HCL TECHNOLOGIES

Analysts/Investors Conference Call

October 25, 2005

Moderator

Good afternoon ladies and gentlemen. I am Monali, the moderator for this conference. Welcome to the HCL Technologies conference call hosted by SSKI Securities. Mr. Surendra Goyal of SSKI Securities is your call leader today. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for participants connected to SingTel. After that, the Q&A session will be conducted for participants in India. I would now like to handover to Mr. Surendra Goyal of SSKI Securities. Thank you and over to you sir.

Surendra Goyal

Thank you Monali. On behalf of SSKI Securities, I welcome you all to the HCL Technologies Q1 earnings call. We have with us Mr. Shiv Nadar, Chairman and CEO, of HCL Technologies and other members of the senior management of the company. I now hand over the call to the HCL Technologies management. Over to you Sir.

Shiv Nadar

Greetings to all this conference call to descript the results for the first quarter ended September 30, 2005. With me here at Noida are Vineet Nayar, Ranjit, and S. L. Narayanan.

In terms of financial performance, all our major business segments consolidated on the sharp acceleration in the preceding quarter. The IT services business continued to build competencies across the verticals, across geographies, and across service lines.

Our differentiated services, such as capital market grew and technology infrastructure management continued to win some landmark assignments. As some of you are already aware, our infrastructure business has been reorganizing itself to address global opportunities. Accordingly, it is shedding some domestic business in favor of overseas customers and substituting hardware based revenues with the pure paced services model. The results that show in this quarter in terms of sharp improvements in profitability, both as compared to the same period last year as well as a sequential quarter basis.

In line with our expectations, our business process outsourcing business fetched flat revenues. Even though revenue growth in this business should be muted in the near term, our recent win of a multi-year $100 million order from a global telecom major during the quarter gives us confidence that we are on the right track.

As I have emphasized often, we need to take a strategic view for the longterm growth for our stakeholders and the most recent win in BPO is a vindication of that belief. The same approach runs across the rest of the HCL landscape. We are focused on the growth strategy that is driven by longterm partnership with client organizations. We have made the right kind of investments in both physical and human resources over the last few years, along with the delivery model that seamlessly integrates both offshore and onsite capabilities. The cross section of horizontal and practice domain well positioned to undertake several prestigious opportunities. In fact, we have signed three large multi-year, multi-service client deals each in excess of $50 million. The first one is the transformational deal with a large global bank to help them in the process of application, consolidation, and application performance optimization to drive higher performance at lower operational costs across their IT infrastructure. This reinforces HCLs increasing market share in the financial services market place and its high domain base in this space. The second is a $100 million plus long term contract with a leading global telecom major as already mentioned, further strengthening HCL's position as a dominant player in telecom support services. The third is a deal with a large global software product company, which chose HCL as a strategic partner to bring about significant transformation in their infrastructure management, application consolidation operation, and drive decisions on new technology adoption. This reaffirms HCL's faith in customers desiring breadth and depth in services from large integrated and financially solid partners who are willing to invest in transforming their businesses.

Looking ahead, the prospects for growth look exciting. We exited the quarter-ended September 2005 with strong pipeline of business momentum. The challenge we have is to sustain this and build up on it. We are confident that our leadership team has the courage and the passion to make this happen.

I now request Vineet to comment on the operations.

Vineet

My recommendation is that we straight go for question and answer?

Shiv Nadar

Sure. Why do not we turn it over for question and answer?

Moderator

Thank you very much. At this moment, I would like to handover the proceedings to Zainab to conduct Q&A for participants connected to SingTel. After this, we will have a question and answer session for participants at India Bridge. Thank you and over to Zainab.

SingTel Moderator

Thank you Monali. We will now begin the Q&A session for participants connected to the SingTel Bridge. Please press 01 to ask a question. Thank you. At this moment, there are no questions from participants at SingTel. I would like to handover the proceedings back to Monali.

Moderator

Thank you Zainab. We will now begin the Q&A interactive session. Participants who wish to ask questions may please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking questions. First in line, we have Mr. Supratim Basu from Deutsche Bank.

Supratim Basu

Hello, can you hear me.

Moderator

Yes Sir, please go ahead.

Supratim Basu

Okay. Thanks. Very nice set of numbers. I just had a couple of questions. One is that, on the contracts that you have signed, could you give a sense for how many years each of these three contracts are expected to run?

Moderator

Hello Sir, we had a question from Mr. Supratim Basu. Mr. Supratim Basu……

Supratim Basu

Yeah, can you hear me?

Moderator

Yeah go ahead Sir.

Supratim Basu

Okay. The question was, for these contracts that you have won, I was just wondering if you could give us a sense of the time line in terms of number of years for each of these three contracts?

Shiv Nadar

First for everyone who is on the conference, we want to apologize for the inconvenience caused because of some line noise. Vineet will you take this question.

Vineet

Yeah. All these contracts, the volumes which we have declared are five-year contracts. So that was the question, Supratim, what is the period of this contract.

Supratim Basu

Okay, so all three of them run over five years.

Vineet

To the maximum of five years and the largest is five years and one month.

Supratim Basu

Okay, and then if I could just talk a bit about the IT services and the BPO growth, we have seen IT services slow down to 3.8% and BPO is flat for the second quarter running, now is this something that we should be getting worried about?

Vineet

I will ask Ranjit to answer the BPO question and then I will answer the software services question.

Ranjit

See actually the BPO industry is typically characterized by large multi-year contracts and hence the financial performance is actually best judged by considering the annual growth of various matrix rather than comparing the quarterly figure. As a group, over the corresponding period last quarter was 43.7% and when you take the two years, our CAGR was 67%. So I think this is significant growth, and ever since the inception we have been consistently outperforming the industry growth. Similarly for EBITDA, CAGR last year is 301% and for manpower it is 62%, all of which are above the industry normal and we will continue the outperform the industry.

Supratim Basu

Yeah sure, but if I were to basically take the last three quarters, which is the quarter-ended December to the current quarter, it is basically flat revenues, so I could apply a logic saying that if you take those three quarters and then add the quarter prior to that and then continue the trend, and then there is basically no growth even on a year-on-year basis?

Vineet

Supratim, the flat revenue is only for the last quarters.

Ranjit

See what is indicative of future growth would be the fact that we have added 900 people to our headcount during the JAS quarter, we have added 155,000 square feet of constructed area for BPO operations alone during JAS quarter. These investments will get converted into enhanced revenue streams in the coming quarters. Our net headcount addition of 900 for BPO is the highest that we have done in the last three years.

Supratim Basu

Okay, so bottom line is that we should not be worried about BPO right now.

Ranjit

Yes, definitely not.

Vineet

I think Supratim the way to see this is what happens say a year or a year and a half back, it was something like that was happening for a couple of quarters and suddenly we had the sharp spikes of almost 20% growth quarter-on-quarter happening for almost three quarters and in overnight the financial matrix of that business just changed completely. Since as Ranjit mentioned that these are large volume transactions, large contracts, we are going to inevitably see these kind of sharp spikes followed by some sedate quarters and then those sedate quarters will see a settling down of the profitability at a stable level and again it will take to a new orbit when another contract gets signed, so there is nothing that we can do about it, but we are certain that what we are doing is for the long term good.

Supratim Basu

Okay, and then on the IT services?

Vineet

On the IT services, the story is similar. We had articulated that we are going to move towards signing larger contracts and move away from signing smaller contracts. The sales force has been realigned restructured towards this objective and therefore you will not see a consistent Q-on-Q growth, but you will see peaks and drops as is associated with large contracts. If I were you, I would not be concerned based on the objectives we have set for ourselves in software services also.

Supratim Basu

Okay, and then on the data side, there are a couple of things which look a little off, I don't know if there is re-classification going on here. One is that something that you used to call software product engineering has vanished. There is only enterprise consulting out there, I mean, basically there is a big shift between application services as the percentage of revenues and enterprise consulting, so whether that is just reclassification, and then on the onsite percentage of revenues between 4Q and 1Q there seems to be a big shift, again whether that is just reclassification?

S. L. Narayanan

Absolutely Supratim, what we have done is we basically been wanting to do this reorganization of definitions, so that you know we confirm more in line with industry practice and therefore we have just done this reclassification beginning this quarter, which is the first quarter of the current fiscal and that is the reason why you will see that, you know, there is change in the offshore-onsite mix. This is a one-time correction and going forward we will be consistent with this practice.

Supratim Basu

So, would it be possible to get the data for the last four quarters as per this reclassification.

S. L. Narayanan

We are still working on it Supratim, in fact, very often all the analysts used to tell us that your offshore definition, you are calling it offshore centric and we used to say that wherever projects related to an offshore client is done onsite, you know, we compute the onsite revenues as part of that offshore. So, this was a variation from the way in which rest of the industry was computing those numbers. So, we have made that correction and we are still working on reclassifying the past data for comparable purposes, as soon as they are ready, we will share that data sheet with you.

Supratim Basu

Okay that is great. And then one final request, which is something that I have made to you SL in the past, so I would like to make it to the bigger team as well, which is to give us Indian GAAP consolidated numbers just like your peers do every quarter. I think that would be very useful.

S. L. Narayanan

Point taken Supratim. In fact, we are at the moment working with a variety of objectives given the limited time and the limited resources available, we are just making sure that you know in terms of financials we put it out on an US GAAP consolidated basis. Very soon it should be possible to simultaneously publish Indian GAAP consolidated as well.

Supratim Basu

Thank you.

Shiv Nadar

Supratim, lets make a commitment on behalf of the company. Next quarter, you will not have this complaint and you will have Indian as well.

Supratim Basu

Yeah excellent. Thank you very much and good luck guys.

Vineet

And Supratim, there was one another question which you asked about the reclassification of service offerings. I think, if you remember what we had said beginning of last quarter that we want to focus on few emerging services to be able to outstrip the growth numbers in the industry and enterprise consulting services, which basically means package implementation services, which is SAP, Oracle, ECMP, which is content management, are the services classified into the enterprise consulting services, which is focus area for us from growth point of view. Technology is a focus area, infrastructure is a focus area, BPO is a focus area. All these businesses are driven definitely. Software engineering now has been combined as a part of either technology led services or part of enterprise consulting if it is technology development of enterprise consulting, so therefore this is the reclassification which has been done. This is also the classification which Gartner is now following for industry classification, so we have reclassified the business. We have now restructured our organization into these five distinct divisions, so when we get an opportunity of doing an analyst meet when you see the organization structure, and when you see the leadership in the organization it is aligned to these five divisions.

Supratim Basu

Great. Thank you very much.

Vineet

Thank you.

Moderator

Thank you very much Sir. Next is Mr. Ajay Mathrani from DSP Merrill Lynch.

Ajay Mathrani

Yeah thanks. Just had a couple of questions. First one on the three large deals that we announced, just wanted to understand who were the competitors here, what kind of rates and profitability, as well as what kind of pricing mechanism was employed in these deals?

Vineet

I can answer for two of them, third if we tell you then you will know who the deal is, so we will not answer that. The first one, it was five Indian vendors and three global vendors. This is a deal, which is multi-service deal. It has SAP implementation in it and it has IT infrastructure management in it, and it has hosting and basis on which we would be taking decisions, virtually all decisions on behalf of the customer. This was RFP process which lasted about four months and we won it in competition to virtually everybody. Everybody participated in it. This pricing object is not an effort based pricing. This is result based pricing, which is per device price, so that there is an ability to scale up and scale down based on the device or for instance price from an application point of view, and we competed with everybody on this subject. The second, the financial institution deal was again an RFP process. The RFP process I think started with eight vendors virtually came down to two final vendors and we finally got it, and the pricing here is a bit aggressive than the first deal, but it is I think on an overall basis by the time we finished the deal, the way we have structured the deal, it would be around the same levels as we are today.

Ajay Mathrani

Okay. Effort based deal or…..

Vineet

This is an effort-based deal.

Ajay Mathrani

Okay, and in terms of margin profile would we see any scalable margins, lower margins and then scaling up to company average or they are more or less steady over the lifetime?

Vineet

I think what you will see is you will see with large deals, you will see lower gross margins and higher EBITDA margins.

Ajay Mathrani

But overall would be in line with the company?

Vineet

Yes, overall it will be in line with the company margins and you must also understand that each of these deals are multi-service deals, so the net margins are going to be consolidation of the margins, which exist in infra, BPO, and Software services.

Ajay Mathrani

Sure. Just moving on, I just noticed that some of the number of total clients, I could not find that in the investor update, I was still wondering whether if you could provide that?

Vineet

Yes, one of the objectives that we had said in the beginning of the year is we want to do more with fewer customers rather than do few with larger number of customers, so we are in the process of consolidating our number of clients, so you will see a dramatic downward trend in number of customers we have. The reason we are not giving that number is because it unnecessarily sends all the wrong signals in the market place, but I think maybe next quarter or the quarter after that, we will indicate the exact numbers after they have been brought down, so if you want to know the trend in that area, I think we had about 500 odd clients, we hope to consolidate them dramatically downward so that we do more for fewer customers and therefore you will see a larger number increasing in million dollar plus clients and overall number of customers shrink and that is the consolidation strategy, which we want to adopt without making too much noise because if we try and make too much noise on this subject, you know unnecessarily we get attention in the market place. We want to handle this with sensitivity it deserves.

Ajay Mathrani

Right. Just one last question. This FAS 123R disclosure - you are saying that we will provide for it entirely at the yearend. I was just wondering if you could give some kind of ballpark number on where we would look at or even a rough range of whether there will be any implication and to what range it would be possibly?

S. L. Narayanan

You know, we are still sort of agonizing over this. There is so much of binomial theorem and probability theory, it just left my eyes glazed. I think the whole world is still contemplating on what is the best way in which to price these options. As it happens, you know, ours being the fiscal year immediately after June 15, it has become applicable in our case, but we are going to wait and watch what the American Companies are going to be doing. There is some very severe implications for some companies especially the companies in Silicon Valley. In the meantime, what I can give you as an indication is the foot note that we disclosed in the last year's US GAAP financials on a $138 million net income there is a $12 million expensing charge which has been disclosed as a foot note based on the Black-Scholes method of computing the options cost, and as you know that takes into account certain beta value on volatility of stock prices and an expected yield and a risk free rate of return and these things keep changing all the time, and I also saw from the internet, there are some companies in the US who want to link these options with tradable warrants, because the idea being that if there is a value attached to these options, it must be possible for that option to get traded in the market place, so I believe some investment banks are working with the US companies in creating some kind of synthesized structure so that they can get actually a market value and take that charge in the books of accounts. So, the whole field is full of debate now. I think, by the time March 2006 comes, there is going to be a lot of knowledge on this subject and we would adopt the most effective method of expensing the options, and at any rate the rest of the Indian industry is going to apply these only from the first quarter of 2006-2007, so in that sense we thought it is best to keep this open at this moment in time. Because end of the day, it is just a non-cash charge.

Ajay Mathrani

Sure. That is very helpful. Thanks a lot.

Moderator

Thank you very much Sir. Next is Mr. Anthony Miller of Arete Research, London.

Anthony

Hi gentlemen. I have a got a few questions please. Firstly, Europe, if I have done my calculations correctly, it looks like your revenues in Europe have actually gone backwards this quarter, which is, if I am correct that is really contrast to what has been happening with the other players, I wonder if you could talk about that please? Secondly, can you give us your views on your observations on salary and pricing trends that you are seeing in the market and then could you update us please on the people size, particularly what your salary plans are and can you tell us what is your attrition currently is please?

S. L. Narayanan

Hi Tony, this is S. L. Narayanan here. I will answer the first part of the question, which is basically on the European revenues. This is something, which has come out as a result of major reorganization of the data. It now appears that our European revenues were actually at 22.3%, so there is a little bit of reclassification because, there are some revenues which were actually been clubbed in Europe, but in fact the actual delivery was happening elsewhere, so as a result of the reorganization of data that has happened, it is now being correctly stated at 22.3%, and the rest of the questions I leave to Vineet to answer.

Anthony

Okay, are you going to be able to then sort of reclassify previous year's revenues so that we can do a like for like comparison?

S. L. Narayanan

Let me try and explain what we are doing and I do not think we want to go back in any of these data. HCL increasingly is wanting to work with larger global organizations with a proper GAB structure, which is Global Account Banking structure, so we take an example of the largest pharmaceutical company, which we work with, our revenues maybe in excess of 10 to millions of dollars, the revenues originating from, this was an European contract, and revenues originating from America and Asia has been classified as Europe. We have taken a decision that is not fair, predominantly because once these MSAs are signed, the revenues originate from the respective countries, so hence we are going forward reorganize the sales organization so that the revenues originating from the local location even though there may be a centralized order, for example if British Telecom is the contract we have and we were generating revenues from US from British Telecom, from this year onwards we will classify that as US revenues and not European revenues. So that is the reclassification which will happen going forward and that is the reason you see the European revenues the way they are.

Anthony

Okay. Thank you for that. And there was pricing and recruitment, attrition and salary plans please?

Vineet

The issue on, or what trends are we seeing on pricing, I believe that the market continues to be as competitive as it was. The commodity services like the coding and application development is seeing pricing pressure as usual. The rare field, I mean, the new emerging services are seeing less pricing pressure because the decisions get taken more on capability, same is true with technology services, there is no change in the pricing pressures with reference to last quarter to this quarter. Ranjit, I believe, on pricing do you have a view on BPO.

Ranjit

No, we are not seeing an effect….

Vineet

So, there is no change from last quarter to this quarter.

Anthony

Are you seeing any opportunity to lift prices either with new clients or with clients renewing contracts?

Vineet

I do not think there is an opportunity of lifting the pricing with the existing contracts. There is an opportunity of lifting the pricing with new contract, if we structure the contracts in a different way, which is either a fixed priced contract, or an output based pricing or a device based pricing. The whole strategy we are trying to do, which is device fixed pricing is to try and see if we can lift the pricing to alternate mechanism of charging the customers, however, and we have been quite successful in doing that, but however, I think all those increases are going to be consumed and eaten up by contracts getting renegotiated which are current contracts based on efforts, so I think our expectation is that we will go up a little or we will go a down a little, but we will land up where we are right now and with that we would be quite happy the way we are.

Anthony

Thank you.

Vineet

And going forward on your question on compensation, the compensation increase did happen last quarter that has already been provided for in this quarter, so you are already seeing a compensation increase. We have adopted a very innovative strategy on our HR practices, you know, maybe this is not the forum to talk about it, but I think we are today, I would claim one of the most innovative in the way we are looking at employee compensation, retention, and motivation, and value creation strategies, another place and another time I will be very happy to share that with you, but from a financial perspective all the salary increases have already happened.

Anthony

Are you expecting to get any more increases this year?

Vineet

No, see what really happens in a company like us where we are constantly recruiting, the number of people who become due in next quarter and next quarter will get, that compensation has not been factored in. It is largely aligned to the first July cycle other than new recruits. So the new recruits' compensation will come up or increase over the next few quarters. Others have been already provided for.

Anthony

I am sorry, what is the percentage of increase for the existing employees?

Vineet

This is not something which we are not publicly sharing because it creates dissatisfaction internally. We are right now saying that we have given adequate increase based on adequate performance assessment of an employee.

Anthony

Okay, I understand and thank you for your patience, on the attrition levels please?

Vineet

Our attrition is at about 13.3% software and about 48% in BPO annualized. In the BPO more than one year is again around 13%.

Anthony

13% more than one year. Thanks very much indeed. I will come back offline with the number of other detailed questions.

Vineet

Sure.

Moderator

Thank you very much Sir. Next is Mr. Shekhar Singh from ICICI Securities.

Shekhar Singh

Hi Sir, just wanted to know about these new contracts, which you have won from which quarter can we start seeing the ramp up in these orders?

Shiv Nadar

You should start seeing them in the JFM quarter onwards.

Shekhar Singh

Okay. Secondly, just wanted to know like this NEC joint venture that you have, because your share of income from your equity investments does not seem to be going up, so does it mean that like NEC ramp up has not actually not taken off?

Vineet

Our NEC JV is yet to take off Shekhar.

Shekhar Singh

Okay.

Shiv Nadar

The company is yet to get formed legally, there are legal issues, take off…

Vineet

Yeah, the company has been formed, what I meant was we still have not started delivering output from that newly constituted joint venture.

Shekhar Singh

Okay, and lastly just wanted to know like CISCO has announced some very big plans in terms of investments in India, and since you work very closely with CISCO, do you expect some increases in revenues from CISCO or what is the role that HCL Technologies is going to play in the larger scheme of things of CISCO? Thanks a lot. That was the last one.

Vineet

Yeah. What we have heard from CISCOs plan in our discussions with them is that it is largely to do with manufacturing, which is very interesting and I think we should follow that very closely actually we are also following that very closely. That is largely to do with manufacturing and supporting the Indian market; we are part of their extension of

R&D where CISCO is already present in a very big way in the country for many many years. So has CISCO's strategy changed with that respect? The answer is, no, because CISCO already is present on their own in the country, so I do not see any change in strategy from that perspective.

Shekhar Singh

Okay thanks a lot.

Vineet

Thank you.

Moderator

Thank you very much Sir. Next is Mr. Depen Shah from Kotak Securities.

Depen Shah

Yeah just one question on the BPO side, we have added about 900 employees during the quarter, plan to add about 1500 more in the next quarter, and despite that we have been telling that possibly in the near future, the growth will me muted, so exactly what would be, in fact, it does not gel like you are adding about 2500 employees in two quarters and revenues would not come in the near future, so when exactly do we start seeing this scale up in revenues?

Ranjit

Yes, typically the BPO industry it takes about 10-12 weeks for the revenues to happen from the date of hiring because of the intensive training that the employees need to undertake, and the revenues from these additions you will see in the JFM quarter, but as I stated earlier what is more relevant is the year-on-year growth. If you factor year-on-year growth, we have seen that we have grown by 43.7% in this quarter. We will continue to grow at a consistent rate, but revenues from this addition of the new employees always will happen 10-12 weeks from the date of addition of the employees.

Vineet

The simplified answer for you, you will see them in JFM quarter upwards.

Depen Shah

Okay. Thanks very much.

Moderator

Thank you very much Sir. Next is Mr. Aditya Somani from Digital Centuries.

Aditya Somani

Hi guys. Just wanted an update on the semiconductor and aerospace verticals. How is the Boeing deal doing and where do you see it going? How do you see it leveraging?

Vineet

First, there is no commonality between the two, but let me talk one by one. Semiconductor industry is going through huge amount of volatility and pricing pressure, which is very encouraging for us because they are all seeking solutions. Fortunately, we dominate that market place and fortunately we are now expanding our services to deliver technology solutions to also add IT and infrastructure solutions to the semiconductor industry and that continues to be our cornerstone. We have a significant market share in this place and we continue dominating this. I do not know whether you are aware that we have a semiconductor practice, which is vertical practice, which is focused and dedicated and run out of America with one of the senior corporate Vice President of HCL running it, which demonstrates the commitment we have to that vertical and the confidence we have in the growth of that vertical. Aerospace is an exciting new event, which is unfolding in the world. Once again, we are ahead of the curve on that. We were one of the first people to sign technology contracts. We were the first ones as you can see adopt standards of aero sciences like we have done in life science this quarter. We were one of the first persons to try and pickup large contracts, which were very complex in both navigation and the entertainment side of the aerospace business and also start working with component manufacturers on the aerospace business. So we have done significant work in that area. Because of that reputation and because of the work we have done, we are again seeing benefit in the application area and infrastructure coming from the aerospace vertical, although it is got nothing to do with domain knowledge. It is pure SAP and Oracle rollouts or infrastructure rollouts, but we are seeing the benefit because people are seeing us as a focused organization in those spaces. So, though these verticals are growing verticals, and I will also mention life sciences as a growing vertical, which we see a huge amount of traction happening in the coming quarters.

Aditya Somani

Thank you so much. There is a second question that I have, where we see that the software services is growing at a lower rate then the lower operating margin businesses.. What I understand from the discussion is that you are expected to grow the lower margin business like BPO services and infrastructure management businesses at a higher rate. In these conditions, how do you expect to keep your operating margins at the current level?

Vineet

I think, you need to do maths a little differently, if you really see what is happening is the infrastructure services and BPO constitutes still an insignificant part of the total services. So, unless we grow the core services significantly, we are not going to meet any of the milestones, which we are talking about. So these two services combine constitute to be about 13 to 13.5% of our 23.5% of our revenues, so that is where we are. The second thing, which I do not know, whether you are noticing is that both these services BPO and infrastructure are, their EBITDA is outstripping revenue growth largely because there are significantly large margin expansions, you know, from a net margin perspective they are growing faster because infrastructure was a material business, which is becoming a services business, so if you take only services margins, it is pretty attractive, but since there is a baggage of material business, which is essential to create the skills, you know, you are seeing higher growth. Similarly BPO services is based on a historical of some very significantly large contracts, which are now giving way to larger contracts at larger margins, and that is the reason you are seeing margin expansion there. The third issue which I think all of you should be very clear is, HCL's strategy is to use these two businesses to drive software business. Software business happens to be our core, will be our core, and will continue to be our core and there is no change in strategy there. The only reason we are saying we are focusing on emerging services is it is like a wedge in a client account. If you really see the churn in account, I mean, I do not think I have seen any analysts report on churn, but if you see how many customers have moved from one vendor to another vendor even if you take the top 5 Indian companies, how many customers have moved from one vendor to another vendor, you would realize for application development services not many have moved. Actually, it would be handful, but the moment you see cross services how many have moved, there is significantly large number of people who have moved because of moving from one service line to another service line. So, HCL strategy has been that if we can capture a large number of market through infrastructure and BPO and give those companies a sense of what HCL is and how it is a pleasure dealing with business with HCL, we would be able to also seek into their application space, which is a strategy which we have adopted, which is working quite successfully. So when we say our focus is emerging services, it is a go to market strategy, but I think the resultant gain from this is growth in software business, which has to be there for us to meet our numbers.

Aditya Somani

I got that Sir. Thank you.

Moderator

Thank you very much Sir. Next is Mr. Pramod Gupta from HSBC Securities.

Pramod Gupta

Thank you. Just wanted to understand Sir, our receivable days have increased quite a bit, and second question I have is how much of the current hedging position that we have?

S. L. Narayanan

Yeah, the receivables have increased because in one client organization, there was reorganization. It will get corrected in this quarter. In terms of hedging, we are currently with about $350 million of forward contracts at a weighted average of 44.24, so in that sense, you know, we may not be able to participate in the current rally in the dollar.

Pramod Gupta

Okay. Another question I have is regarding our dividend payment policy. Surely, now the capex is also picking up for us and though our cash flow remains robust, does the company intend to stay with the current policy or is there any change likely?

S. L. Narayanan

No, we would stay with the current policy of Rs. 4 per share every quarter.

Pramod Gupta

Okay. Thanks a lot and all the best.

S. L. Narayanan

Thank you.

Moderator

Thank you very much Sir. Next is Mr. Anantha Narayanan from Morgan Stanley.

Anantha Narayanan

Thanks and good afternoon everyone. I had a question on the margins for individual businesses. It is a fairly interesting structure. Your software service EBITDA margins now appear to be significantly lower than what some of your top peers make, but at the same time your BPO margins appear very robust and even higher than your software services margins. So, is there some sort of classification of SG&A costs out here? From what I remember from the last call you had mentioned that almost 70% of your BPO business is currently voice, you know, it just seems a bit strange that the margins are so high?

Ranjit

I do not know how to answer this question. If the margin is high, something to do with the multiple of factors. It is not merely price. It is a matter of deployment. It is a matter of efficiency. It is a matter of scale. It is a matter of what percentage that we finally manage, able to manage with overhead. You know, there are many many factors that come in. I suppose BPO business being completely new, we are managing it more efficiently than others.

Anantha Narayanan

Would it be sort of fair to assume that say over a longer period of time, the BPO business will continue to be a higher margin business for you than software services?

Ranjit

See, BPO as we can visualize, it appears that this has got large contracts, fewer customers. There are smaller opex. And when a typical contract size is larger, typical engagement size is larger, naturally the opex is sharply reduced percentage. That is what maybe happening with BPO business per se, but you must see that HCL wants to make use of this by offering multiple services to clients and a same client will be having BPO, will be having infrastructure, will be having software services, will be having technology or engineering or business consulting services. So our overall attempt is that as we grow from where we are to twice our size our opex will not move twice our size. So when divided and goes into most of the business in which we are, you will find that our strategy will drive towards higher profit. I hope I am able to answer your questions?

Anantha Narayanan

You know, that was helpful, but what I just basically want to get a sense of was that the way that you look at your separate businesses. Do you really envisage the BPO business to be much higher margin business compared to your software services business over a longer period of time?

S. L. Narayanan

Over a longer period of time, the answer is, yes.

Anantha Narayanan

Okay, thank you. That is helpful.

Moderator

Thank you very much Sir. Next is Mr. Hitesh Zaveri from Edelweiss.

Hitesh Zaveri

Yeah Hi. My question is with regard to the growth in the top 20 accounts. There has been degrowth, and other than that in the previous two quarters the growth has been pretty tepid. I wanted to ask what is outlook or whether there is some reclassification issue here as well? Thanks.

S.L.Narayanan

See this top 20 list is always in a state of flux, you know, there are some guys who are coming in, some guys are exiting, so it is very difficult to actually do a like for like because top 20 of last quarter name for name does not feature in the same top 20 in the current quarter. We take the top 20 of the current quarter and constitute those numbers, so it may not be possible to take any reliable inferences on that.

Vineet

But it is fair to assume that the top 20 customers will grow at a slower rate than the others. There are growth customers and then there are people who have peaked. Top 20 customers who are $50 million, $10 million kind of customer will obviously see opportunity size as your engagement growth will reduce. You cannot expect 30-40% growth on a $100 million account unless it is significantly large sized organization which has huge amount of IT budget, where as you sign a contract which is for a fortune 10 customer, but you are a $5 million contract for him, there is an upscale opportunity to take it to $100 million. So, I think it will be right for you to expect the growth rates in top 20 not to be the same as the others.

Hitesh Zaveri

Sure, I agree, my concern was on the regard of the small piece of data, which is in the last three quarters, it has been -3, +2, and again -3 in the top 20, and so that divergence is staggering, so the question is more with regard to what is the outlook over the next two to three quarters and I assume many of the clients should be very profitable given the fact that they are established with you and the size is larger. So to the extent they would be affecting your margin more than proportionately.

S.L.Narayanan

Yeah, I think the point is valid.

Hitesh Zaveri

Okay. Thank you so much.

Moderator

Thank you very much sir. Participants who wish to ask questions, may please press *1.

Vineet

I think we have time for just one last question.

Moderator

Okay sure Sir. Participants who wish to ask questions, may please press *1. At this moment, there are no further questions from participants. I would like to handover the floor back to Mr. Surendra Goyal for final remarks.

Surendra Goyal

Yeah thanks. Thanks to the HCL Technology management and to all the participants. Thank you.

Shiv Nadar

Thanks Surendra.

Vineet

Thank you. Thank you gentlemen.

Moderator

Ladies and gentlemen, thank you for choosing WebEx conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice evening.