**12th Septmber, 2003 – 7:00PM IST**

Moderator: Good evening Ladies and Gentlemen. I am Monali the moderator for this conference. Welcome to the earnings conference call for HCL Technologies. Mr. Shiv Nadar of HCL Technologies is your call leader today. For the duration of the presentation all participants' lines will be in the listen-only mode. After the presentation, the question-answer session will be conducted for international participants connected to SingTel. After that the question-answer session will be conducted for participants in India. I would like to hand over to Mr. Shiv Nadar of HCL Technologies. Thank you and over to Mr. Shiv Nadar.

Speaker: Thanks Monali.

Shiv Nadar: Hello?

Moderator: Hello Sir.

Shiv Nadar: Yes.

Moderator: Yeah, you can go ahead.

Shiv Nadar: Yeah. Good evening. This is Shiv Nadar, I have here S. L. Narayanan with me along with Sujoy Ghosh. First of all, thank you very much for joining the call. Today, I begin the conference call to discuss the fourth quarter results. As I do that, my thoughts go back to the first few significant steps that we took about two years ago in preparation of the strategic repositioning of your company through a mix of organic and non-organic growth initiatives. A two-year period is sufficiently long in the context of today's fast-paced world of business and I would like to present to you certain highlights of our experience and the headway that we have made on the rebalancing of our portfolio. 2001 was a watershed year. When we closed the calendar year 2000, we were beginning to face an environment where a key focus market of product engineering services was witnessing the first tell-tale signs of an imminent slow down. It was during this period that some of our customers started voicing concerns about market conditions, though not many could have anticipated the intensity of the recessionary conditions that followed. We had the choice of being a passive spectator, waiting after the slow down and hoping for a revival in IT spends to come through by the end of 2001. Indeed, some of the analysts predicted that reversal of trends could happen within a few quarters. But another diametrically opposite option was a more dynamic and forward looking strategy of adding some powerful growth engines in order that our long-term positioning was well and truly secure. Quite naturally, we chose the second option for it's obvious superiority aided by attractive valuations of target company. Further your company had financial and managerial resources to launch an active M&A program. We therefore decided to rebalance and broad base our portfolio of offerings. The most important objective being to reduce our volatility of earnings and induction of fairly predictable and stable revenue streams at least over a two year time period. We looked at four distinct areas where there was sufficient room for growth. Almost all industry analyst groups concurred as regards to long-term growth potential of these segments, which are application development and maintenance, enterprise solutions, BPO, and IT, infrastructure management services. It is very important that I set the conceptual perspective right before we understand and appreciate the competitive dynamics that shaped our evolution post 2001. We also made a very clear choice of the verticals we would focus on. The choice of our portfolio of services as far as the verticals was concerned was based on a careful evaluation of our existing capabilities and as well as an assessment of the potential for IT services in such verticals. One important initiative was in the leveraging of HCL's historical strength in embedded systems, semiconductor design, and in the design of operating systems, compilers, and databases. Utilizing the strength and verticals where we could create new opportunities was definitely one of the prime points that we considered. Some of the initiatives in aerospace and avionics, automotive engineering, and medical electronics laid the foundation for the virtualization of our operation, which began during the period and are expected to be consolidated in the forthcoming period. As a result of the thrust, we have also expanded our presence in the semiconductor vertical and we have with us several prestigious names that hold preeminent positions globally. In most of these industries, the relevance of outsourcing is even more pronounced now. The rebalancing effect: Once the plan had been strategized, we have rapidly gone about executing it. In the past two years, we have augmented our capabilities in our existing areas of strength as also undertaken a series of M&As to achieve our objectives. Our exposure to the traditional mainstays of product engineering has come down from 75% of our revenues to about 48% now. Our JVs with Deutsche Bank and Jones have greatly enriched our application development and maintenance portfolio, particularly in the banking and retail verticals. Our buyout of HCL Infosystems package implementation practice should greatly enhance our competitiveness in the fast expanding enterprise solutions space. We now have a strong presence in BPO and IT infrastructure management services - two of the major growth drivers of the overall IT outsourcing space. In the opinion of the industry analyst groups these hold the greatest promise in the coming years. The rebalanced portfolio assumes significance in a market where enhanced relationship management is characterized by cross selling of our various service offerings. Our win of the AMD contract is an indication of this strategy. So, in summary, as we sit today and ask ourselves what has changed over the last two years, my view is that we have dramatically enhanced our ability to win and are improving the win ratio and the results will follow in the next few years. Let me explain why. In the core product engineering area, we continue to be an undisputed market leader and we will gain from this positioning when tech-buying rebounds. As a matter of fact, signs are already there. In the core software area, we have bridged the gap of lack of credible referrals and vertical strength by the strategic acquisition of the DB subsidiary, British Telecom subsidiary, and forming the Jones JV, and added to our vertical strength by changing our offerings around these verticals to give our software services much needed depth. By expanding our services to BPO, IT infrastructure services, we have increased the addressable market, and we lead in both the spaces. Given the sensitivity of our clients we have kept our successes in these areas a low-key affair. We are increasingly seeing a trend of account entry into existing offshore accounts of our Indian vendors through BPO and infrastructure management, that gives us an opportunity of software services in these accounts as well. Our problem of no differential offering in software is now a strength with the richest spread of services in the industry. Our multiple entity strategy, the spirit with which it is driven is a reason that we have been able to launch BPO and infra services without paying large packets of several million dollars to create these and our model is more scalable without compromising on depth in each of these new growing areas. In short, my belief is that as new markets and new services start dominating the customer spend, we will pull ahead of the others because of our investments and the head start we have. So, I would now briefly dwell upon BPO and infrastructure space opportunities.

In BPO, the worldwide market has grown at a healthy pace even in the face of an economic downturn. Gartner expect this market to keep growing at the rate of 9.5% CAGR over the next five years to reach $173 billion, which was $110 billion in 2002. The NASCOMM-McKinsey survey expects India to progressively increase the share in this market and it is expected that it will contribute between $21 to $24 billion by 2008. We now have a position of eminence in this market, especially after the landmark deal with BT, which saw us getting awarded a $116 million contract early this year. In the infrastructural services area, Gartner's recent reports says that this is a 120 billion industry growing at 8.4% CAGR and would exceed $170 billion by 2007. As per NASCOMM-McKinsey, offshore management of network infrastructure is expected to be a billion dollar revenue earner in the next five years. What I mean is a billion dollar in the terminal year, which is 2007-2008. Analysts indicate that by 2005, at least 30% of offshore deals that started with application services will include infrastructure component. This industry is witnessing a new trend towards remote discrete infrastructure outsourcing. Let me share with you what Gartner and IDC have to say about this in their recent reports. One Gartner analyst has been quoted (I am going to say the quote) "with more and more successful case studies coming out and word of mouth spreading faster, people have started believing in remote infrastructure management. We at Gartner call it a mega trend which means it is an irreversible trend and almost everyone of our customers will adopt this model over the next couple of years." Now if I were to refer to IDC, it is almost similar. What they say is "we think that there is about $180 billion of internal IT spending that potentially could be outsourced. In fact managed services has the potential to grow much bigger than software development. This is because with software, once you have written the software and deployed it, it is over. You have done the job. But infrastructure management is a continuum." This is quote from one of their reports. We have been pioneers in this field of remote infrastructure management and I am happy to share with you that Gartner in their recent vendor ratings has rated us strong positive. Now, I will come to our balance sheet strength.

Our balance sheet is money as well as people. As we speak today, our company is one of the strongest players in the Indian IT service space with an enviable networth built on the back of strong cash flows. In the emerging market context, the larger deals are invariably targeted towards the financially strong players, and our company is very well positioned in this regard. In addition to the balance sheet strength, the following are the very powerful differentiators. Our cash reserves at the end of 2003 exceeded $300 million. Human resources is actually the real critical factor for scalability. We continue to attract talent and I am happy to announce that the total number of employees in HCL Technologies along with its subsidiaries recently exceeded the 10,000 mark. Naturally our P&L statement for the current year has to be viewed in the context of the significant investments we are making in the human resources area. During this period, there are some lessons that we have learnt. While we have covered quite a bit of ground in the last two years, despite a very competitive landscape, it is not without some important learnings. I would like to dwell upon them briefly.

Our investment in venture funds is one such issue that often gets raised. I would like to present what really guided this company to go ahead with the decision to invest. For this purpose, it would be necessary to go back in time to the year 1999 and 2000 when some of the most promising technology start-ups were supported by the most respected names in the venture funding space. Our objective apart from reasonable returns commensurate with the risks was to gain access to the underlying investing companies and in the process forge closer relationships. We have not been able to secure the business as we had anticipated. It is only in retrospect and with the benefit of hindsight that this decision may be construed as not judicious. But in the circumstances at that time it was entirely reasonable. Our investment in the government solutions business was expected to deliver at a certain pace. However, the current year loss of $3.5 million indicates that our pacing expectation was not correct. The overall drag which it created in corporate performance is to the extent of almost $3.5 million last year. Our entry into this business was fairly strategic and all the macro pointers made a compelling case for an entry into this segment, which is expected to grow on the back of increased demand for e-governance solutions. We are still at work to effect course corrections and I am reasonably confident that this segment will turn in a better performance in the forthcoming year. Our investments towards setting up an in-house M&A dedicated team costed last year about $5 million, and our returns have not been commensurate with our expectations, not withstanding the gains that came through in the shape of better performing JVs and alliances. Finally, during the year an accounting discrepancy in revenue recognition in the financials of one of our overseas subsidiaries, for the previous year ended June 30, 2002, was detected. The error, which arose solely from weakness in internal control, has been corrected and the accounts of the subsidiary have been restated and audited. There is no impact on the India standalone accounts of the HCL Technologies limited, the Indian listed company. On a consolidated basis thus far there is no impact on the cash flows as reported in the previous year or the current year. In terms of our agenda, we have implemented some important changes in our overall management structure including the rationalization of the sizable M&A transaction group. These cost savings would be realized from OND quarter onwards. Secondly, we are making changes in our governance structure, the company is strengthening its internal audit department staff and broadening its focus to include financial accounting matters as well as operational matters. HCL Technologies' internal audit department now directly reports to the audit committee of the company's board. The company's newest board members whose appointment has been previously announced are also serving on the audit committee of the board. These are Mr Amal Ganguli, the former senior partner and the country head for India, of Price Waterhouse Cooper's, Cyril Shroff, partner of Amarchand Mangaldas, and Subroto Bhattarcharya, a chartered accountant with over four decades of experience. Now, I have to say a few words about the longstanding heritage of the HCL franchise.

Your company is 27 years old. Over this period, we have been fortunate to assemble a pool of talented employees whose foresight and dynamism has resulted in creating an enduring legacy. In a year when some of the results were avowedly disappointing, we need to look at the company's emerging capabilities over a wider prospective. We are confident that the seeds of growth that we have sown will help us in staying ahead of the curve and reinforce our competitive positioning. At HCL, we have always been decisive in our strategic intent to build scale and capabilities well ahead of the market opportunities. A few strategies may have gone wrong, but our 27 years of leadership is based on the larger number of the strategies that went right and that is why I firmly believe in the next five years, the time will belong to HCL. Thank you. Now, we can start the Q&A.

Moderator: Thank you very much Sir. At this time I would like to hand over the proceedings to Lucy at SingTel to conduct the Q&A for international participants. After this, we will have a question-answer session for India participants. Thank you and over to Lucy.

Lucy: Thank you Monali. We will now begin the Q&A session for participants connected to the SingTel bridge. Please press *0 or $0 to ask a question. One moment please for the first question.

First question comes from Mr. Sandeep from JP Morgan. Please go ahead.

Sandeep: Yeah, good evening Shiv and team. Just couple of questions from me. One is, just trying to explain this accounting restatement, one of the statements you made was that it did not have a cash flow impact, so are we talking about, you know, revenues, you know, I mean we see a profit impact but not a cash flow impact, are we talking about some non-cash profit which were booked in the past?

Male Speaker: That is right Sandeep. See basically this happened because of some error in the way the estimation of efforts happened with respect to onsite-offshore resources working on the accounts billed from HCLT America, and because of the protracted change over from the legacy systems to the new ERP platform this detection was delayed, but you are absolutely right this is more a revenue item. The cash flows as reported for the previous year ended 30/06/2002 are exactly the same - there is no impact on cash.

Sandeep: No, but how does one reconcile this, you know, you had a 11 million dollar impact on profit but no impact on cash flow.

Male Speaker: That is right because it went into the revenue line and therefore into the receivables, and so what we have done is when we have restated it. It has had no impact in terms of cash flows.

Sandeep: Okay so you think receivables have been reduced by the same amount.

Male Speaker: That is right.

Sandeep: Okay. Just a question for Shiv, I mean, it is good to tell us about you know Gartner and IDC forecast for different business streams but what do we expect from HCL, I mean in terms of growth, in terms of you know outlook, we are pretty much, we are more than halfway through the first quarter of this year as well, so is there anything you can tell us about how the business is tracking?

Male Speaker: Sandeep I can only tell you in qualitative terms because of board decisions not to go through with actual forecast. A very clear indicator is we were very tightly aligned between the contracts that we have in hand and the bench strength. We had to substantially increase the bench strength in the last six months because to go to any country whether it is UK or whether it is US to bring back work even after contracting became a difficult issue because of the new visa tightness that has emerged. People have to be within the company for more than a year to go and get the work back to India. Our offshore to onsite ratio is unlike the rest of the peers, we have offshore already at 80% level and the strength that we have onsite to bring back is pretty small, which is about 20% or so. If we want to send additional people we have to naturally build the strength, that is why we have increased it well past 10,000, as I talk to you it is 11,300. This has been done on the back of contracts. I would like you to feel confident about that. So there is a growth that is going to be reasonably good during this year. That is our expectation and we are pretty prudent people in terms of manpower as you may have noticed. Our utilization has always been quite significantly high and we have done this evidently based on high wins that are already in our pockets.

Sandeep: Okay, Sir would you talk about the margins a little bit, you know, we are down to lowest margins in the industry, so should we expect some kind of bottoming out here or it is still too early to call.

Male Speaker: Sandeep I will answer the question. In the first place, we are possibly in the widest range of services. In that, the gross margins in technology services as the rebound takes place we find is larger than the application segment. The price pressure on that area is relatively less and in our belief the dollar-based quotes or euro-based quotes it has already bottomed out, fundamentally it has bottomed out. And in some of the new services such as infrastructure services, the rate that we are getting would be at least 20% higher than the application services segment. Now having stated that, how much the dollar will convert into rupee is something which we are finding it very difficult to predict. JP Morgan's own estimation if you were to take last March and one of the forecast, which we received, we took forecasts from six different worldwide bankers for 03/19/2004, we took this on 03/2003. The projection was it would be around 48 rupees, I am talking about 03/2003 projection of JP Morgan in 03/2004, it was 48 rupees for the projection, now you know what happened subsequent to that, that part of it we are not able to project because our underlying costs are in rupees, so that margins where will it take is a question mark, however we are covered for the next six months, so nine months of our fiscal year is fairly well projectable even from margin point of view. However, the increase in bench that we have made is what is the cause for the lower operating margins that you see. We had to have that bench it has become a business requirement. If we had to execute this business we needed that.

Sandeep: Sure, just one last question, Sir is HCL Infosystems consolidated here?

Male Speaker: No, under US GAAP we have not consolidated this.

Sandeep: Okay so we see that next quarter.

Male Speaker: You will see that this quarter because the consolidation takes effect only after the allotment of share in the US GAAP.

Sandeep: Okay, thank you.

Moderator: Participants please press *0 or $0 to ask your question. At this moment there are no further questions from participants at SingTel. I would like to hand over the proceedings back to Monali.

Moderator: Thank you Lucy. We will now begin the Q&A interactive session for India participants. Participants who wish to ask questions may press *1 on your touchtone enabled telephone keypad. On pressing *1 participants will get a chance to present their questions on a first in line basis. To ask a question please press *1 now. First in line we have Mr. Sameer of Anand Rathi Group.

Sameer: Yeah hi, this is Sameer here. I just wanted to know despite the decrease in profits we have seen due to accounting discrepancy there is an increase in tax provision. Could you elaborate a little bit more on that?

Male Speaker: Yeah, this is actually a connected issue relating to the transfer pricing between the holding company and the subsidiary. We have to actually test the transfer pricing for reasonableness and arms **line** pricing. As a result of which we made the adjustment in the pricing and because of which we have recognized a lower deferred tax asset, which has resulted in the tax provision going up.

Sameer: And there were some extraordinary expenses earlier booked which does not seem right now, so….

Male Speaker: That is because, under the completed accounts, you know, in terms of presentation since there is an audited number, it is actually included along with the Op-ex number, which is why it is not separately disclosed.

Sameer: Okay. Another thing could you throw some light on your BPO things happening because what I am seeing is that the margins looks quite into pressure in that business.

Male Speaker: See this is something which is an inevitable thing, while we are in a gestation phase. We are also doing a lot of pilots for some, we have taken on a fairly largish project for a large bank in North Eastern United States, plus there are some other projects which we have taken which are in the nature of pilots for which travel of the team and the knowledge transfer phase is under way, and therefore you know the margins seem to be under pressure but really we are building in for scale and this should taper off in the coming quarters.

Sameer: Hello?

Male Speaker: Yeah.

Sameer: How many clients would you have in BPO business?

Male Speaker: I could get back to you on that, right now I do not know, we could come back to you on that.

Sameer: Okay thank you.

Moderator: Thank you very much Sir. Next comes a question from Mr. Shekar Singh of DSP Merrill Lynch.

Shekar Singh: Hi Sir, just needed to understand this fall in the margins which has happened in this quarter, you are saying basically it is mainly because of the utilization going down, but the utilization like at least in the offshore side has gone down by 400 business points and the onsite by just 100 business points, so is it just the utilization or is it like something else also to it?

Male Speaker: See what happens is we also have a lot of people coming in as, you know, trainees as Mr. Nadar said. We have to put these people through at least one year of continued employment on our rolls before you know we are able to get them to travel under the short-term visa to United States when they do the migration of projects, so that is primarily the reason why you know we have a fall in margins during this quarter.

Shekar Singh: Yeah, secondly like okay why will the clients wait for one year say in case if you….

Male Speaker: Let me correct this for you.

Shekar Singh: Yeah.

Male Speaker: It is not that they have to wait for one year. We have brought in even experienced people inside the company, okay, but the rotation between the existing people who are more than one year in the company to go and join and come back, the newer engineers who have come in are already in position to take the projects.

Shekar Singh: No but that should show up somewhere in form of revenue increases.

Male Speaker: You will see that in the coming quarters.

Shekar Singh: Because it looks like, like say, if the client is not waiting for you to get the visas and if you are actually working on it then it should not be impacting your revenues.

Male Speaker: No, no Shekar I think the point here is since this is a requirement which has come in, what we are now doing is making sure that you know people log in as you know commencement of employment with HCL so that you know on a rolling forward basis this is not a constraint. It is not as if you know these people have been recruited in the hope that you know order is going to come one year down the line, that is not what is being meant, but somewhere while you are building this bench your utilization rates get impacted that is the point.

Shekar Singh: Secondly even the subcontractor efforts which I remember correctly were basically employees in the US even that number does not seem to be changing, how do you explain the thing?

Male Speaker: No I did not get your question.

Shekar Singh: The subcontracted efforts in US, which if I remember correctly, are subcontracted efforts mainly in US, so if you are ramping up with some of your clients then this number should have gone up or it has nothing to do with….

Male Speaker: No, no see that is a phenomenon which happens because unless we are absolutely sure that we have a continued requirement of resource, we do not recruit and that is why you know we used to work with subcontractor numbers so that has got noting to do with this. They are completely unconnected issues.

Shekar Singh: Secondly, like okay this government subsidiary, why do we, see one is like okay anyway the government contracts are not coming to Indian companies.

Male Speaker: That is not true, and number one, when we bid we bid as a US company and our company is registered contractor in seven states in the North East and South Eastern states, and in these states we are invited to bid but we bid in the areas where we are specialized, which is the functionality area as well as what is the kind of areas in which we wanted to bid in. We went in with that and we spent a year, learnt the business now, and on the traction we figure that we will be basing it now on the entire spectrum of services that could be offered by HCL. Let me try and expand on this for you. When we started the acquisition with DSL, that is Deutsche Software Limited, in the initial period, we focused only on converting them from being a department to being a vendor that is why you would have seen the profitability of that unit initially was not going up so steeply, but they had to start working on complete solutions, that took a year. In the second year since the solutions that we delivered were reasonably good, we moved the bulk of the work that was being done across the globe from Singapore, Germany, England, US in that order we moved it to UK, US, Germany, Singapore so that the mix brought better yield to the company, that is why you saw the improvement in profit in year two, and along with scaling up we did not reduce Singapore, whereas we increased UK and increased US, mix of business, year 3 what are we doing now, which is starting from this October, year 3 our saying is that, we have as we talk 11,300 people in the company, since this merger has been completed. DSL is about 1300 people, now what we are doing is spreading this wide and say that the other 10,000 people services where all we can offer to Deutsche Bank in interface. We began in two areas, one was in SAP implementation and the other one was in building a web engine for some application in one of the 100% held subsidiaries of Deutsche Bank both of which do not exist in DSL. Now we will be bringing forward to the client with the entire resource base of HCL Technologies. It takes three years to get there, this is the path that we had to walk in Deutsche Bank. Now with government, we based it highly on **Filenet based** solutions in the labor space, now we have widened it in the second year to **Filenet based** solutions in a wider number of applications, and number two the other services, for example the government is usually the largest user of mainframe based application build up, the government is also the largest user of A400 machines. Those services we will now start offering and in this quarter we won a three-year contract in a government state for mainframe work. So it is just that it is longer than what we expected. Our pacing was longer than the original anticipation but the fundamentals are absolutely there.

Shekar Singh: Okay, thanks a lot.

Moderator: Thank you very much Sir. Next comes a question from Mr. Trideep Bhattacharya of UBS.

Trideep Bhattacharya: Good evening gentleman. My question has got to do with, like you know, predominantly your organic and your nonorganic part of the software services business, now last quarter we saw roughly about a 5% dip in the top line, this quarter we had a 2%, I am all talking about in rupee terms, may be in dollar terms it is kind of flat. What I wanted to understand is purely on the organic front, what is really happening there, I mean, is the tech spending is kind of gradually coming back, do you think that this part of the business will start to move, like you know, in the positive direction going forward in the coming quarters, I mean immediately visible from the next quarters onwards or you think it will see a gradual process?

Male Speaker: No let me explain this to you.

Trideep Bhattacharya: Sure.

Male Speaker: I wish we are in a position to give you an order backlog or the order backlog that was won in the quarter, because after an order is won, now we have become extremely tight on the statements of work so that we can execute as accurately to the customer and as best as possible, from order backlog order picking to order execution beginning to order execution maturing for the client, to us three months before we start the work after that it takes three months of build up and it starts maturing after six months. During that phase we have to staff up, we have to train the people. Deutsch Bank and British Telecom have become two of our largest customers, I am going to refer to a discussion which I had, with John Chambers of Cisco when I was in the United States six weeks ago and he was with his executive vice president and we were having one of these regular annual reviews because we are the largest developing vendor for Cisco.

Trideep Bhattacharya: Sure.

Male Speaker: And in that review, now I am not going to state the other people who work for Cisco, he gave, what he talked about them or how he ranked them, he says, we rank HCL as No. 1. On a scale of 10, if HCL were to be ranked No. 1, they are absolutely consistent and No. 2., we rank them at 15 on 10. Okay. Now, for us to get an execution excellence of that nature, he ranks us better than any of Cisco's own labs in terms of customer advocacy. Okay.

If we were to be achieving that level of confidence with an organization of that size and the magnitude of the R&D work that we do for them, our understanding of their problem has to be perfect. We have this concept of shadow engineers and we have a concept of trainee engineers. They tell us at least six months before of what ramp up is needed and they are all too specific projects. Okay. It is just that, you know, our recruiting phase and the back of a large order intake, when it takes place in a quarter, you will see that difference in margins, which is what you are seeing in the last quarter of April, May, and June.

Trideep Bhattacharya: I see. So in terms of like you know, in that build up of recruitment where we in terms of the overall scheme of things as you said 6 months is a kind of time frame, so it is the first 3 months or it is a kind of last 3 months of the build out.

Male Speaker: In terms of averaging out, I take it from this quarter onwards it will start averaging out, we all would like to say good things for the company, but if we get an other very large contract that will again kick start to built.

Trideep Bhattacharya: Okay.

Male Speaker: On the basis of what we have, I think we are averaging out.

Trideep Bhattacharya: My second question is on the software part of it on the nonorganic part of the business that you have got, I guess they contribute, DSL and Jones **Apparel,** on a broad level do you think all this enterprise related acquisitions that you made over the last 1½ years is kind of now fully integrated and the results are kind of likely to kick in or do you think there is some more way to go in terms of making the SG&A investments before we…

Male Speaker: I will give you the answers straight.

Trideep Bhattacharya: Okay.

Male Speaker: In banking space, what we have acquired has matured.

Trideep Bhattacharya: Okay.

Male Speaker: And in retail space, which is Jones, has matured. Government space will achieve maturity during this year. BPO space is still in an investment period.

Trideep Bhattacharya: Okay.

Male Speaker: That is the BT subsidiary that we bought puts together with what we have in India. The BT subsidiary that we bought was a prime reason why we started understanding BT so well, on the back of which we got that large contract.

Trideep Bhattacharya: Okay. I see.

Male Speaker: But, I take it that BPO being what it is, you know in 5 years time, if it is going to get, or actually 4½ years now time left, it is only get to be a $20 billion industry. If you want to be a reasonable player in it, we do need to make some more investments and this year would go behind that.

Trideep Bhattacharya: I see and just in terms of the demand environment, this quarter of course is kind of history because it is almost 1 and 1½ month into the next one, but are you seeing price re-negotiations coming along even as you proceed forward with the September quarter or you think that is kind of none of the renegotiations, fresh renegations have happen during this time.

Male Speaker: Fresh re-negotiation is a constant process. It started happening middle of last year when every single organization was looking for steep reductions. Now it is fewer and far in between.

Trideep Bhattacharya: I see. Thanks a lot and best of luck going forward.

Male Speaker: Thank you Trideep.

Moderator. Thank you very much sir. Next comes a question from Mr. Pramod Gupta of ABN Amro.

Pramod: Hello sir, a couple of things. First thing can you explain even your BPO, inorganic BPO business there has been a sharp drop in the margins. What is the reason for that, and now even in your own IT services business, your EBITDA margins are around 19% and they have sharply dropped from the first quarter about

27 to 19. I mean, is there any hope of recovery there or is it likely to stabilize here. If you can just comment on those.

Male Speaker: As Mr. Nadar was mentioning, the margins have got impacted because of the bench, so while I do not foresee very dramatic rebounding to 27% levels, certainly, you know I do not anticipate the margins to deteriorate. In fact with the kind of cost rationalizations that we have under way and with slight improvement in utilizations on the back of a rebound in spending in the technology services segment, we should be able to look at definitely better margin numbers in the coming quarters.

Pramod: Please explain the BPO, inorganic BPO, I mean the drop in the EBITDA there and what are the reasons there?

Male Speaker: Inorganic BPO, in that particular quarter?

Pramod: Yeah.

Male Speaker: I do not know the reason. Would you know the reason?

Male Speaker: Yeah. We have taken you know we have provided for some possible expenses…

Male Speaker: Okay, let me explain it. This is going forward. This is a very conservative provision that we have made. Going forward in next year, if there is a likelihood of reduction, we just you know brought it forward and then discounted it into this quarter itself. So, that you won't face anything of that nature next year, but it is a very conservative provision that…, it is a provision, it is not actuals, let me first state that.

Pramod: Okay. Thanks a lot sir.

Male Speaker: That is why we won't see a corresponding impact on the cash flow.

Pramod: Okay. Are you going to provide the separate numbers for each of your subsidiaries as you used to do it previous quarters like DSL and all that or is it now going to be just organic and inorganic like...

Male Speaker: What we will do is, we will provide it based on verticals.

Pramod: Okay.

Male Speaker: Because it is becoming increasingly difficult, because Jones for example, that works as a separate entity, but there is a large piece of retail work which it generates into HCL Technologies. So if I give you Jones, it is a meaningless number anymore, because it has been there for 15 months and was originally expected to do 10 million in the first year, and I think a similar number in the second year, and our run rate is substantially larger. Not just the entity, but the business which is generated out of it. So unless we categorize that into the retail vertical, we will not be giving out any meaningful analysis. The same thing goes for banking. Deutsche Bank work does not get executed only in DSL but also in HCL, that will only increase with time, as it increases with time, unless we cover it under the banking vertical we will be giving a very misleading and misrepresentative analysis. Plus also, you know, we would be now falling in line with the industry factors. I do not think anybody discloses such level of granularity, which becomes you know at some level also very difficult way of presenting. I think the investor would be best served if this is analyzed across verticals, so that you know exactly what is the kind of dependence that the company has on each industry, and if something were to shake that industry's fortunes, you would be able to make some adjustments as to likely impact on the company.

Pramod: Thanks a lot.

Moderator: Thank you very much sir. Next comes a question from Mr. Akshay of JM Morgan Stanley. Hello Mr. Akshay are you there?

Next we have a question from Mr. Dipen Shah was Daulat Capital.

Dipen Shah: Good evening. This is Dipen of Daulat capital.

Male Speaker: Good evening.

Dipen Shah: I just wanted your comments on the possible figures of HCL Infosystems, I believe they are to be consolidated next quarter onwards, but when I looked at standalone results I believe in this year HCL Infosystems had a loss, that was a business, which we took over. Could you just offer some comments on the reasons for that.

Male Speaker: Are you talking about previous year period.

Dipen Shah: Yeah. That is FY03, which has ended.

Male Speaker: That is not…, you are talking about HCL Infosystems.

Dipen Shah: Yeah, yeah, yeah.

Male Speaker: Okay. That would not be representative because quite a few of the businesses which they were doing did not have the advantage of the sales reach which HCL Technologies has.

Dipen Shah: Okay.

Male Speaker: Now if you take the client space of HCL Technologies, in many places, there were SAP implementations request that were there that were going on. Whereas those places, we could not bring forth the benefit of HCL Infosystems capabilities. They were suffering for want of reach.

Dipen Shah: Okay.

Male Speaker: And we would have just gone ahead and bought, this is bought highly for the purposes of the capabilities. It is an 823 people capability that we acquired. We had to acquire that kind of number anyway because our enterprise solutions space, our thrust had become robust and our requirements could not be stopped.

Dipen Shah: Okay.

Male Speaker: And this came along, and we believe that for us this year, it will be a very, it is you know, if I were to put you back, when we acquired DSL, at that time I do not know whether you remember the previous year's profit, it was quite marginal, and the revenue was quite marginal too, and if you, $18 million some profit and if you take the previous three years and take an average of profit, it would have been less than some 10% or something. It was not a meaningful thing. What we acquired was a franchise. Here what we are acquiring is a capability. Our need for this capability is strong.

Dipen Shah: Okay.

Male Speaker: And our sales reach in this organization, you know, when we go into anyone of these places, let me just give you the case of the win in AMD, and how multiple service offerings helped, okay. The key service offering on the back of which we rode was infrastructure services management remotely done. I would like to, you know, make an arrangement for you people to come and visit that. Our network operating center, which is called NOC, where we manage 22 clients infrastructure, that means their entire network computing, their bandwidth utilization, all these are controlled, monitored, and feedback given to our clients in a remote way, okay. For this, we infused technology into it, created products around this- there isn't an equivalent anywhere else. So, when AMD went about looking at what they could get for what they spend, mind you, they have 15,000 users in the United States and all of them are on the network. That network is going to be remotely managed out of India. Now, they cannot take a decision of this magnitude, because for anyone of these multibillion dollar corporations, the network is a necessary condition, you assume it that it will be functioning all the time. Okay. That management when they decided to come to us, you know, we competed against one of the two companies, which is above 50 billion in size. Okay. We walked into the place, competed with them, and won against them.

Dipen Shah: Okay.

Male Speaker: Now, there has to be a compelling reason why they would do this. Now, when I say above 50 billion, you will be very well aware that there are only two companies, which are above 50 billion.

Dipen Shah: Right.

Male Speaker: And both of them are bound to be very large customers of **AMD**. As a matter of fact, the buying from AMD of the final tool, the other competing company was close to $500 million a year. Despite that the contract not only came to us, it also encompassed the application software services, BPO services, and enterprise solution. You know, one of the earlier questions, which got raised on what do you do with people that come from HCL Infosystems, now, but for those people, we cannot do this implementation contract **facility**. Immediately after that they have also started a pilot on BPO.

Dipen Shah: Okay.

Male Speaker: So, this multiple service offering strategy is something, which would be a winner, the same way which has been projected by Gartner. 30% of software deals will come with infrastructure, I mean remote infrastructure management. I hope I managed to answer your question.

Dipen Shah: Yeah, you definitely have, because I was just thinking like when this acquisition was announced, the FY02 figure, that is for the year ended June 2002, for HCL Infosystems business which we took over __________ about Rs. 1.7 billion in revenues and about Rs. 170-180 million in profits, so I just was thinking as to like how come that profits in FY02 have turned into a loss for this company in FY03.

Male Speaker: No, that is because of want of sales force actually.

Dipen Shah: Okay, and by when do you, how much time do you think it should take in this year for this business to actually turnaround and start making profits.

Male Speaker: In enterprise solutions our order backlog is already healthy.

Dipen Shah: Okay. But at least, I believe in the first couple of quarters there should be an impact on the overall margins because this business is a loss.

Male Speaker: Cannot be significant, but is definitely not loss giving.

Dipen Shah: Okay, okay, thank you very much.

Male Speaker: This is not like the government solution business. This is a business, which we are already in.

Dipen Shah: Okay, thank you very much.

Moderator: Thank you very much sir. Next comes a question from Ms. Priya Rohira of Birla Sunlife.

Priya: Good evening Sir. My first relates that, you have seen a good traction among the top 5 clients, but when I look at the next 5 clients, there has been some decline. If you could first throw light on what would be the company's strategy to increase the composition of outsourcing work, which you could have from the top five clients and what would be the strategy to target the next 5 clients.

Male Speaker: We are constantly, you know, trying to do account mining and cross selling. In fact one of our customers which sort of characterizes this effort is a large company, which is in the manufacture of ATMs. We started off with technology development services for that client, today we are working on their product, which is in business intelligence. We are doing BPO for them. We are doing a little bit of network management and we are also doing a lot of application development maintenance. So, this is a constant effort and you may see, you know, from quarter to quarter there are some blips, but by and large….

Male Speaker: Quarter blips will be if we take a large project and if the project may have ended from the previous quarter. Other than that, all of them are growing.

Priya: Okay, and you have mentioned that you know you are seeing a good, you have purposely seen a good increase in bench on account of expectation of pick up in the outsourced IT budget rather, now my question would be…

Male Speaker: If I may correct you, it is based on the order book, which has been built in this period and plus forecast from the existing customers.

Priya: Okay, my question will be theoretically from this level of utilization of 70%, would it imply bottoming out or maybe maximum 1 or 2 point from these levels.

Male Speaker: Yes, the answer is yes.

Priya: Okay, thanks a lot sir. I wish you all the best.

Male Speaker: Thank you. I am afraid, I think we should call for the last question now because we have gone beyond time, it is 8 o'clock already. We could take one last caller.

Moderator: Okay sir. We have a last question from Mr. Chandresh of ARG Securities.

Chandresh: Hi, Good evening sir. What is the promoters holding in the company, and are there any plans to dilute it by any ADR issue, and do you plan any acquisitions in the near future?

Male Speaker: I will answer that question. The promotors holding of the last two years has been consistently the same. It is 77.02%. There has been no change and there cannot be any increase because SEBI guidelines do not allow any increase above this.

Chandresh: Right.

Male Speaker: And, will there be any acquisitions in the near future? The answer is any acquisition will be visible before three months and currently nothing is visible.

Chandresh: Okay, and any plans to dilute…

Male Speaker: Yeah, dilutions through ADR listing, the answer is, no, and we would give you plenty of notice, we will tell you at least 6 months ahead if we are going ahead with one.

Chandresh: Okay sir, thank you.

Male Speaker: Goodnight gentlemen and it is a pleasure talking to all of you and I would actively encourage you to visit some of our centers where you will have an opportunity to see, now what I can confidently say, some of the best execution as commended by the CEO of Cisco himself, and winning of contract against companies, which are north of 50 billion in size. With that we close the call. Thank you very much. Have a goodnight and have a great weekend. Bye, bye.

Moderator: Thank you sir. Ladies and gentleman, that concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and goodnight.

**NOTE:**

In the interest of timeliness, we have not been able to edit the document.