"HCL Technologies First Quarter FY14 Results Conference Call"

October 17, 2013

MANAGEMENT

MR. ANANT GUPTA, PRESIDENT & CEO
MR. ANIL CHANANA, CFO
MR. R SRIKRISHNA – HEAD, INFRASTRUCTURE SERVICES; HEAD, LIFE SCIENCES & HEALTHCARE SERVICES
MR. STEVE CARDELL – HEAD, DIVERSIFIED INDUSTRIES & ENTERPRISE SERVICES
MR. RAHUL SINGH – PRESIDENT, BANKING & FINANCIAL SERVICES; PRESIDENT, B SERV

Moderator Ladies and Gentlemen, Good Day and Welcome to the HCL Earnings Conference Call. As a reminder, all participants' lines will be in a listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone 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 Morning, Good Afternoon and Good Evening, everybody, and welcome to the Quarter 1 Earnings Presentation. Another quarter of robust and consistent performance.

Our Revenues grew by 3.5% Quarter-on-Quarter, Year-on-Year 14.1%. Net Margin showed 8 quarter of improvement at 17.8%, up 6.6% on a sequential basis and 42.8% on a year-on-year basis. In INR terms our Revenues grew by 14% quarterly, EBIT by 31.1% quarterly, and Net Income by 18.7% quarterly and on Year-on-Year basis by about 63.8%. So if you look at our performance on an LTM basis JAS '13 grew by nearly 14%, our EBIT grew by 38%, Net Income by 49% and Return on Equity about 34%, all in an upward trajectory.

I will touch upon where we are getting this growth:

Growth engines obviously continue to be significantly from the Infrastructure Services business. The Infrastructure Services business grew 8.7% sequentially and 41.5% on a year-on-year basis. The growth really was driven by two momentum sectors, which is Financial Services and Manufacturing, both of them showing a strong quarter-on-quarter growth 6.2% and 5.6%. Emerging momentum market like Life Sciences also grew strongly by 6.8%. Public Services on the back of consistent performance over the quarters continue to show traction both on a quarterly basis and on a yearly basis 26.7%. From an Application Services standpoint we did have a little subdued growth but largely on back of a negative Quarter-on-Quarter growth in the previous quarter we have had a consolidated performance of just about a 1% in this service line. Business services continues to grow at 1.9% sequentially and 8.1% on a year-on-year basis. From a geography perspective well balanced growth between Americas and Europe; Europe had a slightly lower growth this quarter but on top of a fairly strong year-on-year growth of 21.7% over the period.

Moving on to where we see the ways in which some of the disruptive technologies are actually impacting different businesses in the marketplace and this is an important element to touch upon because we keep hearing elements of Cloud, Analytics, Mobility as well as Software-as-a-Service. The way we look at it is you know if we try to plot the different customer segments along four axis where we are looking at business transformation and a concerted adoption of these four disruptive technology forces on one side and piecemeal adoption of forces on the other and an incremental productivity change which business are looking at. So the way we look at businesses which are fundamentally undergoing change due to the very nature of the adoption

of digital or the strategy are really, Media, Retail, Insurance and Communication where fundamentally one is looking at a business redesign and then therefore the applicability of these disruptive technologies is obviously a lot more kind of reshape the respective businesses. On the other hand, if you look at Banking and Healthcare we see a lot more of piecemeal adoption of these specific technologies, primarily trying to increase the revenue side of their business. If you look on the other hand segments which are really business as usual but focusing more at incremental productivity change is largely the Manufacturing, Oil and Gas and Distribution sectors which are looking at using these technologies to need to drastically change the way their operating model is from a productivity perspective. The government sector obviously wanting to take advantage of the right from Infrastructure-as-a-service all the way up to Software-as-a-service in the operating model.

Some figures from ILC which kind of indicate the way the generation II outsourcing deals are getting constructed, plus the nature of the rebid market which is a large number based on recent numbers which have been updated by ISG for calendar year '14 we see there is a 20% increase in the total overall market which will undergo a rebid next year, and 85% of that pipeline will have some component of Cloud in that, whether it is elements of Infrastructure or whether it is elements of software-as-a-service on the extreme but the fact is that this will call for an integration of some of these disruptive technologies in the traditional Run The Business services which are being there in the market. And therefore from our perspective the way we look at it is, if you look at these disruptive technologies whether they would actually incrementally provide revenue on a standalone basis or would there really be a part of being used as a solution for the overall construct of Gen II outsourcing which is what we believe has really happened, and that is what we are seeing in the conversation with our customers, and therefore we would see relevance of digital system integration as part of the traditional generation to Run The Business outsourcing as we see. So customers looking at more transformational work as part of the Run the Business, cost optimization proposition that they are looking at.

The way we exist in the market to put it in perspective, we have been talking about Enterprise of the Future to the extreme left hand bottom corner which is really the way we are positioning the Infrastructure Management Services, this is not something new, it has been there in the market for a couple of years and we believe that this is a strong differentiation for us as customers evolve towards the next generation Infrastructure, be it in the data center or be it in the workplace but we fundamentally believe that there would be a significant shift and a proposition around Enterprise of the Future places as well in that market space.

Two other propositions which we had earlier announced – ALT ASM™ was something which we had announced earlier in the calendar year, which is really targeted at what we call 'Proactive Obsolescence' of Application Services, it could impact the work load of Application Services itself or further extend into elements of Application portfolio optimization which therefore has a significant impact on the cost of licenses, the cost of data bases and then of course the cost of the

underlying Infrastructure itself. So we have seen good traction in the marketplace for our proposition around ALT ASM™ since we launched it earlier this year, we had over 13 wins. And if we look at this specific quarter where we have announced more than a billion dollars of booking we have had 9 transformational deals, a significant component of that really comes from ALT ASM™ or a hybrid integrated offering between ALT ASM™ and Enterprise of the Future. This we believe will continue to drive the differentiation for us in both these markets and our framework of MyCloud which now has been deployed crosses the milestone of hundred customers this quarter is equally applicable for the Application space as much as it was and is for the Infrastructure space. The third area which is around our focus strategy, around Business Services where we are seeing a significant evolution of what we call front to back convergence, an end-to-end outsourcing and an increased integration of both technology and operations in Business Services and therefore would require very different construct for Business Services. In the previous quarters we did announce a number of wins in this specific space in two focus verticals which we are chasing, we continue to believe that these will drive increased differentiation for us in this marketplace.

On the other side if you look at disruptive technologies what I talked about earlier the Engineering Services largely on the strength of risk-and-reward and participating in the success, the fee being paid based on success of our customers product in the market we continue to see increasing interest in there. We still see that as having significant headroom given the overall market spend on Engineering Services vis-à-vis what is actually being outsourced in a sourcing construct.

And finally what we have done over here in the last proposition which is where we are actually blending all the discrete pieces of the disruptive technologies, the ones I talked about, which really will come together in what we call as a new evolve method of digital system integration either on a standalone basis or along with generation to propositions depending on where the customers are in that cycle. So this is what we believe will fundamentally be the cornerstone of how we drive our propositions in the market. This of course is coupled with a deep domain in respective verticals which will make these propositions relevant for the respective verticals in their space.

With that I will actually hand it over to Steve, who will walk us through some of the areas around the digital system integration and other areas which he is seeing in his vertical and horizontal.

Steve Cardell Great, thanks Anant. So let me talk to you firstly Diversified Industries and then I will talk to Enterprise Services. So Diversified Industries and by that we include our Manufacturing vertical, Consumer Goods and Retail, Telco, Media, Publishing and Public Services.

So let us start with the large vertical in here Manufacturing – so we enjoyed 5.6% Quarter-on-Quarter growth and that continues a long term growth story for us in Manufacturing but the

Manufacturing now represents almost exactly 1/3rd of HCL's revenues and we see Manufacturing continue to be resurgent in the market but with quite a broad mix of services they are looking to buy. So, yes, we see the Gen II market there, we see renewals coming up in that market, we have seen a good balance of manufacturing deal flow between Europe and North America, and we have seen a number of manufacturing companies looking to expand, consolidate the market that they have and expand it to new markets and all of that is driving new opportunity for us. So because our service offering there was well balanced between the Gen II market and the emerging technologies we are able to play right across that vertical. And particularly, one of the new offerings that we have been developing Service Smart which allows many of the manufacturing companies who're extending their revenue stream by extending into the services and the ongoing maintenance that surrounds the products that they offer. Service Smart is a Cloud-based platform that enables us to support manufacturing companies as they make that extension to their revenue strategy. So Manufacturing continued its momentum and we see a good forward view in that vertical.

Retail and CPG – we see a slightly different perspective across those two. So retail continues to be relatively muted, the main demand that we are seeing there is the move to digital. So as retailers are moving more of their business online, integrating their own premise and their digital business into a single customer experience management, we see deal flow there, but overall we see it muted.

Consumer Goods are following some of the trends we see in Manufacturing. So the primary driver of demand that we see there is consolidation. So many of the large global consumer goods companies are still having either regional or country-based structures and looking to consolidate on to common platform. So global deployment we see as a common thread there. From an economic point of view Europe remain a very challenging market for Consumer Goods companies so we see big cost reduction in assets in Europe whereas we see a more growth based agenda in North America.

Telco – We have talked about for several quarters being a vertical under some pressure. We continue to see a cost reduction being a major focus there and that market continue to be relatively subdued.

Media, Publishing is a market in substantial transformation. So those whole businesses are becoming digital and we see a huge integration in the social and we see a significant expansion of picture and video away from traditional publishing medium. So Media, Publishing & Entertainment we saw shrinkage this quarter really because of the very substantial changes going on in the marketplace there. We have seen several of those companies coming in and out of Chapter 11 over recent quarters. So it represents mid-term opportunity in our offerings to take our digital lab that we have for Media, Publishing and we have several clients now who are using that, but the transition to digital is really a primary driver in that vertical.

And then Public Services again, as Anant said in the introduction 26.7% growth over the last 12-months is a momentum vertical for us we are well placed in that vertical, we saw 3% constant currency growth this time and we continue to see booking expansion down the line for us. We have a number of products primarily Cloud-based industry-specific platforms that we have been building in Utilities, the iCARE products that we have in transportation, global visibility platform. One of the very strong wins that we were able to announce this quarter in the Public Services space was on our Cloud as a service solution, iGOVERN, so four of the states in North America – Wyoming, Colorado, Arizona, North Dakota have taken that platform and they will run as a common shared platform across those four states focused particularly on unemployment insurance.

So I think really a set of performances across verticals that reflect the different trends that Anant alluded to in the way in which we view how these different verticals are meeting different market demands at this point in the cycle.

If I move on from there then to talk about Enterprise Services we continue to see a great result in our strategy of maintaining and growing our positions in the marketplace was moving and increasing amounts of our work into the factory models that we have developed. So you see strong margin expansion coming from Enterprise Services once we continue to deliver growth on the top line, so 1.2% a Quarter-on-Quarter growth on this quarter.

And here we see the result of trends that we talked about for several quarters now. So in our largest practice, SAP practice, the four key areas of HANA, in Cloud, BI, Analytics and Mobile continue to gather place. For HANA the primary demand today is its combination with BI. So we are doing a broad based of project this quarter, we closed 6 deals running business warehouse or other BI products sitting on a HANA platform. We are starting to see the first signs of a full business we are moving on to HANA but at the moment prime demand is in BI. And on the Cloud products that SAP has to offer success factors, we continued our success there closing three deals this quarter, and we continue to see a strong pipeline there.

On Oracle we see growth slightly differently. So the industry solutions on the Oracle stack where we are seeing greater demands and particularly on Financial Services, the clinical platform for Life Sciences but also the SaaS products from Oracle on the fusion platform, particularly HCM, including Taleo and CRM is where we see growth there, and then we continue to see a demand for the dynamics products from Microsoft interestingly particularly from Tier-1 players whereas the Microsoft enterprise products are more the upper end of the market.

So consistent set of trends to what we have seen over recent quarters, an acceleration of new implementations being software-as-a-service rather than on-premise. The primary focus of that right now in the market being in CRM and HCM, but we are starting to see other areas such as human pick up on that, and we are starting to see industry platforms on SaaS come forward

including our own practices like iGOVERN™. Awareness in the market of our offerings continues to be strong. One of our Fortune 500 clients this quarter a client of our Mobility APP won best use of mobile tablet technology and that is about the 10th or 11th award that HCL or HCL's client have received on the mobile space. So with that let me pass over to Rahul who will talk about Financial Services and Business Services.

Rahul Singh Thanks, Steve. I will talk about Financial Services first. So we had a good growth this quarter. Quarter-on-quarter we grew by over 6.2% and on a year-to-year basis 23.2%. We are seeing momentum of revenue come from project rampups which we had booked in the last couple of quarters, and I think also a large amount of revenue coming from cross-sell of newer products and services to our accounts, so we are specifically focusing on selling more services lines into our accounts which is causing revenues to go up. We have a good visibility in the next couple of quarter in terms of our pipeline as well.

In terms of demand environment we are seeing a difference in demand environment between the matured markets of North America, Europe and the emerging markets. I think in North America and Europe our clients continue to be under cost pressure. So there are huge cost recognition which we are undertaking, at the same time they are looking at new ways in which to include customer centricity as they fight for mortgage share between our various clients, so therefore there is focus on cost reduction and cost centricity and customer centricity in the mature markets. On the emerging markets at the same time we are seeing a growth which is expansion related, so our clients in emerging markets continue to grow between 12 to 17% growth rate for our client and therefore there are opportunities for us to participate in the expansion which is to be felt.

Across the board we are seeing a greater transparency from regulators. I think it is well known that Financial Services sector is one of the highly regulated sectors, and a lot of visibility being asked from the regulators in terms of the activities with banks and financial services institutions do, and therefore there is new spend which goes into improvement of Technology Infrastructure for the regulatory compliance as well as compliance with some of the new requirements such as FATCA, Basel-II, etc. which are also driving spend.

We are seeing another trend coming out. A lot of financial service institutions have announced large plans for cost take outs over the next couple of years and we are seeing a lot of Fortune 500 banks, actually looking for ideas and outsource providers in the form of how to participate more, to utility model finishing to nearshore obsolescence, carve out and so on and so forth, and there is a little bit of momentum picking up as we focus with our customers in terms of solving these problems. That along with the customer centricity where our clients are looking at better analytic solutions, better mobility solutions is also driving discretionary spend.

So, as far as HCL is concerned, we have participated in the market, some of the growth drivers part of this slide now, we participated in our clients in their cost reduction exercises, I think HCL has a robust set of RTB solutions, whether it is ALT ASM™, whether it is the Infrastructure side

or the BPO side, and as I said, we are taking all these three service lines into the client to enable them to cut their cost of run business at this point of time. At the same time we are focusing on improving their customer experience and we have got a couple of fully loaded service line product offerings where we are looking at Application development, etc. for our customers. Lot of our clients right now are also looking at vendor consolidation. I think there is a trend towards Gen II, lot of Financial Services clients have historically worked with service provider on the T&M basis. I think that move is now changing to more Managed Services and there is a couple of vendor consolidation initiative in the market which they are also pursuing.

In terms of value propositions we continue to be rated well. So we have got ratings from Tower Group, Everest, etc. where we have been rated best-in-class and star performer.

If you go on to Business Services, Business Services Revenue on a year-on-year basis grown 7.8% about 54 million. We have been focusing on a few segments in the Business Services segment of the company. Our focus is on Fortune 500 accounts and we have added about 17 new BPO clients in the last 5 quarters, out of which 12 of them were in our focus areas in Fortune 500 and G2000. We are looking at taking next-generation services such as eFAAS. I think Anant spoke about that where our clients look for front to back improvements on productivity across the IT and BPO stack, and that is where the growth driver is. On an overall basis we continue to focus on a balanced Voice and Non-Voice business, and at this point of time our Non-Voice business is almost 2/3rd 66% of our total revenue now comes from fully developed BPO solutions.

From a demand environment perspective there is a focus in the market for industry-specific BPO which means that it has been horizontal BPO clients want specialization in terms of the activities that are being done in vertical industries and we have selected a few to focus on. At the same time there is a lot of focus in terms of shared center creation and clients also want a hybrid model for higher visibility in the BPO. We are also seeing a focus towards what's called as 'Progressive Outsourcing' where the client now looks for business outcome focus in a proactive approach from the point of view of investments in technology, and to some extent joint and shared agendas especially when you are working with Fortune 500 and G2000 companies. Therefore, HCL strategy on that has been very sharp focus, we have selected the primarily 3 verticals to focus on from vertical business perspective which are essentially Banking, Insurance and Healthcare, and on the Enterprise side finance and accounts and transformation-led supply chain management. So we are focusing very sharply on 3 verticals and the 3 horizontals, and I believe that is the one that is taking us ahead in terms of our total momentum. We have a few principles of what we call a Next-Gen BPO which is all about domain-specific solutions focus on scalability, delivers on integrated global delivery platform and through a lot of focus on risk and re-engineering solutions so that the solutions are extremely robust for the customer. We have seen an uptick in terms of BPO recognition across the board, so whether it is ISG, Gartner,

Everest all of them in their various ratings and rankings continuously have been upgrading us and some of that is mentioned here in this chart as well. With that I will hand over to Srikrishna.

R. Srikrishna Hello, everyone. I would talk about Life Sciences and Healthcare business. We had a good quarter with sequential growth of 6.8% Quarter-on-Quarter and year-on-year of 29-odd-percent. Healthcare, Life Sciences continue to be third largest vertical in HCL and contribution to company revenues has gone up to about 11.6%. From a demand perspective, different segments are seeing different trends, the pharma clearly globally is under acute pressure of revenues due to Patent Cliff, and we have seen that leading to two divergent trends from a demand perspective, so there is clearly pressure on the discretionary spend in the short term but we have seen increased demand for Run-The-Business services in the medium term as we are looking for creative ways to reduce cost and improve revenues.

The healthcare exchanges, the whole Affordable Care Act has been in public debate in the US for the past month but what happened is earlier in October there was a massive spike in demand of consumers looking to buy insurance from the exchanges which did not work too well but that continues to underline our hypothesis that it is a strong market in the medium term of increasing IT intensity and the need for increase in IT sophistication in the Healthcare space.

Europe Pharma while they continue to have the same Patent Cliff, issues are becoming more and more open to global outsourcing, and on IOPs and we are seeing a positive demand trend from European pharma companies. Because of these we added three new logos during the quarter; one in the US SPEAR and two in Europe pharma, and we are focusing our new services very around what we call as services around the pill in terms of how to creatively converge the use to data and technology apart from services to improve patient outcomes in different services, different flavors targeted at payer world, the pharma world and the provider world.

From an Infrastructure perspective we continue to have another quarter of industry leading growth at 8.7% quarter-on-quarter and 42% year-on-year. The Infra Services contribution to the company revenues is up to almost a 3rd. We are not seeing any let up in demand due to the Gen II auger rebid market. We are continuing to see a strong demand and a strong pipeline on a global basis. And like Anant mentioned earlier well over 3 quarters of bids now have a component of Cloud in the desired instead and we do not see any change in that mix going forward. We added 5 logos during the quarter around the world and Gen II market continues to contribute a significant portion of our new business. We continue to be recognized by analysts around the world as leaders in this space and the most recent Gartner Magic Quadrant for data center and Gartner Magic Quadrant for end user computing, in both these we were rated amongst one of the very few leader quadrant members around the world. With that I will hand over to Anil.

Anil Chanana Thank you. So a very good quarter; 3.5% growth in reported currency quarter-on-quarter in dollar terms and 14.1% YoY. If you however look at on a constant currency basis, the growth

has been 3.6% quarter-on-quarter and 15% YoY. The EBIT grew by quarter-on-quarter by 18.2% and 42.6% YoY and the net income grew by 6.6% quarter-on-quarter and 42.8% YoY and the EPS grew by 42% YoY. There is a lot of business momentum which Anant talked about and if you look at the components here these numbers which is JAS-13 numbers in dollar term looks very distorted sometimes because of the currency, the way the currency movement has taken place between one quarter between AMJ quarter and JAS quarter. Particularly if you look at the direct cost which is not highlighted here has gone down, looks like from 778 million to 775 million while actually that has not happened. Out of that a big impact is because of the currency and actually the cost has increased; the 3% increase outside the currency. I will talk about the other components as we move forward how we have gained this margin expansion of 300 basis points.

The other highlight is the return on equities has for the last 12 months has been 34% which is amongst the best in the industry.

Continuing in rupee terms because of the currency depreciation the numbers look much better and 14% quarter-on-quarter growth in revenue and 19% growth in net income quarter-on-quarter. If you look it is 31% YoY and 64% in net income YoY. I would call industry leading growth in terms of net income.

I will move forward and talk about the segmental P&L. If you look at within the segment, there is only 2% margin difference between Infra and Software. So this Infra significantly with the scale with the investments we have done in this area have moved now closer to the Software Services and whether you look at it from a quarterly perspective or you look at from a YoY perspective has done significantly well. In the Software Services with the finer execution we are able to enhance our margins and also aided by the currency and we would talk about it in a moment.

This is an interesting slide and in fact I looked at the way the currency are impacting the revenue numbers. So in constant currency you would have seen that we have given 3.6% and reported currency 3.5%. So the currency for different players are playing in different ways and with ours having a very balanced mix, so we got a kicker in terms of GBP and Euro where we got 51 basis points benefit on our revenue and INR and Australian dollar and other currencies had a negative impact on the revenues. So net-net very accurately it was 15 basis points impact on the revenue in this quarter. Similarly, on the right hand side, you will see the margins, how the margins have moved. So the exchange is the largest component which is 245 basis points, G&A optimization is 10 basis points and we are optimizing on G&A and continue to spend on sales and marketing. So what we are doing is you would have seen the facility schedule we have given and you will see there some 29,000 odd seats getting created, what we are doing is we are creating seats not only for our expansion but also for consolidating. We have a number of facilities in Noida, in Bangalore, in Chennai and we are exiting those facilities and consolidating. So as the new

facilities are getting created we are moving into these facilities. So more seat creation is happening and so 17 facilities are getting exited in this year. Last year we exited 6 facilities both in India and overseas, which leads to G&A optimization of 10 basis points in this quarter.

The utilization going up by 50 basis points and particularly more other operationally efficiencies gave us a benefit of 45 basis points after accounting for 50 basis points plus of increments which we had given in this quarter. So 20.8 moved up to 23.8 this quarter. Moving on, you would have seen a variation in the other income and this, I thought I will just explain. What is happening is that the treasury income the funds under treasury have significantly increased. The average treasury investment last year was just 230 million and this year it has moved to 672 million. The final dividend which we declared will get paid only in the month of December or rather in the month of January post the annual general meeting. So there is a lot of fund accumulation which is happening and which is leading to the higher treasury income. It also has some elements of how the mutual fund we are part of the money. Significant lower part of money is in, money market mutual funds were the timings when the realization is done can have an impact on the treasury income. We are also getting a benefit in terms of equity investments, equity pickup and very small items which are in the other category like Earn outs where we have pulled the businesses we are getting the earn out and so on and so forth this quarter with 18.3 million.

Managing receivable and managing the cash flow on operations and free cash flow has been the hallmark of our performance over the last so many quarters where we have significantly improved our free cash flows conversions to EBITDA ratios. However, in this quarter and what I see is actually is this was also been seen as a trend in last year same quarter that receivables tend to move inch up and then again start coming down. And this quarter we had increase of 4 days each in-billed and in un-billed category. What we were actually doing was we in fact undertaking an upgrade of our ERP system, we were tracking certain elements manually outside the system and we decided to do the change in the system itself and from a 2 tier structure we made it to 3 tier structure and when the change was happening we could not do the billing. So it had impact on our ability to billed or raise the invoice system more accurate. So the billing which was supposed to happen in the July month, end of July early August, got postponed and as a result the credit period starts from the day when the customer receives the invoice and so the collection which was supposed to come before September got shifted into October. So in the first 4 days of October, I got something like 100 million and in the next 6 days we got another 40 million so we had 140 million coming in this and this is very unusual. In a usual way first 10 days of the beginning of a quarter, we will get half or less than half of the money. So significant of the money that is already in the bank now and also some significant customers went live during this period, but in August and September, so our ability to bill was not there. So when we bill, the collection will only happen post September. So the cycle has got impacted and it will even out over a period of time. When we look at the unbilled category the customer sign off pending which went up in this quarter so we follow the process of getting the customers sign out done. And we see the significant increase in our Infra business. So we want to make sure that we get

the customer sign out before raising the bill so that it doesn't get into cycles of discussion. Out of 346 million of unbilled, 16% of that we are hoping will get billed in this month of October itself. So there will be very fast churn of this number. We also partially use the discounting of bills particularly in geographies in order to manage day to day cash requirement of funds and that portion of less than 1% of our annual revenues. It is done without re course and is within the limits which the banks would have on our customers and so we need not then provide any guarantees etc., so it is part of the total overall cash management that we undertake.

Moving on to the next slide which is Slide #24 – Our profit to cash conversion continues to be very good. So whether you look at our operating cash flow basis or on a free-cash flow basis, it is 117% on the operating cash flow to net income and free cash flow to net income is 75%. If you just take this particular quarter, free cash flow to EBITDA is 45%, same time to last year it was 11%. We have significantly improved our cash flow conversions in spite of the fact I mean it would have been a significantly better situation had our number of receivables not gone up, but in spite of that we had a very good situation on the cash conversion. In terms of capital expenditure funding as I said we are building campuses, expanding campuses and which is a program which started couple of years ago and will go on for another couple of years and so this quarter our total CAPEX outflow was 38 million, out of which 19.6 million was funded out of our internal accruals and through extended vendor credit we funded another 18.7 million. Wherever we used extended vendor credit, we made sure that our return on those funds is higher than the cost of funds. So we have a supplier credit building up from 110 to 140 million, typically extending up to 365, so there are two components, if you look at 110 going up to 140 million, partially is coming out of the extended vendor credit for CAPEX and partly for the bought out items and others where we availing this vendor credit both with interest and without interest. If you look at our Hedge book, our Hedge position is 1.6 billion out of which 345 million are balance sheet hedges and 1.2 billion are cash flow hedges we continue with our layered hedging policy. Our hedge for less than or equal to one year is close to 700 million and more than 1 year at 558 million. The booked rate for less than one year is 55.60 and more than one year is close to 64. And significant portion of these hedges is forward or range options and we have also given a currency wise split.

Moving on to the next Slide #27 – I just wanted to give a perspective as to the 37.7 million hedge loss we recorded, So 31.7 million of it hedge loss came from the cash flow hedges. We gained on the EBIT side and most of the inflows were already hedged for this quarter so that loss came in here, and so the average spot rate on the maturity of these covers were 61.86. On M to M which is cross currencies and hedge is where accounting is done on mark-to-market basis that 66.04 million was the impact, so totally 37.7 million. If you look at the hedge position today, looking at the exchange rate of 62.62 at the end of September, the OCI negative up to 12-month period is 93 million and OCI greater than 12 month is 65 million. Why I am stating this number is that I get lot of questions on the hedge position on the hedges we have and just to make sure that we are all on the same page, I thought it will be useful to share that information and you will see

more information as our accounts are posted on the website, you will get much more granular details there than what I am giving you here. For the next quarter, if I assume that rate prevails 62.60 and as I add the premium so using that we have taken 63.48 as the rate on hedges which were the revenue hedges. The cash flow hedges of 239 million which have an impact of 27.1 million this quarter. So this is basis at 63.48 but depends upon where we currency is during the quarter.

If you look at our tax provisions, we will be between 21 and 22%. This quarter one of our foreign subsidiaries to take a benefit of the losses that particular subsidiary was incurring, so this came to be slightly lower at 22.2% but, however, it will be between the range of 21-22% otherwise.

We have declared Rs. 2 as dividend per share this quarter which is in line with the board policy of keeping a constant dividend in the first 3 quarters of the year and brewing it up towards the end of the year. If you look at our track record whether on a 3-year basis or a 5-year basis, about 33% of the net income that we have earned or one-third of the money we have earned as net income we have given out as dividend. I don't see any reason why this should be difference going forward. Of course it is for the board to decide but I thought I will just state that that because the cash generation is much better, so we don't believe that there is a need to adjust that policy going forward.

Having said that I will give back to the operator for any Q & A.

Moderator Ladies and gentlemen we will now begin with the question and answer session. We have the first question from the line of Nitin Mohta from Macquarie. Please go ahead.

Nitin Mohta I just wanted to understand on Software Services, given your peers have been talking about revival in growth a tad disappointing to see only 1% quarter-on-quarter growth over there, so if you just share what you are seeing in the pipeline and I know you guys will not guidance but will we see it to be better than what we saw last year thoughts over there would be much appreciated.

Anant Gupta I think some of our strategies around ALT ASM™ obviously are seeing significant wins in the last 3 quarters including this quarter where we had a significant portion of the line transformation deals coming in either from an Application standalone standpoint or integrated, but I will pass it on to Steve to give you a better perspective on how he sees the CTP and some of the Disruptive Technology Services around the digital space shaping up.

Steve Cardell So I think there is a couple of countervailing trends in there as they relate to revenues. So I think the comment that I made before is that we view this as the market where we have a very strong position and we continue to take market share in this market. If you go back 6 or 8 quarters, a significantly amount of our business was skewed to SAP transformation projects and we know that is the market where Greenfield ERP implementations declined but we see a number of

trends that are growing revenues for us in this market. So one is the consolidation at global market in which we see the large transformational deas. And second thing we see is significant acceleration of client applications software as a service on platforms like SuccessFactors and Salesforce and some of our industry based solutions and an addition to that the surround base so mobile enablement and E-commerce enablement and some of the transition from traditional analytics to big data. We see ourselves as holding a very strong position in those emerging markets. So what we have seen is a significant growth in our market share in the emerging technologies against the countervailing winds of a slowdown in traditional Greenfields ERP implementations. So that is in terms of the revenues, so you saw our progressive revenue again this quarter, but for me the mix of our revenues places as well for the future. But the second thing again you recall that I talked about over the several quarters is that we have all the way back to the Axon acquisition, a global delivery mix that was not as optimal as it could be and so margin has been an important process so one of those has a deluging effect on revenue line but an expansive effect on the margin line. So again the margin expansion that you have seen over many quarters now, the Enterprise business has been a significant contributor to that. So I think we view ourselves in a very strong position in the market, the mix is very healthy, and we continue to participate well in the pipeline deals that are there, but there were certainly a shift to consolidation, global deployment and emerging technologies.

Nitin Mohta Anant, any comments on whether growth in Software Services would be better than last year or better than the industry average, that would just help us get a reference point?

Anant Gupta If I look at what is happening from a booking profile and some of the views which we have contracted for I definitely think we should be tracking at least better than what we did last year.

Nitin Mohta And if I can just squeeze one more in for Srikrishna. On Infrastructure Services, there is a lot of chatter on increased usage of Cloud. So, any initial signs of cannibalization or anything that worries you on the deals that you are seeing in the pipeline?

R. Srikrishna Yes, there is a certainly increase usage of cloud, but we are not seeing it translate to reduction in the pipeline or revenue realization. What is going to happen is a different mix of services. While there are certain types of services that may reduce, there are other new services that come into play. Cloud Integration, Data Integration, MyCloud Platform that we built plus those and four or five other functions. We are not seeing in the medium term, really any let up in demand or pipeline or revenue cannibalization.

Moderator The next question is from the line of Divya Nagarajan from UBS. Please go ahead.

Divya Nagarajan A couple of questions. Could you explain why we have restated fourth quarter revenue numbers? I understand there was some ESOP-related restatement on the profit side, but could you just run me through why there was like a 0.5% restatement downwards for the fourth quarter numbers?

Anil Chanana You may be referring to the numbers in Indian rupee terms?

Divya Nagarajan Dollar numbers.

Anil Chanana Dollar numbers there is no restatement of any nature except the ESOP charge which earlier used to be outside is now right inside the P&L, so we decided to bring that into others. So the only difference will be ESOP charge and for the last 4 or 5 quarters, Sanjay can send you the statement as to how and where exactly the adjustment has been done.

Divya Nagarajan And just a follow-up, have you effected wage hikes during the quarter or if not, when is that expected to come in and the impact?

Anil Chanana As we stated earlier, we have for some people the cycle begins from July 1st and for others it begins from October 1st. The July 1st hikes were given and which had an impact on the margins but we could recoup it through efficiencies. Going forward from October 1st, it will be having a 120 basis points impact on the margins.

Anant Gupta So we had only guided that Q1 we would have about 50 bps of impact due to wage hike and in OND we will have 120 bps of wage hike impact. Obviously, in this quarter we have been able to recoup that 50 bps plus added a 50 bps efficiency through operations to deliver the higher operating margin performance.

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

Sandeep Shah Just few things on the Software Services, most times, we say that the pipeline is good in terms of the advanced technology and our positioning is good. However, if you look at the last 5-6 quarters the Quarter-on-Quarter growth is around 1%. So is it that the revenue leakage through the project completion is higher than the pipeline which we add? And if this is the case, when do you expect this trend to break?

Anant Gupta If you see what Steve just mentioned right there was a decline in the projects as they keep getting completed in the core SAP services and other enterprise technologies, at the same time there has been a gradual increase in both our ALT ASM™ Services which is around Support and Maintenance and as well as some of the advanced technologies. Having said that I think it is important to realize that the advanced technologies are getting sourced in two kinds or format. One is they are getting bundled along with multi-year run the business kind of engagements which is really what we call the 'Transformational Sourcing Engagements' and therefore the realization of that into revenues has a much larger period for conversion whereas on the other hand point solutions around advanced technologies obviously are much smaller, so that is why you are seeing slightly lower Quarter-on-Quarter growth.

Sandeep Shah But do you expect this trend to break now where the pipeline would be higher to give us the growth better than the earlier quarters?

Anant Gupta Like I said, we definitely look at the Software Service to be delivering much better than what we did in the previous years. I cannot provide you with a quarterly guidance but on an overall basis, yes, we would be looking at tracking much higher.

Sandeep Shah And just last two things, on the deal wins this time the flows were better. So in that scenario in absolute terms, the deal wins of the new business is higher than what we have announced in the last 2-3 quarters? And second question in terms of a dividend payout, Anil, I think last year, when the free cash flow has increased, our payout ratio has actually gone down. So, with the free cash flow likely to remain robust, why the dividend payout is not increasing?

Anant Gupta So let me address the first one, I think the deal booking pipeline has been reverse, in fact for the last 3 quarters we have announced 3 deals greater than a billion dollar plus in each of the quarters. I think what we are seeing as a slight shift in the current quarter is more integrated deals. If you look at the engagements like Steve talked about where we are delivering an iGOVERN™ framework for the first stage in the US, what you are seeing over there is it is more integrated. Here you are seeing that we have to deploy our own Application platform which is based on a cloud architecture, we would be hosting it and running it as a complete Infrastructure as a service stack and then running and maintaining it for a period of time. So I think more and more as we see we will see an increased component of integrated deals coming in there and therefore there will be a mix of discretionary and nondiscretionary, and nondiscretionary obviously being multi-year which adds to the TCV or with the overall contract, but it will be a lot more annuity-based in longer term. Similar if you look at the engagement which is with the one of the largest energy or utility providers in the US, it is really redeploying a full end-to-end eFAAS stack something which Rahul mentioned which is an end-to-end technology and operations business service outsourcing. So in Phase-I we are re-architecting and deploying the entire customer care and billing Application, building the next generation data center for hosting them and once these are done then we would be running and managing the actual business service or the business process in that phase. So I think what we are seeing increasingly is a slightly different kind of deal construct happening in the marketplace. The pipeline that we have today continues to be very robust given that the rebid market continues to be fairly strong. So as we look forward into calendar year '14, we continue to see a lot of that reflect in our pipeline and reflect in the various service offerings and the momentum in emerging momentum sectors we talked about. So I would say we will continue to see increased bookings as we go forward into next year given that there is increase in the size of the rebid market as last reported by ISG itself, which has gone up by 20%.

Anil Chanana Sandeep, as I said earlier that if you look at over the last three years or five years we have distributed one-third of the net income we have generated. You are absolutely right, the free cash

flows last year and even in the current quarter have significantly bettered. So I do not see any reason why we would not be able to maintain that whatever we have been doing. So it could be over a period of time that it will catch up.

Sandeep Shah But Anil, I think last year the dividend of Rs.12 both interim and final was almost similar to FY12. So it looks like that the dividend payout has gone down last year despite FCF going up.

Anil Chanana As I said, we have to look slightly over a longer period rather than just one year period, it will definitely catch up.

Anant Gupta I think we are conscious of this and I think as Anil was saying, what we will be doing is as we progress towards the year, we will give a view on what needs to be done about it more towards the end of the financial year.

Moderator The next question is from the line of Anantha Narayan from Credit Suisse. Please go ahead.

Anantha Narayan Just a quick question on the attrition numbers, which have been sort of going up now for two or three quarters, anything much to read into that?

Anant Gupta You are right. I think our quarterly annualized attrition stands at about 22% for our IT Services. Yes, it has gone up slightly higher than expected in this quarter largely driven by this quarter being the wage increment quarter, and then I guess that would be one of the reasons for the impact, but nothing beyond that in terms of whether the talent pool is being acquired by someone else. We continue to be a destination for talent in each of our service lines that we deliver.

Moderator The next question is from the line of Pinku Pappan from Nomura. Please go ahead.

Pinku Pappan Can you give us your thoughts on Europe? It was a very strong geography for you for the last few quarters, but this quarter I was a bit surprised to see it below the company average in terms of constant currency growth too. So what are your thoughts there, and is it just an aberration and what do you expect, do you see the pipeline going forward?

Anant Gupta Europe continues to be very strong for us. If you take year-on-year we have grown 23.6%, so it is an industry-leading growth as far as Europe is concerned. It is just that the last three quarters, we have had an accelerated growth. Our pipeline continues to be very strong and we continue to be extremely bullish on that market.

Pinku Pappan And one more if I may squeeze, how are you thinking about margins? You had a very good strong quarter, in the first quarter with margin expansion of 300 bps. What are your thoughts about reinvesting some of those margins or are you going to continue to keep showing the rupee benefits into margins?

Anant Gupta I think we will look at it on a quarter-by-quarter basis as required and how different markets pan out. So, we continue to remain focused at increasing our growth in the market. At the same time we continue to improvise on our operating margin as the markets, as the services and the business mixes change. The very fact that we see a great need for fungibility of resources in the emerging models of the future so we continue to drive significant amount of efficiency in there. So I think we will watch it on a quarter-by-quarter basis, and as required we will use what is required to kind of continue to participate in the market and invest in areas from a medium term perspective, which are relevant for the next generation sourcing constructs.

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

Yogesh Agarwal If we go back to the IT Services business, from a very good double-digit growth till FY12, there was a sudden collapse in growth to less than 5%. Were you suggesting that was because of the completion of projects, or is more to it in terms of investment in sales or anything else?

Anant Gupta I think if we historically go back, a) Each of those businesses do have a component of discretionary spend and b) they do have a component of what I call project base spend. For example, we take EAS as an example, the mix of project based business which is dependent on SAP was significantly higher, right, as and when these specific projects taper, they obviously could not be replenished by increased business in those specific areas. So I would say those are the prime reasons for some of the shortfall in revenues, in the project-based services in the previous quarters, but during the last three quarters, as Steve mentioned that depletion is being met by some of the advanced technology services in Application space, which is kind of fueling in that depletion on account of project completion.

Moderator Thank you. The next question is from the line of Mukul Garg from Societe Generale. Please go ahead.

Mukul Garg Anant, just wanted to understand, you are winning quite a few deals nowadays which are transformational in nature or which are a combination of both Software Services and Infrastructure. So, can you give us an understanding of how many deals you are actually winning which is a combination right now compared to how it used to happen previously in terms of total wins which you are doing?

Anant Gupta If you take the 9 transformational deals which have been announced in this quarter, I would say greater than 60% of them are multi-service integrated deals, which means they could be Application and Infrastructure, or Applications and BPO, because the Application component of transformation is impacting both the services. So from an RTB point at the end of the day the transformation outside the traditional transformation in the Infrastructure itself is a relevant piece which is coming in. So if you look at Application and Infrastructure it obviously is propelling the integrated Application and Infrastructure Operations outsourcing, whereas the integrated nature in Application and BPO is largely about using expertise and analytics and some of the advanced

technologies to tweak the process so that the business process at the end when it is executed is a lot more efficient. So, I would say that these are the two types of trends we are seeing, and these would constitute about greater than around 60% of the wins that we had in this quarter, which is a significant shift from what used to be there in the quarters before.

Mukul Garg If I may squeeze in something similar, are you actually seeing some reclassification of some deals for business from Software Services to IMS, something which you used to see billed earlier in Software Services now getting billed more as IMS revenue, if you can provide us some comparison which is more of an apples-to-apples if that is the case?

Anant Gupta I would say that, a) we do not do any of that re-class, but I think in general different service providers will look at how operations need to be run, right. So a good example is, historically Application services or plain vanilla Application Management Services and Infrastructure Services around your data center, network, security, and some of the other tracks. Over the last couple of years we have been pioneering in the area of where Application Operations aside. So that was a grey area in the industry. It is still a grey area in the industry as where it should be, but from what we see, from whatever the value proposition, the linkage with 24X7 operation, the need to be responsive to the customer, we see that as more aligned to the Infrastructure Management Services kind of an operation construct, but there is no single view to that in there. And as we see in some of the rebid markets with ISG, looking at the rebids in there, they are actually specific towers being called out as 'Application Operations,' which are coming in for as part of the bundle itself. So, you see data center, you see networks, you see security, you see end-user computing, you see cross functional services, and you see Application Management, and you see Application Operations. So it is very difficult for me to say how much is part of IMS or what is the correct way the industry should look at, because there is no single definition to that.

Moderator Thank you. The next question is from the line of Vinay Rohit from ICICI Prudential. Please go ahead.

Vinay Rohit Just wanted to ask you that, earlier when rupee was 55 the intention was to keep EBIT margin business 18.5 and 19.5. So, now rupee has gone to 60. So is there a change in the margin which investors should look at in terms of sustainable medium term trajectory?

Anil Chanana So as Anant just mentioned, that since the currency is playing a big part and we follow a layered hedging policy, it is not that immediately any of these gains flows through till the net income. It may flow through the EBIT, but it does not flow the net income. So, we have to decide on a quarter-on-quarter basis as to if the gain is sustainable how to use it, and we will certainly use it. So, the key point is, we will continue to grow our business wherever the investments are needed, whether in the medium-term or long-term, we will make those investments in the business. So we are not so much focused and we have to keep 18.5 to 19% or 19.5% margin range, but we will invest in the business as well as deliver a profitable return to the shareholders.

Moderator Thank you. The next question is from the line of Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja My question on margins has been answered, if you could talk about what we are seeing especially in the BFSI and Manufacture space, although Rahul did mention, if you could talk about what you are seeing specifically in BFSI in Europe?

Anant Gupta Rahul, do you want to answer that question please.

Rahul Singh So obviously the way we are looking at Europe, as I had mentioned earlier is that we consider it to be a mature market and both the mature markets are North America and Europe, there is a huge amount of focus on cost reduction, and therefore we are looking at a lot of our clients wanting to have strategies from their service providers, which focus on improving their "Run The Business" programs, so whether it is Application Maintenance, whether it is Infrastructure, or whether it is BPOs, so we are seeing a certain amount of traction in all the three areas as I identified here. Now you asked specifically about Europe. So European market from an outsourcing perspective is obviously more recent versus North America markets, which has been outsourcing for 20 years, so to that extent, some of the construct of the deals that have happened in Europe is different from the way we have seen it happening in North America. So for example in North America, we will be moving faster towards I think Managed Services, Europe, may be, a little different. But having said that at this point of time, so far as the business pressures on both the markets are concerned, it is exactly the same. Clients on both sides are looking for cost reduction, and the only difference is that the North American market is more mature in terms of outsourcing while I think Europe is still new.

Manik Taneja My second question was for Anil, you talked about continuous focus on G&A optimization, if you could give us a sense of breakup of our SG&A expenses into sales and marketing, and G&A currently, and how should we think about the possible benefits from the consolidation of facilities going forward?

Anil Chanana So, let me answer your second part first. This is just one of the areas, which I explained in terms of G&A optimization. We keep on looking at our vendors, we keep on looking at our travel spend, how to optimize on that. The small things like, can you book the ticket seven days in advance, and thereby get better rate; in terms of hotels, how to optimize on it, so we are working on various initiatives in terms of cost on the G&A side. Having said that, we do not share any breakup between sales and marketing and G&A, we are certainly focused on of investing in the sales and marketing.

Anant Gupta Maybe just to add to that on this whole thing about facilities consolidation, so that we are fairly clear on what we are doing, historically, as a company, we have had multiple small delivery centers across India and outside. And as our campuses have become larger and we have obviously continued to see the build out of facilities, we are consolidating our smaller facilities

into these larger campuses across these three places within India and then of course outside India as well. So, it is really being able to take advantage of scale, being able to take advantage of management bandwidth, it is being able to basically be a lot more operationally efficient. So while we will see some amount of that come out in G&A, I think the bigger benefit we will see and which we are seeing is from actually delivery and operational management optimization because we can then do a lot more when one is consolidated.

Moderator The next question is from the line of Vinay Rohit from ICICI Prudential. Please go ahead.

Vinay Rohit Sir, just wanted to ask you, on the utilization we have reached almost 85%. So what is the kind of sustainable level we can look forward on utilization?

Anant Gupta So the desired utilization metrics that we would like is 84%, so I would say it is slightly higher than that, so we would like to be around 84%. A lot of that is also driven by the fact that if you see the shift of movement. If you would have noticed that over the last three years, the ratio of fixed price, Managed Services, and outcome base is continuously increasing, even if you take between this quarter and previous quarter, there is a 300 bps difference, but if you take it let us say between this quarter and the same quarter in the previous year, you will see about 4.5% difference. So, that is also helping us to obviously be able to decide what is the most optimal way to run the operations, which is quite unlike in a time and material model where we are quite defined by the number of people, how many people, and what kind of people.

Moderator The next question is from the line of Pratik Gandhi from India Capital. Please go ahead.

Pratik Gandhi I think the question is regarding the IMS margins, in this quarter we delivered 23.5% margin vis-à-vis the same quarter last year of around 18%. So just want to understand how we are able to see this (+500) basis points margin improvement over a year timeframe?

Anant Gupta Obviously there are two elements, one is the operational and the one is the currency. So, Srikrishna, you want to share on the operation side.

R Srikrishna So, there is clearly an increased focus on non-linearity, on automation as the lever to improve profitability. So, the focus is how do you eliminate the need for people and be able to do the same work with lesser people over time. And there is clearly some tailwinds on currency as well that has improved the margin, but a lot of it has come from focus on operational efficiencies.

Moderator The next question is from the line of Nitin Padmanabhan from Espirito Santo. Please go ahead.

Nitin Padmanabhan The deals that you would have won in 2008, 2009, I assume would be up for renewal around this time. Just wanted to get your thoughts in terms of how do you think these renewals happen, are you seeing any pressure on price when they get renewed, how do you see those pan out?

Anant Gupta So, I would say there will be multiple. I think there is an important fact that as one keeps operating and one keeps running the similar environment there is obvious benefits in the efficiencies that one delivers to the customers. If you look at the point I talked about proactive 'obsolescence,' so either as a company, we continuously try to drive and eliminate the work, which is there, or we can continue to be noncompetitive and therefore enter into a situation where a rebid needs to be competitively rebid. So our attempt over the years, which is where the whole aspect of proactive obsolescence is coming in, is that as a discipline we continue to drive increased efficiency, and obviously as we pass along that, there is a win-win model which is created in right sizing what the key elements of service levels are with our customers, so that the customers also see a benefit of that efficiency improvement, at the same time we obviously have an increased return from that. But the net result of that is that a lot of engagements which we have are single sourced when they come up for renewal. There are some situations where there could be elements of Cloud or Infrastructure as a stack, which have come in as a new element, where the customers may want to go out for multivendor sourcing, in which case then we would kind of compete with the additional framework over there. Largely, what our attempt is that we obviously try to make sure that we create a win-win situation where the efficiencies gained over a very long term periods are optimized between us and the customer.

Nitin Padmanabhan And just another thought, you have seen a robust improvement in margins over a longer period actually and there is always this choice of being able to reinvest those margins to really drive growth within your core IT Services business. So I was just trying to understand how have you gone through that thought process in terms of how much would allocate to really drive that business in terms of higher growth, because it has been subdued and you have explained as to why it has been subdued, but would not a higher S&M and more feet-on-street wouldn't that be something that could help you, or is there something more structural from a more operating perspective that you think needs to be fixed before you do that?

Anant Gupta So, I do not think the two are interlinked in our decision making, I think whatever is required for the business, whether we do get currency gain expansion on that, it is not the criteria by which we decide what and how the business should grow, so I think these are two independent elements. Yes, if we do need to scale up much faster than what we would like and if the operations cannot provide for that then would we tap into some of the incremental margins, but otherwise we keep our business decision based on what is needed for the business, and therefore I would not say whatever performance we are seeing is linked to whether if we had thrown in a lot more in sales or marketing, or something else would we have gained more.

Moderator Ladies and gentlemen, we will take the final question from the line of Dipesh Mehta from SBI Cap Securities. Please go ahead.

Dipesh Mehta I have two questions; one is Steve eluded about focus on margins, which has some revenue negative implications. So if you can provide some more details about Enterprise, He was

referring to Enterprise that was the first question. And second, can you provide some details about wage hike cycle we effected this year, how many employees got from July and how many would be getting from October?

Anant Gupta I am not sure whether we have all the data on the second one, I do not know, that is something which we share as to what it is. Steve, do you want to just go back to the point you made on the Enterprise Services and elaborate a little more on that?

Steve Cardell Sure, Anant, four quarters ago, we announced that we were on Enterprise Technologies specifically related to our SAP and Oracle practice that we had implemented a significant recruitment drive in our GDCs to scale up high-end skills to allow us to move a number of services. So we had developed a development factory approach, test factory approach and also functional development approach. What that allowed us to do was to move a significant amount of work that historically is being done by resources based in our four GOS, and move into GDCs, which gave us both a cost advantage and a service delivery advantage. So, consequent to making those changes has a subduing effect on revenue for those services, but it has a significant margin expansion opportunities. So what you see happen as we migrated back through, we delivered from low cost locations with a productized factory line delivery model. That allowed a significant margin expansion, it has given us a great stickiness with customers, but it subdued the top model expense bottom line. So we have kind of talked about that through out the quarter but you may recall we announced it four quarters ago. So that is what I was talking about in my comment, and you are sort of seeing that play through in the numbers over the last few quarters.

Dipesh Mehta Just about wage cycle, even let us say, if we refer to attrition and then come to wage hike cycle, whether we believe wage hike effected during the period would be one of the primary reasons for hike in attrition or you expect with Q2 hike attrition would be under control kind of thing?

Anant Gupta I think in any wage cycle, there will be folks who are satisfied and there will be folks who are dissatisfied. I think we are watching it carefully and wherever it is relevant and however, we need to deal with whatever is critical, we obviously are taking action in real time with respect to that. So it is very difficult to predict what it would be going forward, because if we know that we would be in completely in control of that. But I think to a large extent we believe most of our areas which are there are in control and I do not think there is a cause for concern from our perspective in that specific number. Coming back to that earlier point on some of the competitiveness of the Enterprise Services, I think it is important to realize that over the course of the last two to three years, we obviously had Application Management Services in multiple buckets, in terms of package applications and in terms of custom applications, and as the markets have been evolving into blurring lines in a lot of segments between Packaged Application, Customer Applications, and software-as-a-service, what we have been doing for the last three quarters is actually evolving our model, which is what we called as ALT ASM™, right, to be able to kind of lay the foundations of a more integrated delivery model, because that is what we

believe will be very relevant in the next couple of years as some of these blurring lines between the straight offerings become more important. So, that is how we see the actions we are taking around the areas of the Application Services portfolio which Steve mentioned is relevant from a go-forward perspective.

Moderator Ladies and gentlemen, that was the last question. I would now like to hand the floor back to the management for closing comments. Please go ahead.

Anant Gupta I just wanted to make sure that I kind of reemphasize a specific point because a lot of commentary today was around what we are doing in different service lines. So as I explained and across the board we obviously are continuing to see certain amount of transformation around the Application Services portfolio, the integration deals, but I do want to make sure that I do not lose the point that Infrastructure Management services is a market which is hugely untapped. It is less than 3-5% penetrated. Our focus and leadership in there will continue to be there, because that will continue to drive one segment of the market. From a business model perspective what we have seen is the convergence of margin profile in that business, quite similar to the traditional Software Services business, which is there, and we have seen in the industry obviously a mixed play on Software Services margins while our margins continue to expand. So I think that is one important point. The other relevant point is the fact that a lot of the RTB deals and especially Infrastructure are multiyear deals which are 3-5 years in nature, annuity in construct and therefore have significant room because significant visibility in execution and planning, it is an extremely critical component for us and what we are doing is we are using that expertise to kind of press the pedal around our offerings around the integrated stack. So if you look at MyCloud, which is framework, which we had, I had shared with a lot of you on the call maybe a couple of years back, that has actually crossed an implementation of the 100-customer this quarter, and the fact that that management framework now expands across beyond Infrastructure to include competence of software-as-a-service and Application is an increasingly relevant point as the cloud market keeps evolving globally.

With that I would like to thank you all for joining our earnings presentation for Quarter 1, and look forward to seeing you, or talking to you again next quarter.

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