



HCLTech: The Dark Horse

HCLTech has been outperforming its peers even in a tough market. Its stock recently overtook that of Infosys. **CEO and MD C Vijayakumar**, who has been leading the company for eight years now, speaks to Sameer Ranjan Bakshi and Beena Parmar about the firm's strategy, as it closes the gap with industry leaders

In August 2023, when all the major IT services firms were gripped by slow discretionary spends, C Vijayakumar, CEO and MD, HCLTech, in an investor meet, called out that the company will see incremental growth going forward as the market has bottomed out. This sight of green shoots amid a hazy macro environment came to fruition when the third largest IT service firm reported a healthy 8.3 per cent yearly growth.

The third largest software services firm, which has annual revenues of \$13.27 billion, reported growth higher than that of larger peers—Tata Consultancy Services which grew at 4.1 per cent and Infosys which grew at 1.4 per cent. Smaller players like Wipro and Tech Mahindra clearly struggled.

In a tough macro environment, where even the largest and most cushioned of players reduced their headcount, HCLTech was the only outlier. The other parameter where HCLTech is showing growth is free cash flow. In FY24, HCLTech's free cash flow was only \$330 million short of Infosys, despite the revenue and operating profit gap between the companies being much bigger. So much so, earlier this year, HCLTech stock overtook that of Infosys, a bellwether of the \$245-billion Indian IT industry. In an interview with ET's Sameer Ranjan Bakshi and Beena Parmar,



Shiv Nadar

WHAT IS THE STRATEGY THAT HAS HELPED HCLTECH OUTPERFORM ITS RIVALST?

The most important thing that we always focus on is how to improve client relevance. Today, customers have a lot of choices, i.e. in technology, services vendors, locations to where they want to outsource. So how do we remain relevant to clients in good times and not so good times? I think that has been the mantra

ILLUSTRATION: VARANI SHUKLA



Roshni Nadar Malhotra

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HCLTech's CEO and MD C Vijayakumar talks about what is driving the company's strong growth in these tough times and how he is navigating the super competitive landscape to ensure profitability with growth for the Noida-headquartered firm. Vijayakumar, 56, referred to as CVK, also talks about the role of the promoters (Shiv Nadar and Roshni Nadar Malhotra) in the company's success story, and whether it is harbouring ambitions of overtaking industry veterans like Infosys and TCS in the future. Edited excerpts:

driving us. Apart from that, we have a very balanced portfolio of technology offerings, so we are today a full-stack technology company with engineering at its core.

The engineering and R&D pedigree that we have is also one of the largest businesses in the world (at \$2.2 billion). Now, we are leveraging that across the entire portfolio of services to continue to challenge ourselves to become more and more relevant to clients. We have a very empowering and entrepreneurial culture, and also have the most stable leadership team in the industry for a long time.

For example, my direct reports, on an average, they would have spent at least 20 years in the company. They all have had a

very fulfilling professional journey with HCLTech. That's what helps them work with customers with passion.

IS YOUR EARLY INVESTMENTS IN EUROPE PAYING OFF WHEN NORTH AMERICA IS SLOWING DOWN?

While we entered Europe 15 years ago, in the past five years, we focused more on Germany, France and some of the more difficult geographies in Europe and we have made a good impact. Our US business is exceptionally strong. Even last year, it grew 6.8 per cent higher than the company average and that is attributed to financial services where we grew almost 12.8 per cent.

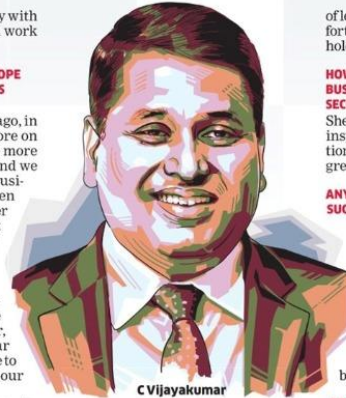
We have done an analysis and (we found out) that we delivered the highest growth (in US and Europe cumulatively) not just last year, but also (in terms of) a two-year average. And we have been able to deliver that without diluting our profitability.

Most importantly we have delivered a much higher cash flow. In FY24, while revenue grew 5.4 per cent in dollar terms, our cash flow grew 28 per cent. So we focussed on doing business in the most capital efficient way. And that's possibly how the total shareholder value got enhanced.

HOW ARE YOU ABLE TO DO THIS, ESPECIALLY AT A TIME WHEN CLIENTS ARE UNDERCUTTING DEALS AND PUTTING PRESSURE ON MARGINS?

You have to pick your battles and be selective where you want to put the

maximum effort and convert them to your advantages. In engineering services and in digital foundation services, there are many deals where sometimes competition is more aggressive. But we only participate in deals where clients truly value what we bring to the table, and we get some premium there. There are some areas where we want to invest and some geographies where we may be a little more aggressive, but across the board we have been very careful about the type of deals to go after. Actually the market is very big. The reality is it's a \$1-trillion IT services spend and about \$900-billion engineering services spend. If we choose the right areas, right clients and right opportunities, and focus our organisation around that, then you would get a meaningful outcome.



C Vijayakumar

"HCLTech has always chosen internal leaders and that's been one of the key success factors for the company. We strongly believe in our leadership."

HCLTECH IS A SHINING EXAMPLE WHERE PROMOTERS HAVE TAKEN A BACKSEAT AND ALLOWED PROFESSIONALS LIKE YOU TO RUN THE COMPANY AND THE FIRM HAS DONE VERY WELL AND RISEN TO THE NUMBER THREE SPOT IN A SHORT PERIOD OF TIME. DO YOU HAVE A TARGET FOR BECOMING THE LARGEST IT COMPANY GLOBALLY?

We have a long way to go. We have the hunger, passion and the much-needed differentiation in the market today. We have exceptionally stable leadership, a unique advantage in the market. Eventually, I'm sure we will emerge stronger and stronger.

WHAT ROLE HAVE THE PROMOTERS PLAYED IN THIS JOURNEY?

They've played a very important role—Shiv, Roshni and the board. There are certain aspects that are very important for the long-term success of a company. I think one of them is the organisational culture—we've been a very people-centric organisation, always rewarded entrepreneurship and empowered leaders to drive outcomes. Those are the cultural attributes of the company. Over the past three-four decades, they have been nurtured and promoted by Shiv, and now Roshni. That's the biggest differentiator. The board has been very supportive and a counsel for a lot of ideas, not just for me but the leadership team as well. They have helped mentor a lot

of leaders in the company. I feel very, very fortunate to have such a good set of stakeholders to work with over the years.

HOW INVOLVED IS ROSHNI IN THE WHOLE BUSINESS, GIVEN THAT SHE'S FROM THE SECOND GENERATION?

She's been with the board for very long. She inspires and drives a great level of motivation within the leadership team. It's been a great journey so far.

ANYTHING YOU CAN SHARE ABOUT SUCCESSION PLANNING AT HCLTECH?

HCLTech has an exceptional set of leaders and at the appropriate time, the board will take decisions.

WILL IT BE INTERNAL?

It's not a question for me to answer, but going by the history, HCLTech has always chosen internal leaders and that's been one of the key success factors for the company. We strongly believe in our leadership.

DESPITE MANAGING FY24 VERY WELL, WHY IS YOUR GUIDANCE WEAKER IN FY25?

Everything in this world is relative. Guidance of 3-5 per cent is still the highest in the industry. We have assumed that discretionary spend will also be soft in FY25, and we have factored that into the guidance. There are many variables that the entire economic system is dealing with. So it's better to be a little bit grounded in how we want to look at the business in FY25. If there is an upside, it would be great, but we just want to make sure that we can deliver what we have committed.

HOW IS THE PRICING PRESSURE AND WHAT IS DRIVING RENEWALS OF DEALS IN THESE MARKET SITUATION? WILL THERE BE MORE COMPETITION IN FY25?

We have had a very strong renewal rate, last year as well, like every other year. Clients have a lot of expectations when they renew. For now, Gen AI is a big theme. Automation and optimisation continue to be a big theme. So those are definitely driving the renewal strategy.

There's a lot of competitive intensity so there is obviously some pricing pressure. So we would only do deals where we are not only profitable, but there is also cash flow generating, otherwise what is the point in doing business. There are situations where we have to say no. But clients also give us opportunities to shape the solutions in a manner that works within the budgets of the clients.

The competitive intensity will be at the highest in FY25 because the industry growth has been very low last year. And this year also the expectation is low. So, it's only logical to expect that. We have to pick our battles and win them.