific region after a very strong quarter? What are the kinds of services or verticals you are focusing on kind of investments you are making and do you think the growth this quarter is sustainable and what is your outlook there?

Vineet Nayyar: There are two things which we did in Asia Pacific first is we brought in a new leadership team as you would have noticed. #2, we sharply focused on incremental geographies like China and Middle East and #3, financial services is performing phenomenally well for us in Asia Pacific, so most of the financial services go up which has come from Asia Pacific because of some partnerships and relationship we have with SAP and with Misys so you are seeing a substantial growth coming in there. Our Asia Pacific approach is the fact that the market in Asia Pacific will grow dramatically, it will grow in China, it will grow in Middle East, it will grow in the Australia landscape and somewhere in the engineering side it will also grow in Japan and obviously India will kick-in in a bigger way. Our strategy was to bring in a new leadership, which we have brought in to support them with global verticalization, which we are doing and bringing some solutions through partnership tie ups because the Asia Pacific geography is very solution oriented, which we have also done. So, that is something that is the benefits you are seeing in the numbers this quarter.

- Moderator:** Thank you. Our last question is from the line of Ankur Rudra of Noble Group, please go ahead.
- Ankur Rudra:** Vineet you mentioned about how the EAS business will be impacted more by the initial license sales base, just wanted to get a sense of how does your HCL-AXON, SAP practice divide time between Greenfield lead services versus Brownfield implementations, which I think are more transformation lead?
- Vineet Nayyar:** Actually, it is an interesting question, we have done analysis but I do not have the number in front of me but why don't you call our sales team they would share the number with you. My belief is since there is the exact number point of view, but let me holistically say what is happening, if you see the deals we have won in the space with AXON is, Dr. Pepper we have announced and Linde we have announced, BSNL we have announced, so other than BSNL, Agilent also we have announced. So, if I just take these four cases, three are replacing existing vendors and one is Greenfield.
- Ankur Rudra:** Right is that a sense of it tends to be that sort of ratio you have in the overall business?
- Vineet Nayyar:** I would guess so yes.
- Ankur Rudra:** In which case you will be less impacted by the sudden slow down in SAP license growth?
- Vineet Nayyar:** Yeah we are here for growth, we are not here for de-growth.
- Ankur Rudra:** Yes, fair enough. Just one final question, could you add, you talked a bit about initial in your comments and the efforts in Cloud computing and utility services, the long-term growth driver, can you add a bit more color in terms of what is happening on the ground in terms of your efforts to evangelize these service lines?
- Vineet Nayyar:** What we are seeing is Cloud computing and utility computing is not matured in technology large adoption in S&P right now because of security concerns and technology maturity concerns, not very large adoption in large enterprises. However, because of the cost points of Cloud computing, the flexibility it adopts the facts that people do not want to bury money in balance sheets today, you are seeing significant experimentation going on either in some divisions or in some geographies or in small companies. Most of the experiments, we have seen happening in this area is in Asia Pacific theatre, which does not mean it is Asia Pacific companies, it could be Asia Pacific Division, Asia Pacific geography and that is the interesting theatre where we are participating. I still think it is about 24 months away but I think it is going to be the next big thing and we are very sharply focused on A) partnering and building engineering competent and capabilities with people who are getting into cloud, number 2) watching the Asia Pacific theatre very carefully and seeing if we can bring the initial experiments which are happening in this space. I think for the next 24 months the revenues from Cloud computing will be inconsequential, but it will take off like a rocket and therefore whoever has the thought leadership and therefore when we

shared with you the leader quadrant on SAP, which is what we shared last quarter with you, we have leader quadrant of SOA, which we are sharing in this quarter with you. We are indicating to you that this is the area of huge investment for HCL, which will define the next trajectory of growth 24 months ahead.

Ankur Rudra: Alright thank you.

Moderator: Thank you Mr. Rudra. Ladies and gentlemen that was the last question. I would now like to hand the conference over to the management for their closing comments.

Vineet Nayyar: Thank you everybody for being with us today. I look forward to meeting you on September 24 in Bombay, my management team will be with me. The way we will do that session is to share our experience with you and my management team will share the experience with you on how we see the theatre of global markets emerging. Thank you so much for being with us today and look forward to talking to you in Bombay, good bye.

Moderator: Ladies and gentlemen thank you for choosing the Chorus Call Conferencing Service.