"HCL Technologies Limited Q2FY10 Earnings Conference Call"

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Moderator: Ladies and gentlemen good morning and good evening. This is Rochelle the Chorus Call Conference Operator. Welcome to the HCL Earnings Conference. Please note that for the duration of this presentation all participants' lines will be in the listen-only mode and the conference is being recorded. After the presentation there will be an opportunity for you to ask question. Should anyone need assistance during this conference they may signal an operator by pressing '*' and then '0' on their touch-tone telephone. At this time I would like to turn the conference over Mr. Vineet Nayar, thank you and over to you Mr. Nayar.

Vineet Nayar: Good afternoon, good evening and good morning to all the listeners of the call, welcome to the 1st Quarter presentation of HCL's results. I have with me Anil Chanana, CFO of the company, Anant Gupta, the President of Infrastructure Services Division and RK who heads our Enterprise Application and Enterprise Transformation Division of HCL Technologies.

I think it is important for us to look at the results in the 1st Quarter in 4 quarter perspective. And the reason I am saying it is a 4 quarter, it is the first time we saw big signs of recession was in October of last year. And after that there have been 4 quarters which have gone by and it would be interesting to see how our business model has sustained itself and how our strategies have panned out in the period of recession. And if the business model succeeds in the period of recession then the business model is as good as it can get because that is the investment that we have made from the year 2005 onwards.

When I look at the numbers it is clear to me that HCL has been able to add $375 million of revenues in the period of October to September of 2009 compared to 2007/2008. And if you compare that with the other global majors or Indian majors you would see that it is far higher both in terms of percentage of growth which is close to 19% and I think it is amongst only set of companies, only few companies which have positively grown, most of the companies over this period of negatively grown in revenues.

So what we did was we tried to compare the industry growth rates with what we have done and then try and see if our business model, in what areas we are succeeding and in what areas the business model needs to undergo a change. So the revenues for the industry in general, industry when I said is the Indian IT industry grew about 1% in this period where we grew by 19% in this period. The SG&A the industry de-grew their SG&A by 7% in this period whereas HCL grew, it increased its SG&A by 10%. The financial services the industry de-grew by 1% whereas we grew by 9% so there was a significant difference so financial services performed very well for us. And same is true with manufacturing and telecom. So manufacturing, telecom, and financial services were 3 areas where we significantly outperformed the industry averages. The industry averages was de-growth of 1% in financial services, 6% in manufacturing and 18% in telecom against that our growth rates is pretty good.

I think the analysis becomes interesting when you start looking at the applications service lines. And it is interesting to note that our infrastructure services which grew by 34% in this period LTM to LTM was actually twice the growth rate of the industry. The custom applications de-grew for HCL by (-1%) whereas the industry growth rate was 4 times more de-growth, it was at (-4%). Engineering services the industry growth rate was 2 times more de-growth, we grew by 2% the industry de-grew by 4%. And enterprise application obviously the industry de-grew by 2% and we grew because of the acquisition by 130%, but I think what is more important is the engineering services de-growth has beaten industry by twice and if you go back into 2001/2002 that was the biggest challenged we faced as a company so we are happy about this. The custom applications which was supposed to be so called weakness of HCL because of our micro verticalization strategy has actually de-grown the least, 4 times less than our competitors. And infrastructure which was up strength has grown twice compared to the industry growth rate.

Now where did we slip, we slipped in the BPO services where our HCL growth rate has been 6% including acquisition whereas the industry has grown by 26% including acquisitions. So that is where in BPO service we could have done something, something more.

From a geography point of view it is very interesting to know that our growth in US is 27% whereas the industry growth rate is only 3%. And Europe is (-8%) where as we are 14%. So the point is that it is to encourage you to do some analysis and my analysis may not be as accurate than I am sure your analysis would be, to try and look at the performance of various business models including the global majors who have lost I think close to $2 billion and $4 billion to somebody else that is a significant size of revenue drop. And to try and see that is there connecting the dots and is there a business model emerging which makes sense and which is the point at HCL we are trying to make, but we are happy to look back and see that the performance of HCL over the period of recession has been quite good.

This quarter has to be seen in that respect and also it has to be seen in the perspective that the last quarter we registered a 7.6% sequential growth and you must understand that after JFM which had baked in all AXON acquisition and all BPO acquisition was baked in October/November/December so the 7.6% and 3.8% sets up as quite a good growth rate. And this is driven by two strategies. It was driven by a strategy of what I call the “Big Deal Acquisition Strategy” in October to March timeframe. And then once we have entered the door we were inside the organization than we expanded ourselves to cross sell and up sell services. And you would see that when we announced the deals in this quarter you know you are seeing us expand in Xerox more and more or you saw the EFH announcements, so 2 of the deals which are announced even in this quarter are expansion of relationship which is there in AXON and we got into those doors. And the very fact that the largest Top 5 customers for HCL sequentially have grown by 8.4% again demonstrates our ability of growing in cross sell and up sell. So I think the growth of 3.8% backed by 7.6% is coming on the back of our ability to win new deals and our ability to expand ourselves once we are able to enter the door.

It is also important to note that this 3.8% becomes 4.1% when we take it to IT services. And IT services growth rate is down 30% year-on-year which is quite good. So we are on a revenue run-rate of $2.5 billion. At the EBITDA level I think our margin expansion story continues with 60 basis point expansion on sequential basis and 90 basis points on EBITDA margin expansion on our year-on-year basis continues to be in line with what some of the others are delivering. And the fact that our EBIT margins are up 3.9% and 26% year-on-year is also good. Interesting point to note is the EBIT margin is now at 18% which is the same as in the July/August 2008 number. So we are back to where we were supposed to be post-acquisition. So we are in the pre-acquisition days. Now it is true that this has some elements of exchange gain and that may have some elements here or there, but I think in the holistic scenario it is important to note that we have been able to not only absorb an acquisition, integrate an acquisition, cross sell into the acquisition but also expand the margins so that we can bring the margins back to where we were. The recognition in the industry for us to be a Top 10 and the leaders is something which RK will talk about.

The micro verticalization strategy has been a critical aspect of HCL's growth and therefore you see the media publishing, entertainment, retail, financial services all contributing the significant growth and this is not just about this quarter, you see the financial services growth trajectory, you saw that in last quarter, you saw them in this quarter. So the point I am making here it is not necessarily if you are large, it would mean that you would participate in the upswing of the financial services industry, I am saying you need to have the right proposition, you need to have the right tools and technologies in each programs into the customers budgets to be able to expand as we are rightly demonstrating in significantly higher market share. So our market share in financial services, in retail, in media publishing entertainment is increasing.

Infrastructure story and custom applications, custom application is a very interesting point of view, when we started our journey in 2005 it was very clearly articulated that custom applications was an area of weakness. And we brought in the enterprise application acquisition. Now although the enterprise applications in last quarter grew and this quarter de-grew and we are one of the 3 companies which has de-grew and there is only one company which grew over a 2 quarter period which RK will explain to you, but I think what is important to note is that we are winning total IT outsourcing deals because of the enterprise application and the reason custom application revenues are growing up is because we are benefiting from the infrastructure services growth story and also benefiting from the enterprise application growth story and benefiting from the micro verticalization story and therefore you are seeing a significant growth rate of applications quarter-on-quarter at 6.9% on the back of a 12.7% growth in the previous quarter. And that I think is a tremendous achievement by the team.

Our growth continues to come from US and Europe and I was talking about market share increase where the US industry growth rate has been around 3% for us the US has grown at about 27% and Europe has de-grown for the industry and for us there is a significant growth in Europe. And I think our focus and emphasis on continental Europe on one side and sharply focused on churn away from big 4 companies to HCL has lead us to grow in geographies which matter. The reason I am saying this is because not only we have to worry about our performance during recession we also have to worry about performance post-recession.

So, with this I will handover for the opening remarks by Anant who heads our Infrastructure Services.

Anant Gupta: Good morning. I will touch on the financial performance. The infrastructure grew by 55% YonY in revenue and 73% in EBIT terms. It is actually the second quarter of double digit growth posting 14.4% growth in revenue this quarter following a 25% growth in the previous quarter. And some of the key reasons for this growth essentially are our unique positioning in the integrated tools and also space where we kind of had lost close 3 years back and we have seen some significant traction actually now creating a niche for us in terms of the value we deliver to our customers. The second, Vineet mentioned about the continental Europe, specifically the key markets like Nordics, Southern Europe and of course in the Middle East are really showing returns to us, this was again early investment 2 years back which add-on to the growth story which is coming from the US, UK and other English speaking markets. The third, is really our service delivery and our client referenceability, our clients really speak for us and that really is moving the growth.

Looking at some of the trends which we continue to see and continue to focus, we continue to focus on large IT outsourcing deals and the winning rate on large deals. We continue to takeaway market share from the global 4 majors considering the fact that the industry per se is not growing so we are actually creating our growth from the churn which Vineet mentioned moving the business away from traditional existing global major players and that really is evident from the fact that we continue to participate in about 70% engagements which involved the 4 global major players.

In terms of some of the key successes of last quarter, we acquired 10 customers in the infrastructure space although we have announced only 2. One was the Energy Future Holdings and Oncor, but I think the other key aspect is Q3 of last year we announced two very large engagements Xerox and Nokia which were really unique first time engagements in the world where we kind of moved services from very large organizations which were very complex, very large scale you know which kind of spanned across the globe, I am happy to say that we have actually successfully transitioned both these engagements. They are now in complete steady state and they are really a testimony now to increase the competition in that market space which uniquely was a position of the global majors. Another testimony was the Golden Peacock Award for the Enterprise Management Tools as a service framework and that has been a foray into our infrastructure application as our cloud computing service which we believe is a good strategy as the cloud computing trend increases. With that I will hand it over to RK.

Ram Krishna: I will cover the enterprise application services part. I will probably cover it in 3 specific areas, I) Is in terms of how the service has performed in this quarter. II) What is the dominance of this service overall in HCL's perspective. And III) How HCL AXON from an integration perspective has done?

As Vineet mentioned on LTM basis we have grown EAS by 130% but that includes inorganic growth due to AXON acquisition, but I think considering the last 2 quarters we are more or less in the band of performance of Enterprise Application Services amongst our peers. Last quarter we showed a growth on Enterprise Application Services and this quarter we have a de-growth of about 4.7% overall in the last two quarters, Enterprise Application Services continues to be flat as the discretionary spend is reducing and new license sales have not really happened in SAP and Oracle and hence new implementation revenue probably has not happened in the last two quarters.

However, it is more important to really understand that amongst our peers we are in the top quartile even though we have a flat performance on Enterprise Application Services over the last 2 quarters because 2 of our peers have shown a de-growth whereas one company has shown a marginal growth. And overall we are in the band and we are in the top quartile of the band.

From a volume perspective Enterprise Application Services still continues to be dominant in HCL service line with 21.9% share in the revenue. And this is obviously contributed by the AXON acquisition. And we continue to remain very focused on Enterprise Application Services and we do believe that package applications will be the way to go and as soon as discretionary spend begins there would be growth in this space.

HCL AXON from an integration perspective is complete so we did mention in the last quarterly call that we are more or less completed the integration of HCL AXON from the business which is sales, delivery as well as back-office operations. HCL AXON has performed well with some recognitions which has comes its way. HCL AXON has been rated in the Top 10 SAP Service Provider, End-to-End SAP Service Provider which puts HCL amongst some of the global majors in SAP service provision.

We also completed an acquisition this quarter of UCS, it is a small carve out from a company called UCS in South Africa. This is to established our dominance in the retail space, this was done early in the quarter and we are happy to state that this particular entity has been fully integrated with HCL AXON and HCL.

From an AXON integration perspective we are moving as per plan, we are doing quite well both from bringing in AXON synergy into HCL as well as HCL synergy into AXON. If you see the kind of growth which is happening in other services lines especially in

Application Management as well as Infra, many of these are a result of successful Enterprise Application System implementations in some of these clients, things like EFH which we have announced as a new business win this quarter has been an HCL AXON customer for quite sometime. And we have a successful Greenfield implementation which was running in EFH, which has now resulted in a tail revenues coming to HCL. And this is something which we had talked about as a positives of acquisition of AXON largely, it will not only add to our dominance in Enterprise Application space itself but, in addition it will also help us tap into the tail revenue which will come in after the implementation is over either from Application Management and Application Outsourcing or from Infrastructure Services which has began to happen and we are seeing an increasing trend of this happening in the last two quarters. Overall the Enterprise Application Services are under some kind of softness as the discretionary spend is on the reduction. And we do expect as and when the license sales really picks up the discretionary spend, whenever it happens we will be there to really take on the market at that point of time. Thank you.

Anil Chanana: Thanks RK, hello everyone. Before I take the financial analysis, I just have two important things to tell. First is that beginning this quarter our financial results which I am going to walk you through have been reviewed by our auditors so the US GAAP numbers you are going to see have already been reviewed and cleared by our statutory auditors. Second as a matter of Corporate Governance, HCL board felt that a rotation of auditors would help us in gaining a fresh perspective and accordingly the board decided to make a proposal to the shareholder to appoint E&Y as the auditors of the company for the financial year 30th June, 2010. We got very good quality service from PwC and we would continue to consider them for various assignments.

Now I move on to explain you the profit and loss account, so as Vineet mentioned we did revenues of 630 million in this quarter which was up 25.8% YoY and 3.8% sequentially. If you look at constant currency terms it was an increase by 2.3%. EBIT grew by 26.2% YonY and 3.9% sequentially. And this growth is coming on top of 7.6% QoQ last quarter which was April to June quarter in revenue terms and 18.4% in EBIT terms. If you see the EBITDA margin we have expanded it by 60 basis point and if you look at EBIT margins we are back to where we were before the AXON and four other acquisitions we did in this period came into and the numbers got integrated. So you are seeing the margin expansion which is hidden in these numbers and those were the businesses which were highly onsite and we have been able to takeout margins and get the benefits of those synergies.

I move on to the analysis of revenue and EBITDA and EBIT. So first I will talk about the revenue where the growth came from. So there is in absolute terms there was a 23 million growth, 3.8% on quarter-on-quarter basis, just IT services it was 4.1%. Volume-led growth there was an inorganic element of 1.4 million which is 2 months of revenue from UCS which came into this. And the organic was 14.9 million which is 2.5% quarter-on-quarter. The exchange rate gave us 1.3% which was basically primarily the GBP and the Euro. And there was shift from onsite to offshore which took away 0.2% is a very marginal number.

So, essentially this quarter volume driven growth was 2.7%, 0.2% inorganic and 2.5% organic.

When we look at the EBITDA there is a 56 basis point increase, the contributing factor was the SG&A where we saved 131 basis points, the exchange rate gave us 25-basis point. However, the redundancy cost we have borne in this quarter, the mix change and the transition cost led to an impact of 101 basis points. This happened in the software business where the impact was 62 bps which was primarily the redundancy cost which we bore and the change in a mix in Infra business which is now total IT outsourcing led to the partial drop there which is 139 basis points. If you look through EBIT basis these are the same elements which are there except the increase in depreciations and amortization took away 60 basis points. To highlight I mean we did a capitalization I mean there is an increase in a capital expenditure by about 27 million in this quarter and there have been some capitalization and I am going to talk about the amortizations in a while from now.

I take you to the next slide which is the hedging, the hedge position. So our hedge position as of September end is 725 million, it does not include 90 million of hedges relating to October to December quarter which cancellations we had informed you earlier. And these hedges are at 40.60 while the mark-to-market rate which has been applied at the end of September is 48.98. All of these are forwards and we have given the mix currency wise which is primarily USD-INR hedges it is 712 million, GBP and Euro hedges of 2 million and 7 million respectively. In most of the 90% of the cases we are following cash flow hedge accounting and in 10% of the cases where they do not meet the criteria, it is mark-to-market hedging which is being followed.

This is a question which is getting asked with the volatility in the exchange market as to what is the hedge policy which HCL is following. So we have 725 million of hedges as you have seen, we get about a million dollars in inflows every year. So we have hedges which cover us for the next 12 months. The currency market being volatile we would like to restrict our hedging at any point of time to net inflows for 2 quarters. So this means my hedges should not exceed 500 million. Since already I have 725 million we have decided that we will not be taking any further hedges. And we will decide in early 2010 when we reach that level as to whether we need to enhance that position. And should we decide to take any hedges so it will continue to use simple instruments.

I will move to the next slide, which gives the other comprehensive income which is negative for us, this amount is coming down, last quarter you had seen it was 162 million this quarter it is 132 million. We have given the position quarter-on-quarter for the next 4 quarter it is in the range of 30 million plus and thereafter in October to December 2010 it comes down to 5.5 and thereafter 2.3 million. This 132 million is corresponding to 644 million of hedges where we are following cash flow hedge accounting. Then the Dollar-Rupee moves since it is significant portion of October/December hedges have been cancelled, almost half of it so there would not be much of a change in the October to December OCI figure, negative figure. However, it will certainly impact the numbers form

January 2010 onwards. So how that impact will take place, would be known over a period of time. So this OCI loss of 132 million includes 22 million which relates to October/December quarter corresponding to the covers which have been cancelled.

I move on to the next slide which gives the fund positions. If you look at our loan position in June we were at $622 million in loan, it has gone up to 786 million primarily because we raised 208 million by way of non-convertible debentures of varying maturities from 2 years going up to 5 years. And where the weighted average cost is 8.4% per annum. This amount will be used to repay the bridge finance. Bridge finance numbers which you see today is, as of 30th September you see here is 480 million. Today this number is 395 million because 85 million since 30th September has been paid back. And so we are extinguishing this loan and we have already tied up 300 million of foreign currency loan, the terms of which we are not disclosing because they are confidential. So 786 million number, which you see will reduce by 180 million so 480 of bridge finance will get replaced by 300 million of long term foreign currency loans so these numbers will be about 600 million which will be there.

Coming to the funds position, as of 30th of June we have 400 million in cash and fixed deposits. As of 30th September this increased to 568 million, 569 million primarily because of this nonconvertible debentures bond we raised. In terms of our net cash position this was 221 million negative as of June, remains around the same level as of 30th of September. In terms of the net treasury and other income this quarter you see a (-1.3) million it is lower than what it was 2.4 million last quarter, the reason is, there were some loans which were taken, some working capitals borrowing which was done in April to June quarters which were repaid during the quarter itself. However, nothing of that sort happened in this quarter and we sort of used commercial paper to bridge that gap which was at a much cheaper cost. So our returns on the investments we had, this quarter were at 8.3% lower than what they were last quarter and the cost of funds during this quarter for us came to 6.2%.

I will take you to the next slide, the receivable positions. The receivable position this quarter, the overall receivables are at 632 million they have gone up by 67 million. There is an increase of 11 million in the unbilled receivables itself. And in the billed receivables where invoice has been raised and send to the customers the increase is 56 million. Out of this 56 million there is an element of 35 million where the revenues are yet to be recognized by us. So in these cases as we said we are doing total IT outsourcing deals which involve multiple deliverable, multiple elements of deliverables where the revenue gets recognized once the last of the deliverables has been done over the tenure of the contract. So following that EITF 00-21 under US GAAP 35 million of our deferred revenues are included here in the receivables where the revenue is yet to come in the revenue line which has pushed the DSO by about 5 days. So you see the DSO excluding unbilled receivables at 73 days but it is actually only 68 days because we have done the billing but we have not recognized the revenue.

I move on to the next slide which is concerning the amortization of intangibles. You would recall that with AXON acquisition was completed in middle of December and there were intangibles of 122 million which arose because of that acquisition. Out of that 25 million has already been amortized over the last, now 3 quarters and 97 million is left, there is another exchange impact of 3 million so we are at 100 million in terms of the AXON. Other than AXON we have another 15 million of intangibles which have flown from other acquisitions we have done including the UCS acquisitions, the Liberata acquisition, and the Control Point acquisitions. So we have to over a period of time amortize 115 million, so this is the schedule for amortization of 115 million including 100 million in respect of AXON acquisition. And we have given the split quarter-by-quarter for this fiscal year and thereafter we have given it annual numbers, how much will get amortized. I hope it will be helpful.

We go on to the next slide which is the employee stock options, during this quarter options equivalent to 960,000 shares have been granted. And these grants have been done at the face value. They will entail an option charge of 5.8 million and the table is showing the chart what it will be for the fiscal year FY10, quarter-by-quarter. So this quarter which was Quarter 1 for us the charge net of tax is 3.9 million; however, this is going to go up to 4.7 million from Quarter 2 to Quarter 4. In terms of outstanding options the outstanding options as of 30th September are 4.9% of the capital. The ones which have been given below market price being at par value are 1.4% and the ones which are at market price are 3.5% so 4.9% the options outstanding, out of which below market being at par are 1.4%. The vested options are 3.8% and the non-vested which are yet to waste are 1.2%.

This quarter again we retained the dividend at one, the board decided to retain the dividend at Rs.1 per share so it shows that the dividend outplay in terms of as percentage of the net income is 23% and I would like to reiterate the dividend policies so everything remaining constant. HCL will continue to review the dividend policy against the backdrop of any material change in external environment. There is nothing material which has changed and the board has decided to retain the dividend.

This is, a very interesting slide, it gives you a snapshot of how the revenues have panned out over the last 9 quarters, how the EBITDA has panned out and how the operating income has panned out. So if you look at in July to September 2007 which is 2 years back we were at 90 million and our revenues were 428 million. We are now at 630 million, 630 were the revenues in this quarter and 143 million is the EBITDA. EBIT performance if you see other than 2 to 3 quarters in between which started from July to September we are back on growth so for 3 quarter it was at challenge rather more of a challenge of 2 quarter and then we are back. And if you look at percentages again we were at 36.8 it is a matter of coincidence and in July/September quarter in gross margin we are at 36.8. We work in EBITDA terms at 21% and we are at 22.7% EBIT margins we were at 17% we are at 18% now. And it also gives the earnings per share how it has moved. With that we will open the house for question and answer, thank you.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. At this time participants who wish to ask questions may please press '*' followed by '1' on their touchtone telephone. If your questions has been answered and you wish to withdraw a question from the queue please press '*' followed by '2'. Participants are requested to restrict their questions during the initial round of question and answer. Our first question is from the line of Balaji Prasad of Goldman Sachs. Please go ahead.

Balaji Prasad: I just have two questions, one on the infrastructure space, the sequential growth in this space has been quite impressive growing at virtually double digits, how many quarters do you think this kind of a growth can be sustainable and project can be ramped up? And my second question was on the operation matrix you are one of the few companies who have increased your onsite effort mix, is this going to ramp up in the infrastructure space or are there any other specific reasons for this, thank you?

Anant Gupta: Alright so from a going forward perspective, obviously we will not be able to share, but from a delivery and execution capability we have the engine able to sustain growth rates that we have been delivering for the last 2 quarters. With respect to the increase in the mix it is really the deal constructs which are changing, so the mix of the deals moving towards a total IT outsourcing so initially it was largely around remote infrastructure space but there is an increasing shift in some of the large deals where we obviously take on the total IT operations work which obviously involve some elements of onsite presence as well, be it fixed services and the desk side support services which is there. The second aspect is, in an end-to-end engagements we also have some portion of re-badging or rehiring of some of the clients existing IT staff so obviously they continued to retain where the service cannot be moved to a more optimal location and it is necessary to deliver it from the same locations so that is the basic reason why there is an increase.

Balaji Prasad: Okay. So would it be fair to assume that there is not necessarily because of project ramp up and KT and hence increase onsite presence and this could come down gradually in the next couple of quarters but more on re-badging of employees which would be constant?

Anant Gupta Yeah on the same ground, depending on how newer engagements happen, so that may partly offset this but yes.

Balaji Prasad: Fair enough, thank you.

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

Sandeep Muthangi: I wanted to get some more color on your EAS business, I believe the UCS acquisition is also included under that and the revenue declines during the quarter are a bit surprising is there any amount of seasonality is what I am worried about?

Ram Krishna: Our EAS business as is end-to-end so we do hire blueprinting implementation and less of application support. Seasonality to an extent does exist in this business because once some of these implementations come to an end the new implementations will take some time probably to kick off and obviously I think in certain quarters when implementations come to an end the next few implementations which will probably begin will kick off really slowly and to that extent there could be some amount of seasonality, but overall on yearly perspective I think EAS as a business is something which we see is a quite positive from an outlook perspective.

Sandeep Muthangi: Okay. And just one more comment on your gross margins piece, the gross margins in the infrastructure business despite very strong growth you seem to be under pressure is this because you are taking on onsite teams or is there any element of pricing that is there?

Anant Gupta: Just so if you remember in the last quarter we had said that there is an element of third party services on pass through revenues which is our low margin, about $7 million per quarter. So obviously that is a lower number, that obviously does impact it, partially. The mix change has obviously gone down by 139 basis points and then the savings from SG&A in terms of the scale that we are improving is 163 positive over there so it is a mixture of all of these three elements.

Sandeep Muthangi: Okay, thanks.

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

Ankur Rudra: The first question is on the big deal size, it seems you have relative softness in the last couple of quarters where the announcements have sort of reduced a bit. Do we expect them to return over the next 2 to 3 quarters A) and secondly is the decline in SG&A at a group level related to that because probably the sales bonus given out in the earlier quarters has stopped now?

Vineet Nayar: I had said in the previous analyst meet in Delhi and in the previous call that there is softness in the market when it comes to large deals. And the reason is that when October came in recession came in; there was a very large dissatisfaction with existing vendors. And the customers and the vendors were misaligned in terms of, vendors were trying to protect margins and customer trying to reduce cost, because of which a lot of deals came in the market space suddenly and there was a sea of opportunity which we were quick to spot and therefore you saw us doing a billion dollars in October/November/December and did a fantastic effort in January/February/March also I think about $500 million. Now that was then and there was an external event of recession I mean making the customer come to the market. The second important event for the customer to come to the market will be their ability to see that the growth in their own business is coming back. And that will drive the discretionary spend, you must understand discretionary spends are at their lowest end. And the big growth driver in IT industry which we are hoping would happen is when discretionary spends will come back. So if you look at the last quarter in April/May/June 80% of the companies in SMP500 indicated a negative quarter-on-quarter sequential growth. In July/August/September of the 127 announcements made so far it has come down to 67% so 80% to 67% that means 33% of the companies have shown positive sequential growth that is a positive sign, but not enough till drive large deals into the IT landscape. So I would say that unless this positive growth, sequential growth which the analyst like you are projecting to happened in some time in April/May/June and July/August/September next year happens then the next big deals would start coming out of the discretionary spend and we will see an on slot of big deals coming up whenever that visibility is available to the business, till that time I believe there would be a softness and there would be deals here and there we ourselves have signed 5 deals which we have announced by names but I think it will not be of size and scale which we have seen from October to March.

Ankur Rudra: And the second part was related to the SG&A in fact it is not related to the…….

Vineet Nayar: So there are two parts to the SG&A yes, one related to the bonus obviously people did not meet their goals, but I think more importantly is, because of acquisition there is a lot of opportunity in the SG&A rationalization as a percentage. So as absolute we are back to SG&A where we were in the JFM quarters in absolute terms about $88 million. As a percentage our revenue has grown and we have been able to rationalize that SG&A and I think that was a lever available to us on the acquisition SG&A rationalization.

Ankur Rudra: Any bumps up would depend on future deal wins?

Vineet Nayar: That is true.

Ankur Rudra: I just have one last question, if I may. Can you comment on the 100 million category of Customers going down?

Vineet Nayar: Do not see too much there, our Top 5 clients have grown 8.4% sequentially, so the Top 5 clients are performing very well and I think our surround strategy of the Top 5 plan has worked well. And we have been able to cross sell and up sell quite aggressively and this quarter is an indication of that, the sequential growth of 8.4% is very impressive, it is just the fact that customer were marginally above $100 million with now marginally below $100 million. You will also see the same statistics in customer contributing to greater than 5% at the overall revenue has gone up, this customer has gone down a bit, he belongs to the Top 5 so he has dropped off in the greater than 5% and he has dropped off in the more than $100 million, but nothing significant to report or any cause of worry.

Ankur Rudra: Thanks a lot Mr. Vineet, thanks a lot.

Moderator: Thank you Mr. Rudra. Our next question is from the line of Nimesh Joshi of CLSA. Please go ahead.

Nimesh Joshi: Anil I had a question on the receivables piece, I did not quite understand the deferred revenue part because if you have not really booked the revenues how could it come as receivables, because deferred revenues by contra entry would be increased cash on the asset side?

Anil Chanana: So Nimesh what we are doing is as follows so under the contract there are certain deliverables and there are multiple elements of the contract. So there are payment milestones so when I achieve a payment milestone I will raise a bill on the customer. However following the US GAAP which is the EITF 00-21 I may not be able to recognize the revenue at that time, I may be able to recognize this revenue at a later point of time. So this amount this quarter was 35 million which is now sitting in my deferred revenues and also sitting in my receivables. So sitting absolutely you are right, it is sitting on both side so I raise the invoice, I debit the customers and credit deferred revenues. I do not credit my revenue line but deferred since it has gone in the revenue lines in terms of number of days we are looking at receivables and we are looking at revenue but that revenue does not have to be the deferred revenues which is sitting separately.

Nimesh Joshi: No but then if it is a payment milestone then you would have received cash against it, right and …?

Anil Chanana: Nimesh I am yet to receive the cash.

Nimesh Joshi: So but then if it not revenue then I do not understand how it can be in receivables at all?

Vineet Nayar: If you take an annual maintenance contract which is one year, you will sign an annual maintenance contract for 1 year you will recognize the revenue over a period equally distributed over a period of 12 months. So you do not recognize the revenue on let us say Quarter 1 you recognize 3 months revenue, 9 months revenue you recognize as deferred revenue, but you have raised the full bill on the customer and he pays he is supposed to pay you the entire 12 months. So the only thing Anil is trying to say is that in the receivables that amount is $35 million which we have billed to the customer which the customer is supposed to pay but the revenue has not been recognized.

Nimesh Joshi: Okay, fine. And secondly on the operating cash flow I mean you showed the slide of EBIT going from 90 to 140 but operating cash flow probably in this period has gone up by only around 10%. So when do you think because while in the revenue size you might be around 40% to 50% of the Top 3 but on operating cash flow you are at just 10% on a quarterly basis. So what do you think are the things which you would need to correct to get that cash flow figure up?

Anil Chanana: So one of the line items there which is I mean is the exchange losses, the exchange as these contracts are maturing so we are realizing less monies because we had forward sold those revenues at Rs.40.50 versus the current exchange rate. So at operating levels you see the performance to be very good, however the exchange the cash flow hedge accounting losses are pulling it down, so this is on reason. And of course the billing which is taking place in this large IT outsourcing engagements where there always be a lag in terms of getting the money from the customer.

Vineet Nayar: Nimish one other thing on the receivables, one of the reasons of this receivables is higher, one is deferred cash flow explains what the quality of bills receivable is that the revenue has not been recognized but I think more important is that we are growing at a very fast clip in our infrastructure management, we grew 25% last quarter, we grew 12% this quarter. So the amount of transitions which are going on is very large. So it is true that we slipped on bills receivable follow up and getting the transition and getting the first bill off the table. The level of activity in infrastructure management is very large right now. So we will correct ourselves, I think in 1 or 2 quarters you will see us back in where we were. There is no cause of concern there is no bad debt which has not been provided for, there is nothing out there. And that is the reason that Anil said that these accounts have been reviewed. I want to assure everybody out there that you know yes we are inefficient in this quarter and maybe next quarter because we have a lot on hand and I think it is good news for us to grow at this rate. And all hands are on the debt right now, all sales guys are in delivery so you can understand when you do 2 quarters of 25% and 12% some of the things slip off.

Nimesh Joshi: Yeah that is fine, thanks a lot.

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

Sandeep Shah: Yes sir, if we just look at the software services excluding the infrastructure management the volume growth for the last 2 quarters actually has been a little muted versus the peers. So when do you expect the software services side of the large deals which we have announced till March 2009 will start coming in terms of ramp-ups?

Vineet Nayar: I am not sure, I agree with you so let us go over those numbers. So if you see Custom Applications we grew at 12.7% sequentially in April/May/June, whereas most of the peers were growing at 3% sequentially and one peer was (-2%). So we outperformed the peers in last quarter. In July/August/September our Custom Applications have grown by 6.9% which is a highest among all players. So in both quarters our Custom Applications has outperformed our peers by a wide margin. If you go by Packaged Applications again there are two of our peers cumulative over the last 2 quarters have shown negative trajectory of EAS growth, one peer has shown positive growth and we are flattish marginally negative. So we are in the Top 2 let me put it that way. In Product Engineering again if you see in this quarter in April/May/June quarter we were (-5%) all our peers were much more between 7% and 12% negative. And in this product engineering we are the only people who are flat, everybody else has de-grown. So you know so I do not know where you are getting your numbers, but …

Sandeep Shah: No sir, what I am saying is based on the man months which we report and on the volume front this time it post 0.6% growth and the last quarter was a 0.1% growth and this time even I believe the man months build we include even the UCS man month bills?

Vineet Nayar: So my belief is that the Enterprise so there are mixed of businesses which are so I answered your questions on publicly available data and relative to the market now let me talk absolute with HCL. Absolute with HCL there is a de-growth which is happening in Engineering Services and in Packaged Applications as you have seen and that is being compensated by the Custom Application so that is the balancing act which is happening there. So the total IT outsourcing deal is part of the Custom Applications which is the reason that our IT services is not de-growing but positively growing.

Sandeep Shah: And just on the IMS we have also said in our initial presentation that though there are 10 new clients being added and only two being announced so you believe the new clients' ramp-up of these new deals which we have won in this quarter is likely in the coming quarters?

Anant Gupta I mean normally the time between taking a contract and getting into steady states range anywhere between 4 months and 6 months depending on the size so based on that logic you can predict on those revenues with likely comment.

Sandeep Shah: So on the highways on the infrastructure management, do you still believe that the growth is likely to be positive in the coming quarters?

Vineet Nayar: I think he mentioned 10 deals he did not mention the size of those deals, I would like to reiterate that there is no material and although we have announced deals, if there were material win and we could have announced it. Material means the same size of OND and JFM we would have let you know. He is talking about the fact that there are clients' wins and we are moving inside the doors of many clients and therefore he is not making a comment of sustainability of these growth rates.

Sandeep Shah: Okay, but at least the growth maybe positive that is what we believe on the coming quarter?

Vineet Nayar: For infrastructure management yes.

Sandeep Shah: Okay. Just last thing on the wage like peers have started announcing some kind of wage inflation and we are running on a tight bench so what is your outlook in terms of wage inflation as recruitment going forward?

Vineet Nayar: Sorry, I should have announced that, so we have taken a decision to announce a salary increase effective 1st of October, the salary increase is going to be based on performance, skills, location and the business the unit performance. Base on this we have classified our employees in 12 buckets the increase is between 0 and 10%, so it is not as simplistic as onsite versus offshore so it is 12 buckets. The total impact on the company is going to be

130 basis point for the next 2 quarters which is the impact on the margins which is our estimates. With higher impact on infrastructures services because we would have ended up giving more increases because of the high growth and lower impact on the software services, so you would see 200 bps impact on infrastructure and about 100 bps impact on software so overall about 130 bps impact for the next 2 quarters.

Sandeep Shah: Okay, thanks.

Moderator: Thank you Mr. Shah. Our next question is from the line of Srinivas Sheshadri of RBS. Please go ahead.

Srinivas Sheshadri: I wanted to understand the amortizations as you were talking about the numbers for this quarter end have been substantially high performance for this quarter, just wanted to understand what is driving this?

Anil Chanana: So Sheshadri, whenever an acquisition is done there is a goodwill element and there are intangibles. Intangibles could be customer relationships, it could be various other elements following the US GAAP. So it could be brand, it could be I mean N number of elements which are there. So we segregate that and then we have to agree on certain I mean this is the exercise which is done by a valuer, independent valuer whose sort of states that this is the period over which the useful life of each of these intangible is likely and then these are amortized. So we had done this acquisition of AXON in October to December quarter which gave rise to intangibles of 122 million, I am not talking about goodwill this is other than goodwill. This figure of 122 today is 100 million as of 30th of September. In addition there are another 15 million of intangibles which came through other acquisitions which have been done over a period of time. And what I have put forth is a schedule in the interest of transparency we sort of keep on telling the street how the impact are going to pan out. So we thought this is an important item and you should know how the impact is coming. So this quarter you say 8 million impact October to December quarter you will see another 8 million and then it will come down to 4 million from January onwards and probably it will continue for a couple of years and then it keeps on declining, marginally declining. So over a period of time these will get written off.

Srinivas Sheshadri: Okay. Sorry just to understand that further, are you saying that I mean at least as far as the AXON acquisition is concerned, there is no increase in the total amount to be written off it is just that the period probably has changed over which it is to be written off?

Anil Chanana: No the amount has not changed, the period has not changed. The AXON part was 122 million when we started out of which 25 million has been amortized, 3 million came because of exchange impact so it became 100. And 15 are the other acquisitions. So total is 115 which is there in our balance sheet as of 30th of September. So period has not changed and the figures have not changed except for the exchange impact which is 3 million.

Srinivas Sheshadri: Okay, alright. Secondly just wanted to understand Vineet basically we have shown fairly good growth in the BFSI vertical so just wanted to understand what is driving this in the past 2 quarters, is it mainly infrastructure services or something else or maybe come M&A kind of thing which is propelling the growth?

Vineet Nayar: No there is no M&A in BFSI, BFSI is largely custom applications there is an infrastructure play in BFSI but not material. It is the fact that we won a lot of new clients in financial services in October/November/December and JFM which did not qualify to be announced because they were not big deals, they were what I call MSAs they have started resulting in revenues. So we are in financial services winning, we are entering those because of vendor consolidation and there is a significant churn in vendors which is happening and fortunately HCL is on the positive side of the churn, that is what is driving the BFSI for us.

Srinivas Sheshadri: And how do you things look like going forward on this vertical?

Vineet Nayar: I think the overall pessimism in the vertical continues to be there, I think only way we will grow this vertical or the other verticals is to take market share away from somebody else, unless the discretionary spend comes back which right now I am not seeing any indications of it, yes we have seen you know some of the deals we have won with discretionary spend oriented but they are not material indicators, till that time comes in I think the only way to grow is to take the business away from somebody else I do not see any other way for it to happen.

Srinivas Sheshadri: Okay. And based on the MSAs which we have contracted in the past 2 quarters do these result in further growth from there or is it like a one time transition which is already up and steady pace?

Vineet Nayar: No these are MSAs which if we do well they will grow.

Srinivas Sheshadri: Okay. And lastly just a small data point, just wanted to understand what are the pass through sales in US Dollar terms in the infrastructure services this quarter and the previous quarter?

Anil Chanana: What we have given is in terms of the last quarter was 7 million if I remember correctly that figure, but it is not so much of a pass through sale, since we are taking on the complete responsibility…

Vineet Nayar: It is like that that if we host the data center for our customer and we subcontract the data center to sun guard and that is what we treat as pass through revenue. I think it continues to be around 7 million. Yeah it has not changed from last quarter.

Srinivas Sheshadri: Alright thank you.

Moderator: Thank you Mr. Sheshadri. Our next question is from the line of Harmendra Gandhi of Nomura. Please go ahead.

Harmendra Gandhi: Just wanted to ask you one question that while we have done a good job of outperforming the peers in the past few quarters, of late in last two quarters at least the peers have been reporting very robust pipeline and deal flow while we have been saying the deal flow for us has been weak. So you are saying that what worked for us in the past may become a kind of hindrance in the next few quarters?

Vineet Nayar: It could, it is interesting that I agree that the commentary of the peers is different to our commentary and we have always tried to say what we see in the market space and this is what we are seeing in the market space. I think the results, as these commentaries translate to results we will discover whether there is something wrong with our business model don't think it to be but we will have to wait and watch. There is a difference between commentary and the delivery of numbers.

Harmendra Gandhi: Okay. And do you think the market condition is more right for mining of large client kind of growth instead of doing some large new deals?

Vineet Nayar: See I think, this is the same point which was asked to me in October and the premise at that particular time was it is easy to mine the customer and because HCL business model is based on new customer acquisition therefore the growth in HCL is going to be smaller or slower than growth of people who had good customers. And I had said the same thing at that particular time you know that is not the way the market behaves. The way the market behaves is that suddenly you were open to all customers, existing and new everybody was looking for value from existing vendors and were looking for new vendors. Although we announced big deals but actually what was happening the market I continue to say that there was I) Large IT transformation deals happening and 2) There were lots of new vendor consolidations which were happening. So the revenue growth you are seeing till last quarter was thanks to the total IT outsourcing deals which you saw. I think a lot of revenues you have seen in this quarter and some of it in the last quarter also is also because of vendor consolidation. So therefore to say that mining is the better way of going forward, I am looking at 4 quarters ahead, I would say that we have to fire all segments in this very tough market. If you really see that almost all IT services companies have de-grown and especially when we look at the global majors they have de-grown by $2 billion and $4 billion obviously that revenue is going away to somebody else and it is very important for us to keep our eyes sharply focused on that revenue and see what percentage share of that de-growth revenue can add to our growth. And that would mean expanding an existing customer if that is an opportunity, existing customers or going after new client names. And if we miss the bus I mean I would give you an HCL perspective I think it is a 24 month window, which started last October. In this 24 months if we get inside in enough doors either because of infrastructure or enterprise application or BPO or through vertical dominated strategies I think then after that what you are saying is absolutely right in terms of after that you sit and expand. So if you look at the period from 2005 to 2008 the growth was largely driven by existing customers, you are expanding an existing customers. The growth from 2008 to 2010 there is a churn in the market space where vendor consolidation, new vendors are coming inside the door. And I think 2010 to 2015 one of the factors which will drive growth is whether you are inside the door or outside the door and our attempt in HCL is to get inside as many doors as possible.

Harmendra Gandhi: Okay. One more question on BPO when do you will return to growth kind of scenario and how confident you are that that growth will be industry leading growth?

Vineet Nayar: Right now most of the growth coming in BPO is acquisitions lead growth by our colleagues in the industry. And therefore to say that HCL growth is not industry leading growth, I may not agree with that, but it does not mean that we are happy with our BPO, I do not think we are at all happy with where we are. And I think we are not happy because we had taken a decision of moving away from contact center business to a platform business and we have indicated that it will take us 2 to 4 quarters to get there. So I think you will see BPO back in business in the next financial year not in the current financial year, because we will have to do investment in the re-platforming which we are doing we have to get the go-to-market exercise well established which is not the contact center sales team but more domain centric business services sales team. So there are a lot of changes which we need to do, which we are investing in for the last few quarters and we will keep investing in for the next 3 quarters. So I think you should expect BPO to do industry leading growth rates in the upper quartile of the band starting next financial year.

Harmendra Gandhi: Okay, thank you very much.

Vineet Nayar: And it is 9% of our revenues so it is not the A category item which we are chasing, because we report it separately you are seeing it that way but in our mind there are in the 91% engine also there is a lot of emphasis going on in the 91%.

Harmendra Gandhi: Okay, thanks Vineet.

Moderator: Thank you Mr. Gandhi. Our next question is from the line of Nitin Padmanabhan of Centrum Broking. Please go ahead.

Nitin Padmanabhan: This was with regard to the direct cost, I think we have seen an increase in direct cost despite the decline in headcount in core software and we have seen direct cost increase right across the board, why is that, considering we have not given salary hikes, is there anything specific?

Anil Chanana: As I had mentioned actually you may not be there at that time, there is an element in software and infra, in software it is basically the redundancy cost etc. which have been bourne by us as part of the customer arrangement which have lead to the impact of 62 basis points in software. And infrastructure is basically the mix of the business and the transition cost, the re-badging which happens, the desktop support which happens so all those sorts of things have lead to 139 basis points. So these are the two factors which have lead to the …

Nitin Padmanabhan: So going forward into the future quarters that should come off, this is a one of thing?

Vineet Nayar: No the software is one off, the infrastructure will remain.

Nitin Padmanabhan: Sure. And in terms of SG&A per se, is it that we should be comfortably able to maintain at these levels?

Vineet Nayar: I do not want to guide on SG&A.

Nitin Padmanabhan: Sure, fair enough, thank you.

Moderator: Thank you Mr. Padmanabhan. Our next question is from the line of Balaji Prasad of Goldman Sachs. Please go ahead.

Balaji Prasad: I just wanted to understand your utilization rate, it seems to be quite high at around 76% could you link this to your future campus adding plans and the demand outlet that you are seeing?

Vineet Nayar: The first is that our utilization excluding trainees is actually unfortunately not at the upper quartile of performance, our peers are doing much better utilization compared to us if we exclude the trainees so that is the first comment. The second comment is we changed the business model in October last year and not focusing on campus and freshers. So the last batch of freshers about 800 people are joining us next quarter, the current quarter which is October/November/December after that there is no outstanding freshers who would be joining us. So we have adopted a just-in-time hiring at least till June of this financial year which what it does is it increases our direct cost, it increases our average cost per employee but we are hoping that we would be able to make it up by utilization improvement, utilization means you do not have to train the fresher, you do not have to hold him for the bench and things like that. So that is the policy we have adopted so there is no big campus offers pending.

Balaji Prasad: Okay. And in terms of future just in time hiring how do you link it to the demand output that you are seeing?

Vineet Nayar: I think we have not give any guidance of what we are going to hire, we did I think about in IT services significant amount of lateral to hire, lateral hires we are available in 5 days now and therefore we are focused on just-in-time hire, our hiring machinery is pretty good we have done biodata scanning, we do interviews, we keep the people ready, ready to move in 5 days so that is you know we are moving closer and closer to just-in-time so projecting manpower hiring is not one of the big things in running the company in HCL because we have converted that instead of projection it is just-in-time hire.

Balaji Prasad: Fair enough, thank you.

Moderator: Thank you Mr. Prasad. Our next question is from the line of Nirav Dalal of Almondz Securities. Please go ahead.

Nirav Dalal: Yeah sir can you just tell me the revenue contribution from AXON this quarter?

Vineet Nayar: We have integrated AXON in enterprise application services and we are declaring enterprise application services only.

Nirav Dalal: So no specific contribution from AXON that you are declaring?

Vineet Nayar: True, we are not declaring.

Nirav Dalal: Okay. And one more question on if I had missed out, what sort of FOREX loss do you expect for the next couple of quarters?

Anil Chanana: So let me answer this, this was covered in the presentation which I walked through, but I will sort of tell you once again. We have 131 million of negative OCI sitting on our balance sheet which was to pass through the P&L account it does not impact the shareholder's equity. And that will be almost equal over next 4 quarters. So you can assume $30 million to $32 million every quarter.

Nirav Dalal: Okay, fine thank you.

Moderator: Thank you Mr. Dalal. Our next question is from the line of Sangam Iyer of Alfa Accurate Advisors. Please go ahead.

Sangam Iyer: Yeah sir could you just give some clarity on the deal pipelines that you are looking at and any large deals on the various verticals that are there?

Vineet Nayar: I had commented earlier that the deal pipelines are soft in April/May/June in July/August/September and the environment for at least what the HCL is seeing is that it is a soft deal pipeline and there is no specific guidance I can give you in number of deals we are chasing. Other than the fact that if the deals appear HCL will win its share of them…

Sangam Iyer: Okay. Since I joined a little bit late, would this be the primary reason that we are sounding a bit more cautious this time around as against last quarter when we had reported?

Vineet Nayar: We have always sounded cautious; our numbers have not sounded cautious.

Sangam Iyer: I agree but I mean this time around it is a bit more cautious as against the last, so that is why I just wanted to understand the reason, is this more related to the softness of any particular vertical or something which you are looking at or is it in general that we are more this thing, after the two strong quarters that we have had?

Vineet Nayar: So first is from an environment point of view I am more positive now than I was a quarter ago. My throat is not that well so maybe that is the reason, that is number 1. Number 2, yes after two strong quarters, the challenge is on you. You know they have been spectacular quarters it is difficult to maintain the same run-rate. And therefore we hope to still to see this on a LTM basis rather than a quarter-on-quarter basis we will see how the quarter goes, but there is no point of being very bullish and then having you know one quarter it goes up and one quarter it goes down, I think the market conditions are there for everybody to see they are concerning. And in the market conditions you are winning by market share then sometimes you win sometimes you may not win. So there is an uncertainty out there and at HCL we believe that we will honestly share that uncertainty at the same time our track record of performance should give you comfort that, if there is somebody who can win HCL should be in that quarter of people who will win.

Sangam Iyer: Okay, thanks a lot sir, all the best.

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

Ankur Rudra: Yes just, apologies for raising this point again, I was commenting on the gross margins on the incremental business won in infrastructure services this quarter leaving the pass through revenues aside, they seemed to have come at 23% is that one off because you said you expect the margins to remain constant, you mean the incremental margins remain constant or BU level margins?

Vineet Nayar: I think what we are saying is the EBITDA margins or EBIT margins of infrastructure would remain at the current quarter level other than the 200 basis points drop which they would see for the next 2 quarters because of salary increases.

Ankur Rudra: Which is getting back on the gross margins point, I am just trying to understand why the gross margins seems to have shrunk so much specially on the new business wins?

Vineet Nayar: So what has happened is in the total IT outsourcing if you re-badge the employees and the revenue comes in, but it comes at a lower margin. And then you pay for the re-badged employees that you know till the offshoring takes place the margin will remain contracted, because you have used them for transition. So in any outsourcing deal you start with a lower margin in the front-end and you start with a higher margin to the back-end because the customer gets savings from day 1 but your ability of squeezing the margin out improves maybe after 12 months.

Ankur Rudra: Okay, fair enough, thanks so much.

Moderator: Thank you Mr. Rudra. Our next question is from the line of Pinku Pappan of Nomura. Please go ahead.

Pinku Pappan: I just had two questions, when I look at your public utilities vertical there seems to be some weakness there, could you just comment on which geographies you are finding this weakness and how long do you think this will happen going forward?

Vineet Nayar: So you are right, these are Greenfield projects in public utilities which are coming off, that means they are coming to an end and they are not getting replaced by new Greenfield opportunities in public utilities. This is largely happening in Europe so it is coming from Europe and largely contributed by enterprise application. So if you want to isolate the enterprise application de-growth it is actually public utility Europe focused.

Pinku Pappan: Okay. So but new growth in this vertical, do you see that happening?

Vineet Nayar: So we have won a very large deal in the enterprise - energy utility vertical, which is the Energy Future Holding and there is one other deal we have won, I am not sure we have announced it. And I think the revenues are kicking in December or November or one of those two. So maybe not next quarter but maybe in January/February/March you will see this segment to be performing well.

Pinku Pappan: Okay. The next question is on your entire loan book what would be the average cost of that?

Anil Chanana: Average cost of debt is for this quarter which is July to September quarter is 6.2%.

Pinku Pappan: And this is post the restructuring or is it, so after the restructure how much it is going to be?

Anil Chanana: Since, the portion is yet to come into our books and it is still confidential. I think you can assume 6.2% for the time being.

Pinku Pappan: Okay, thank you.

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

Vineet Nayar: So thank you everybody for joining us and staying up again we over ran the 60 minutes we have allocated, I hope you have liked the transparency and the openness with which we have shared the data with you and look forward to your active support. We are available to answer any questions you have and look forward to talk to you next quarter. Thank you so much. Bye-bye.

Moderator: Thank you gentlemen of the management ladies and gentlemen thank you for choosing the Chorus call conferencing facility. Thank you for your participation and you may now disconnect your lines. Thank you.