"HCL Technologies Limited Q2 FY20 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the HCL Technologies Limited Q2 FY20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sanjay Mendiratta – Head, (Investor Relations), HCL Technologies Limited. Thank you and over to you, sir.

Sanjay Mendiratta: Thank you so much. Good Evening and Good Morning everyone and welcome to the Earnings Call and Presentation for HCL Tech for the Q2 Financial Year 2020. We have with us Mr. C. Vijayakumar, Mr. Prateek Agarwal, Mr. Apparao and the entire HCL leadership to participate in the call.

We would be discussing the key result highlights and also making a presentation and the first two slides would have Mr. C. Vijayakumar talking about the performance highlights for the quarter, and then we have Mr. Prateek Aggarwal highlighting and emphasizing the robust performance for the quarter. I now hand over the call and proceedings to Mr. C. Vijayakumar to take this forward. Thank you very much.

C. Vijayakumar: Thank you, Sanjay. Good Evening and Good Morning to all of you and thank you for joining us for our second quarter fiscal '20 earning commentary. Overall it has been a fantastic quarter for us; our revenues came in at $2.49 billion, that is close to $2.5 billion. On a constant currency basis, there is 6% QoQ growth and 20.5% YoY growth. Our EBIT almost was half a billion, to be precise $496 million which was again 18.8% growth over the same period last year.

The most important performance highlight is our EBIT margin at 20% which was close to 287 bps higher than the last quarter and 7bps points higher than the same period last year.

What is also very important is our Mode-2 and Mode-3 grew significantly. The mix now stands at 33%. In fact, three years back we highlighted that our strategy will drive us to deliver 35% to 40% of our revenues from Mode-2 and Mode-3 and very vigorous execution of the strategy has helped us achieve 33% of our revenue profile in Mode-2 and Mode-3.

If you look at the revenue performance by geography and vertical, there are two cuts provided. Traditionally, we classify the IP partnership revenue and the HCL Software revenue as one client because almost all the revenues came from the royalty route from our technology partner. So, they were classified under Americas and that was also classified under Technology and Services vertical. But from this quarter lot of client contracts are being signed directly with us. So, we have also provided a cut where the customers are classified in the respective geographies and the respective verticals. If we were to look at the like-to-like comparisons, that is what you see in Slide #7, Americas grew 5.5%, Europe 6.9% and ROW 7.3%.

The highlights of the quarter were also the Financial Services grow at a robust 7.4% on the back of number of ramp ups in some of the existing clients and the project work that we had, that helped us grow 7.4% QoQ.

Technology vertical, of course, a lot of it was contributed by the uptick in revenue due to the HCL Software business and other verticals also grew quite well.

In summary, four of the seven verticals had a double-digit growth and the remaining three also had a good high single-digit growth.

If you look at Slide #8, this gives the cut of the geographies and verticals after classifying the HCL Software revenue under the respective geographies and verticals. What it highlights is our portfolio has become more diversified. If you look at our Europe, contribution has gone up; it is now 28.2% of our revenue and Americas at 64.4% and rest of the world is 7.4%. What is very notable is our Financial Services mix has increased from 20%-plus to 22.4% which indicates that the number of customers for HCL Software are some of the large Financial Services clients and that gives us a good opportunity to deliver a more complete set of services and solutions including software for large Financial Services clients.

If you look at other verticals as well, you see a pretty uniform increase, for example, Public Services has been a big uptick because lot of government clients have been using the products that we acquired and that has given us, the mix has increased on that segment as well.

Moving on from a business segment and mode wise performance:

IT and Business Services which is our Infrastructure Application and Business services grew 0.9% QoQ CC, YoY basis it is about 17%. Our Engineering and R&D Services delivered a stellar performance. On the back of a very good revenue performance last quarter, this quarter they delivered on revenue as well as EBIT margins; 5.4% constant currency QoQ growth and EBIT margin significantly improved to 21.4%

Of course, Products and Platforms have significantly helped with the contribution from the HCL Software business. Over $100 million came from that business which created a 56.8% QoQ growth.

As I highlighted before, the Mode-2 & 3 contributes to 33%. What is also notable is our margins in Mode-2 has increased from 13% range to 14% and Mode-2 revenues grew 3% QoQ and was 36%-plus from YoY perspective, and Mode-3 grew 42% delivering an overall 6% growth on a constant currency basis.

I want to move on to a few more highlights:

A very important landmark this quarter was HCL Software business unit came to live. With close to (+15,000) customers across verticals and geographies we reached out to these clients through multiple channels. We on boarded close to 1300 business partners over 1500 sales transactions got completed which is a combination of the renewals. When I say 'renewals' it is where the customers have been using our products but we have to establish new contracts on HCL paper with all of them. So, that was a humongous exercise and also several new license sales, and this happened across the globe, close to 50 countries where we transacted. Darren will provide a little more details in a subsequent section on this.

Our Q2 saw 15 transformational deals. Last quarter I had highlighted that our booking was a little soft, followed by three quarters of peak. I am happy to note that second quarter was also a very good quarter from a booking perspective.

We continue to expand our geographic footprint ANZ asset called out was a focus area. So, now we set up a delivery center in New Zealand and Hamilton proactively to kind of drive some large transactions in that geography. We also expanded our, what we call as the newest footprints by acquiring a large campus which helps us to expand in Nagpur which is a very attractive delivery location for us from multiple dimensions.

We had also announced the Sankalp Semi-conductors in addition to our Engineering and R&D Services business, primarily driving momentum in the semi-conductor space, which we see as a fast-growing vertical segment for our Engineering Services. We also got recognized by ISG in a number of areas, technologies, industries and regions as you can see here.

Next slide captures key wins:

Obviously, we are not able to cover all the wins but some highlights; a very large oil and gas major, a US-based expanded their relationship with us significantly. And the portfolio of what we are offering to them includes significant IPs that we have and it was modernizing the digital workplace landscape. This was a good win in a US-based oil and gas major.

We also had a good win in a leading US-based pharmaceutical and biotech company. This was all around digital transformation. They chose us to be the scaled agile digital transformation partner, helping them transform the product landscape and modernizing their platforms through an API first and micro services-based approach and of course underlying theme was to enhance the user experience while we upgrade the legacy technology platform.

We also won a digital transformation deal with a US-based Financial Services company. Here, we are the engineering partner for transforming the digital transaction platform. Here, HCL will help them transform from a traditional company to a platform-based digital enterprise. It is really an end-to-end transformation program and we are very proud to participate and partner with this client.

We also won a US-based Life Sciences client which is largely an infrastructure deal. We will be responsible for end-to-end infrastructure services.

We also expanded our relationship due to mergers and acquisitions with one of our clients to drive higher service profile with this client as a part of our client-partner strategy.

We also won a large deal in a US-based Hi Tech company which is around semi-conductor design and silicon development lifecycle which is again a very strategic engagement in a large client with significant potential to scale.

With that opening commentary, I will request Prateek to talk through the financials, then Darren Oberst will talk about the products business.

Prateek Aggarwal: Thank you, CVK. So, I will take you through some of the key numbers:

Slide #13 shows you the last 12-months September'19 revenue at 9.3 billion. And as you can see, the three-year CAGR from YTD September'16 to YTD September'19 LTM September '19 is of the order of 12.4%, and just giving you the longer-term health ratios. And as you can see all the four graphs on the table are solid double-digit cumulative add on growth rate; EBITDA at about 13.2% and cash net income was what I basically call OCF before CWC which is operating cash flow before change in working capital. So, it comes straight from the cash flow segment and that has grown at a CAGR of 11.2% over the last three years. That number which is OCF before CWC if you just divide it by the diluted number of shares, gives you the cash EPS that we have been talking about in the last few quarters and going forward that has been growing at 14.7% over the last three years on a cumulative CAGR basis.

Moving on, we have few updates for you on the acquisition purchase price accounting that we shared with you last quarter:

During this quarter, we got some more provisional data at the time we consummated the deal and did the accounting, and this quarter we have some updates. So, Slide #14 shows the number at 1,743mn which is the total present value of the amounts. It has gone up by about 7 million versus the number we showed you last time. That is due to a number of moving parts which I will cover in the subsequent slide.

So, here in the next slide, you can see the $1,743mn which is the present value of purchase price plus the unamortized present value of the IP assets that were in the balance sheet for the five products out of seven which we were already holding, total of $2,170mn and the new spilt of that is given in the yellow boxes and for reference the numbers we gave you last quarter are also mentioned in the white boxes. So, as you can see the goodwill number has gone up by about 16 million, conversely the customer relationship number has come down a bit, about 19 million, technology asset continues to be the same and the other one is newly the deferred revenue versus the recoverable from the seller which has come down to negligible kind of levels.

Moving to the next slide, let me explain this to you and in the next slide it is verbalized as well. But first, Column-A on the slide is what we reported amounts as last quarter, the provisional amounts as per the numbers available with us at that time and this is of course the future amortization schedule for all the amortizable intangible assets that we have, not only for the IBM products, but all the other previous intangibles as well. So, that was the number of $2023mn, broken up into $196mn in the balance three quarters of FY'20 and for the next several years after that. The numbers you see in disclosure this quarter which is Column-B shows that number has come down a bit to $1965mn and most of that change is in the current fiscal year and that 196mn is now at $145mn. There is an element of exchange rates there. So, Column-C is nothing but the new reported number of $145mn and $1965mn and in total restated at the June exchange rate, just to make it apple-to-apple comparison. So, as you can see therefore from $2023mn it is reduced to 2003, so a reduction of about 20 million in the overall intangible and that is coming from the previous page which is the customer relationship really. And the year-ending 31st March 2020, this is the current fiscal '20 has reduced from $196mn to $147mn adjusted for exchange rate and that is a reduction of $49 million which obviously has two components -- #1, the Q2FY20 amortization itself has been on the lower side and Q3 and Q4 is slated to be of the order of 107 million, therefore making up the total $145mn.

Moving to the next slide, this slide is to provide you perhaps too much detail, but I thought this was important for you to understand and I will go through that and if there are any questions, we can take that later of course. But basically the way purchase price accounting (PPA), I am going to the second bullet straightaway because the first bullet we have more or less covered in the earlier chart, so as we get into the revenue recognition in an acquisition scenario, there are two sources of revenue recognition in any quarter as the quarters begin, the very first quarters would tend to be much heavier on the source of revenue being from the deferred revenue which has taken over from the seller. And as the quarters go by, the direct billing to the customers would command a larger and larger proportion of the total revenue that you are able to recognize. And as per US GAAP, this is how the accounting has to be done and there is a charge which is recorded as a reduction from revenue, technically, it is called recognizing revenue at fair value from the opening balance of the deferred revenue. And in the second case is where you can recognize 100% of what you have sold but in the first case there is a reduction there. And therefore, in the very first quarter after deal consummation, large portion of the revenue is recognized from deferred revenue and this sort of give some of that percentage, keeps on reducing every quarter as we move into the next quarter. And on the revenue that is recognized from deferred revenue since there is already a charge taken, the amortization does not need to be taken on that for the simple reason you cannot have two charges for the same source revenue. And that is why the amortization charge in this quarter is pretty much same as last quarter $38 million and $38 million, totaling up to 76 million for the first half. And as you can see, the second half we have shown it clearly in the balance sheet and in the previous slide 107 million and the balance going to come in the second half. On a total fiscal '20 basis, therefore it will be 145 million versus the 196 million as we also spoke about.

Moving on to the last slide of my section here is the constant currency guidance which we have increased from 14% to 16% which we guided at the beginning of the financial year and reiterated last quarter as well. We have increased that by 1% on both the lower end and the top end. And organic part of that is at 10% to 11%, so solid double-digit organic growth is what we are guiding for the fiscal and the balance which is 5% to 6% is really then the inorganic part.

Our guidance on the EBIT margin continues to be 18.5% to 19.5% and in the first half we are already at 18.56% or thereabout. So, we are already within the range, hence we expected kind of spoke about it in the previous quarter as well. And we remain confident that we will end the fiscal year within the range that we have guided.

To give you a few more data points before I hand it over to Darren, #1 is the QoQ EBIT margin walk and the biggest portion of that walk is 290 bps in total is 210 bps from pretty much where we expected Products and Platforms delivering about 115 bps which is what we had talked about that on the investments that we had done to make sure that we hit the ground running and once the revenue has started flowing in this quarter that margins are showing up. Here is the Engineering and R&D Services as well which had a low number last quarter, has made up smartly. There is a lot of productivity benefits there plus some revenue which could not be recognized last quarter has come in this quarter. They have been ramping up and lot of that revenue flew in this quarter. Apart from that even the IT and Business Services has also delivered handsome gains. So, that is about total of 210 basis points.

The second item which obviously has also delivered good margin benefit for us is the SG&A line and obviously we had lot of people joining in from IBM and people joining from outside as well during the quarter. So, in the P&P business, SG&A certainly went up and there were increments in that, I mean, in all the businesses in SG&A as well. So, that has been more than offset by the savings that we could bring in some of the SG&A spend areas like marketing, travel, etc., FOREX helped as well. And there were some one-timers in the last quarter, some incentives which got paid out, etc., in that quarter apart from visa cost as well. So, SG&A also delivered a good 70-plus basis points.

Third moving factor there was, we did give out increments for large portion of our population and that amounted to about 45 bps for this quarter.

Fourth item there is really small things with exchange impact of about 23 bps and we had a visa cost hit of 9 bps last quarter. So, that amount sums it up; 15 bps from amortization as well, but that is how the QoQ what looks like.

I do want to point out that in the profit after tax or net income you will see a difference in the net income that you see in the US GAAP accounts versus the Indian GAAP accounts and that is for the simple reason there is a difference of about Rs.70 crores or $10 million which is basically arising out of the cap treatment of the tax cuts or tax changes that the government of India has done. So, under US GAAP we can take that into the books. Only one it has been enacted by the parliament in this case, but in IND AS the GAAP's requirement is that we need to take into account once it has been what they call substantially enacted. So, that is the reason for the two GAAP statements to have a different profit after tax and the IND AS one is about Rs.70 crores or $10 million higher for that reason. Cash EPS for the quarter is up by about 19% and 17% YoY and as I mentioned in my quote at a level of Rs.88 plus per share in cash EPS terms.

The third thing I want to flag off is in the P&P business, we have been used to and you have also got used to seeing a certain seasonality which was largely driven by IBM sales cycle and their seasonality. So, they are being a calendar year company, the heaviest quarter for the year used to be December quarter. To some extent it would be so far us well in terms of renewals but in terms of license revenue which is really the one that makes seasonality difference in terms of quarterly seasonality, that is something we are in behind the process of ramping up, we just have one quarter under the belt and as Darren will walk you through in much more detail, we have had a great start to that business and every week we continue to get better and better in just doing those. We might call it renewals, but it is really as far as HCL and those customers are concerned, it is really practically a new contract that we are signing with thousands of customers every month and every quarter.

Because of the P&P segment and that includes not only P&P but also the ERS segment, we have started showing R&D investment separately as a P&L line item. This is below the gross margin and obviously above EBITDA. That is a meaningful number and as we have talked about in several context that number which reflects the investment close to 50 million every quarter is what we are putting into those products. So, we are calling that out separately and you can see on QoQ and on YoY basis these numbers are going up quite a bit.

My last comment is the board decided to give a Diwali gift to all the shareholders, and that is in the form of 1:1 bonus issue. That bonus issue since we have announced it today, we have about 60-days to complete all the legal and regulatory compliances and we hope to have those double the number of shares the extra 1:1 bonus shares in the hands of investors latest by 22nd December. So, that reflects our confidence in the numbers going forward. We have been calling it out in cash EPS terms, we have been calling it out in the guidance on the top line and we are confident that will translate into good net income and free cash flow as well and the board is reflecting that confidence by giving out that 1:1 bonus issue.

With that, I will hand over the section to Darren to walk us through the most exciting happening during the quarter.

Darren Oberst: Very good. Thank you, Prateek and thank you, everyone. This was a pretty exciting quarter for us. In HCL Software business, we launched it as a brand at the start of the quarter. We also launched our operations. We wanted to play a little bit of color commentary to try to bring it to life, to give you a qualitative sense of what were some of the key activities, what were few highlights, what were some of the things that were really notable out of this first quarter and really presented in three parts: The first is really welcome to HCL Software. I cannot emphasize enough what an exciting quarter was for us, engaging with thousands of new customers all over the world, in every industry, in every geography and certainly across every product that is part of this portfolio. Thousands of face-to-face customer meetings with our sales teams, technical teams, product management teams, marketing teams and the key message is "Welcome to HCL." We are really excited to have the opportunity to work with you. The message is that we try to bring to all of these customers and in this first discussion is we want to make the transition as simple and easy as possible. So, we provided a lot of online forms, very simple way is to register and start onboarding and working on HCL systems as quickly as possible. We also emphasize the core HCL value that will be transparent through this process where there is feedback, where there are issues in order to move really quickly to address them and to fix problems as we see them or as we get feedback from customers. And then really the most important one is reiterating out to the market to all of our customers and partners around the world. They were committed to their success. We are committed for those that have deployed these products or working with them or embedding them in their solutions, we are going to help them to be successful. That they are going to see in a sustained velocity and investment in the product roadmaps, and again as part of our core DNA as a services company, the moment for us is not selling the software, it is helping the customer to derive value from it in implementation.

A few metrics that we wanted to capture just to give you a sense for the scale of the outreach. We had over 50 webinars outreaching over 8,000 customers. We actually recorded over 200,000 visitors coming to the new HCL software website that we launched on July 1st. We had over 35 trade shows and technical connects all over the world bringing power users and customers together.

Couple of things in terms of social media outreach. We exploited the wide range of social media channels both paid and organic, resulting over 10 million impressions in the quarter just on our software products. A couple of things again were just interesting metrics of 42,000 videos that we posted on Facebook often times coming directly from our engineering, our product management teams were viewed out in the market by customers and partners, about 17,800 videos a quarter. So, that is really the key message that I think we wanted to convey was this quarter was really all about connecting with customers one-on-one, connecting with customers in a scale basis, really there is no concept of welcome to HCL Software.

If we move to Slide #21, the second key message that we wanted to convey was also about being open for business. And one of the things that we have been building over the course of the last three years is really scalable foundation in terms of people processes with systems to operate as an end-to-end software value chain. This quarter was one we are open for business in scale.

Few other key metrics around that:

First, in terms of the software sales team. Dedicated software sellers are deployed over the world team of over 400 on the ground this quarter in North America, Europe, Asia Pacific, Japan all across Latin America and with full complement of skills, software client directors, using manage accounts, product sales specialist focused on selling competitively their product and the product value proposition, a large global team on customer success and renewals as well as technical specialists for proof-of-concepts, demos, deeper technical engagements as well as teams focused on partners and resellers. We also put in place digital sales team in Ecommerce system to handle the very large volume of low value transactions. Typically, we will have many transactions that are in the smallest, $10,000. So, we have put a lot of the systems in place to make it easy to transact even for some of the smaller deals.

Again, this is one of the real highlights I think in terms of this open for business at scale concept. We registered over 1,300 partners and resellers globally, who are all ready to transact and really expand the global reach, bringing our products to their customers as well as embedding our products in their solutions.

It's just a couple of metrics in terms of the customer adoption. We actually had over 9,000 customers already, onboard fully and registered on our support systems and file support tickets. We had over 6,000 individual software download packages, so these are things like feature releases, fixed packs, other code updates actually downloaded through our software licensing system to existing customers. And then as CVK mentioned in the in the opening terms of the overall scale of the business, we actually executed over 1,500 total direct software transactions in our first quarter, consisting of both renewals and new license deals, actually in a total of 61 distinct countries around the world.

If you missed the next slide, Slide #22, this is really the third key message, product innovation. And again, once we get past some of the initial welcome messages to customers, some of the basic onboarding in terms of how we work together, how to transact. Really what it's all about for us, is leading with the investments we are making in the products, the acceleration that we are bringing to our product roadmaps, and some of the really high impact innovative features that we are bringing to all of these products over the course of the next several quarters. Now, in the current quarter, we had one major release. And generally speaking, this is something that we will be sharing in our quarterly updates. It's just a view of the major releases that we had in any given quarter. So, this quarter, we released the HCL Digital Experience 9.5, and it had three major high impact features. The first was around containerization of the product, for those who are more technical, embracing Kubernetes and Docker is really the foundation of cloudifying a product. And what it will result for a customer of this product is 10x, at least, faster deployments. We will also have going forward now a continuous delivery model for future releases and enhancements, making it very easy for our customers to dynamically deploy new code updates.

We also rolled out a very rich set of rest APIs to enable micro services, that will also enhance future delivery to bring new components to market faster, as well as really easy integration with other products and tools in the customers' environment. then finally, we made a lot of investments to really put a very new look and feel on the product in terms of new UI, their new design templates, and really investing in bringing some really beautiful out of the box UI to transform the experience of the user. I wanted to take a minute to walk through these three features because they really embody a lot of the themes in terms of architecture, modernization and innovation, that we are going to be bringing across this portfolio in quarter to come. So, hopefully that brings to life some of the things that we have been doing, and some of the key accomplishments from our first quarter.

At this point I will pause and headed back to CVK.

Sanjay Mendiratta: Thank you, Darren. We now open the session for the question and answers.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin a question and answer session. The first question is from the line of Pankaj Kapoor from JM Financial. Please go ahead.

Pankaj Kapoor: Sir, I actually had a couple of questions on the HCL Software. So, you mentioned about the migration of contracts from IBM to HCL Software. So, are these migrations happening on the same time period as what was there in the original contracts or when we are migrating, we are looking at a longer time duration for these contracts? That was one

Second, are the contractual terms also similar as what IBM had with them? Or are we changing any terms in terms of the, say, upfront payment of licenses or in terms of the mode of charging itself? Like moving from upfront payment to, say, a SaaS based kind of a model.

Darren Oberst: It's a great question. So, generally speaking, we are not changing the terms and conditions, and at least so far, and it's still early days, it's our first quarter, we have not seen a lot of pressure from the market or from customers to change the terms and conditions that are in place. Again, anytime you are looking at 1,500 contracts and you are talking of hundreds and thousands of scales, of course, there were exceptions to that. But generally speaking, the terms and conditions are fairly similar. Likewise, in terms of the time durations, most of the contracts that we have renewed are annual contracts. And substantially that is what has been renewed, is to continue annual basis. There are some customers that have looked for longer term commitments, and we have entered into longer term contracts. Again, I think it's probably a little too early to draw a definitive conclusion about what the direction of that will be. But at least that's what I would report out from our first quarter, it's been largely consistent with terms and conditions and duration that were in place previously with IBM.

Pankaj Kapoor: Sure. And just to clarify, how are we recognizing these revenues, I mean, the licensed revenues are we taking upfront or are we are amortizing it over a four quarter period, if its annual contract? Just some clarity on that also will help.

Prateek Aggarwal: Pankaj, there are two or three types of contracts, and while I don't want to get into the last level of detail of that, in principle the license part of whatever is sold is recognized upfront. And the remaining part goes recognized over the next one year. And as far as the AMC part, annual maintenance contract part is concerned, that is spread over the next 12 months basically.

C Vijayakumar: I want to add one more perspective. While the contracts are getting renewed largely at the same terms and same duration but given the spirit of customer base and the geographies, a lot of customers will need introduction to HCL, and that's what our sales teams are meeting with the customers and getting the HCL introduction done. And obviously, to kind of redo the contracts in HCL paper is very process driven So, that kind of makes the effort quite onerous when we are getting started. But as we get into the subsequent quarters, while till we reach the full customer base, this is going to be a mega effort, but after that it would be business as usual.

Pankaj Kapoor: And CVK, sir, what would be the duration, like how much time you think it would take us to complete the full set of migration?

C Vijayakumar: I mean, logically it will be four quarters, as a large part of the revenue is annual, there a set of customers who came for renewal in Q2, now some more will come up for renewal in Q3, Q4.

And next year Q1 we would have gone through the full cycle and covered the whole base. There could be a very small percentage of customers were there was a three kind of a year contract, so there it may be whenever it comes for renewal. However, for those customers, that deferred revenue is in our books, and they will recognize revenue accordingly.

Moderator: Thank you. The next question is from the line of Parag Gupta from Morgan Stanley. Please go ahead.

Parag Gupta: Just two questions. Firstly, on the products business. So, you did talk about the renewal cycle and I can understand that it's early days, but have there been any conversation with respect to synergy revenues, incremental revenues on top of what you have already called out in the past? So, that's the first.

And the second is just on your core business per se, going into second half, or would you like to call out any kind of headwinds in a part of your business that we should watch out for?

C Vijayakumar: Parag, thank you. Both are very nice questions. In terms of cross-sell, I mean, there are two types of cross sell that we anticipate in this customer base. One is with all these software product relationships, so we have other software products in our portfolio, that could be one area where we could up-sell. The second is the broader set of HCL services could be sold to these clients. The focus and intensity in the last quarter and even in the current quarter is going to be getting the renewals done. And the emphasis on cross-sell was a little low. However, even without any sharp cuts as we see a huge number of leaks for some services or products that we have in our portfolio, for example, a Retailer in Australia, a very large Retailers in Australia who was a client or commerce product, once they knew about HCL owning this product, they gave us a work to do over the integrations, which is not just the product, but all the integration services, which was a good to $20 million deal, which is a very, very encouraging sign of what we can do. And the number of geographies like Japan, LATAM, even in Germany our presences now very meaningful because of this business. In fact, with this business in Japan we will potentially be the second largest India heritage player in the geography. So, I think there is a lot of good signals of what we can do. And we remain very confident and optimistic of leveraging this big opportunity ahead of us.

The second question you asked was about the commentary on the industry or the market in the second half. While we share lots of concerns on the macros, fortunately for us we have a good booking in the last quarter and the outlook for the second half, we continue to forecast some level of growth, which is what is giving us confidence to increase our guidance.

Moderator: Thank you. The next question is on the line of Sandeep Shah from CGSCIMB. Please go ahead.

Sandeep Shah: Just wanted to understand, when you pitch for the renewal of the HCL Software, which used to be earlier than IBM software, is it the branding impacted you were any of the client has actually not renewed, is there any such instances which you have seen in the first quarter?

Darren Oberst: No, we have not. Again, it's early days, but no, we have not seen any impact, we have not seen any customer come back and say, I will only work with IBM, I was an IBM customer and I am not interested in bringing a new vendor, I am not interested in working with HCL. We haven't seen a single case of that yet.

C Vijayakumar: And I also want to add to what Darren said, a lot of customers want to understand what is your roadmap for the product, what is your strategy around upgrading of the products, that is the crux of the conversations that we have had. But what is also notable is, there are a number of clients who had stopped paying support services for these products, have reinstated their support services with us, after learning the roadmap that our teams have put forward to these clients. So, that is a very, very encouraging trend that we have seen right from the beginning of the last quarter.

Sandeep Shah: Okay. And CVK, in terms of the large deals, last year you had a solid year in terms of mega deal wins, this year first quarter deals of 2Q is good. How do you see the second half? You believe if the deal wins are not equivalent to last year or higher than that, the growth rates on organic front may slightly slowdown in the next year?

C Vijayakumar: It is a little early to kind of take a view on the growth rates for next year, Sandeep. But I think our pipeline is pretty much the same, or maybe marginally slower than what it was in the last quarter. And we do have big deals in the pipeline. And we see the whole opportunity landscape I think is ripe for disruption, with both the traditional players and some emerging players, all of them having some challenges in one way or other. I think HCL is very well placed to really harness the broader opportunity of capturing market share. And I am pretty positive that it will play out across many verticals. That's a mid-term kind of a view that I have. Of course, a lot will depend on the bookings in Q3 and Q4. We will keep you updated on that.

Sandeep Shah: Just last two in terms of the IMS.CVK, your earlier comment is, the pressure to renewal deals is likely to come down from second half of coming financial year or maybe FY21. Whether that trend is getting witnessed in your renewal trends with the client as a whole? And second, I think Prateek has said in the December quarter, though that is a seasonally heavier quarter for production & platforms, but as we are in the first year, this time the seasonality may not be that great. And as we move into coming years, the seasonality come back to original level. Is it the right way of looking at it? And at the lower end of the implied guidance for the third and the fourth quarter, we are actually guiding for decline of 0.6%. But CVK, you also said that we can foresee some growth. So, is it more like the lower end is more conservative and the midpoint or the upper end could be the reality?

C Vijayakumar: Okay. A lot of questions, Sandeep. So, we will attack it one by one. Infra business, obviously, I would say the answer is a little bit mixed. There are clients where we are seeing renewal pressure is quite high. So, the expectations of reductions are high. However, we are getting a lot of surround revenues. Actually, a lot of customers are looking at modernizing data centers and modernizing data centers can also give us an opportunity to modernize the application landscape. So, that's a completely new source of incremental revenue that we have seen. And the new deal momentum is also very good, the traditional players are really suffering due to various challenges, and that kind of augurs quite well for us to capture a bigger market share. And the opportunity pipeline is good overall, infrastructure business even if you take the top 20 players; it's a $125 billion annual contract value that's the install base. And we have maybe 3% to 4% market share. So, I think that trend is going to be intact. There will be pressure on existing customers, but if you continue to do well, execute well, then the more clients will move to us. That's number on.

Prateek Aggarwal: The second question was on the seasonality for the software business. I don't think it will revert back to the seasonality that used to be there when the products were with IBM. And that's for the very simple reason, every week as we get better and better on both the renewal and the new licenses, I would expect at least for the next three to four quarters to be sequential increases rather than going up and down in the seasonality that we used to see earlier. So, that's the expectation. It's early days and very difficult to give you a trajectory so early in the day.

C Vijayakumar: And pertaining to the guidance, we definitely are foreseeing growth in the next two quarters on the organic basis. On the HCL Software, you will see that we have delivered about $106 million incremental revenue. I think the ramp up in Q2, Q3, and Q4, I mean, from a contract year perspective for the HCL Software, I think the ramp up is going to happen gradually, so that might kind of not add up in your math. And that's where you are looking at a negative growth to meet the lower end of guidance. On an organic basis, we will continue to grow, that is our expectations.

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

Divya Nagarajan: Two questions, one, on the product side, you talked about the rollout that you have had during the quarter. And I believe that you are also planning to share the future releases that you have planned. But in terms of the key products that you have acquired, could you just give us an initial idea of what we should expect in terms of releases. And more specifically, the impact that we should see in financials because of those releases in terms of the seasonality or the timing of those releases? That is question number one.

And number two, on a bookkeeping side, Prateek, I thought you referred to the Indian taxes. So, current tax rates are below 25%, could you just clarify what you mean by that statement please? Thanks.

C Vijayakumar: Maybe we will have Darren respond to the product releases and the impact of that. And then Prateek will take the tax rate questions.

Darren Oberst: So, on releases, this is a core part of our strategy. And so, for each product we have rolled out a release schedule as part of their roadmaps with major releases, major enhancements to the product. So, that is rolling over the course of the next four quarters. And that will be for each of the acquired products, as well several additional products that will have these major releases.

Those are definitely events that we will be doing a lot of marketing, a lot of selling. It will be an opportunity to go back to existing customers. So, a lot of the cycle of our business will be driven around those releases. Now, I think the real question you are asking is, what will be the financial impact and how should we be modeling that? I think it is too early to say that. I do not think we have a track record yet to establish what we would anticipate, whether that is concurrently with or after or what the flow would be of that financial value capture around each of these releases. And so at this point we are not giving any guidance around it. I mean, again, it will also be very dependent product-by-product. Some of these products, a lot of the release and those enhancements will be solidifying the commitment from existing customers. For other of these products, a lot more of it will be measured in terms of new logos and significant growth. So, unfortunately, I just cannot give you a general answer to the question at this point.

Prateek Aggarwal: And Divya, taking your next question on the IndAS tax rate impact. Let me go into a little bit of more detail. So, you are absolutely right, our India standalone effective tax rate is quite lower compared to the 25%. And therefore, for several years in the future we do not expect to go for the 25% concessional tax rate, which also requires giving up a lot of pent up tax benefits which are in the balance sheet, MAT credit and all that. But the $10 million impact, which I spoke about, is basically on the DTL, the deferred tax liability that we started creating last quarter. And that is the long-term deferred tax liability as we discussed, it's actually not going to be payable to anybody in foreseeable future at all. But what that tax rate does is instead of making the deferred tax liability provision at 35%, beyond the date when we will switch to 25% tax rate, that instead of taking it at 35%, which is what we were doing till before the tax rate cut, for that period in the future we now take it at 25%. So, that is the change which has come into effect already in IndAS and will come into effect in the US GAAP.

Moderator: Thank you. The next question is from the line of Sumit Jain from Goldman Sachs. Please go ahead.

Sumit Jain: So, Prateek, first question for you. I remember when we announced this IBM acquisition; we had a view of clocking $625 million in the first year of acquisition. Now, given this quarter, we have clocked around $100 million. And it is still quite early days, and we are trying to renew a lot of contracts. So, what visibility do we have at this stage to complete that vision of $625 million?

Prateek Aggarwal: Yes, Sumit. So, Sumit, given what I described to you on the amortization, I am sure you would have made out that purchase price accounting does affect the revenue recognition. But if you were to sort of adjust for that, we would be well over the number that you talked about. Having said that, we don't really intend to give separate guidance on any segment. We had given that guidance at that time the deal was done to sort of explain the deal in that sense. You will have visibility and to the gap segment numbers, that is the reason starting this fiscal year we carved it out as a separate segment. And from the EBIDTA and EBIT you can make out that we are well on track to deliver those numbers, though the revenue number in it, as reported sense, may not exactly match up to that number, but the EBITDA and EBIT certainly would.

Sumit Jain: Right, that's helpful, Prateek. And secondly, on the SG&A front, I mean, just wanted to understand what kind of level are we going to have in the coming quarters. Given that, I mean, we could read quite a lot of initiatives to market that product. And I mean, I don't know what levels will we operate. So, if you can get some clarity out there.

Prateek Aggarwal: If I understood you must question correctly; you are talking about SG&A only in the P&P segment?

Sumit Jain: I mean, in the P&P and as well as on the overall basis, so is there any one-off in this quarter because of which may be SG&A expense as a percentage of sales was lower than what we had in the previous two quarters?

Prateek Aggarwal: I don't think there is any significant one timer, I mean, in any quarter there will be one or two small one timers, plus or minus. But as far as the number of this quarter is concerned, it already takes into account all the upfront investment we have done in the P&P business, it takes into account the additional investment that has come in this quarter, so it is steady state. Though I would expect it to inch up a little bit because being a startup, all said and done, while we substantially fulfilled all the positions we want to, there might be some people who joined in the middle of the quarter, the full quarter impact would come. So, it might end up marginally, of course, but it would be in the similar kind of ballpark I would expect.

C Vijayakumar: I also want to add that last quarter there was some one-off the cost that hit the SG&A line items, which was not there this quarter.

Moderator: Thank you. The next question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: CVK, I think last time you did mention about the traditional players sort of weakening, and you mentioned the same thing this time as well. And then potentially being room for a new peak in deal wins, potentially in Q3, do you still stand by that thought process?

C Vijayakumar: Yes, Nitin. We have some large deals in the pipeline. I am only hoping that they will all conclude as we had planned. But if some of that slips for the early next year, then it may not play out exactly. But I can tell you there are good pipeline of deals from incumbents who are getting a little weaker. And you are also seeing us proactively expand some of our footprint there in some of the geographies to kind of support that growth. So, we remain confident of addressing that opportunity to our benefit.

Nitin Padmanabhan: Sure. But the do you think relative to last quarter, this time do you think the macro sort of impacting these worries you on the timing of this closures, is that what you are saying? Or it would be longer than what you originally anticipated in terms of closures?

C Vijayakumar: See, I think there are two types of businesses. One is a digital transformation and legacy modernization; there I think the timing could be a little bit impacted by some broader industry situation and things like that. The renewals, it also depends on when the renewals are coming to an end for the incumbents, and a lot of times customers initiate a renewal process well ahead of time. So, once they reach a certain level in their evaluation process, they will kind of time the closure to when they really need to close and transition. So, I think there are a few dynamics which comes into play. So, I would want you to interpret my commentary as something which is a more of a medium-term trend rather than the next quarter peak in bookings.

Nitin Padmanabhan: Sure. And just lastly, I think excluding the products business, if we look at the Financial Services, Retail, what would your thoughts be on the services side for these two businesses?

C Vijayakumar: Rahul, you want to provide a color on the Financial Services?

Rahul Singh: Right. So, let me just talked about Financial Services. So, basically when we are looking at the Financial Services market, essentially you can break them up into two or three segments. Number one is one which is seeing a huge amount of digital work, right. So, if you look at the Retail space, I am talking to Retail banks are not Retail industry, but Retail banks. We are seeing a lot of pickup happening in digital transformation which is driving our growth and also growth for the Retail banks. Now these Retail Financial Services require almost a front to back kind of a digital transformation. There’s an element of UX, UI, there is an element of microservices, there is also an element of data and analytics which goes into these transactions. So, our Retail banks are seeing that kind of a momentum which we, as called out earlier, as we define the services under Mode-2.

When I look at the capital market side of the house, that is where most capital market banks are facing a lot of pricing pressure, the interest rates are very low and so on so forth. And plus, some of the capital market firms globally are also seeing certain amount of consolidation and reduction of work. So, we are seeing a little bit of compression there. However, within the capital market, firms, banks, if you focus on segments like the regulatory segment reporting where, again, data and analytics can play a big role, we are seeing a certain amount of digital transformation happening there as well. So, I think in summary, if we choose the areas within the Financial Services segment to focus on, you can be a little bit impactful, especially with the Mode-2 services. On the Mode 1 services, yes, we have certain amount of pressure in some of our existing accounts. But as it called out earlier, I think we have enough business coming on the Mode-2 side, digital side, which is offsetting some of that. So, we are seeing good growth, especially as I mentioned earlier, Mode-2, digital, and Retail segment of our portfolio.

C Vijayakumar: And commenting on Retail-CPG, well, the first half was reasonably good in terms of bookings and revenue translation, this quarter will be a little soft because a lot of projects are either completed or customers are in a freeze. But the product commentary from a medium-term perspective remain quite positive. And there is also going to be some influence because of the commerce product itself will help us open up a few more opportunities. That will also help us to be in a very strategic element of our clients’ business landscape. So, I see that as a differentiator for us moving forward.

Rahul Singh: I also want to just add to what CVK mentioned. In the banking space there are a lot of the banking, you know, what you would call as OEMs, large platform companies which are good client base for us from our engineering services perspective as well. And last quarter itself we had some wins in the Financial Services space, more in the OEM or financial products, companies which make platforms for the companies.

Moderator: Thank you. The next question is from the line of Ashwin Mehta from IDFC Securities. Please go ahead.

Ashwin Mehta: I had just one question in terms of our products and platforms business. So, on the IBM products and platforms that we have acquired what proportion of business or customers have we contracted on it with HCL? And what is the level of attrition that we have seen in terms of renewals with these customers, is it largely in line with expectations, any surprises there?

Darren Oberst: So, it's still a relatively small part of the total customer base. And so, this is not an aggregate value statement. But we share the 1,500 transactions, again, just to give you a kind of a rough denominator, it's around 25,000 total customers. So, that can give you a sense of... it's still a relatively small base of the total customers. And some of that is seasonality, typically the summer months are pretty low transactional volume. We will certainly see a much larger percentage in the upcoming quarter, with the end of the calendar year. In terms of the attrition trends, of course, anytime you have such a large base of contracts there will be some non-renewals, there will be some customers that have moved off the product. So, again, its early days, but the trend that we have seen so far is in line with what our expectations were, what we have modeled in the business case.

Ashwin Mehta: And Darren, in terms of period over which we think realistically we should be able to transfer most of these customers on to our roles, what would be your assessment of that?

Darren Oberst: Is the question just how long it will take to complete that process?

Ashwin Mehta: Yes.

Darren Oberst: It will be, you know, CVK had walked through; it will be linked to the timing of those renewals. So, those renewals will happen. Every quarter over the first year of the first anniversary we will pick up the overwhelming majority of those transactions. And then there are relatively small number, but some that are larger in size that are two, three year contracts. So, every quarter you are going to see a significant new block of customers moving over on HCL paper directly. And that will be very heavy over the next four quarters, and then there will be a tale that will extend in the quarters beyond that.

Ashwin Mehta: And typically, can you can you give us an idea in terms of from licenses to implementation to AMC perspective, how does the portfolio look in terms of say, AMCs, what proportion of the license typically for these products?

Darren Oberst: Sure. So, we would call support and subscription, but it's the exact same concept as an AMC. It is typically 20% of the of the license value on an ongoing annual basis. So, there are some exceptions, but that is the general rule.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I know hand the contents over to Mr. C Vijayakumar for closing comments. Over to you, sir.

C Vijayakumar: Yes. In summary, we have had a fantastic performance, we remain fairly positive about momentum going forward. So, thank you everyone for joining this call. And wishing you a happy holiday season ahead. I look forward to seeing all of you or most of you in the Investor Day, early next month. And I am sure we will have a very rich set of messages and offerings that will be showcased to you. And look forward to seeing all of you and have a good evening or a good day, wherever you are in the world. Thank you.

Moderator: Thank you very much, members of the management. Ladies and gentlemen, on behalf of HCL Technologies Limited, that concludes this conference call. Thank you for joining us. And you may now disconnect your lines.