"HCL Technologies Earnings 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. Anant Gupta. Thank you. And over to you sir.

Anant Gupta Thank you. Good morning, good afternoon, good evening everybody and welcome to the 3rd Quarter Results Session. Overall we had another quarter of robust performance.

Our revenues grew by 3.2% and on constant currency by 3.8%. Net margins for the sixth quarter had a positive movement up, standing at about 16.2% and for the 12-month period ending March 31st, 2013, we grew by 51.5%. EBIT margins are up by 10 bps over the previous quarter at 19.9% and up by 420 bps on a YoY basis. If we look at some of the other elements with respect to where this growth has come, I would largely sum it that it has been a broad based performance, so if you look at specific contributions on a LTM basis YoY on constant currency most of the application services which include enterprise application engineering and custom application grew by 9% which is pretty much in the top-quarter performance with respect to the industry. Infrastructure services grew by close to 32% and BPO around 8%.

From a sectoral standpoint obviously we have some outliers like healthcare which grew at 57% but despite that Financial Services at 14.5%, Manufacturing at 10%, Media Publishing & Entertainment at 15.7% and public services which include Energy, Utilities, Logistics and Government at 12.9%, pretty much a healthy broad-base growth across the board. Telecom continues to be an area of challenge. Although this quarter we have seen a 4.7% growth but overall we do not see any specific signs of recovery in that specific sector.

From a geography perspective Europe continues to lead the charge with a 22.5% constant currency growth on a LTM basis, America is at 13.3% and Rest of the World pretty much in line with the strategy at 6.1% where the focus is on a few select markets given that the potential in the European and America's market continues to be very strong.

Another key element which I thought will be useful from a go-forward perspective really is an interesting data point from TPI or ISG which is around the whole restructuring market. The overall quantum which is there for calendar year 2013 was initially projected around $50 odd billion dollars. The interesting statistics which we are seeing which is reported by them is actually the convergence of the quantum of the bids which are coming in as new scope versus quantum of bids which is coming in through restructuring, they are pretty much all around 50% each in the first quarter of 2013, which is kind of pointing to the fact that there is a lot more action really happening in the restructuring space whereas the new scope continues to be a challenged market.

With that I will have hand over the call to Steve.

Steve Cardell Thanks Anant. So we will take a look first at enterprise application services. What we can see there is that we had a 4.4% Q-on-Q growth this quarter and I think I would position that in the same way that I have for the last four quarters which is discretionary spend comes and goes each quarter. What we believe we have is a strong position where deals are in the market our win rates are very strong. So what you see this quarter was a number of discretionary deals that gave us a strong growth in the quarter and we look forward quarter to quarter to see what business is out there. Certainly we see an increase in the newer technology areas from Oracle and SAP playing a more significant role now particularly in the shorter term discretionary projects. So the cloud applications that both Oracle and SAP have put in the market particularly the fusion applications from Oracle and success factors from SAP were starting to see some traction that we picked up three Oracle Fusion new wins in this quarter. We are seeing more mobility project particularly on the SAP side, surround services to implementations that we are doing. And we are starting to see a demand coming through for SAP's in-memory platform HANA particularly now that they are moving out beyond just business intelligence and onto the core business bit.

One of our strength there is which is the asset intensive industry so Enterprise Asset Solutions including our own proprietary product, IMRO continues to demonstrate wins in the marketplace and so part of the momentum we have this quarter was some additional add-on work in oil & gas utilities in aerospace in defense, all of which are industries that lean heavily on the IMRO solutions that we have had. The other trend that we see in the market place which has been going on for several quarters now is clients trying to move away from a high implementation cost and then a small ongoing run cost, so effectively the concept of cloud pricing but more broadly even for on premise saw a smooth managed service type payment profile, even for implementation services.

One of the recognitions that we received this quarter was from the Police Service of Northern Island program that we have been running with them jointly with Cable & Wireless was awarded the IT Excellence Award for the Mobility Solution and just continues to cement our position as the market leader in Mobility Solutions. So overall, for EAS, a strong quarter but one that we are looking at quarter-by-quarter.

And then if I move onto public services, our focus on public services and by that we are covering four vertical areas, so Oil & Gas, Energy & Utilities, Travel Transportation & Logistics and Government, what we have been focused on there is really building a position in for some of these that are quite emerging verticals for us. And so this quarter we saw particularly strong growth of the back of some of the deals that we booked last quarter starting to deliver revenue run-rate. These four sectors have some common elements so I talked about the asset intensive industries. We have a strong offering that's driving part of our growth and also on the customer service and customer interaction side with some of our mobility solutions are helping us differentiate in that marketplace.

Just also highlight one particular solution, so in the US government space we have a product that we developed called iGovern that helps with state and local benefit payment processing and we have picked up some good momentum with that offering and that's also contributed to the growth. Travel Transportation and Logistics we have had some strong progress in the airline market, again particularly in North America where quite a few of the large American Airlines now are clients of ours and we are expanding the services that we offer into that marketplace.

Last thing just to highlight here specifically from utilities market we have developed a product called iCare which is a proprietary HCL solution that enables customer service queries through multi-channel routes to be processed in a much more efficient and productive manner through predicted core recognition and predicted client queries. And that has given us a good momentum in utilities marketplace and it is a product that we are now pushing on a broader scope. So, good performance for the quarter in a vertical set that is relatively emerging for us. I will pass over to Rahul to talk about Financial Services and Business Services.

Rahul Singh Thanks Steve. I will start off by first giving a commentary on the BPO and then the highlights for this quarter. So we are very happy to report that we have had the fifth consecutive quarter of positive EBIT margins on BPO. So people who are tracking the BPO business of HCL will recall that around 2.5 years back we had troubled BPO which was running at a negative 10% margin. So that has turned around now and we were able to record five quarters of positive margin and it has been 540 basis points improvement on a year on year basis and if I were to look at 2-year basis it is about a 1500 basis points improvement. Also during the year on a LTM basis our constant currency we have seen 8% volume growth in the BPO business. Now so far the demand environment is concerned we continue to see clients asking for increased value in terms of outsourcing some of these sectors, so clients are looking at more than the cost arbitrage in terms of the value that we can create and this incremental value could be in the form of higher outcome, higher output, could be in the form of transformational changes, reengineering of processes, industrialization of some of the service clients, creating shared centers and in general more outcome and outsourced based business models where the clients look at multiple stacks beyond BPO which is BPO plus ITO in some cases in terms of delivery. So that is exactly where we are focusing our BPO energies into. So we did say a couple of quarters back that we have identified a growth segments within BPO which we are calling as growth BPO areas and are very happy to report that this quarter more than 51% of our top-line in BPO comes from what we have defined as growth BPO areas which are essentially where we have got a very sharp focus on a few verticals, banking, insurance and healthcare and on enterprise business services on few horizontals basically financial accounts and SCM, basically the Supply Chain Management.

Also if I look at the book deals 75% of DCB that we have booked in the last four quarters are in our growth BPO areas, thereby signaling that we have been able to transition from a voice-based BPO that we had earlier to essentially high quality industrial BPO which can take us forward into the future. This has also been recognized by the analysts and we have found that Everest has rated us in improving quadrants, top five right now in HCM capabilities and last quarters they had also rated us as a major contender in banking and capital market areas. ISG has rated us amongst the top-15 ITO providers for 2012 and Nelson Hall has also been constantly rating us up. So recognition coming from advisors and also coming in the form of deals wins especially in growth areas and also in positive improvement on our EBIT and that is the story of our BPO side.

Very quickly we will talk about what is happening on Financial Services. Financial services, we have seen LTM growth of about 14.5% over the last 12 months and we have clocked total LTM revenues of 1159 which is about $1159 million. This quarter of course we had a muted growth I would say, but if I look at it on a year to year basis we had an 18.6% growth on the corresponding period for the quarter a year back. So far the demand environment is concerned we do see healthy pipeline coming across services lines and geos. Our clients essentially in Europe and the US are faced with tighter budgets so the general commentary in Financial Services is that because the top-line of financial performance is not growing there is a tendency to look at cost and therefore services which we offer to the Financial Services sector which target cost reduction, i.e. improved productivity either thought run the business services such as infrastructure, application services or the BPO services are what is doing well in our target markets. At the same time we have also seen that Financial Services firms are having certain amount of discretionary spend happening in what I describe as areas where they really do not have a choice and they cannot postpone. So for example specially in areas such as customer experience management lot of Financial Services firms are spending new money in terms of increasing channels of communication with the customers spending more money in the sales channel on analytics and CRM, so we are finding some discretionary spends happening there and we are able to pick up some volumes from there. And so also spend happening by our clients in terms of compliance and including regulatory framework that they operate in, so we are seeing some spends happening there on the discretionary nature which we are also able to pick up. So in summary a combination of momentum in RTB deals which is application, services, maintenance, infrastructure and BPO is what they are seeing in the Financial Services. We are also seeing a set of vendor consolidations happening in the marketplace where we have been able to win some deals where the clients are looking at geo-vendors and somewhat they have and another important point about HCL Financial Services is a good mix of businesses we have across Europe, US and rest of the world. And the reason why I mentioned this is because I feel that while the US and European market is where the discretionary spend has come down and where there is higher focus on RTB. The rest of the world still continues to offer certain amount of discretionary spend happening because of the growths of the geography that are happening there and we are participating in that and therefore we do feel that they have a good mix at this point of time across multiple parts of the globe. In terms of recognitions we are continuously recognized by multiple firms and we have been winning some awards as we mentioned here. I would like to hand it over to Anant and he will have a couple of comments.

Anant Gupta I would like to actually introduce a new member on the panel today over here. So we have Srikrishna who is going to take us through the infrastructure services and healthcare. Sri has been with the infrastructure think-tank team since the beginning and healthcare portfolio was added about six quarters back. Sri, over to you.

R. Srikrishna Thank you Anant. Hello everyone. From an infrastructure services business perspective we had another strong quarter with 9% growth sequential quarter and close to 32% on LTM YoY basis and 41.6% on a quarter to quarter YoY basis. And so the business now LTM revenues is close to $1.3 billion and aside from the healthy growth in top-line, our EBIT grew faster than the top-line and that was up 11.5% quarter on quarter. And that is due to a number of initiatives on creating nonlinearity in our delivery models that is specifically focused on increasing automation. Historically, our demand has been driven by the rebid or what we call the Gen-2 outsourcing market. That continues and we do not really see a let up in the demand from that environment, while there are market reports that indicate that overall demand may be slowing down. What we are seeing as opportunities in HCL's pipeline continues to be strong. We see potentially about $50 billion of addressable market opportunities through to CY 2015 end. A lot of the demand in this market was historically driven by transformation in the data center space and customers exploring adaptation of cloud and especially a private cloud or a hybrid cloud model.

While that continues and is extremely strong, we are seeing a new trend emerging which is an additional growth driver which is what we are calling as transformation of the workplace. What really this is, is when an employee walks into his or her workplace the technology that surrounds and enables the employee to do their job well. We are seeing as a new generation of employees enter the workforce their demands from the IT departments are very different from what typically corporate IT provides because they have grown up using technology in a more flexible manner than what typically corporate environments provide. And hence there is now a user pressure on corporate IT to transform and provide better mobility, more choice of devices and more flexibility in the workplace. So while this is an early trend, we are seeing this as a potential significant additional growth driver to ones that are already existing.

Now all of this has resulted in our continuing to win a significant amount of business, both new and existing customers. So we have added 18 new logos in this year YTD which is three quarters. We have also seen some significant growth from our existing customers both on an incremental basis and substantial new scope being added. About well over three quarters of the business we win in the infrastructure business continues to come from rebid or customers that were outsourced to another, usually western major outsourcing service provider. From a geographic perspective Europe for the past few quarters or past few years in fact has been growing faster than US while US has been growing even faster. That continues, we are seeing that momentum continue to drive and within Europe there are some pockets where we think we have reached a position of some dominance especially in the Nordics areas. We continue to be recognized as a leader by every analyst, every analyst report and every continent would pick one here as an example of the workplace transformation. Forrester Research Report recently which rated vendors around the world and there were only three people that wand up on their leader wave and out of the three there was only one IOP which is HCL. But more importantly Forrester in the report termed our vision for the workplace of the future as powerful and the best of the world.

There are many customers that have recognized our approach to data centre transformation as best in class and we continue to invest in solutions under framework of what we call enterprise of the future so we have a set of solutions which are a blueprint for how any enterprise should look like and this varies by industry and vertical and there is a significant investment we are making in building and taking these solutions to our customers for enterprise of the future.

On Healthcare – all of us know that healthcare spend is a significant problem area for many countries especially the US which is our largest market for healthcare services. US spends about 18% of GDP on healthcare and due to an aging population that there is an upward pressure on that 18%. On the other hand clearly that is an unsustainable number from a budget perspective and there is wide spread recognition that may be up to a third of that spend is wasted and it is an exciting time for us to be in the healthcare IT space because we think IT can fundamentally change and impact both the quality and effectiveness of healthcare delivery and also dramatically improve or reduce the cost of healthcare delivery. Now our customers recognize this so across the value chain if we think of pharma they are rethinking about what is core and what is context to them. They are rethinking not just outsourcing technology but entire functions of business processes which include the technology.

Payers are, the biggest cost and pain area for payers is claims processing and what was thought of is very core to their business. There is significant willingness and shift in thinking we are seeing to outsource all or parts of claims processing and associated with those managing members, managing patients, managing fraud and abuse in the claims processing so we are seeing a big shift in thinking that. Europe is not immune to this while the payer market is a single payer in the Europe which we are now addressing, the pharma market there is a substantial footprint of large and medium sized pharma in Europe and we are seeing that like we saw in the infrastructure space that market is opening up and becoming alive to global outsourcing vendors like HCL and shifting away from giving work to typically local European players.

Now again, all of this has resulted in a significant momentum in newer kind of acquisitions. We have added 9 new logos year to date in the past three quarters and we are seeing significant growth opportunities in the payer segment. We continue to build propositions and solutions that we think will address and take advantage of the several market opportunities created by the Affordable Care Act, so we build solutions for example, for member experience management because we expect 30 to 50 million new consumers to come into the healthcare insurance system.

I will hand over to Anil.

Anil Chanana Good afternoon, good morning. So I am on slide #17 and this gives the overall financial picture this quarter and last quarter, a year before. So this quarter our revenues are up 13.6%, EBIT is up 44%, net income is up 59% and the earnings per share in US dollar term are up by 60%, while if you look at it in rupee terms they are up 74%. So our earnings per share in rupee terms is Rs. 58 annualized. The constituents of growth – the 3.2% quarter-on-quarter is the reported growth while as Anant mentioned it is in constant currency terms it is 53.8%. Also noteworthy is that we are not only growing in infra but also in the software services where our growth is in the upper quadrant of the industry growth. So if I look at on a last 12-month basis the Enterprise Application Services have grown by 9.6%, the Engineering and R&D services have grown by 9.6% and the Custom Application has grown by 8.7% and these three constitute what we call as Software Services, which is like 9%. And infra has grown 32% and BPO has grown by 8% in this period.

If we look at the FOREX and other incomes, this quarter we had the benefit of hedge gain of US$4.3 million, opposite US$2.3 million of loss we had last quarter on hedge side. We continue to follow a layered hedge policy and there is a slide later in this presentation which talks about our hedge book. In terms of 4.3 million, where it came from the cash flow hedges gave us a gain this quarter of 3.4 million and the balance sheet hedges also gave us a gain of close to a million dollar. So net-net it was 4.3 million. If you look at the component of other income, it is higher this quarter from 5.1 to 12.2 couple of reasons here. One, of course we sold capital stream business. Second, what happened was that the other income, the shares of equity investments which we have in our joint venture also closed as part of the other income, so that also adds and thirdly when we move the portfolio**,** let us say I am in mutual funds investments, I am moving from let us say I am en-cashing my investment in the mutual fund in the debt scheme, I record that gain in the quarter in which that redemption happens. So these are a couple of reasons which introduced variability in this other income figure.

Going further, last eight quarters is a very interesting slide and I took eight quarters, so four quarters ending March 2013 and four quarters ending March 2012. If you draw a dividing line between the two and look at the EBIT margin, last year till March 2012 our EBIT margin on an average was 15.3%. In the last 12 months ending March 2013 our EBIT margin is 19.6%. And if you look at the net income it was 11.3% for the 12-month period ended March 2012 and it is 15.2% in the period which is ending March 2013. This is a sixth consecutive quarter of net income margin expansion and if we sort of say that what has been the growth in revenue versus the growth in net income, and by compounding it on a quarterly basis, the revenue has grown by 3.2% and the net income has grown by 12.3%. This is a slide which talks about the margin expansion, where it is coming from. This quarter there has not been a very significant change in the margin. So the margin expansion outside of exchange has been only 13 basis points which is contributed by efficiencies, the utilizations, which totaled up to 46 basis points and we had a higher particularly the sales and marketing spends which took away 33 basis points so net-net we gain 13 points out of which two are reflected in the margin and 11 is below the EBIT, is the exchange effectively.

So I think a couple of things are very-very relevant here and I thought let me touch that. If you look at the way the business is happening is that the T&M is consistently coming down. Our focus is on fixed price, output based, outcome base, risk and reward, many services models. We do a lot of that in the infra side. So there you see that the growth in manpower and the growth in revenue, they are not exactly connected with each other. If you look at last one year JFM of '13 over JFM of '12, the manpower growth is 46% while the revenue growth is 42%.

So the same thing we are introducing is getting introduced in the software services side and also the utilization is getting driven, utilization is up, it is at an optimum level, is getting driven by focusing on the right skills depending upon the project. So if I just take the software services, the software services revenue this quarter increased by something like 1.7%. It moved up from 775 million to about 789 or 788 million, about 13 odd million. So the balance 10.5 million came from this mixed change within the onsite itself, the risk and reward about 2 million and then the two licenses etc and another 4.5 million. So there is a detachment happening between the manpower and the revenue growth as we move into more total IT outsourcing, as we move into more right skilling and up-skilling and difference of models in terms of fixed price, in terms of getting the benefit out of the fixed price contracts. And so all those sort of things are leading to these benefits in the margins.

Going further if you look at slide 20, the funds position, we have 761 million of cash as of March 2013 and if you look at the loan funds it is 258 million. We have been sort of retiring the long term foreign currency loan much before it was due by 2015 and actually we are prepaying it, so next quarter you would not find anything as a long term foreign currency loan, the 31 million will have to go away. At the same time what we are doing is we are sort of creating the CAPEX and which CAPEX has typically about 2-2.5 years to bring it into a stage where you can start utilizing the campuses. So we have been using extended credit facilities from our vendors and you would see that in this quarter on CAPEX we have incurred 21.4 million and last quarter we incurred 22.1 million. This was funded by internal accruals and on top of it we funded 60 million this quarter and 13.8 million last quarter through the extended credits.

Going further the cash conversion ratio continues to be very healthy. The operating cash flow to net income on the last 12-month basis is in excess of 100%. It is actually 108%, same period last year it was 95%. The free cash flow to net income is at 89% for the last 12 months. Even this quarter it was 81% and if you look at, some of you who look at free cash flow to EBITDA in the last 12 months is at 60%. So very healthy cash flow convergence which is happening in the system. Looking at the working capital management, there is an increase of one day in the DSO and the increase is in the BA billed category has reduced from 54 days to 53 days. The unbilled has increased. The unbilled basically comes from the fixed price which are pending milestone and which are recognized basis the percentage of completion, the customer approval or purchase order is awaited for customer at a process where you would have signed a MSA, you might have given the PO as well but there is another document which is required to be given or we are awaiting a confirmation before really raising an invoice, so you do not want invoice to go up and down. So that is an area which as we onboard new customers it takes time and then once the customer comes into a steady state it becomes a routine for us and it tends to decline. And then the billing cycle could be different. We do not bill everything on the end of the month. Since I am on the working capital management as the net current assets as the percentage of revenue, we continue to drive it down so it was 14.3% last quarter, this quarter it is 12.3% and the return on capital employed in this 12-month period ended March 2013 is at 31% opposite 24% for the 12-month period ended March 2012.

Going to Slide #23 the hedge book is almost the same as it was last quarter, US$1.6 billion out of which US$ 212 million are balance sheet hedge, which cover us more than 85% on our balance sheet exposure side. And the cash flow hedge is less than one year is equivalent to 40% of our likely inflows and more than one year are 25% of the likely inflows. The exchange rate at which they have been booked is indicated, which is at Rs.54.82 for less than one year to a dollar and more than one year close to Rs. 60 to a dollar. So this policy of doing the layered hedging program is consistently giving us benefit, we do have a negative other income but that amount is very small. It is like US$13.2 million for the complete hedge book of US$1.4 billion on cash flow hedge accounting. The balance sheet hedges are mark to market in the books itself. It has significantly come down from the last quarter. Going further on the tech side, this quarter was slightly higher at 23.8% opposite 23.4% but we continue with our guidance for this financial year between 22% and 23% and next year between 21% to 22%.

With this I will hand over to the operator for any questions. Thank you.

Moderator Thank you very much sir. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from Mitali Ghosh of Bank of America. Please go ahead.

Mitali Ghosh My question was really on the employee addition. We have seen the net employee addition declining for the second consecutive quarter, how shall we think of this in the context of demand visibility and also can you help us understand what is the sustainable optimum utilization, which again I think is at a peak today?

Anant Gupta Mitali let me address the second question first. I think from a utilization perspective I think we are pretty much at an optimal level for the specific market demand in terms of the growth rates and the business mix. There could obviously be some aberrations depending on business mix, portfolio change but largely I would assume this to be in the optimal area. Coming to net additions, I think really it has been a constant philosophy to drive nonlinear growth. Anil did mention the various elements where we are getting the nonlinear growth from. It was obviously very heavily driven in the infrastructure portfolio but given the shift of movement of 49% to 53.2% of engagements in the FPP, Managed Services/Outcome kind of model that 4.2% have obviously given us a greater flexibility in being able to optimize what we need to deliver from a pure headcount perspective. Obviously there are other elements such as IP accelerators, risk-reward mechanism, etc., which also play into the nonlinearity. So given that the other aspect really is about the fact that most of this engaged bit allows for a lot of fungibility of skills and therefore individuals who are able to multi-scale and therefore get using those programs obviously find it in line with what the ITO requirements are and those who continue to want to be in a single skill dimension obviously look for other growth option so actually attrition really acts as a flow mechanism to control some of this. The way to read it from a visibility standpoint is I think we are in a just-in-time hiring model. Like I had said earlier we have three different approaches to look at hiring, one which is high-end skills required onsite which comes in from our engines which have been matured in the ES side of the business, ability to deploy people for large scale transformation programs in a short period to kind of kick-start transition comes from our ITO background, whereas ability to then drive let us say a lot more influx at the base of the pyramid to draw a cost out once engagements move to a stable environment gets driven by our campus strategy. So these three programs continue to be the principal engines. The first two largely were just-in-time models. The campus model given the supply and talent availability environment within the market we have moved that into a much shorter cycle from instead of a 1-year program into something which we can execute in a 90 to 120-day period. That is further coupled with the fact that our training programs are much shorter and the time it takes to deploy is much easier.

Mitali Ghosh I had seen some news articles on the campus hiring deferment of some of the offers, so should one expect that next quarter a lot of those campus hires should be joining and therefore utilization should trend down and also if you can explain how you manage to crunch the training cycles?

Anant Gupta I would say that the utilizations are largely at an optimal level. The hiring will be in line with the demand we continue to see, so that level of fungibility exists within the system to be able to absorb the kind of growth we are talking about. From a training standpoint it just goes back. Would you train engineers on Java, .NET etc, etc separately or likewise would you train engineers on operation, separately for incident management and infrastructure or applications or some other track. So I think the programs are getting a lot more consolidated. They are more role-based and therefore the ability to provide a broader skill with a lot more internship based program is really what is driving a reduction in the training curve.

Mitali Ghosh Just one follow-up on the employee attrition side, that has moved up this quarter. If you can just help us understand what are the voluntary and involuntary trends within that.

Anant Gupta I would not have a breakup over there. I would say that the involuntary attrition continues to be at the same level, so not any significant but going back to the earlier point I made about the folks were able to provide and kind of create a path for multi-skilling obviously find growth and therefore there is an incremental attrition over there who want to continue to remain in a single skill set kind of domain. I do not have a breakup with me at this point. We could follow that up.

Mitali Ghosh But are you comfortable with the employee attrition levels at 20% odd?

Anant Gupta Yes, we are comfortable with the levels at which we are.

Moderator Thank you. Our next question is from Ankur Rudra from Ambit Capital. Please go ahead.

Ankur Rudra Could you may be comment on the demand environment particularly on discretionary side, this was a relatively strong quarter after several quarters of weakness. Is this an indication of a better spending environment for the rest of financial year 2014 and CY13?

Steve Cardell I think our view has not changed on this for the last 3-4 quarters which is we are seeing companies take a shorter term view for the releasing of the discretionary spend projects. So whereas perhaps two years ago discretionary spend project might have involved committed expenditure for 9 to 12 months on a program. We have seen those programs be broken down into small component parts typically close to 3 to 6 months in duration. So essentially what that has done is that it has reduced our forward visibility about order book on the component of our business that is discretionary. So I think what we continue to see is within our client base we see this project come up, our win rate is extremely strong but it is harder to predict quarter-to-quarter because clients are managing their budget quarter-to-quarter. So you are right, we saw some good momentum this quarter particularly coming from some of the more emerging technologies like some of the business intelligence tools, some of the mobility solutions, and some large enterprise cloud projects. So we continue to see our market position strong but it is hard to give a view quarter-on-quarter. What I would say in general is that the demand environment has been fairly consistent for the last 12 months or so.

Ankur Rudra So you would not say that the enterprises in general have become a bit more comfortable with spending on discretionary projects particularly over the course of the last three months may be in line with identifications of an economic recovery in general.

Steve Cardell And you say it in a number. Yes, we have seen an uptick in demand whether that means next quarter or the quarter after there will also be uptick in demand it is difficult to say. What we have seen if you must track back for the last 4-5 quarters is there will be stronger and weaker quarters depending where the clients have budget in that quarter. So for me there was strong momentum this quarter, we need to see a few more quarters to see whether that becomes a more consistent trend or not but overall so far I would say it has been a fairly consistent story for the last 12 months or so.

Ankur Rudra If I can just squeeze one more with you Anant, you mentioned the deal we entered this quarter with a billion dollars. It seems very strong in light of a relatively weak contracting we have heard from the likes of ISG and TPI this time. Can you give us a sense of what you have seen on overall deal wins this quarter and you have made a few comments about deal slippages as well?

Anant Gupta Yeah, may be I will give a little bit and then I will get Sri in here but you are right, we booked about a billion dollars, roughly about 90% of that came through the restructured or rebid renewal market. About 50% of that is integrated deals which has components of more than one service line. From an overall perspective it has been slightly weak. If we look at the whole calendar year, the quantum as per ISG is much higher. So the anticipation is that there should have been a lot more booking with an H1, so while there is yes, the billion dollars is good, it is large but I still think most of the decision making is still to reach to an end and that is quite in line with the commentary from ISG as well. I think the only significant point really is that if you look at close to about $16-odd billion worth of deals signed in Q1 as per ISG, about 50% in restructure and 50% in new scope and not necessarily that all new scope is in an addressable space by HCL. So there is some new scope which we focus on but our focus is largely on the rebid and restructured market. So yes, it has been slightly bettered but the quantum available for the calendar year because those are definite decisions to be made has moved slightly into I would say more skewed towards H2

Moderator Thank you. Our next question is from Sandeep Shah of CIMB. Please go ahead.

Sandeep Shah Sir just a question in terms of your comments regarding the rebid deals getting pushed to the second half. If we recollect the comments two quarters back we were expecting almost like 39% to 40% YoY increase in a rebid TCV in the first half of CY13 versus first half of CY12. So what has led to this push? Why is this happening?

Anant Gupta I really would not be able to give a real view as to that but I guess the deals are becoming a little bit more complex, some of these are very large scale engagements and there are number of mega billion dollar deals which are there in this period, so obviously I guess customers are taking time to kind of spec them into the appropriate towers, decision making whether there would be single-bundle deals or multi-tower split deals. So I guess some of those complex decisions may be getting skewed. So it is not really about whether they need to rebid, the fact is they need to rebid. Question is in what shape and size would they rebid given the complexities obviously just taking a little skew into the second half of the calendar year. But as we speak if you look at it from a HCL funnel standpoint and we compare what our funnels were, they are pretty much in line with what our thinking is about market, so they are 40% up in this quarter from the same period last year. So from our perspective we continue to see them in there, decision making may be skewed into H2 but we are continuing to invest given that the trends and the momentum is still there.

Sandeep Shah And would you like to comment on your win ratio? Is that improved in this quarter versus QoQ?

Anant Gupta The win rates continue to be good. They are in the region of 50% so they continue to be around that.

Sandeep Shah Can you give some outlook in terms of the margins with some freshers from the campus are likely to join in the coming quarters?

Anant Gupta We have communicated our position around that, we have posted what the actions around that would be, they are posted on our website and we are in direct connect and contact with the respective candidates. So I would leave the answer to what we have already communicated. We are committed to making sure we provide opportunities as we see. The key thing really is there is a shift in the service mix and the business market and we will continue to provide opportunities as we see and make them available to the prospective hires.

Sandeep Shah Sir just on the margin what I wanted to know is with the freshers is been added in the coming quarters plus you are saying that the rebid deals are getting pushed to the second half. So, even that may require a higher sales and marketing push. Do you believe there would be more headwinds on the margins going forward?

Anant Gupta We continue with the philosophy, from a margin guidance perspective on the EBIT in terms of the rate, given the momentum and the play or the window of opportunity in the market we still continue to see this as a market to get ourselves in the customers door and customers' environment, although they may be in the RTB side which is a sweet spot. For the very simple reason that it gives us an opportunity to participate in the uptick when the trends on CTB do come in. So we will continue to plough back our investments on sales and marketing to make sure that we adequately participate both in the momentum side of the play in the market as well as certain emerging and exploratory areas which we need to play for the long term. So I would say that we will continue to invest whatever upside we make on the operating side into the customer acquisition in general if you may like.

Anil Chanana52:54 So Sandeep just to what Anant said. We continue to believe that our margins will stay in the range of 18 to 19% in EBIT terms. We do not believe there will be any dilution, so far as that part is concerned.

Sandeep Shah And other income breakup if you can give us in terms of non-recurring and recurring.

Anil Chanana Sure, we can do it separately.

Moderator Thank you very much. We will take our question from Aarti Mishra of CLSA. Please go ahead.

Aarti Mishra Really quickly on the growth rate in Software Services vertical, on a YoY growth level basis it drops from almost 15% last year to 4.85% this year while the absolute reverse is true for Infrastructure vertical. So I was just wondering do you see growth in Software Services coming back because it still makes 68% of your top-line and your hiring outlook, is it linked more towards what you see happening in Software Services or is that for the business as a whole and a nonlinearity aspect of your business. Again, how is that split across Software and Infra Management.

Anant Gupta If you look at the growth on a constant currency basis in Software Services and we did rattle the numbers but on an overall basis is it about 9%, which is pretty much in the top quadrant with respect to performance within the industry which we are seeing. We heard Steve's views around the discretionary side while you see a 4.2% constant currency growth in EAS. These are quarterly trends which we are seeing. Whether they will translate into large scale programs which are sustainable on a quarterly basis, I would say we have still not seen any signs of that. From an Application Support and Maintenance standpoint in the ASM space we believe that also would constitute a portion of the rebid market within this calendar year. So out of that $50-odd billion with which ISG paints as the rebid quantum I would say there is a good $15-odd billion of ASM rebid potential in there. So I think some of those would drive, we would work around the Application Service and Maintenance space which is the traditional application space from a growth standpoint. So that is what I would say would be the view going forward. Engineering Services, still there is a huge market there but when it converts into a more structured sourcing program and when it really gets into an uptick is the question. So we continue to be a little conservative as to when those triggers will happen but given that these are extremely high-valued and extended relationship with customers with various risk-reward models which are there we would continue to keep a very sharp focus in there so that whenever there is an uptick in that we are pretty much in the inflection point over there.

Aarti Mishra I was just wondering you spoke a lot about how hiring should not be looked at as a reflection of your business outlook because there is a lot more nonlinearity in your business. So I was wondering if these nonlinear outcome linked pricing, do you see more of that in Infrastructure Management or do you see that permeate into your Software Services space as well?

Anant Gupta It is across the board, right, I mean I would say that it was more in Infra than obviously the trend moved more in ITO but if you just go back to the ES businesses, Steve alluded to that, years of let us say accelerators and templates and ERP consolidation programs is one form of nonlinearity in that specific business. If you look at the Engineering Services space we have constructed relationships which are based on risk-reward and performance of the product in the markets. It is not based on the input cost of design but really how the product performs in a global market. So again that is a great form of nonlinearity which drives obviously much higher income for us once the product does well. So there are examples outside Infrastructure which we continue to push the lever on as we see the markets move. And we need to be cognizant that we are all moving into what we call a Gen-2 outsourcing paradigm, so the levers which were there historically are going to see a challenge in terms of, they have already been exploited, they have already been used, so levers like these will need to be deployed both (a) in terms of giving business case to our customers and (b) also for driving profitability for ourselves.

Moderator Thank you. Our next question is from Dipesh Mehta of SBI Cap Securities. Please go ahead.

Dipesh Mehta I have two questions – 1) Data part – We have sold two things, finance center and our stake in joint venture. Can you quantify the amount which we booked in other income and what was the revenue run-rate for Finance Center which would not be there in Q4 onwards?

Anil Chanana Finance Center and Capital Stream is one and the same thing now. So Capital Stream had that product which was sold, I mean the Capital Stream business was sold per se which is a Commercial Lending Solution. So I think Sanjay will share with you the numbers. The total sales price is US$45 million, where exactly it has gone, partially it has been knocked off from the goodwill because we had acquired that piece in 2008, a significant portion has gone there and some portion has gone into other income and some portion has gone out of the current asset. So we will share those numbers with you. Second is the NEC joint venture, the stake also has been sold. But the consummation of that has yet to happen. The closing is yet to happen. So that will get booked in this quarter depending upon the closing happening.

Dipesh Mehta How much revenue used to come from Finance Center or Capital Stream?

Anil Chanana Finance Center or the Capital Stream had revenue of about US$8 million a quarter and probably it was sold in the middle of March, so we would have lost between a million to US$2 million because of that.

Dipesh Mehta And about Software Services, now if we see employee headcount, we have seen a significant decline in the last three quarters, almost 5.5% kind of headcount reduction and now utilization also we have seen a significant uptick. So earlier in your comment you made an observation about we are near-to-optimum level, so would now volume growth expectation would in sync with employee hiring kind of things, so next when we see hiring, would it be similar to what we expect growth rate to be?

Anil Chanana So Dipesh, first important thing sort of understand in this business, the way we are driving this business is not manpower led. So we don't track how many people we have billed, you may be tracking that, street may be tracking that. But we internally are not tracking. I am using the manpower and sort of a derived revenue, it is not our model. We provide a value proposition to our customers; we use solution accelerators; we use IPs; we use risk and reward models in order to create a win-win for us and our customers. So this is a detachment happening; there is a divide which is happening between the manpower growth versus the revenue growth. However, the application led model, the traditional model continues, some of the companies continue to follow that, but it is increasingly for us is declining and more and more into managed services. So we decide how many people to deploy, where to deploy, where they will be based, which region in the world; so all that is per se left to us. The customer is interested in a certain delivery, certain SLA based delivery for certain outcome or output.

Anant Gupta So largely that will be the model. If your question is around are we going to suddenly see some huge volumes of freshers which will impact the margin profile in the next quarter or the quarter after that I think the answer is no because a) We have a talent environment which is I talked about the just-in-time which is reduced. The advantage of just-in-time and the campus model is also there, the fact that the training cycles are reduced, the ability to onboard and deploy is also higher. So that stream of talent pool will continue to be used to increase to fuel some level of expertise required so that we build the expertise over the years but it is not used as the de-lever to drive the service delivery model.

Dipesh Mehta And okay the last just to understand this momentum perspective, now we are expecting some kind of deferment or slow decision making which might lead to second half to be when the decision would likely made for the rebid market, the large part of it, so whether it would have any implication on our momentum perspective than what we would have thought earlier?

Anant Gupta I don't see any impact of the momentum but I would like Sri to give you a color of the entire rebid restructuring market in the entire ITO landscape.

R. Srikrishna So I think it is important to differentiate between the market versus what comes as addressable opportunities in HCL's pipeline. As Anant mentioned clearly we are seeing where we are today, our pipeline is 40% higher than in the same quarter last year. So we are not seeing a reduction in what is addressable to HCL. ISG report refers to overall the market is shifted or there is a higher amount of decisions expected to be made in H2. We have had a strong quarter. We had a previous strong quarter. We have had a strong quarter now and our pipeline is higher than what it was before. So, on the other hand that is from HCL's view, Broad market view there is US$150 billion of opportunities that are expected to get desired from restructuring or rebid perspective in the next three years. One quarter of shift up or down is not really material to how we look at that market; it is about $150 billion in the next three years and we don't see that opportunity going away. It is a very real opportunity that will happen in the next three years.

Anant Gupta Rahul do you want to add some flavor on the BPO because that is also part of rebid market.

Rahul Singh There is a little bid of rebid market which is there in the BPO as well and we have started tracking from what I earlier described as our growth BPO perspective. The BPO market tends to also turn hands, although the size is not still as large as in the infra side, tends to be a little smaller. But we have started looking at that and what we are finding there is that the new generation or next generation of IT services which Anant spoke about also applies to the BPO where the clients are looking for more transformation value from what the current provider is providing. So if the current provider is doing things more on a T&M basis than in the rebids, the clients do look at transformation; they look at a bridge to bring in technology as an enabler; they look at dissented value from just from a location perspective and more transparency in terms of the execution happens. So we are in the middle of couple of deals of that type and as they get finalized we definitely announce them as well.

Moderator Thank you very much. Our next question is from Ravi Menon of Equirus Securities. Please go ahead.

Ravi Menon I just wanted to get some flavor on the last quarter where you have talked about some wins in Financial Services, Retail and Manufacturing, so this quarter we have seen Manufacturing shows strong performance, but Financials Services have been flattish and the Retail CPG has also shown only slight momentum. So whether we would see some ramp ups in the future and also some color on the rest of the world market particularly, Latin America and APAC, how do you view that?

Rahul Singh Let me talk about the Financial Services, so I did mention early that we had a muted growth quarter this quarter, roughly 1% growth, but that is at the back of a very high growth rate that we saw in the previous quarter where we saw volume growth was about 11%. So if you were to average out across the two quarters, it was about 6% growth rate per quarter and you spoke about that the deals that we announced, so typically deals we announced it does take couple of quarters before the ramp ups start happening and you should judge the Financial Services business more by looking at the trend across quarters rather than a specific quarter. Another data point here is the YoY growth rate. So the last quarter YoY growth rate was 18.6% which means that volume growth over corresponding period one year back has been 18.6% which is pretty high in the current financials service environment.

Ravi Menon Could you put some color on the rest of the world markets, especially Latin America and APAC?

Anant Gupta Let me just to add to that, the aspect on the verticals just to give you, I think other than telecom I would say there is no significant shift in any of the verticals. If you take Healthcare, for example, it has grown 56% YoY (LTM), when you look at some of these large engagements which are there, our advice would be not to kind of take a view or derive any conclusion from quarterly movement over there but look at it over a consistent period, because a) these engagements are end-to-end sourcing engagements, long term in nature, b) they are not time and materials sensitive and not short-term in nature and therefore they don't necessarily get impacted by that.

Steve Cardell Sure, Latin America, we break in two distinct markets, one is the domestic market and I guess Brazil is probably the most significant one down there and the second one is where we are doing deployments which are typically global but where we are required to do some deployments in Latin America. So, firstly our focus is on the second and not the first. The current growth in those markets means that salary progression is high and the margins that we make are not at the levels that we would want to, so our focus is around working for global companies who are deploying into those markets and we see continued growth in those activities, often that work is not necessarily billed in Latin America it would be wherever our relationship is with that client but we are seeing increasing large global organizations as they are going to tap into that growth putting solutions into this market looking for our help in doing that and I think for the moment that will be our primary strategy in Latin America.

R. Srikrishna From our APAC perspective I think our focus is selective. For example, Japan, the predominant focus is Engineering Services because of the number of high tech and consumer electronics companies are in Japan. From an ITO, both Infrastructure and Application Support perspective, the big focus markets are ANZ and HSM and even in these market we continue to be selective about the accounts and opportunities which we address and that strategy is yielding us good results to the extent that of the wins of 37 new customers that were added, there is a number often that will come from APAC region.

Moderator Thank you. We will take our next question from Pramod Gupta of HDFC Standard Life Insurance. Please go ahead.

Pramod Gupta Just couple of things, this attrition that we have seen on the people departure in the software services side, is it largely on the onsite, what is mix on the onsite and the onshore is it equitable, or is it very different on the offshore and the onsite?

Anant Gupta I don't think there is any significant difference or trends between the offshore and onshore, I think it is in the ratios which are historically there in offshore and in onshore. We will have to come back with the numbers if you want to look at it separately.

Anil Chanana It is not such a material thing to be sort of us to be really concerned about. It has been spread over both onsite and offshore we have not seen any specific trend or separate trend in onsite versus offshore or vice versa.

Pramod Gupta No, see if it is onsite also you have such a high attrition because see in the last four quarters if I calculate the numbers right, out of the total billable headcounts of close to 45,000 people you have lost more than 10,400 people. Then that basically means that you are running the shop extremely well on onsite having 95% -96% kind of utilization. Just wanted to understand how did you manage that? That is one. Second thing is what is exactly happening on this negative press which is coming out on fresher deferment or hunger strike by the freshers and what kind of morale does it create for the employees of the company?

Anant Gupta Sir I am not sure where the number of 10,000 is coming from, obviously in onsite given the nature of ITO engagement and the rebadging of a lot of people that happens in large scale engagements, they normally move out after a certain period of time, when the model moves into steady state and the model moves into a balance construct over there. So I don't see any other reason which would drive anything else in the onshore model. It is the fact that over the last three years, we have added significant amount of engagements where we on-boarded end to end engagements and then over a period of time we just get in to the right mix of onshore-offshore and with respect to the second question, the only comment I can make is, it is something which we don't necessarily like as well, I don't there is anything else to add. I think we continue to do what we think is best a) For the individuals, which are outside, b) The employees which are inside and for the business.

Pramod Gupta You are fine with the kind of press it is carrying and the kind of impression it creates of HCL Tech on the prospective joinees and the new guys who will be joining and looking to work with the company?

Anant Gupta It is obviously not something that we would like, so I think that is probably the short and straight answer to that and obviously we try to do what is best we can given the environment we are in.

Moderator Thank you. Our next question is from Madhu Babu of HDFC Securities Please go ahead.

Madhu Babu Sir what is the outlook of pricing in traditional IT Services because one of your peers was indicating of a pricing pressure in the traditional IT Services business.

Anant Gupta If we generalize business model then the answer may be yes, if one is primarily in a time and material business the chances of that pressure being there would be higher obviously because the customer is obviously looking at a better business profile before they move on in there, but when you look at it from a generation outsourcing point of view which is more based on any of those models which we talked about, FPP or others. Yes the customers do look at a business case, given that fact that someone who has been doing something for 5 years, technology landscape has changed and therefore it should generally be more efficient to move on when we get into a second phase of outsourcing. So when they move to Gen-2 outsourcing they are looking at obviously a better business case. Does that translate into a poor dollar per hour, it really depends upon how is the model on is delivering, in our case we largely like I said it is around FPP or a managed services or various outcome or device based models, so the dollar per hour of the input cost which is largely headcount is irrelevant because there is really no correlation between that and what needs to be delivered from this service. So yes, the customers when they look at the rebid market will look at what is the business case they will get for the next phase whether it is 3 years or 5 years, but it does not necessarily translate into a margin pressure.

Madhu Babu Sir is the competition picking up in Infrastructure Management Services. Would that reduce our growth momentum over the coming 2 years?

Anant Gupta I think this question is being asked in every quarter, I think you know the competition continues to be the same, i.e., it continues to have most of the players that potentially have the capability to deliver which includes top Indian players and top global players, but the final shortlist or whatever you may like the competition still is what we see is the global MNC.s. So the long list continues to be the top 10 players including Indian and global, there is really no shift in that play. But yes and one needs to also remember a lot of the play over here is about churning from encumbrance who are global in nature. So the competition obviously includes a larger set of global players given that most others in the IOP markets do not necessarily compete in that business model.

Moderator Ladies and gentlemen due to time constraints that was the last question. I would now like to hand the floor back to Mr. Anant Gupta for closing comments. Over to you sir.

Anant Gupta In summary, the quarter was another good quarter of robust performance and thank you very much for joining the Investor Call and we look forward to seeing you in the Q4 results as well.

Moderator Thank you very much members of the management team. Ladies and gentlemen on behalf of HCL Technologies, that concludes this conference. Thank you for joining us.