



# “HCL Technologies Q1 2013 Results Conference Call”

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**Moderator**

Ladies and gentlemen, good day and welcome to the HCL Technologies Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call please signal an operator by pressing '\*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Vineet Nayar, thank you and over to you Sir.

**Vineet Nayar**

Thank you so much for participating in our Quarter 1 Conference Call. I am joined with my management team, Anil Chanana – the Chief Financial Officer of this company, Anant Gupta – President and COO of the company, Rahul and Steve Cardell- our business heads of two divisions and I am also happy that Prithvi Shergill -- our Global Head of HR has also joined us in the call today.

I think this quarter is an interesting quarter for us in quarter 1. Our revenues have grown by 3.2% in actual currency. Actually in constant currency it is 2.9%. Year-on-year it has grown by 13.9%. The reason for this growth has largely been driven out of the 2.5 billion deals, which we did in October to March and a lot of that had flowed in into our on-site revenues and a lot of that on-set revenues because of the smooth transition has moved to an offshore revenue, and therefore you see a volume growth of 4.5%, which is quite impressive and this is against the 3.4% volume growth in the last quarter. So, on a LTM basis we are on 15.9% volume growth and 13.9% revenue growth. Infrastructure Services is leading the sequential growth of 10.3%, BPO by 4.8% which basically shows that BPO has turned around as we had promised to you.

Custom Applications has bought 70% of its businesses, 30% business is transformed and therefore the ITO deals helped the custom application grow pretty fast. However, because of the muted discretionary spend in the custom application space, the overall quarter sequential growth is 1.6% and on a LTM basis 13%. Engineering and R&D services on a LTM basis has kept its head above water at 16.4% and sequentially it was a bit muted at 0.3%, but I think they will grow pretty well. Enterprise Application is the team which is facing the maximum headwind and a huge amount of variability on quarter-on-quarter, so they have done a phenomenal three quarter growth in the last three quarters and this quarter they have de-grown by at about 2%, however, overall they are at about 12% year-on-year growth on a LTM basis, which is pretty good.

On the vertical side – obviously Healthcare was a very big focus area for us where we had put in a huge amount of emphasis on growing. That is growing and we had also talked about the micro-vertical strategy to by far dominant position in some of the verticals, which is the reason you are seeing Retail and CPG grew by 10% sequentially. Media Entertainment grew by 7% sequentially. The interesting story this quarter has been the Financial Services growth. The Financial Services growth at 3.6% in constant currency and 4% in regular currency is indicating what I had be talking about, is that the vendor churn is taking place, and because of the vendor churn, there is an opportunity even in the Financial Services through increasing market share to be able to grow, which we are seeing increasing times of happening and we see

that only increasing. We see that going up. Manufacturing 0% growth rate is an indication, I mean, if you look at the last 12 months; it is a 17% growth rate. Now Manufacturing is a very important segment for HCL, however, it has to be split in two parts, one, most of the engineering and R&D services come from Manufacturing. Because of that if engineering and R&D services are muted in performance, that impacts the Manufacturing vertical. If you take the Manufacturing outside the Engineering R&D services, engineering R&D services, if you remember is largely discretionary in nature. Manufacturing is seeing a significant amount of ITO deals and therefore that part is growing pretty well. Similarly, the Manufacturing also took a beating because of the enterprise application services de-growth in Manufacturing. So the ITO part of Manufacturing, existing customer expansion in Manufacturing did extremely well. The Engineering part of Manufacturing was muted and enterprise application services in Manufacturing de-grew. But overall, with 17% year-on-year growth rate in LTM YOY, we continue to be confident. Manufacturing is dominant, where HCL is in a dominant position, is not showing any peculiar signs and therefore there should be no worry, which you should have about the Manufacturing under performing, just the fact of discretionary versus, run the business and that is the number you are seeing out here. Energy and Utility is not doing very well, it is still cyclical, both on year end and Telecom is both cyclical both on the year end and on this quarter.

The geography is where I think the maximum interest you would recognize that the 17% year-on-year growth on a LTM basis both in Americas and Europe is largely because we shifted our focus from rest of the world and decided that the churn, which we are seeing in America and Europe is larger than we had ever seen before, and therefore we were pursuing market share last year when we talked about the last financial year. That is the reason we are doing extremely well in America and Europe at the cost of the rest of the world, which we are okay with and which is also one of the reasons that the service mix is changing and America and Europe tend to be higher margin markets compared to the rest of the world, which has its impact on the margins also, which is what our focus was, because the rest of the world we can any day gain relevance when we wish. In the rest of the world also, in our chosen market and chosen service area, we are doing pretty well, but there are certain markets and service lines where we are de-focused in the rest of the world at the cost of focusing on America and Europe because the skills availability in those service lines is lesser and we put our best and brightest in America and Europe. So America grew 4% sequentially and Europe grew 2.7% sequentially, is the result of that strategy. If we now look at a little longer term trajectory on this, I am going to talk about some numbers which do not exist on the slide to try and make a point. First is, you look at the revenue trajectory growth of HCL, in October-November '11, we grew sequentially by 2%, these numbers are not on the slide. We grew by 2%. In JFM 12 we grew by 2.5%, in AMJ '12 we grew by 3%, and in JAS, we grew by 3.2%. So our trajectory of growth is only increasing, 2%, 2.5%, 3%, and 3.2%, that is the first point. The second point is when you look at the EBIT margins of HCL, in JAS '10 EBIT margins were 12.9%, by JAS '11 we took it to 14.3%, so that was about 140 basis point expansion in the EBIT margins. From 14.3% we have taken it to 19.4% that is almost a 500 basis point expansion. So, if you see HCLs performance and margin on an 8-quarter basis, we have moved

from a 12.9% to 19.4%, obviously this has some dollar benefits in it, but it is a significant margin expansion.

On a net margin basis in JAS '10 we were 8.9% of margin, by JAS '11 we went to 10.7%, that is about 200 basis point expansion and from 10.7% in JAS '12, we went to 14.5%, again almost a 400 basis point expansion, 200 basis points and 400 basis points.

Now the question is, how did these margins expand and what will be the trajectory of the margins in future. So, one of the reasons the margins went down and if you go over the transcripts of what we had talked about right in the beginning of our change of strategy, we had said that we are seeing the churn market suddenly increase, where only 5% of the orders used to change hands, and we suddenly started seeing that 5% becomes 15% and then 15% become 30%. The total IT outsourcing market size increased. We saw an opportunity and therefore we started forward investing in this market. Now when you forward invest, you increase your SG&A, you increase your pre-sales cost, you increase your direct cost and have more direct people on site. Because transition costs are largely done on site and you cannot have, especially because of the visa issues, you cannot be flying people from India, and therefore you create a bench on-site which takes care of the initial knowledge transfer and transition and therefore the margins in the initial part of the 8 quarters reduced and that is what you saw going down. However, as these wins came in and as we started executing, the margins should have expanded, however, we peaked in our wins in October-November-December, and therefore the margins of the older deals had expanded, but because of the fact that we were doing larger churn of newer deals, we were making higher and higher investment, and therefore the expansion of the margins by JAS '11 or by October '11 was only 200 basis points, actually it would have been more because we would have won more. By JAS '12, because we said that we are going to put our head down and execute flawlessly on the deals, which we had won, you are seeing a significant margin expansion coming in.

So the margin expansion has come because 1). It is a cycle that the deals when they go into maturity, the margins automatically expand, which also proves the point, which I have been saying right from the beginning that the deals have to be sold at pretty good margins, so the excuses which sometimes we hear in the industry of the fact that HCL had sold on price is incorrect predominantly because otherwise you would have not seen the margin expansion. The reason you see utilization improvement in this quarter is because we had upfront hired people because we wanted to do a good job in executing these deals and therefore the execution of the deals happened at the cost of utilization so our utilization went up. We executed that deal and therefore the margins improved. So the margins improved because larger off-shoring of the deals, the lowering cost of transition and presales, and also improved because of utilization going up.

I will talk about going forward a bit later, let me first talk about some of the other trends in this quarter. Now, if you look at this slide. One of the things which we were very focused on and criticism of HCL business model was correct, that we did not have quality customers, and therefore it was very important for us to penetrate the market and get into quality customers so

that we can up-sell and cross-sell very systematically. So the very fact, you see in JAS '11 to JAS '12, we move from one \$100 million customer to \$500 million customer is the success of the 8-quarter strategy, which we adopted. Same as 37 to 49, \$20 million customer, the movement towards high quality Fortune 500 customers, 67% of our wins over this period have been in the Fortune 500 category. That is the reflection of the fact that the quality of customers is going, and now that we are inside these customers, we have the ability of plucking out the low hanging fruit on the additional cross selling and up selling and wherever the change in business and transformation budgets come back, I think HCL will find it easier to grab that market share because we are already inside the market.

Now let us talk about the future in terms of where are we going and how the market is moving. I think it is important for us to look at some of the TPI data and then we will give you our interpretation of what exactly is happening. I am sure you have already seen this data in terms of, which is talking about that \$41 billion, got transacted in the renewal market, which is the area of our focus in H1 and \$61 billion is going to be transacted in H2 and therefore October-November-December is going to be quite big in terms of the deal flow and therefore we have moved our resources into hunting in a very big way and therefore hopefully, October-November-December we should see a lot of deal decisions. Whether HCL wins it or not, is a separate item. Our current win ratio in this quarter was 51%, just for your information and therefore one of the things which HCL has done extremely well to develop over the last few years is a very good algorithm of choosing the deals which we chase because with a win ratio of 51%, our return on cost of sales is extremely good and I think we are amongst the best in class in the world on choosing the deals. So the one positive trajectory is 41 to 61, another positive trajectory is that 2013 is even going to be a bigger renewal market, and 2014 is also not going to be bad, so if we are focused on renewals, we definitely see a line of sight for the next two and half years that, you know, there would be enough for us to win and grow as long as we keep a comparative advantage, but the more interesting slide out here, is where is the churn happening and Infrastructure is dominating the churn. So one of the reasons that Infrastructure is growing very fast in HCL is that a) We are amongst the best if not the best in Infrastructure outsourcing, but also that the maximum amount of churn is happening in the Infrastructure space and the least amount of churn is happening in the ADM outsourcing space, where the vendor consolidation is the name of the game rather than total IT outsourcing churn. So, therefore Infrastructure is leading the way in the churn market followed by full ITO, followed by BPO. When you look at the BPO number, I hope you understand now why it was important for us to re-do BPO away from voice BPO into a business services BPO so that we can participate in this market. So when we said BPO is going to be a very important element in our strategy, we were looking at this slide and saying Infrastructure we have, full ITO we have, we need to get a fix on this \$58 billion market and as long as we have, then we have a substantial amount of the market covered.

Our line of sight is good for the future because of 1) The markets which we are focused on seem to be pretty big in size. 2) Where the market is happening continues to be our area of strength. 3) We are inside some very good Fortune 50, Fortune 10, Fortune 100, and Fortune 500 customers where cross sell and up sell especially on CTB is quite a possibility, so that is

one of the reasons I think from a revenue point of view, we seem good. In addition to that over the period of the last 4 quarters we are productizing what we call our change the business initiative because in our view in HCL, change the business is going to not come back with a bang for many, many quarters, at least the next 6 to 8 quarters, and therefore if we can productize and focus on only a few initiatives and sell them only to existing customers we believe that we can get some more traction going into the CTB business, this is outside the big CTB, which Steve will talk about, which we do in the AXON space, in the ERP Business Analytic space. Cost structure, Transformation, Consulting, Mobility for Multi-Channel Capability, Big Data Analytics, Sales and Marketing, Digital Enablement. So, we have short listed ourselves down to fewer productized packaged offering, where we can guarantee return, guarantee the cost of implementation, guarantee the business benefit, which will uproot the customer and therefore we are hoping through this we will be able to drive CTB.

One last piece of information I wanted to share with you, is the fact that we have collaborated with Information Week, to honor some of our customers and they participate in a competition and you would see that the people who are best in business transformations, the Royal Mill Group is where we did the SAP work, we were the finalists, and Hewitt was No 1 and McAfee was the best in IT transformation. **CEVA Logistic** was the best in operational excellence, best in enterprise services was **Purdue Pharma** , and the finalist was Dr Peppers so all these are HCL customers, both the winners in these categories and the finalists in these categories are HCL customers and this is one way of recognizing the best. These are best in class HCL customers in these respective categories, and this is one way of recognizing our customers and this again demonstrates how our customers are participating with us. Going back to my original statement, which I was talking about from a margin point of view, I believe that at HCL one of things which Anant brought to the table was a huge amount of focus towards industrialization of delivery. Anant, if you remember, took over that work a year ago, and we believe that not only do we need to create a wow and a zero defect execution for our customers, so that our customer satisfaction continues to be number one, but we believe that we are not number one in utilization. We are not number one on leveraging our G&A, and we are not number one on, facility management and leveraging our facilities properly that goes into the direct cost, and we believe there are lots of inefficiencies there because there we have small offices, not big campuses, so there were lots of what I call inefficiencies and we were not best in class there. Where we are best in class is the return on investment on sales and marketing, best in class in creating experiences for our employees and best in class creating experiences for our customers. So, given this agenda, I think there is a significant movement which we have made towards utilization enhancement. However, I still think we believe there is still an upside which we would like to drive higher utilization, better pyramid ratios, better fresher absorption, and that is the reason, you know that the Nagpur campus is coming in. So the whole industrialization of delivery initiative, which we shared great details with you a few quarters ago, which is a charter, which Anant started a year ago, has started resulting into margin expansion, but we are not done with that yet, and you will see those are the levers we will use to overcome some of the headwinds which we see going forward. Headwind in terms of salary increases, which are coming in October-November-December. The shut downs, which are coming in October-November-December, and some of the large wins, which we

hope to track in the coming years, and give us the ability to invest in those deals to gain into newer and newer customers. So Anant, obviously as you know, is President and responsible for all service lines, but he is just going talk about Infrastructure today, but he will be very happy to answer all questions you have on all business lines.

**Anant Gupta**

Thank you Vineet. As Vineet just mentioned on the optimization or the industrialization of that, that is a separate chapter and not something that I am talking about today. It is largely partially evident in the margin expansion that we have seen in the quarter. Focus of my update to you is really on the Infrastructure management services; the quarter one revenues for the business grew very healthy by 10.4% sequentially to \$295.8 million. EBIT also tracked well. EBIT grew by 10.9% on a sequential basis. A lot of this is obviously is translation as Vineet mentioned of the significant contract signed between October 11 to March 12<sup>th</sup>, which has moved from transition into a steady state and are in different phases of productivity enhancement as they move along. I thought it would be useful to kind of spend a few minutes on what some of the growth drivers and market share movements for us looks like. So, if you look at our pipeline, it quite significantly tracks the market momentum, which is there in the total outsourcing space of the IT outsourcing space. As we saw in the previous chart, there is a significant portion, which is stand-alone Infrastructure deals plus there is a significant portion of integrated ITO deals, our pipeline continues to track the reflection from TPI with respect to the H2 potential which exists. So obviously the next 60 to 75 days is a very critical period, but you know given that these are significant contracts, decisions would get done a week ahead or a week after, but the fact is that given the renewal market, we are fairly confident that decisions will be done and with the win rates that we have demonstrated in JAS, as long as we continue with that, we should win well and book well for future growth. Another interesting trend that we are seeing is, if you look at the new deals, the net new deals that we have signed, 80% of that came in from Fortune 500 or Global 2000 customers, so it is an interesting trend where very large corporations are looking at change decisions between their incumbent suppliers and new suppliers in this specific space. The third critical area is really the data center services. We have seen a 20% increase YOY and that is a specific space from a market share perspective within our portfolio and today 60% of the Infrastructure engagements that we have, do have a data center management services as one of the components. From a demand perspective, the economic challenges continue to constrain the budgets available, so our philosophy of unlocking savings or capital from RTB continues to be a useful strategy which is helping fund some of the low hanging transformational or CTB engagements, which are getting clubbed along with traditional IT outsourcing engagements. We do see, you know, an increasing component of private cloud enablement in these engagements, so really fueling the demand for a strong architectural transformational capability combined with the cost optimization strategy with customers are now looking at when they are renewing their contracts for the next three to five years going forward. The second aspect about a multi-sourced eco system, that is something which we have always been saying that, customers would continue to look at best of these players in different components and try to break the complete RTB stack into components so that they can get the maximum mileage from different suppliers. We continue to see that and our strategy of partnering with an eco system provided which is something, which we have been doing for the last 4 years, continues to be a key

reason for us winning in this space, for example on the rack and file data center space, or third party on poll support services, and like that, which we kind of pretty much partner with an ecosystem of global players in the market. Finally, an increasing trend, which is around greater skill in the game. So customers are expecting a greater skill in the game with ensuring that transformation does deliver. The transformation value that they are supposed to, so they are getting combined along with the ITO engagement, which works well, given our balanced portfolio of services that we have. From our recognition perspective, we got recognized by Gartner once again in the previous quarter, almost pretty much most of the sub stacks of Infrastructure. So we are leaders in the data center outsourcing space, desktop outsourcing space, head desk outsourcing as well as Infrastructure utility services for North America, and we continue to be the only IOP in help desk and desktop services in the leaders quadrant. Another area, which is largely around thought leadership and conversations are not very large from a revenue perspective, but a trend which we believe would become more significant as we go along is the Enterprise, Mobility, Analytics and Cloud Computing space. Zinnov has recognized us as the leader in that space where we obviously engage with customers in either developing private cloud or in conversations around enabling them on these specific areas. Vineet did mention about the 26 winners who had the honors, so I will skip through that. With that I will give it to Steve Cardell who will walk you through Enterprise Applications Services.

**Steve Cardell**

Thanks very much Anant. So as Vineet mentioned at the beginning, EAS, had a good strong three quarters of growth and most of the growth during those three quarters came from winning new global consolidation and deployments projects. At a time when most of our competitors were posting de-growth in the market, we continued to grow and establish long term projects on the basis of that. We saw in this quarter a small de-growth of 1.6% and that primarily was due to the layer of smaller discretionary projects that sit around the larger programs of work that we undertake. So, what I mean by that is projects that are typically in the 100,000 to \$1 million category, which makes up about 15% of our revenues each quarter that sits around the large programs and certainly what we have seen this quarter is a tightening of budgets around those pure play short and discretionary projects and we see that trend probably continuing for a few quarters as we see capital budgets being constrained down. So we will talk about the drivers in the market. This core momentum of global consolidation deployment projects, so particularly large enterprise Global 2000 customers operating in thirty to seventy countries, wanting to ensure that the platform from which they operate, the enterprise platform is consistent, that they can build analytical tools on top of a consistent data structure and that they can run consistent processes from one country to the next, join their supply chains together. That continues to be the single largest driver of demand in the market, certainly that we see. The second thing that we have seen is continued investment by the two large software houses; SAP and Oracle in cloud-based solutions, and moving some of the horizontal areas such as CRM and HCM on to more Cloud-based applications and of course using Cloud for the mid-market space. And then of the four big trends that I talk about quarter-on-quarter the one that we are seeing is getting most momentum in the market is mobility. So, both in the mobility projects which are not significantly sized but also as extension of the existing projects taking the application layer that we build and pushing it down on to mobile devices. We are seeing that becoming quite a performance improvement program that we do.



So, we will just look forward in terms of the trends we are seeing that slowdown in discretionary spend. Most of these projects are no more three months in duration so it is hard to give a good view on the headwind we will see on discretionary projects but we certainly see a tightening up there over the next few quarters. The other thing we have seen is that the software companies are increasing significantly their investments in emerging markets particularly China, other parts of Asia, still in Russia and South America and that provides us with an opportunity to again chase that revenue, when these revenue streams are coming in alignment but as Vineet mentioned at the beginning of the call also was challenge that the return on those sorts of projects in emerging markets and developing markets is not a significant as in the core market, so we have a balancing act to do that. But one thing I would say we are seeing this quarter quite noticeably and the demand environment is reduction in public sector spending and although we are not unduly exposed to that segment it is being quite noticeable and as well as public services organizations that extends into the defense sector so we are seeing the defense budget also now falling to come under scrutiny.

We were pleased again this quarter to continue to consolidate our position as being the market leader by significant margin within the IRP community and standing shoulder-to-shoulder with IBM and Accenture in the global communities so Gartner places again in the leader for this quadrant and for SAP implementation services and IDC and their major players quadrant in for the SAP -- and what was interesting there is the emerging technologies of Cloud analytics and mobility will highlight this particular strengths of HCL in the IDC sphere. We sort of set up a center of excellence in visual enterprises .This is a collaboration with SAP to provide solution support centers that will support our collective customers across Europe and we have an ability through that to resale the product from SAP. And then keeping in line with the developments from the Cloud side biggest acquisition that SAP has made in this market is success factors and over the last six months we have seen SAP take their traditional onsite HCM products set it behind success factors so that either Cloud or on demand the two primary ways now that you will access an SAP HCM solutions and in this quarter we signed a global partnership that covers all countries that success factors operate and allow us to collaborate with them both selling the success factors product and in delivering the implementations that come as concurrence of that. So, with that I will pass on to Rahul to talk about business services.

**Rahul Singh**

Steve thanks. Quickly I will just talk to you about Financial Services the quarter ended JAS 2012. We ended with revenues of about \$268 million which was up 4.1% on the reported currency and 3.6% on constant currency. These percentages should be kept in mind keeping it should be seen in the context of the fact that Financial Services overall as we have seen from an industry perspective has been quite challenging in terms of growth so we had a good quarter from the point of view of growth. In the quarter we were focusing more in terms of execution of the deals that we had won which we recall we had said about two quarters back that there were couple of large deals that we have got from the Financial Services .So this quarter was while the ramp ups were started and I am happy to report that most of the ramp ups are happening as per schedule and that has reflected in the quarter-on-quarter growth that we have seen.

Also we are focusing on cross sell and upsell . The new logos that we have added plus the existing account but you do know that most of the accounts that in Financial Services that we deal with are part of the Fortune 500 accounts, there is huge opportunity for growth there and there is a focus on cross sell and up sell which is causing revenue levels to go up. Our Financial Services pipeline continues to be healthy as we go into the next quarter. From a demand perspective what we are seeing is that there is a continuous pressure on cost so far as the client community is concerned so whether it is the CIO or whether it is CTO or whether it is COO they are all facing cost pressures and there is a huge cutting of RTB cost which there is a focus for our client and therefore we feel that the ability to put in RTB products for the Infrastructure BPO, etc., is obtained from this demand environment perspective and simultaneously we are seeing the client investing in projects around customer centricity and risk management regulatory and compliance because these are the two areas we have spend which we are forced to spend on, I think this risk management and regulatory we all know that the financial service is extremely regulated environment and therefore clients need to spend in terms of changes that are happening on their systems and on their processes and we are participating in those spends.

At the same time the clients also spending new money on customer facing high ROI projects around SMACK etc., which you are participating with the clients as well. So, if you look at it from the revenue drivers and growth drivers from an HCL perspective we are focusing on the vendor consolidation market where the focus is on cost optimization. We do go to our clients with transformational agendas, innovative business models driving cost through more outcome basis and the fixed price based contracts and therefore we changed the game so far as vendor consolidation is concerned to get market share. Simultaneously we look at \_ positioning some of our change of business products to domains and solutions so we have got in clients partners across most of our large accounts. We are focusing on developing even more focused products around micro verticals what you call it a fully loaded service line, at the same time some new products around risk compliance customer experience etc. HCL Financial Services continuous to be ranked well amongst its peer group, we were rated amongst the top 25 enterprise companies by American banker and I think Vineet value honors so that's also featured to financial service means where the award winners were for emerging technology application that HCL designed for them. So, all in all I would say that reasonably a good quarter especially given in light of the fact that Financial Services overall has subdued from rate perspective.

Very quickly move onto the BPO which is other area which I head. You do know that we have announced a couple of quarters back that we are on a transformation roadmap for BPO. We had put three priorities for our turnaround strategy, one was to identify areas for investment and growth. The second was the ring-fence and downsize businesses which were we had perhaps contributing the negative margins and we are not focusing areas for growth and the third was to rationalize businesses, sites, etc., to actually close activities if they were non-performing. So, in all three vectors we have done well. It is reflected in the fact that we have had three consecutive quarters of an EBIT neutral performance. I think for the investment growth perspective, we have moved the entire BPO model from a traditional BPO which is largely activity based to a next generation BPO with the focus on few verticals so there are

only few verticals that we are focusing on so that we can bring in the right domain and expertise into the clients' accounts and on a very few horizontals. So, few verticals, few horizontals for focus. We have also expanded the delivery model for BPO, I think we were having all sites in the past but now we have got Global delivery capabilities which are in line with what the client needs so we have got in the US, India, Philippines and so on so forth so a better global delivery model.

We have also launched a tier two location in India and thereby I will be able to give the cost of production within India alone and therefore we are able to kind of, we meet clients need both globally as well as from an India perspective lower cost. Result of this of course is that BPO business did win a couple of large deals, and there were three large deals won in the last six quarters and I may talk about the large deals and many other deals which are not listed here but these large deals for its Fortune 500 customers each of the deals would be a significant size in terms of number of FTE as well as dollars and all the three are ramping up quite well at this point of time. In fact our new strategy also reflects in total win to 75% of our total revenues are now coming in are our focus segments which we are adding for above. In terms of downsizing the business, our voice business is down to 36% of turnover this is down from 60% two years back so significantly lowered concentration now on voice and obviously this has happened because all the new winds that we have had are largely in transaction businesses, more domain oriented and more knowledge-based so far as that's concerned.

However, we continue to focus on rationalization. We would like the voice percentage to come down further from 36% down to a lower number over the next couple of quarters so there will be a certain amount of further rationalization that one will see. As I mentioned earlier we have rationalized sites and businesses, there were many sites which were non-productive so eight sites have been closed in the last eight quarters reflecting a very acute focus on cost which is now reflected in the EBIT so our EBIT number as you know has been steady for the last three quarters, we have had positive EBIT which is a change from almost negative 15% EBIT that we had about two years back in the business. On and above is reflecting the growth this quarter, this quarter we have recorded a 5.2% quarter-on-quarter growth on the reported currency, as I said on the back of the ramps of the deals that we have won over the last six quarters. This is now also getting recognized in the market, almost all the analysts who track BPO has been listed some of them here Gartner, **40.41** \_\_\_\_\_ **IFG** have all rerated HCL BPO moved up one notch almost all over the place and in some cases introduced the HCL BPO as an emerging player, etc., for the first time so all in all in our transformation and turn around story for BPO is perhaps well concluded and we are looking ahead in terms of growth around future perspective and we should be bore in mind that we will continue to rationalize but it will not be at a cost of reduction of EBIT so I think the zero EBIT situation will continue for some time except for the fact that some rationalization issues may happen in the future. With that I would like to hand over to Prithvi.

**Prithvi Shergill**

Thank you Rahul. As you have heard the results and as we look at our growth clearly this is our strategic model of employee first and customer second is paying off and continues to be the underline driver of lot of our people practices and our programs and policies in the

company. We continue to see and create the environment and the enablement to grow the organization. You can see that some of the metrics around our revenue per employee continuing to grow since this was adopted. The innovation program that we have continued to generate significant energy and ideas of value to our clients and since our launch of the value portal which is where we captured this information you can see a significant contribution directly from employees, the growth of our businesses also demonstrate this and we see that it is also fixed as our attrition continues to decline. In this quarter our attrition is 13.6% and which continues to be very healthy vis-à-vis than industry. We have continued to grow adding close to 3,500 odd employees this last quarter taking our headcount to 85,335. A lot of our practices and programs are being recognized. I am particularly pleased to report is the recognition by NASSCOM of HCL as a key leader in globalization which is really about how it works not just in India but across countries, across cultures, across nationality and integrates people to really operate and work here with us in that fashion.

Couple of other headlines I wanted to share. I think we see the employee first, customer second, tenants and the practices becoming of significant interest not just within our company but more importantly as many of our people work with our clients, lot of our clients have expressed interest in ensuring that they learn about it, many of them joining workshops and programs that we conduct as we certify client accounts as having adopted the tenants of the EFCS. We have also started expanding and making sure that there is a high level of awareness of how this strategy can be up drive in transformation journeys vis-à-vis students and others. Some of our practices around managing innovation as well continues to be very visible both inside the companies, we call it **MAD JAM** and the community as well. So, I think the growth that have accomplished is showing that our EFCS strategic model as we transform it from being management driven employee embrace. As we move to EFCS 2.0 as we call it which is really employee lead and management embrace continues to empower our people to deliver value, make decisions, ideas which helps our company continue to perform and deliver results like we have this quarter. Thank you, I am going to hand over to Anil to do the numbers.

**Anil Chanana**

Thanks, Prithvi. First, the summary of the results. So \$1.1 billion in revenue, up 11.1% Y-on-Y and 3.2 a quarter-on-quarter; the volume growth this quarter has been 4.5%; the revenue growth if you look Y-on-Y on a LTM basis it is at 13.9%; the EBIT is at 216 million is up 51.1%; net income is again up 51.2% Y-on-Y and the GAAP EPS in dollar terms is 90 cents, in rupee terms it is Rs. 49 and is up 79% Y-on-Y.

The key highlight here has been the gross margin has been intact. The EBITDA margin has expanded . The EBIT margin has remained very high and this net margin has increased by 10 basis points. It has not only been the profitability performance , but also the Return on Equity. The Return on Equity which used to be in FY11 at 16.4% had moved to 23.6% in FY12 and if we look at this quarter or last 12 months it is at 27%.

Moving on – if you look at where the growth came from and what have been the margin movers here, so in terms of growth, we have done 4.5% volume growth. On the software side particularly there has been a mix\_ change in favor of offshore which reduces the revenues in

value terms, but did give us the volume. Similarly, there was an increase in RTB, so which had an impact in value terms on the revenues, but positive impact on the margins. So if we look at just the constant currency growth it was 2.9% and exchange only impacted the numbers by 0.3% gave a boost, particularly the cross currency in this particular quarter.

If we go on the margin movers – the margin movers on the EBIT side (exchange was (-10) basis points,) included the efficiencies and utilization, so this is a positive contribution made by an enhanced utilization, increased offshore and the efficiency in the Managed Services projects. There was a wage negative impact of 80 basis points. We have two cycles; one in July and another in October. SG&A leverage was 18 basis points. We continue to invest in sales and marketing, but we did get a leverage on the G&A side. We did get some leverage from the other income side of 32 basis points and the tax charge took away 20 basis points, the tax charge this quarter was at 23.5%, slightly higher than what it was in the last quarter but within the band we had guided the street. So on the net margin side there was an improvement of 10 basis points.

Moving on, our fund position, we have \$521 million of funds available, and our loan funds have significantly come down in the last quarter from \$346 million to \$311 million. So our net fund position stands at \$211 million. In this particular quarter there was no dividend distribution since it is subject to the approval of the shareholders in the AGM which is happening in the month of October. So 61 million will get distributed basis the approval by the shareholders and another \$30 million which the board recommended today or approved today, so 91 million of dividend distribution is going to take place in the coming quarter, and you would have seen our other income was also very high more because of the fact that we had more funds available with us we have also redeemed the one tranche of debentures.

Moving on the cash flow to conversion of net income to operating cash flow and the free cash flow – So we have taken the LTM picture and we have taken a financial year picture. So if I take the conversion ratios on a LTM basis, the Net income to Operating Cash Flow on last 12 month basis has been 101%. So it continues to be close to 100% and last year it was 96%. If I look at free cash flow, it is at 69%, again higher than 52% it recorded last time. And even if you look at on a financial basis, operating cash flow to net income being in excess of 100% and free cash flow to net income being 67%. However, if I just take standalone this quarter, this quarter the operating cash flow to net income has been at 43%, reason being this is a typically the first quarter for us where we have the bonus payments, where we have the advances being paid for our insurance, the payments being made for a lot of IT Infrastructure, where maintenance and other expenses or license fees, etc., are paid and have paid an advance for the full year in order to get advantage on the rates. So, typically we have seen the first quarter is the conversion into operating cash flow of net income is the least. However, this quarter it was much better at 43%.

Moving on receivables – In terms of billed receivables, we are at 59 days, up from 57 days as of 30<sup>th</sup> of June. We still continue to be the best so far as the industry is concerned. And so far as the unbilled is concerned now 24 days is typically sort of associated with our business model

and it had sort of the fixed price projects, where the billing milestone has not been reached, there are certain clearances we are awaiting or issuing the invoice to the customer or of the date when we have to bill is not matching with the dates when the customer assesses the bill, so the dates are not matching which is giving us 24 days.

We also saw this quarter the cross currency had led to an increase in receivable number of days by 0.8 days and we had a lot of payments; 29<sup>th</sup> and 30<sup>th</sup> happened to be holidays and we did collect significant payments in the first two days, which is 1<sup>st</sup> and 2<sup>nd</sup> of October which was equivalent to like two days of receivables. And since we have been undergoing a lot of customer transitions, we are in the process of finalizing those billing arrangements with our customers. In spite of the increase in the receivable position, our net current assets as a percentage of revenue remain the best in the industry.

Moving on in terms of our hedge book – our hedges are at 1.5 billion; 300 million being the balance sheet hedges and 1.2 billion being the cash flow hedges. We have a mix of less than one year or equal to one year and more than one year of hedges, are most equally divided and the booked rates for these less than one year is 51.79 for forward and more than one year is 58.65. In respect of the range options there is a range indicated which is 54.49 to 58.13.

Moving on, the tax charge for this quarter was at 23.5%. However, within the range which is between 23% and 25% which will keep on moving quarter-on-quarter.

The employee stock options outstanding as of 30<sup>th</sup> of September was 2.75% which consists of the options at market price and below the market price 0.75 and 2% and the vested is close to 1% and non-vested is 1.7% and the option charge this quarter was \$3.8 million net of tax benefits and going forward is going to be \$3.9 million. With this I hand over to Vineet.

**Vineet Nayar**

So operator we will open the house to question and answer please?

**Moderator**

Sure sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from Ankur Rudra from Ambit Capital. Please go ahead.

**Ankur Rudra**

My first question is on, if you can elaborate on the Enterprise Application side of the business, I notice in this quarter you announced several support related deals around SAP or SAP partners. I am trying to read the 2% decline in EAS in the context of rising offshorability. Is it fair to assume that many of the onsite heavy consulting projects of the past are now converting into downstream revenue in this period coming with a revenue decline?

**Steve Cardell**

That is partly true. So we see a number of trends happening. If you track over time our business was driven firstly by Greenfield implementations, so first time implements for companies and then what we have seen in recent years is that market has for large enterprises primarily saturated. We see Brownfield projects. In other words, either consolidation projects of multiple instances within a company or the deployment from let us say a back office Infrastructure into front office operational areas and then the next phase is coming out of that is the longer term

support and a managed service contract. So really we see two areas of opportunity. One is Brownfield and front office, and the other one is into the application support. The first of those continues to utilize in a very similar structure, the higher end geo-based resources that we have onsite and the second of those is the transition of more work into an offshore model, which is the mixed transition you saw a little bit of happening this quarter, so it is not a primary driver, but it is one of the drivers that we see, so you see volume continuing to grow. But the revenue per unit comes down, you see a different revenue against that but an improvement in margin in doing that.

**Vineet Nayar**

Your assumption is correct from a different point of view that the project work which we had done is support business coming to us. Yes. That trend is also there.

**Ankur Rudra**

Just on a related point, I just want to get a sense of the nature and scope of the projects around the new technologies we are talking about now; cloud and mobility, are these substantially small in scope and size at the moment as opposed to the traditional apps business on mainframe or server?

**Steve Cardell**

Yes, so eight out of ten of them are substantially smaller and that is partly because most customers are doing pilot for the moment. They will be doing the mobility pilot or they will try a Cloud-based solution for may be some quite simple administrative processes like staff booking holidays or sales looking at the pipeline information on an iPad. So at the moment those projects are smaller. A few companies are doing quite large scale rollout. So that is why as you have seen in the market position we are right on the front of that curve at some of our capability and offering, but that is not delivering substantial revenues yet and we will watch and see which of those will and where we put more emphasis.

**Ankur Rudra**

The last question is on the movement in the net adds Vineet this quarter was the lowest since we have seen in 1<sup>st</sup> quarter FY10. And the SG&A levels also remain relatively lower. I know that you focused on return on sales a lot, maybe there is a reflection of that, but just want to read on a broader context. Should we see this as an indicator of your confidence on short-term revenue growth being lower than in recent times?

**Anant Gupta**

I think if you really see one the reasons in the software space is the increase in the utilization, so you would find that there is about 180 bps improvement over there, so a lot of the volume growth is driven there, so a lot of the Greenfield folks who were being used for programs that actually now in delivery management functions, so I think it is just a reflection of greater efficiency.

**Vineet Nayar**

Let me add to that, Ankur, because I do want you to understand this. So we hired a higher number of people based on the wins which was that inefficiency was reflected in utilization and as Anant reflected the utilization increase is a reflection of the fact that those guys have now been deployed. Going forward, we still believe there is a head room in the utilization which is what Anant is driving very hard and we have an interim goal. The second thing which Anant and his team is driving very hard is converting our contracts to managed services which we

have been very successful and that will unleash a certain amount of people coming out from existing projects because of an increased efficiency in tools and processes, these were T&M projects which are now Managed Services projects and because they are Managed Services projects we will be able to take people out. So, our view is that we will continue increasing our utilization, that is subject to not winning more deals because winning more deals will impact utilization negatively, we will continue taking people out of Managed Services projects by improving productivity year-on-year, there are very hard roles for everybody to do that because we are not best-in-class in that area, there is an increased emphasis on deploying freshers into Managed Services contracts which are at least one year old and there are now lot of projects which are one-year old, most of these are \$100 million plus customers are one year old and therefore it can absorb freshers utilization and therefore the headcount addition or lack of addition indicating our confidence of the future please do not draw that correlation.

**Moderator** Thank you. The next question is from Nitin Mohta from Macquarie. Please go ahead.

**Nitin Mohta** My question was relating to the top clients metrics if I look at the three brackets that you guys classify, the number of growth was below the company average this quarter, is this just a quarterly aberration or does this really mean that there are a lot of new deals which have been happening, have been ramping faster as compared to your existing client base?

**Anil Chanana** I will give you two data points and I think they are very interesting data points. Last quarter our top five clients grew 5.5% quarter-on-quarter. This quarter that growth is 1.4%. Our top ten clients grew 4.5%. This quarter it is 2%. So this growth is coming on a very high growth last quarter and you should also sort of take into consideration that a lot of work has moved offshore which will not give the headline revenue number but will give the volume number which is also high at 4.5% quarter-on-quarter. At the same time if you look at on a LTM basis, JAS '11 and JAS '12 the top five clients, the annual growth rate has been 18% and on the top ten the growth rate has been 13%. So, they are tracking very well.

**Nitin Mohta** Vineet, if I can understand your thoughts on the competition on the global MNC peers, earlier in the day in the TV interview you talked about that is being the relevant competition. Some of them have announced very record outsourcing bookings and increasing their market share. So just thoughts over there in terms of how do you see competition panning out?

**Vineet Nayar** I think in my mind, the competition is largely between IBM, Accenture, HP from the global players and some of them are losing their existing customers as you would see from our win list, and some of the local players are losing their customers. So, I believe there is a lot of churn which is happening there. I do not want to comment on an individual on an open call, we will be happy to have a one-on-one conversation in terms of who is winning, who is not. But that is what we see. In the commentary which I gave in the TV interview is – this is very important point for you to understand – HCL is very sharply focused on a very small market because we focus on the renewal market, within the renewal market, we have focused on few accounts where we believe we can win and we focus on trying to get our win rates to 40% to 50%; 50% is our goal, but below 40%, we will feel bad. So with that sharp penetration we go



after two of the global majors where we have had huge successes of moving them away and we do not go after one global major because we had no success of moving a customer away from that global major because now they are extremely good in surrounding their customers at the last minute by board connection. So therefore from our vantage point of view how we pick our competition, we still believe that the most relevant set of competition and their behavior is the global majors.

**Moderator** Thank you. The next question is from Pankaj Kapoor from Standard Chartered Securities. Please go ahead.

**Pankaj Kapoor** You spoke of this \$61 billion worth of deals which are due for an award in the second half of 2012 according to TPI. I was just wondering if you could give a sense in terms of how much of this TCV is something that we are participating in. I am presuming that we would not be looking into all of that and there will be some part which may not be even coming to the offshore. So, what is the size of this that we are participating?

**Vineet Nayar** Pankaj, the first is that only 30% of these deals will change hands. So the \$60 billion comes down to \$18 billion. Out of the \$18 billion we completely take out certain segments. Do not want to talk about an open call who are averse to offshoring or have not demonstrated higher success in offshoring. We focus on deals which are in our vertical areas of strength which you know and then focus on in our horizontal areas of strength and that brings down to us to a manageable number. The moment I give you the number and give you a 50% win ratio then you will close to our booking goals therefore I do not want to give you a number.

**Pankaj Kapoor** \$5 billion deal which have been awarded in the third quarter. Any sense in terms of how much of this has actually come in? We spoke of some 12 deals in this quarter. If you can quantify in terms of the TCV of these deals wins?

**Vineet Nayar** As we had said, we were largely focused in execution and therefore we had re-enthused our sales team to go after execution of our existing contracts, so that they do not see our people run away and if you notice that we had done a lot of bookings and therefore our participation in the market was not that high and therefore our win this quarter is not that high. Nothing great. And we have already told you that if we win a billion dollars in a quarter we will announce it and that was not the case this quarter.

**Pankaj Kapoor** And sir, do we still stand with our assumptions of 16% EBIT margin for the full fiscal FY13? We had a very good margin performance in the first quarter. So, any change to this outlook on the margins?

**Vineet Nayar** Yeah, I think, Pankaj, there is a change. HCL historically has come out and given a margin guidance purely where there was a disbelief in the market either on our revenue growth or on margin growth or things like turning around BPO. So wherever there was an uncertainty of our achieving the minimum acceptable goals which we should have achieved, we have come out and given specific guidance and the 16.5% guidance which we have given is because there

were a concern in the market of the fact that we will not be able to maintain the 16.5% minimum margin profile. I think what has happened over the last four quarters, that question of the fact that would we or would we not be able to maintain the 16.5% should no more be a question in anybody's mind. Having addressed that and also having addressed BPO, now we are going back to our stated policy of no more guidance and we will continue sharing what are the headwinds we are facing and what are the levers we have. So we have already shared with you the headwinds we are facing, which is lower number of days in October-November-December and the 100 bps on salary increase and the fact that we are going to go after a large number of cases and the tailwinds that we still believe there is a opportunity in G&A, opportunity in pyramid, opportunity in freshers, opportunity in utilization and an opportunity in offshoring some of the contracts, and opportunity in taking people out of managed services. So we will manage both these things to deliver what we call a leading margin growth. We are largely focused on EPS growth which is what I have been saying for the last few years that whether we drive the EPS growth through revenue growth, we drive the EPS growth through margin expansion, we should be in the upper quartile of EPS growth rate. That is our focus area.

**Moderator**

Thank you. The next question is from Viju George from JP Morgan. Please go ahead.

**Viju George**

One, it seems to me that whenever I looked at our growth profile versus margins, when margins go up, a sequential growth certainly moderate, we have seen that in the past four quarters. So which means that if we are going to be chasing your revenue goals aggressively in the next couple of quarters so the new deals are coming up, is it fair to assume that the margin should moderate #1, therefore does it mean that it becomes difficult for HCL to maintain the same quarterly growth momentum and still keep up the margins as well, it is either an or situation?

**Vineet Nayar**

First is I disagree with your conclusion as I started with that the quarter-on-quarter growth rate of HCL, in the last four quarters have been 2%, 2.5%, 3% and 3.2%. If you look at the volume growth also quarter-on-quarter has been increasing. If you look at the margins in all these, as the revenue growth is increasing, the margin is increasing, the EBITDA margin has increased from 18.5% to 22% to 22.2%. EBIT margin has increased from 15.8% to 15.7% to 19.4%. So we have demonstrated that with the higher sequential growth, 2% 2.5%, 3 and 3.2%, we have continued expanding margins. So there is no correlation in our business model that if the revenue goes up, the margins goes down. However, there is a correlation that if we do a lot \_ booking that would mean that we would have to spend a substantial amount of money in transition management and that happened in the October-November-December quarter. Now that is good for any company. So because of the fact we did \$2.5 billion of booking at that particular time, that is the reason we have been able to demonstrate industry leading growth. Other than that there is no correlation. And also you must remember that was a one-time exercise because we have tremendously changed a profile of our customers, the very fact that a year ago we had only one \$100 million customers, now we have 5 \$100 million customers, the profile of HCL has completely changed and the base from which we are talking about is also very different. So please do not make that correlation.

- Viju George** The other question I had was on the margin hit you had to take because of wage hikes, that accounts for 80 basis points, have you covered only a small proportion of work force so just wanted to know what percentages of work force you have covered, what quantum of hikes you have given and how it does look like in the next quarter because 80 basis points seems to be much below that what we have expected?
- Vineet Nayar** One of the reasons of 80 basis points is we have split our salary increases into what we call, billing positions and non-billing positions. All billing positions have been given a salary increase of 8% offshore, 2% onsite, resulting in an 80 basis points impact. There is a 100 basis points impact coming in October-November-December for all non-billing positions with the salary increase will also be of a similar level; 8% and 2%.
- Moderator** Thank you. The next question is from Mitali Ghosh from Bank of America. Please go ahead
- Mitali Ghosh** Vineet, on the revenue side, this quarter we have probably seen the full ramp up of the deals that were closed over the October-December period. And going forward given that most of that ramp-up is behind and discretionary is looking somewhat soft, what kind of a revenue growth trajectory should one look for in the next couple of quarters?
- Vineet Nayar** Mitali, do not want to give a quarter-by-quarter guidance but on a full year basis we have guided that we will be in the upper quartile of our peer group and whatever data we have with us right now and whatever we have heard from our peer group there is no reason for us to doubt that we will be in the upper quartile. We do not want to guide quarter-on-quarter.
- Mitali Ghosh** I am not really looking for a number but just in terms of like the trajectory or the direction, is it fair to assume that going forward the growth should be kind of slower than what we have seen in the first two quarters?
- Vineet Nayar** Mitali, I do not want to comment on it.
- Mitali Ghosh** And secondly, just in terms of the sustainability going ahead, utilization is somewhat at higher levels, towards the higher end of what you have achieved in the past. So are we really looking at perhaps new levels of utilization sustaining in the future given that you are using more of tools and like you said that the processes and so on?
- Anant Gupta** I mean, I think that is one of the objectives, one is to look at engagements with the largely T&M or where we have Managed Services to kind of increase the level of utilization of our tools and further with the significant portion of engagements which are integrated across service lines like application and Infrastructure which is addressing in the RTB space, there is a potential to optimize that as well. So that is a constant endeavor to industrialize some of our RTB delivery models, so that will continue over a period of time.
- Mitali Ghosh** And just lastly, very quickly on the BPO part, just wanted to follow-up that is there any change to the guidance in terms of at what stage the business will move beyond the breakeven, I think

earlier you had mentioned three years if I am not mistaken, so just given that it has been a smart uptick this quarter, is there any change to that?

**Rahul Singh** Mitali, there is no change to that. What we have guided was that we will have a calendar year of an EBIT neutral business and we had said that we will approach company level margins in three years' time, so there is no change to that.

**Vineet Nayar** Internally, there is a change of expectation Mitali.

**Moderator** Thank you. The next question is from Nawaz Sarfaraz from IDBI Mutual Fund. Please go ahead.

**Nawaz Sarfaraz** If you can just throw some light on what exactly is driving the strong growth in the Healthcare segment. And are we expecting this trend to continue?

**Anant Gupta** If you look at the Healthcare sector, it is largely about the micro verticals within the space. So we have always been fairly strong in the pharmaceutical and the medical device companies. Four to five quarters back we made significant investments and more domain-based work within Healthcare plus also an additional micro vertical within that sector which is the payer sector, so we just started seeing good traction of some of that market converting, where decisions are getting made which were earlier kind of a little in abeyance because of some of the political situation within the country but I think now customers are moving ahead and taking a decision to optimize their IT landscape. So, it is largely due to an addition of a specific micro vertical in that space which we have done.

**Nawaz Sarfaraz** My second question would be on a quarter-on-quarter basis are you expecting margins to go down because of a salary hike impact or like this quarter you will be using your levers to at least aim to sustain margins at the current level of what we have seen in this quarter?

**Vineet Nayar** As I said that we are not going to give guidance and we had shared with you the three headwinds which we are facing which is 100 basis points of dilution because of salary increase, closure in the October-November-December and towards last and some investments and also given the tailwinds of what levers we have, beyond that we do not wish to comment at this time.

**Nawaz Sarfaraz** If you can just tell me with the kind of levers in hand at least can we expect that the margins can be kept at current levels?

**Vineet Nayar** No, I am sorry, would not be able to guide specifically. As I explained we had guided only when there was a huge uncertainty in the market. Now, there is no uncertainty of achieving 16.5% and we do not want to go beyond guiding anything. We just shared with you, you are aware of what is happening in the market and beyond that we will not be able to guide.

**Nawaz Sarfaraz** Lastly, if the Indian rupee stays at 52 to a dollar kind of level, is there a chance of our margins getting impacted?

- Vineet Nayar** I think the dollar will definitely impact the margins, whatever debt hedging which we are doing that to certain extent will protect us but if the dollar moves towards 50, 52, 48 obviously, I am sure that will build into your model and that would impact the margins. There is nothing you can do to protect margins against it other than to the extent of hedging which we have done.
- Moderator** Thank you. The next question is from Sandeep Shah from CIMB. Please go ahead.
- Sandeep Shah** The first question is in the software services, the onsite volumes have declined by 1.2%. So, this is in line with the anticipation while entering the quarter or this is something negative which has been realized during the quarter?
- Anil Chanana** If you look at the volume growth is 4.5 and the difference between what is moving from onshore to offshore is really part of whatever is moving into a steady state, they move in a different points in time. So it is engagements which have moved into a steady state and therefore on a revenue basis obviously, there is a negative impact whereas on a margin perspective it is a positive impact, so you are seeing both those in the financials.
- Sandeep Shah** Yeah, in software service, the onsite volume growth has declined by 1.2%. So, is it what we anticipated at the start of the quarter or this is something a bit of a negative surprise into the quarter?
- Anil Chanana** Sandeep, basically the whole thing is the same. So what is happening is the onsite is as Anant explained, when you complete a transition and the work comes into a matured stage, a steady state it moved offshore, that is what we attempt and we can maximize our margins there. And that is what the ultimately the value proposition which was offered to the customer. At the same time on the CTB side, as Steve talked about, there has been some softness particularly on the small value contracts, etc., so which also led to some sort of a decline there. So these are the two factors which led to the onsite volume being lower.
- Sandeep Shah** And just if you look at the software development cost within the software services, despite the wage inflation and covering the billed employee portion, that cost in an absolute amount has not changed materially. So what is the reason for the same?
- Anil Chanana** I mean are you referring to the dollar numbers or are you referring to rupee numbers, maybe if you can specific ?
- Sandeep Shah** Yeah sir, if we look at the rupee/dollar average for the both quarters has been more or less similar. So if we look at in rupee terms also it is more or less flattish at 2.63.
- Anil Chanana** This is also a question which was received in the course of the day. We look at an overall company level. When you compare July-September '11 with AMJ '11, there was an increase in the direct cost, there was an increase in revenue by 352 crores, there was increase in cost by 281 crores, and within these two quarters the FOREX exchanged dollar/rupee from 44.70 to 46.40. If I remove that the net increase in direct cost was 200 crores, opposite the revenue

increase of 350 crores. If you look at the this year increase in revenue in rupee terms is 172 crores and the increase in cost stripping the FOREX out is 114-115 crores. The last year a significant portion of the increment came in July-September quarter, and as Vineet explained, we have done some changes in this period during the year, anyone who is billed, the increment is given effective July 1 and for the people who are not billing the increment is given from October. So as a result, the increment portion is getting split into two parts; one in July-September and another in the next quarter. So other than that we do not see any sort of a reason. So maybe you are looking at the numbers and the FOREX movement which happened between AMJ of '11 and JAS of '11 has been the reason and also the growth particularly in rupee terms was very strong in that particular quarter, it was 8.2% and in terms of this particular quarter in rupee terms the growth is 2.9% for the company as a whole, but we will be happy to answer your question if you are not able to reconcile it, Sanjay can work with you to reconcile those numbers. But we have the explanation. We are very clear on that.

**Sandeep Shah**

And just last question is the renewal deal pipeline been increasing in the next quarter, in anticipation of that, we may now ramp up the employee size or we still believe that we may do a just-in-time recruitment and more productivity gains in the utilization?

**Prithvi Shergill**

From an execution standpoint, yes, we would continue to follow just-in-time policy and I think one needs to also realize that nature of these contracts are very different in the initial stages and our just-in-time hiring policy has worked very well for the kind of business we are chasing, so we will continue with that as and when we move towards the closure in appropriate at once we will do a just-in-time hiring.

**Moderator**

Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference back to Mr. Vineet Nayar for closing comments.

**Vineet Nayar**

Thank you so much for your patience. It has been a 90-minute call but thank you so much and look forward to talking to you in the interim and in the next quarter.

**Moderator**

Thank you very much. On behalf of HCL Technologies that concludes this conference call.