HCL TECHNOLOGIES
Q4 EARNINGS CONFERENCE CALL
SEPTEMBER 15, 2004

Moderator: Good morning ladies and gentlemen. I am Monali, the moderator for this conference. Welcome to the IL&FS InvestSmart's HCL Technologies conference call. Mr. Amit Khurana of InvestSmart 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. Amit Khurana of IL&FS InvestSmart. Thank you and over to Mr. Khurana.

Amit Khurana: Thank you Monali. Good morning and good afternoon to all of you in various parts of the world. This is Amit Khurana from IL&FS InvestSmart. I welcome you to HCL Technologies fourth quarter earnings call. We have today with us Mr. Shiv Nadar, Chairman and CEO HCL Technologies, and Mr. S. L. Narayanan, Corporate Vice-President – Finance. Without further ado, I would now hand over the proceedings to HCLT management. Over to you sir.

Shiv Nadar: Thank you. This is Shiv Nadar. Dear friends, it is a pleasure welcoming you all to this conference all to discuss our performance in the last quarter of the financial year ended 30th June, 2004. With me on this call is S. L. Narayanan, Corporate Vice-President – Finance of HCL Technologies. Today as I begin this call, my thoughts go back to the year 2001, the time when we embarked on what will eventually turn out into an eventful voyage to reinvent and revitalize the company. As someone said, "the only thing constant in life is change." Paradoxical it may seem but increasingly in the present economic and competitive climate, organizations face continuous pressure to reinvent themselves and maintain operating efficiency. We at HCL have prevailed over the past three decades as a group only because we had the organizational character to embrace change and revisit our strategic plan at every inflection point. More significantly, we have demonstrated the courage to radically alter our directions if circumstances warranted a mid-course correction. As we look back at the last three years' of our journey, I must say we feel we have achieved, to a large extent, what we set out to do. In the next few minutes I will try and touch upon some of the ingredients behind these successes.

What we see today in terms of a set of definitive are the outcome of a carefully crafted long-term strategy, defining realistic, implementable programs for rebuilding and growth, with measurable objectives. We also went through a substantial management renewal - adding seasonal industry professionals across the globe, an initiative which is continuing to improve our hit rate of late, particularly in the end-user applications and solutions space. Few companies ventured out in persuit of acquisitions led growth model, though mergers and acquisitions often help companies reduce cost or achieve higher revenues within a short period of time. We were very clear in the post September 11 bearish sentiments that we can accomplish our goals faster with M&A initiatives than would be possible with purely organic efforts. We also needed to build additional capabilities in certain horizontals, and finally identify complimentary strategic partners whose capabilities help leverage ours. Accordingly we set about our M&A operations with some clear guidelines. Some of these included access to new and more attractive market, broadening product portfolios, overcoming barriers of entry, securing new technologies and expertise, and divesting units that no longer fit with the organization's core objective. With such clear principles we never shy away from committing the balance sheet strength of the company to the greater common good of our shareholders. Where necessary we also invested seriously large sum to oversee the M&A effort notwithstanding the short-term pressures of managing investor expectations. Three of our biggest customers today did not feature in our top 5 list same time three years ago. I am pleased to report that our strategic alliance partners namely Deutsche Bank, British Telecom and Jones Apparel group have been important constituents in the rapid transformation of our company. With the same resolve we moved decisively when an opportunity arose to harvest a well nurtured franchise like HCL Perot Systems. In the last 3 years, we have used both organic as well as nonorganic measures to augment our capabilities in our existing areas of strength and add new revenue streams to our business. Our exposure to the traditional main streams of product engineering has come down from 75% to less than 50% now though our revenue run rate has almost doubled. We have large applications enterprise solution practice. We have also ramped up beyond the critical mass in BPO and infrastructure management services, 2 of the major growth drivers of the overall IT outsourcing space. Our rebalanced service mix assumes significance in a market where enhanced relationship management is characterized by cross selling various service offerings. As you would have noticed our head count stood at around 10,000 when we began this year, has now crossed 15,000. We are now a much stronger organization not just in terms of intellectual and financial capital, but also with more well focused verticalized strategy and more broad based technology development practice. You would have seen that with our efforts to broad base and strengthen our service portfolio, I can now say with confident that we are poised to reap the benefits of investment made over the last three years. That is being demonstrated by the fact that we are now able to drive our revenues with lesser incremental investment. This has helped us to significantly drive up our profitability metrics. With the fundamentals of our next growth phase in place, we are now rapidly scaling up our delivery infrastructure. We are seeking to add capacity in all our delivery locations in Noida, Chennai, and Bangalore. We have been allotted 46 acres of land in Greater Noida which would take care of all our incremental space requirements in national capital region. I would also touch upon our dividend policy briefly. With improved prospects for business, we have declared a final divined of Rs.4 per share for the last quarter of the year under review. This quarter dividend is twice the rate of Rs. 2 per share paid out for each of the earlier 3 quarters. In line with our stated policy we will strive to balance the need to keep a strong balance sheet with other equal imperative of enhancing shareholder value. I would also like to thank many of you who reposed faith in our ability to execute well and deliver on the promise. Now, I will hand you over to S. L. Narayanan.

S. L. Narayanan: Thank you Mr. Nadar and a very good morning to all of you on this call. I will very briefly dwell upon the financial highlights of the most recent quarter. The sequential growth in revenues for the quarter continued with a trend line established during the previous 3 quarters. You will see from the release that the software services group maintained fairly robust revenue growth of about 11.9%, while BPO has been exceptionally strong with a quarter-on-quarter top line growth of 21.4%. As we have been anticipating, we have successfully used our operating leverage to grow operating profits by boosting top line on the back of very modest incremental opex. Also the profitability has expanded across the business segments. Software service EBIDTA margin has expanded by 210 basis points while BPO EBIDTA margin has expanded from 13.1 in the previous quarter, to about 19.2. The infrastructure business also improved on the margins during the quarter. If you look at the company as a whole, the EBIDTA margin has expanded by 320 basis points sequentially. Over the last 5 quarters we have boosted our EBIDTA margins from 16.7% to about 23.2% and the other important aspect from a cash flow point in this quarter is that our DSOs have come down by a full 6 days and this in turn has got some consequential impacts on improving cash flows. Finally, on the dividend, in response to several suggestions from many of our stock holders, we have since March 2003, consistently paying out quarter dividend. We have rounded off the year with a final dividend of Rs. 4 per share. We are quite aware that the treasury book size has increased enormously with the disinvestment of the HCL's holding. With the large balance of liquid assets, our return on equity has under performed peer average and as part of the management we are very conscious of this. Going forward our endeavor will be to use the dividend policy in a manner that will improve our longer term targets for ROE, while at the same time insuring that our share holders can look forward to a steady stream of regular dividend. I am sure that this policy would find favor with all of investors, with that I will end my update and hand you over to the moderator for the Q&A.

Moderator: Thank you very much sir. At this moment I would like to hand over the proceeding to the moderator 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 Iju.

Moderator: Thank you Monali. We will now begin the Q&A session for participants connected to the SingTel bridge. Please press 01 to ask a question. First question is from Bhuvanesh from CSFB Singapore. Go ahead Bhuvanesh. Thank you.

Bhuvanesh: Hi sir, good morning. Congratulations on great results.

S. L. Narayanan: Thanks Bhuvanesh.

Bhuvanesh: Sir can you give us some update on what is happening with the JV with Deutsche Bank because now it is I think another 15 days before we do this purchase. So what valuations, what exactly is happening there?

S. L. Narayanan: That will be based on the 12 monthly accounts that will be completed on 30th September, and as I had mentioned to you earlier, it will be based on a relative valuation of the entity along with a consolidated net income of HCL Tech, and since it is going to be valuing that entity on the HCT Tech P/E, neither accretive nor dilutive, so that will happen once the audit is over some time, I mean, that is the regulatory process we will have to through, may be by end of December.

Bhuvanesh: Sir, given that we already have the 9 month results of the 12 month which we are going to use, so based on those 9 month results what sort of dilution do we see in our share capital because of that.

S. L. Narayanan: No that is going to be extremely, extremely difficult to say because we cannot hazard a guess. This is a matter which will be subject to valuation and it will have to go through the regulatory process. So till such time we have a good fix on the 12 monthly numbers for HCL Tech consolidated and equivalent numbers for the same 12 month period or DSL, I would not want to speculate on this at this moment. But to address any concerns that you might have, since it is going to be done on a relative valuation it is neither accretive nor dilutive.

Bhuvanesh: Ok. Sir just one last question on that. See what I understand that a relative valuation basically primarily based on PE that is what was explained earlier, so when we take this earning are we going to take the profits which we got out of divestment of HCL Perot or are we not.

S. L. Narayanan: See again you know we will be prematurely commenting on all this because the way it is going to be done is based on the consolidated net income under US GAAP, so what would go into that consolidated net income and all that is something which the best accountants decide and we would not want to speculate on that.

Shiv Nadar: As per US GAAP the capital gains which accrued out of the Perot transaction will qualify as income. This is what you wanted to hear?

Bhuvanesh: Yes. Thank you.

Moderator: Next I have Ajay Sharma, Citi Group. Go ahead Ajay.

Ajay Sharma: Yeah, just a couple of questions. One is on margins, within software services margin expanded by about 200 basis points, I was wondering, is there more room for margin expansion within software services itself, that is excluding the BPO and infrastructure part, or we sort of reached, sort of peak there.

Shiv Nadar: If I take on an annual basis, you may see some variations on a quarter-to-quarter basis, because our company relies a lot on hiring freshmen. So if we take the July-August-September quarter, there will be a large increase, but as you draw towards the January-February-March quarter, the margins may be even higher, but if you take on annualized basis, I do see scope for enhancement of margins on two counts, one the process efficiency, second as I mentioned in my last call, in 2005-06 onwards, we expect some margin increase taking place because of IP generated by our company.

Ajay Sharma: So we should use average for the year as a starting point, rather than using Q4 number?

Shiv Nadar: As per our policy, we don't predict the numbers and I am bound within this policy framework to say anything, but I believe there is scope for improvement in the further two years to three years timeframe.

Ajay Sharma: Secondly, your minority interest does not seem to be increasing, although Deutsch software and I think Jones seems to be doing quite well, so what is the reason for that, and the other question on tax rate, again that seems to be going down, on an annual basis you paid just 5% or so?

Shiv Nadar: Don't rate this on a quarterly basis. You should take the annual basis when you take minority interest because, these are running as independent entities. They may be making certain provisions at a particular quarter and then releasing them in a particular quarter, certain taxation related points may happen in a quarter or other, but on an annual basis if you see, it will even out.

S. L. Narayanan: Ajay, just to answer your point on the tax provision, see primarily what has happened is, we did not create any deferred tax assets on the earlier BPO operating losses till we had complete clarity that these carried forward losses were available for set off. Because there was a view which was taken that they may not be available because of section 10A benefits being there, but subsequently on the finalization of the audit and with reference to the tax adviser of the company, this has been, you know, found to be available and that is the reason why you know deferred tax asset provision entry has been routed through this quarter. As Mr. Nadar said, what you have to do is see this in a continuum. We did not recognize that benefit till we were absolutely clear that it is capable of being recognized.

Ajay Sharma: Okay thanks a lot.

Moderator: Please press 01 to ask a question. At this moment there are no further questions at SingTel. I would like to hand over the proceedings back to Monali.

Moderator: Thank you Iju. We will now begin the Q&A interactive session for India participants. Participants who wish to ask questions please 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. We have our first question from Mr. Anantha Narayan of J. M. Morgan Stanley.

Anantha: Hi, good morning everyone. Congratulations on robust numbers. Sir, I had a couple of questions for you, the first is on the attrition numbers. Your press release mentions annualized attrition rate of around 14%, but if we just look at some of the employee addition numbers, they suggest a much higher attrition rate, for example, you added about 3700 people gross, but 1600 net, which would suggest far higher number on an annualized basis.

S. L. Narayanan: Anantha actually, we are reporting for purposes of attrition ratio only people more than one year in the system. If somebody leaves the company in less than one year, since it is largely still on a training mode and we don't consider that as attrition.

Anantha: Fair, if I just look at the attrition numbers including all the employees, it seems to be an extremely high sort of 50, 60% type of number.

S. L. Narayanan: My guess is more like 20%.

Anantha: No sir, 2000 people have left in the quarter and if I just annualize that on your current employee base?

S. L. Narayanan: No, you should look at you know, see, we should annualize this first of all, software service separately and BPO separately. We do have these numbers including people who exit the system in less than one year, but we are not alarmed by those numbers. Because it is a virtual round robin that happens sometimes on the BPO business, and that is manageable because we are now building a bench to take care of that and we are not concerned about those numbers.

Anantha: Okay, and the second question, as well as on the other income factor, it was a pretty significant proportion of your pre-tax income this year? So what should we expect for the next 12 months?

S. L. Narayanan: I think you should not look at more than 4% on this treasury block of around 2100 crores.

Anantha: Okay, thanks a lot and wish you all the best.

Moderator: Thank you very much sir. Next is Mr. Mahesh Vaze from BRICS Securities.

Mahesh: Hi, congratulation on great results. Your government business seems to have increased quite sharply this quarter, one would expect that with all the backlash noises that business that could be under some pressure, so just wanted to understand what exactly happened here?

S. L. Narayanan: See basically we have this business run out of an entity that we hold in the State of Massachusetts, so for all intention purposes, it is the US corporation which is bidding for work and, yeah, we are in fact quite gratified by the improvements that has come after many months of seeding you know possible opportunities. The good news is, you know, it is not continuing to be the kind of drag that it was sometime back because we have sort of put right kind of managerial support and effort, but then it should also be seen on the back of the extremely small base. Yes, it is good that that business has come around.

Mahesh: Secondly, for the year FY04, you have minority interest of about 60 crores, what part of that would be attributable to DSL?

S. L. Narayanan: We don't disclose that kind of granularity anymore because I don't think that is very relevant, I mean, I think we are comfortable stating it the way it is.

Mahesh: Okay. The third thing is, what was the reason for this large other income this quarter, was there some, you redeemed some units, what exactly happened?

S. L. Narayanan: No, see basically what has been happening is, we have been using method of switching investments from growth plans, dividend plans and vice-versa, and in the past this was considered good enough for an income recognition, but there is a view which has been taken that, you know, if you just switch investment without the act of redemption and reinvesting towards a completely different plan, it may not constitute adequate revenue recognition because the underlying aspects of the fund has not changed. What we have done last year was, if you remember, we had moved everything to growth plans because we wanted to maximize the after tax yield on the treasury. So we have moved it from a growth plan to a dividend plan with a view to avoiding idling of cash, but now there is a view which has been expressed that only at a point in time it moves out of one fund into a different fund, say from an income fund to a liquid fund, would be allowed to recognize that income. So we have had that one time impact coming in this quarter, so you should remove that and look at the numbers.

Mahesh: What is the size of that?

S. L. Narayanan: About 38 crores.

Mahesh: One last thing, you seem to be reclassified, previously you used to get the forex gain and loss, somewhere near the EBIDTA line?

Shiv Nadar: Basically what we have done is, we have fallen in line with industry standard, because earlier we were putting it as a separate line item, and then we wanted to standardize to the industry way of reporting. What we have in the other income for this quarter is a loss of about 10.8 crores on forex. So by removing the forex gains and loss to a different lines, again it is as per industry practice, we are able to show exactly how much the underlying business performed, and you can get an idea of the true character of improvement in operating performance.

Mahesh: Thanks a lot and all the best.

Moderator: Thank you very much sir. Next we have Mr. Chetan Shah from Quantum Securities.

Chetan: Good afternoon. Few of the questions have already been answered. Coming back again to the forex front, earlier a few quarters ago you said that to mitigate the currency risk you had some borrowings also in the forex terms, so now considering that the forex markets have been very volatile, what will be the stand, because I think the borrowing, I mean there is no point in having borrowings when you have such a huge cash?

S. L. Narayanan: Yeah, you are right, but the way to look at this is over a slightly longer term, because we raised this $30 million around the time when the dollar was at about 47.50, so you will have mark to market translation gains or losses, like last quarter, we had a good number because the rupee had appreciated in considerably, but now this quarter, it has swung the other way, but the thing to look at is the over time if it is going to still be at less than 47.50, we will use that money with virtually no cost. With that reason, you know, we took, and this is not something which is very considerable amount given the net worth of your company, and so we basically used it as some kind of a natural hedge, because we thought we it would be better off using this kind of funding for capex and using internally generated funds because there was the opportunity to earn higher rate of interest at a time when interest rates were heading southwards and we have been able to capture that movement and make gains on the treasury portfolio.

Chetan: Second again, this investment in venture funds and equity investees, that also again, if you want to balance it, the value has gone up, so what is the reason there, and similarly for this intangible asset?

S. L. Narayanan: On the venture funds, basically we have had some good new coming from many of our investee companies. In fact about a year back, we were having regular hits to our P&L, from that situation it has moved to a point where some of our funds are already trading at 2.2 times there book value, but of course we cannot capture this as yet into our income, only when these funds disinvest, and if you look at empirical evidence, they have always been successful when they go or exit, so we are not so concerned about the investment in venture funds as we were about a year back. So that sort of managed itself. And on the intangible assets, we have had some kind of impact coming out of the HCL PSO numbers which have been added this quarter retroactively.

Chetan: Okay, thank you very much.

Moderator: Thank you very much sir. Next is Mr. Apoorva Shah from ASK Raymond James.

Apoorva Shah: Good afternoon sir. In the recent past, we have seen some turbulence in the market reported by many of the semiconductor companies, if you can just give us an idea on what is happening on the equipment maker side and what impact it is having on our business if any?

S. L. Narayanan: We have been fairly steady, in fact, even through the time when many of the semiconductor companies reported decline in EPS, our billings have steadily gone up, only because many of these companies who are dependent on a steady flow of new products, saw the opportunity to move more and more projects into India, and we have had in fact during the period when everybody was commenting that this industry was going through tough time, we have been able to recruit almost six to seven top notch names in that entire space, and we now work with almost 10 of the top most names in the semiconductor equipment manufacturing, and we are pretty confident that that space will continue to show traction for us.

Apoorva Shah: Can the growth in this segment be expected to better than the company average or do you think it will be more or less in line with the…?

S. L. Narayanan: It will be in line with the average.

Apoorva Shah: All right, thanks a lot sir.

Moderator: Thank you very much sir. Next is Mr. Trideep Bhattacharya from UBS.

Trideep: Hi, congratulations to the management on the great set of numbers.

S. L. Narayanan: Thanks Trideep you have also been supporting us, thank you.

Trideep: I had, like you know, the margin improvement has already been quite sharp, if you look at the margins from the individual portfolio, now you stand at, software at 24% or close to 24%, and similarly for BPO at 19% odd, what is the scene going forward in terms of, like you know, do you think that you have reached the normal state of margins and from here on it will be more demand driven or do you think there is some more room to go where like you know cost consciousness or something else, capacity utilization improvements could lead to further improvement on a company specific basis rather than demand specific reasons?

S. L. Narayanan: Okay, I think this is pretty much going to be steady state, but what would surprise us profitably is the opportunity to increase shift utilization particularly in BPO. I think I have shared this with you, our intent will be to sweat the asset more. So, we have started running some part of the ratio, so when that goes up there could be some very very possible upside in terms of operating margins because you know exactly that the margins in the BPO business are pretty robust. So if you can keep your fixed cost and capital recovery cost constant, the leverage at the operating profit level is going to be pretty sharp. So our intent would be to look at sweating these assets more. And the second one would be to again keep a tight leash on costs, and we have been able to execute fairly well on that score in the last 12 months. So on a modular basis, if you can bring in more assets under utilization, we should be able to have some kind of operating the bridge.

Trideep: I see, and in your infrastructure services revenue stream, what proportion of revenues now comes from overseas clients?

S. L. Narayanan: About 25%.

Trideep: And, this was in Q3, how much.

S. L. Narayanan: About 20%.

Trideep: I see, and is it possible to know where is the steady state where are you headed in an about year or two from now?

S. L. Narayanan: At the moment, we don't want to give you any kind of you know forward number Trideep, but suffice is to say that we are now working with 16 global clients from IT infrastructure management. They are pretty optimistic that these numbers will go up, and we have also hiring capacity here, almost about 800 to 900 seats we have already commissioned. So, we are looking pretty good on the infrastructure side.

Trideep: I see. What are the plans for the salary hike and how is it going to be staggered, which quarter, any details?

S. L. Narayanan: I think our number is basically you know on a rolling basis, so we have increases coming in some geographies on 1st of October in some parts you know it is 1st of July, in some other places it is 1st of April. So, it is in some cases, the numbers are already in. We should be able to look at decent salary increase, which would be around say 12 to 13% and yet retain margins.

Trideep: I see, and how much of it is for the year already done and how much of it is remaining.

S. L. Narayanan: That will be very difficult for me to give Trideep you know. We have tried to accelerate this on a quarterly basis, but it is very difficult to get update from that.

Trideep: Okay, no problem.

Shiv Nadar: Can I respond to this in a different manner?

Trideep: Sure.

Shiv Nadar: We have as of now 16,000 people when we began the year, and we began last year at 10,000 people; 6000 people constitute almost 35% of the total staff strength, I mean more, slightly under 40% of the staff strength. They have steadily joined through the year, and as they complete the year only their next increments will be due. Typically, people who have joined in the last 12 months, according to me that number would be 7500 not 6000 including per attrition of the previous year; 7500 out of 16000, which is almost half the number, will be due for increase and that sort of already been factored at the time of joining. Are you able to follow that logic?

Trideep: Right.

Shiv Nadar: One half of them would be steadily through the year and their increase will not be significant because it would have already been factored at the time of joining. It is the other half which again would be spreading through the year. That is why SL will not be able to give you exactly how these increases will pan out through the year.

Trideep: Right. What is the forex cover right now that the company has?

S. L. Narayanan: We have cover till about 31st of December, and we are keeping… in fact, we may be booking depending on the opportunity that may come post 1st of January. We are keeping post 1st January open.

Trideep: Okay, and any likelihood that the company is looking at acquisitions any further or pretty such things in mind?

S. L. Narayanan: Even if we did, do you think that I will tell you? Sorry, it is just like that. I can take these liberties with you. At the moment, nothing. I do not think, we will announce anything before 31st of December for sure.

Trideep: Okay, thanks a lot and best of luck.

S. L. Narayanan: Thanks.

Moderator: Thank you very much sir. Next, we have Mr. Michael Dillon from Arete Research.

Michael: Hello guys? I just wanted to ask about Deutsche Software Limited (DSL) if you could give us not that plays on gross where the bulk of the revenues is coming. Is it predominantly out of Europe now, and what your plans for that part of the business are for the coming year and possibly have you signed any deals with the non-Deutsche related on the back of that venture yet? Thank you.

S. L. Narayanan: Mic, we will not be able to give you know client specific forward estimates. These are you know often done in consultation with user department. I don't think I will be able to give a precise picture where the JV opportunities should go through, and I really wish you know I have the latitude to comment on client specific data, but I don't think I will be able to answer this question.

Michael: Okay. May be if I phrase it bit differently. Has the joint venture growing in a similar manner to the group or has it been growing faster than growth average.

S. L. Narayanan: It has grown at fairly robust average. In fact, if you were to look at the numbers broadly, the quarterly run rate has more than quadrupled in a span of less than three years. So, that is a phenomenal kind of ramp, and if you were to look at headcount, we were somewhere around 500 plus engineers, and we have crossed 2500 engineers now.

Michael: Right. Yes, that is correct.

S. L. Narayanan: That should prove the kind of ramp that has happened. So we were somewhere around 4.5 million a quarter on the eve of the deal, and we have crossed 22 million a quarter as a run rate. This much I can give you.

Michael: Yes, that is so good, and finally because of this deal have you started seeing a ramp in other banking and finance related deals, and what is the experience with Deutsche**?**

S. L. Narayanan: In fact, we do work with the whole group of banking customers, and in fact, we have always had relationships with names like Halifax that has now merged with Bank of Scotland**.** We have done work for various constituent groups of Citi Group and we are doing work for Bankers Trust,

Shiv Nadar: Bankers Trust, Standard Chartered, there is a whole lot.

S. L. Narayanan: Yeah, there are several names that we are working with.

Michael: Okay. That is great. Thank you.

Shiv Nadar: It is a matter of what services that we offer. When you look at banking there are application services and there are operational services and there are infrastructural services. When you cut through the whole lot in the BSFA space, there is banking and other financial institutions. So, we would be serving some of the biggest things like AIG, like Goldman Sachs**.** There are very very big names, which are all over the place.

Michael: Yes, okay. Thank you very much.

S. L. Narayanan: Thanks Mic.

Moderator: Thank you very much sir. Next, we have Mr. Manoj Singhla from JP Morgan.

Manoj Singhla: Yeah, hi, good afternoon sir. Congratulations once again on excellent quarter. Sir, just a couple of questions. I think most of them have been answered. On the BPO side, you said that you are looking to sweat your assets more. Can you give us an indication of what is your current utilization there, and what kind of steady state margins one can look at?

S. L. Narayanan: We are just about one shift utilization, and we are at about 65.6% utilization.

Manoj Singhla: Okay, and where can it go up to in terms of ….

S. L. Narayanan: We are targeting around 1.25 to 1.3, which I think is within the realm of possibility in the immediate future.

Manoj Singhla: Okay, and sir, secondly, on the forex cover side, what is the exact figure that you have covered right now and at what rate?

S. L. Narayanan: We have covered all our inflows till 31st of December. I mean we have done it on a net basis, which is roughly around 80 million, and we have covered at about 44.75.

Manoj Singhla: Okay, and just sir, one very last question. If you look at your performance across business segments, it has been very very strong. We have seen a quite good traction, which is very good. So, what has actually changed, just because of one particular client across the world, what has actually changed, and what can we expect at the qualitative level going forward?

S. L. Narayanan: See we have combination of several things Manoj. I think I did not mention to you earlier, in the initially phase, when we were growing the applications business, because we were relatively new to this space, we had to try that much harder. In some cases, we have taken transition costs, and we have taken some of the upfront development costs on our own, and in many instances some of those costs have had some kind of a back-ended billings. So that is one point, and the second point is we don't have to be very aggressive with our pricing anymore because of the hit rates having gone up, and the third one is basically on account of operating leverage. You have seen that our fixed costs have been pretty constant and our top line growth has improved. So, even with a very marginal improvement in gross margin, at EBIDT level it has been pretty sharp.

Shiv Nadar: I would like to respond in a particular manner. You know this financials finally what you see is like temperature of your body. That is only a symptom and that is not the cause. The cause is the strategic deficient directions that we determined three years ago and worked out a plan and following and staying with that plan throughout this period, both in new ventures, meaning new green field areas like infrastructure management being globalized and BPO and several other non-organic acquisitions which we did, and then putting our heads on and making them work. This company has done it again and again with the same set of people after 28 years, we know exactly to watch this road. So, we just took it on our own stride. The results are there to see.

Manoj Singhla: Sure. Sir, just one very last thing if I can ask. On the dividend side, you have announced Rs. 4 per share for this quarter. So, going forward, can we expect a similar kind of dividends on a quarterly basis or…

S. L. Narayanan: Manoj, the same question was asked exactly one and half years ago, and we said that we would endeavor to keep the dividend rate at Rs. 2 a share. That went through for five quarters. So, all I can say is subject to availability of disposable profits and subject to compliance under section 205 of Company's Act, we will endeavor to keep this rate.

Manoj Singhla: Sure. Thanks a lot sir.

Moderator: Thank you very much sir. Next is Mr. Pramod Gupta from HSBC.

Pramod Gupta: Hello, congratulations on good results.

S. L. Narayanan: Thanks Pramod.

Pramod Gupta: I was just asking is there any change in the last year financial numbers and this years?

S. L. Narayanan: Yeah. See, if you look at the first note, there is a reference to the statement of financial accounting standard 141, which is on business combination, and if you remember we did the demerger of HCL's professional services organization, the software services business, sometime in 2002-2003, but the actual approval and the effective date for consolidation under US GAAP fell after 30th June 2003. So, we did not consolidate this under US GAAP for the period ended 30th June 2003. So, once these approval has come under US GAAP under this 141 accounting standard, which deals with pooling of business, we had to do a retroactive consolidation since HCL Infosystems and HCL Technologies had a common parent in HCL Corporation and that took place sometime in May of 2002. May 2002 is when HCL Corporation became the holding company both HCL Technologies and HCL Infosystems. So, under 141, what we have done is that we have done a retroactive adjustment of the consolidation, and as per the audited account that have been certified by our auditors, they have increased our revenues for the period ended 2002 June as well as 2003 June. This is why those numbers have gone up.

Shiv Nadar: Actually, these numbers may not have any relevance to any investor of the company, and I will give you why this holding company concept has come. Earlier on, the promoter company of HCL Technologies and HCL Infosystems were held under 22 different private companies, and all these private limited companies were merged and became a single HCL Corporation in May 2002. At that particular point, HCL Technologies' ownership became 56% for HCL Corporation and HCL Infosystems' also became 51%. Due to that this particular reclassification has to be done retroactively with May 2002. It has no bearing at all. It is just a pure technicality. And, see at a very very fundamental level, the numbers now credit HCL Technologies with the revenue that it did not work for, which is a very peculiar situation, but that's how the accounting standard wants us.

Pramod Gupta: Another question that I have is basically wanting to know your view on the business going forward because see we are getting those mixed use in the US economy and there are like signals that it may be slowing and how do you view your position this time and how are you placed differently than last down turn? If it happens?

S. L. Narayanan: We are probably talking to different people. In the first place, our Technology business has spread wider than IT. Now, if you take for example, the automobile sector, if you take the avionic sector, if you take the biomedical sector, the HCL is very widely spread. These are all sectors, which are expected to grow very robustly. So, more and more work of this area, takes a lot to qualify to be in these areas. It takes a 3-year lead time to even start writing a first line of code. It takes that long to qualify, but since you are there and if you already have a practice there that will show a robust increase because it is a very exclusive field which is growing, similarly biomedical, similarly semiconductor. The technology side is showing a higher growth potential, and we see a similar thing in the infrastructural services. Coming to application and BPO services, they would grow may not be at the similar pace, but at a lower pace, but all these things if you take a cyclical effect will take the company on a steadier growth phase. I don't know whether I answered your question.

Pramod Gupta: Basically, I was saying this time you are much more diversified and you have a better portfolio than previous time if the down turn actually hits the company.

S. L. Narayanan: Yeah. At that time, our technology also was focusing just one industry, which was information technology.

Pramod Gupta: Okay. Thanks a lot and all the best.

S. L. Narayanan: Thank you.

Moderator: Thank you very much sir. Next is Ms. Mithali Ghosh from DSP Merrill Lynch.

Mithali Ghosh: Yes, hi sir. Congratulations on great results. On the first, on the infrastructural services where you have been seeing fairly strong growth, I was just wondering that if you were to not add like say any additional client, with just your existing client base what sort of numbers do you think you could grow to in the next 12 months or whatever?

S. L. Narayanan: See, this is something which I don't want to say because internally we have a certain target planned, but I think you know we have stayed consistent with the policy of not guiding the market. So, I would just answer by saying that you know our growth in that area is going to be higher than the company average, and I would not want to put a specific number beyond that at this stage.

Mithali Ghosh: Right. Are you looking at any you know when your penetration in the global market sort of increases can you say it you are looking at some sort of range of mix between your global customer and domestic business?

S. L. Narayanan: We will have lower proportion of Indian business going forward because today there is a component of hardware element. There is a service element, which is indigenous, and there is a service element, which is overseas. You would expect the hardware component to go down as a proportion and the proportion of overseas services out of the total infrastructure management wise going up during this year.

Shiv Nadar: Can I answer this question, but if you decide not to add customers on one fine day because you know it has comes up for consideration several times. If you decide not to add customers on a particular day, in the next 12 months, you cannot stop new customers coming in because we would have bid on various tenders and in areas like infrastructures it takes anything from 6 months to 12 months for these tenders to mature in, fructify, and convert into real business. So, if you decide to stop today in the next 12 months it will have no impacts at all, and it will have any that means you need to fire all the sales people. Now, we cant to do that. We are lot more steadier organization than that. I want you to remember, 2001 downturn and 2002 downturn, HCL did not stop hiring and HCL did not fire anybody.

Mithali Ghosh: Right, but that was of course just a theoretical question to gauge that you know what is the growth potential of existing clients? I mean, it is purely a theoretical question in that sense.

S. L. Narayanan: Yeah, there are specific numbers internally that we are working with, but I really would not want to …

Shiv Nadar: Okay, I will give you a theoretical…., I have a slightly better understanding of the business. Something like one-tenth of what a client can outsource is what has been outsourced so far. So, does that give you an estimation?

Mithali Ghosh: Yeah.

Shiv Nadar: I am talking about not a total job. I am talking about what they can outsource and what they will outsource and has been outsourced.

Mithali Ghosh: Okay. Sure. My other question was relating to bill rates, I mean if you could give us some insight into what you are seeing in terms of customers willing to give billing rate, let us say increases for the same kind of work and …..

S. L. Narayanan: There have been instances of our rate increases, but I don't think that it has sort of transformed into a trend.

Shiv Nadar: We are not yet seeing that. I would say that in more rarified areas in technology it never went down to start with. So, it is not going to go up either. But rest of the areas of technology, generally it is steadying down. In the application space, we are newcomers, you know you can see that we are in that space for just barely two or three years. So, expecting that we would start getting the benefits of increases compared to those who had been in this business for anything from 20 to 35 years, you know we are not unrealistic like that. So, we have to rely more on our technology. We have to improve by deployment of tools and deployment of our processes to enhance our efficiency rather than bill rate.

Mithali Ghosh: My last question was regarding your software technology products clients. A lot of them are expanding their own captive centers fairly rapidly. So, has that been impacting outsourcing of business to you or the bill rates from that business. It is both technology as in you know telecom as well.

S. L. Narayanan: That is true, but as a total, the answer is no.

Mithali Ghosh: Okay, thank you.

Moderator: Thank you very much madam. Next, we have Mr. Sukhvinder Singh from Amit Nalin Securities.

Sukhvinder Singh: Hi, good afternoon everyone, and congratulations on attractive numbers.

S. L. Narayanan: Yeah, good afternoon. Thanks.

Sukhvinder Singh: My first question is regarding your BPO business. Could you give some details on the progress on the client front and the nature of deals coming to you?

Shiv Nadar: The earlier person who asked a question that are we stopping adding new clients, here we have not stopped adding any clients, we have become far more choosy and careful in terms of adding clients. So, addition of client is not going to be an important factor. I was very conscious of answering that, yes, we do not add any clients. What would be the revenue of HCL in BPO in the forth coming 12 months? The answer is the HCL's BPO will grow by 100% if we add no new client. That should give you a flavor of how we are positioned in this business.

Sukhvinder Singh: My next question is on the cost front, could you give us some idea on the short-term and the long-term basis like on a direct cost and the SGN&A expenses likely to pan out as a percentage of revenue.

S. L. Narayanan: Which part of the company?

Sukhvinder Singh: No, it is consolidated I am talking about or on the software sector.

S. L. Narayanan: I think, we should be able to hold margins at this level.

Sukhvinder Singh: Okay, that's all. Thanks sir.

S. L. Narayanan: I think this will be the last question because we have another three minutes to go.

Moderator: Yeah, sure sir.

S. L. Narayanan: Unfortunately, we are tied up with other meetings.

Moderator: We take our last question from Mr. Rishi Patel of ICICI Securities.

Rishi Patel: Hi, congratulations on a good set of numbers. My question is pertaining to the shares from equity investments, it has shot up substantially, part of it would be because of the divestments of the stake in HPS. So, could you just give us some sense of what this would be in future?

S. L. Narayanan: See, this is again you know accounting thing, because earlier we had taken some of the impacts on account of the options at the point of disinvestment as part of the other income, but then on the more in-depth view at the time of the finalization of audit said that it should be reclassified as other income and you know the equity pickup should be restated. So, which is why that number has gone through the quarter number. Going forward, our equity pickup number is going to be very very marginal because we don't have any 50:50 JVs in the system. We have this equity pickup as long as we had a 50:50 entity in HCL Perot System. So, there will be very minor impact on this. Because that entire investment has been cashed out and we have got our consideration, which is now sitting in our treasury assets.

Rishi Patel: Alright, thank you very much.

S. L. Narayanan: Thank you and thanks to all of you on the call. We will be happy to take the call after 3 o'clock. In the meantime, if you need any further clarifications, please feel free to call Sujoy Ghosh. Thank you.

Moderator: Ladies and gentlemen, thank you for using CyberBazaar's conferencing service. That concludes this conference call. Thank you for your participation, you may now disconnect your lines. Thank you and have a nice day.