"HCL Technologies Limited's Q1 FY'23 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the HCL Technologies Limited Q1 FY'23 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sanjay Mendiratta – Head, Investor Relations. Thank you. And over to you sir.

Sanjay Mendiratta: Thank you, Aman. Good morning and good evening everyone. A very warm welcome to HCL Tech's Q1 Fiscal '23 Earnings Call. Trust you all are safe and in good health.

We have with us today Mr. C. Vijayakumar -- CEO and Managing Director, HCL Tech; Mr. Prateek Aggarwal -- Chief Financial Officer; Mr. Apparao – Chief Human Resources Officer, along with the senior leadership team to discuss the performance of the company during the quarter followed by Q&A.

In the course of this call, certain statements that will be made are forward-looking which involves a number of risks, uncertainties, assumptions and certain other factors that could cause actual results to differ materially from those in such forward-looking statements. All forward-looking statements made herein are based on information presently available to the management, and this company does not undertake to update any forward-looking statements that may be made in the course of this call. In this regard, please do review the safe harbor statement in the investor release document and all the factors that can cause the difference.

Over to you, CVK and thank you.

C. Vijayakumar: Thank you, Sanjay. Good evening, everyone and thank you for joining us today.

It was great meeting many of you in person a few weeks ago at our investor day in Mumbai. As I said there, we at HCL Technologies continue our forward journey with very clearly defined strategic objectives. These are leadership through differentiated services and products, employer of choice across key geographies, preferred digital partner for global 2000 enterprises in our chosen markets, weaving ESG into our business strategy through act, pact, impact philosophy and achieve top quartile TSR over the medium term.

I'm happy to share that we've started FY'23 on a strong note. Our revenue growth this quarter came in at 2.7% sequentially, and 15.6% year-on-year in constant currency.

Our services business continues to have robust growth momentum, growing at 19% year-on-year, and 2.3% quarter-on-quarter in constant currency.

This growth momentum continues to be led by our engineering services business and our digital application business with cloud transformation being a central theme across all services and verticals.

We strongly believe that the market continues to look at technology to drive enterprise change, be it for acquiring new clients or business or to optimize costs or to execute upon environmental and sustainability visions. This leverage and reliance on technology continues beyond and despite the economic trends.

We also saw a strong recovery in our products and platforms business which grew 5.6% quarter-on-quarter and 1.4% year-on-year in constant currency after considering the CFT business that we exited last year.

When it comes to margins, we posted an EBIT performance of 17% this quarter. Margins in services was under pressure mainly due to increase in talent cost and transition cost. Prateek will explain the margin walk later in the call.

We have undertaken appropriate actions to improve our profitability profile, results of which would start reflecting in the coming quarters. These include both revenue and cost levers and are led by innovative pricing rate increases and optimization of operating costs through upskilling, increased fresher addition, and many others.

From a segmental performance perspective, our engineering and R&D services business led the charge with a 3.7% growth followed by our IT and business services at 2% quarter-on-quarter growth in constant currency.

We are seeing a number of end-to-end engineering services deals in this space. We signed two large ones this quarter: one with a European ISV and another with a global ISV.

Within IT and business services, the growth was driven by digital applications business, and the digital process operations services, which continue to ride the wave of new enterprise spending in CX transformation, IT operating model transformation, and our cloud smart consulting offerings which have become a differentiated proposition for us.

Indeed, our front-runner credentials in cloud continues to pay rich dividends to our ITBS service line.

Please note starting this quarter, we are aligning our metrics disclosure for the services business. In case of services business, we would be providing you the split of geographies and verticals instead of the overall business.

In terms of geographies, services growth was led by US at 2.8% quarter-on-quarter in constant currency, followed by Europe at 1.6% quarter-on-quarter in constant currency. Our growth in the US and Europe was led by our engineering and R&D services segment.

Among the verticals, technology & services, and telecom & media were top performing sectors with 10.9% and 4.3% quarter-on-quarter growth in constant currency respectively in the services business. Our life sciences and healthcare business grew 2.7% sequentially in constant currency.

We signed a number of significant deals, such as a large global European bank selected us as a strategic partner in its cloud transformation journey, and also entrusted with us all the cloud operations, including the hybrid cloud operations. One of the largest healthcare providers in the US selected us to help transform their infrastructure landscape by kick starting its cloud journey. This is one of the largest deals that we signed this quarter.

A Europe-based leading consumer groups and retail company selected us to deliver its digital and IT roadmap through cloud migration, digital workplace transformation, and direct-to-consumer multi-channel platform development.

A Europe-based health and biosciences company selected us to help it transition into a product-based IT operating model, underpinned by a cloud first strategy.

Here, we are becoming the prime service provider where the customer is consolidating from many service providers into one core strategic supplier.

We have had a strong growth in bookings this quarter; we signed 16 large services and product deals in this quarter across diverse industry verticals, led by life sciences and healthcare, manufacturing, financial services, and technology & services. Our bookings grew 23.4% year-on-year, with a good mix of large and midsize deals.

Our pipeline continues to remain close to record highs. It's well distributed across various dimensions of the business.

Our talent acquisition and development focus has continued on an accelerated note. This quarter we added nearly 2,000 plus net new employees and trained 22,000 plus employees on digital skills.

We continue to leverage entry level talent globally and are planning to hire 10,000 plus freshers this quarter.

Over the last few years, we've evolved a robust train-to-deploy model that helps us to have the best talent in client locations at short notice. This should start showing results over the next few quarters.

We are investing in emerging technologies to further strengthen our future competitiveness. This quarter, we announced to acquire two companies who will strengthen our vertical digital capabilities.

One acquisition is Confinale, a Switzerland-based digital banking and wealth management consulting specialist and an Avaloq premium implementation partner. Through this strategic acquisition, we will increase its footprint at the global wealth management market with emphasis on Avaloq consulting, implementation and management capabilities.

And the second is our intent to acquire of Quest Informatics, an Aftermarket Industry 4.0, an IoT company which will further bolster our industry 4.0 in the fast growing aftermarket space.

Similarly, we continue to expand our local delivery footprint across the world. This quarter, we opened a new state-of-the-art delivery center in Vancouver, Canada, which will significantly expand our presence in Canada to serve clients, primarily in the hi tech industry.

We also inaugurated a new SAP Offshore Development Center in Bangalore. This dedicated offshore development center will help enterprises harness cloud transformation experience of HCL and SAP and accelerate their intelligent enterprise journeys.

During the quarter, we won several awards and recognitions across various business segments. Just to mention a few of them, HCL Technologies won the Microsoft Partner of the Year Award for 2022 for Healthcare and Life Sciences Global Winner. We also won the UK Microsoft Partner of the Year Award. And the 2022 Microsoft Supplier Prestige Award for Amplifying Accessibility through the power of data, technology, and partnerships. We were accorded the honors for demonstrating excellence in innovation, and implementing customer solutions based on Microsoft technology. We also won Google Cloud global Breakthrough Partner of the Year 2021 award, recognizing our expanding partnership with Google Cloud, resulting in outstanding customer and revenue growth last year.

Moving on to our corporate sustainability agenda, continuing our commitment to be net zero by 2040, our GHG emission reduction targets for 2030 were updated by the science-based target initiative to be aligned to a 1.5 deg. pathway.

We also remain committed to leverage technology through sustainable and sustainability enabling products and solutions for our clients. On this journey, we launched our first comprehensive sustainability focused solution. Net-Zero Intelligent operations or NIO as it is called, which helps organizations collect real-time data around energy consumption, and analytics at scale to deliver actionable insights to our clients.

Overall, in closing, we remain confident of the buying sentiment and our relevance in the market. As digital transformation is becoming paramount for our clients, we are optimally positioned to support them through their digital journeys. We are evolving our services mix to better align with the IT spend patterns, leading to rapid growth of our digital business.

We aim to deliver organic growth in the most capital-efficient way, employing the most sustainable profitability improvement strategies. We look forward to FY'23 with optimism and confidence, ready to harness the disruption and seize the many opportunities that are ahead of us.

With that, I will ask Prateek to cover finer details of our performance.

Prateek Aggarwal: Thank you, CVK. Good evening and good morning, everybody. Just to add on the financial color to the briefing, HCL delivered healthy revenue growth of 2.7% sequentially, 15.6% on a year-on-year basis in constant currency. The highlight obviously is the 19% growth year-on-year in constant currency from the services business. And even the P&P business, though the reported number is minus 6.5% year-on-year, if you exclude the divested or discontinued IP partnership we had with DXC which was discontinued last year, if you adjust for that, it is a growth of 1.4%.

Q1 EBIT came in at 17% and net income for the quarter was 14% of revenue. The effective tax rate for the three months is at 24.3%, which is in line with the range I had indicated last quarter. The last year normalized ETR was around 23%, so ETR has increased a little bit by 1.3% points because of some units moving to higher tax slabs with the change of the financial year.

The second highlight of the performance this quarter is the strong booking growth of 23.4% coming in at US$ 2054 million, most of it was from services; 1,950 million out of it, and 104 million from product deals.

The net hiring was at about 2,100. Last 12 months net hiring was at 34,000 employees. Interesting to note 19% is services growth and the growth in headcount is about 19.5%. So, it's pretty much in line. Obviously, there are quarterly differences.

Good account mining resulted in 100 million customer category growing by 3 customers on a year-on-year basis and similarly 50 million customers grew by 5 customers on an annual basis.

Looking at it from a vertical and geography perspective, Europe grew the fastest in geography at 22.5%, Americas at 17.5% and the rest of the world at 18.2%. In verticals, technology & services was the highest growing at 34% year-on-year, TMT and publishing and entertainment was at 29.2%, manufacturing at 19% and so on, most of the verticals grew at significant double digit levels.

Moving to the margins, the quarter-on-quarter margins declined by about 90 basis points. The services margin drop was higher; it was around 130-140 basis points which got compensated by the margin gain in the P&P business. So, that offset the large part of it. And the services margin dilution is driven by the seasonality of the first quarter. As most of you know, the first quarter for us is replete with a number of customer contracts where we have productivity commitments, etc., so, the revenue line does dip little bit compared to the consecutive 5% growth we were showing on services in the last three quarters. So, that obviously drops down to the EBIT margin as well. And supply side pressures continue. There is also increased travel and H1B visas this quarter. And we are seeing outsourced services going up as can be seen in the cost detail that we've provided. To put that all in basis points, outsourced services and subcontractor third-party providers affected our margin by 100 basis points. There was an additional 50 basis points impact of basically attrition and retention and costs of managing the employee base. The travel and visa cost amounted to another 35 basis points and there was exchange gain of about 40 basis points to offset some of that impact. And the seasonality impact is also recovered partially from operational efficiencies as well.

We have continued the guidance at 12% to 14% in constant currency for the top line and the margin guidance continues at 18% to 20% at the same level. Against the continued pressure on the supply side, we have started seeing some results from our coordinated efforts on both the top line as well as the cost side. Bill rate enhancements, successes in pockets are expected to pick up steam in the next few quarters and cost initiatives in terms of fresher billing and pyramid optimization as well as utilization improvement, offshoring of work, automation initiatives, and optimizing the outsource spend subcontractor costs are the levers that we are banking on to get back into the guided range on margins. We remain optimistic to end FY'23 within our guided EBIT margin range albeit towards the lower end of the range.

Moving on from the EBIT line, we had higher other income this quarter due to some property disposals and FOREX gains of 10.5 million helped prop up the net income for the quarter.

Cash generation over the last 12 months came in at a (OCF) operating cash flow of $2,013 million to be precise, and free cash flow of $1,762 million, which, as a percentage of net income is 112% and 98%, respectively. The balance sheet remains strong with gross cash at $2.25 billion and obviously we have our work cut out to improve on the DSO in the coming quarter. From a shareholder return perspective, the diluted EPS for the last 12 months is Rs. 50.06 to be precise, which is an improvement of 0.6% on a sequential basis, and 2.8% on a year-on-year basis.

And the board has approved dividend of Rs.10 for the quarter, which was the rate we were running at for the last three quarters of the last fiscal year. The record date for the dividend is July 20th and the payment of the same shall be on August 2nd.

With that, I finish my commentary for the quarter and over to moderator for Q&A.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Sandip Agarwal from Edelweiss. Please go ahead.

Sandip Agarwal: CVK, I have two questions. One, if I recall correctly, we have earlier a fresher intake estimate of 34,000-35,000. Now, we are talking about 30,000. And this is when you know our attrition numbers have actually gone up. So, is there a kind of indirect caution which is there in terms of recruitment, that is number one? Number two, our IT services margins have fallen 180 basis points quarter-on-quarter. There is quite a sharp margin. I understand that our attrition has gone up and it is not showing up so badly because products and platforms has helped us a lot. So, what are the components there, why we are getting so badly impacted, and when do you see, what are the levers by which we will be able to recoup this because we did a great start, but this quarter looks really a little weak in terms of both our recruitment number and also our margin number, so if you can elaborate a little bit on that?

C. Vijayakumar: I will provide you a commentary on the recruitment and headcount addition and Prateek will get to the next level of details on margins. If you see, our year-on-year growth in headcount is close to 20% and our year-on-year revenue growth is also in a similar range. Over the last few quarters, we've been hiring both lateral talent and fresh talent and we think we have some additional capacity and that was the reason net hiring was lower than what we had in the past. We have not moderated any hiring based on any demand environment. It's really to increase our utilization and better deployment of freshers. That was the main reason. And we continue to have the same 35,000. We had indicated 30,000 to 35,000 and we stay with the same range for freshers. In fact, this quarter, we plan to onboard 10,000 freshers, which will be one of the highest number of freshers that we've on boarded in the past five or six quarters. So, with that, maybe Prateek, you can explain the margins.

Prateek Aggarwal: I pretty much covered most of the response to your margin question. As you can see from the walk that I provided, outsourced services is the largest contributor to the 130-odd basis points drop, which is roughly 17.6 dropping to 16.3 on the services side. And 100 basis points is just from outsourced services and subcontractor. Some of this is driven by our entry into some of those new frontier and focus countries, the seven plus five countries that we've been talking about over the last year, year and a half, where we've had to go for outsourced service providers at least to start with and over a period of time we would look to optimize and some third-party contractors have also gone up. So, that has been the biggest one and we talked about the ongoing supply side pressures related to attrition and retention cost and just managing the workforce, which has become pretty standard over the last one year at least, and the return of some of the travel and visa cost. So, those are the reasons. Equally, I read out a long list of five or six levers that we are banking on to improve the margins. And that's the reason we have kept the margin guidance same as what we provided at the beginning of the year. So, we are looking to get back into the margin range that we provided.

Moderator: The next question is from the line of Yogesh Agarwal from HSBC. Please go ahead.

Yogesh Agarwal: Just a couple of questions. If I look at the six, seven of the verticals, at least four of them are either down or flattish, especially larger ones, like manufacturing, financial services, even retail. So, that doesn't look encouraging in a seasonally decent quarter. So, were you expecting this, is it reflective of any kind of slowdown in spending? And secondly, you guys talked about pricing. I mean, all of us are expecting a slowdown now going forward. Isn't it a little late in the cycle for asking price hikes versus maybe clients are looking for discounts now going forward?

C. Vijayakumar: Yogesh, best is to look at the year-on-year growth numbers. All the numbers are very impressive. Tech at 34, telecom at 29, manufacturing at 19, financial Services at 16. There can always be some quarterly variations. Nothing to really point out as a trend or some slowdown or anything. If at all anything to point out, we remain more bullish than what we were when we started the year, based on the pipeline and the very good booking that we had in the first quarter. Our pipeline looks robust and we feel pretty confident of the overall growth momentum that we're seeing. Pricing, yes, I think it's not that we have not initiated, we have had conversations with a number of clients and we've seen some modest success, some of which will materialize or we have some agreements, which will kind of start in the coming quarter or this quarter. We've gone through a very logical reasoning on what we need from our clients on the current increased wage inflation and our customers are very considerate and are either changing a little bit of the delivery model or are giving us some additional pricing. Most of the customers maybe 70%-80% of them have always had a very patient hearing and they are looking at us and working with us to see how to kind of help us through this increased wage inflation.

Moderator: The next question is from the line of Surendra from Citi. Please go ahead.

Surendra: So, just one question for Prateek. Prateek, you have obviously maintained the guidance for margins at 18% to 20%. But did I understand you right, when you also said that you are hoping to finish the year at the lower end of the band? Because mathematically, both those things don't imply or seem to imply the same thing. So, could you just help us understand that a little better, please?

Prateek Aggarwal: Yes, Surendra. I did say we would be in the margin band of 18% to 20% albeit at the lower end of that band, yes.

Surendra: For the full year or for the end of the year?

Prateek Aggarwal: Full year.

Surendra: Full year, okay. So, one question for CVK. What kind of price increases at a blended portfolio level are we really talking about? Just want to understand how significant they can be for margins.

C. Vijayakumar: See Surendra, it's very difficult to call it out. We are looking at the managed services deals where we give a year-on-year productivity benefit, we are obviously having some provisions to negotiate the cost-of-living adjustment, so, obviously, that is a lever that we can emphasize a lot more because contractually they are provisions. And of course, a good part of our Engineering and R&D services and the Digital business, there is a significant amount of capacity based in time and material kind of operating models. So, there, we are obviously selecting right skills where we need more and in some areas across the board. And we see clients are open, but it is taking time to conclude some of these things.

Surendra: And just one last clarification CVK. So, this quarter did not have any one-offs in the form of pass-through revenues or anything like that on services which might have impacted margins?

C. Vijayakumar: No.

Moderator: Next question is on the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: Sorry to harp on this matter of margin, but last quarter, we gave guidance of 18% to 20% range, and now we expect closer to the lower end. And productivity benefit related headwind, etc, was kind of well-known from a 1Q perspective. So, just trying to understand what really surprised us negatively. Did the attrition numbers and the cost of backfilling attrition came in higher than what we expected?

C. Vijayakumar: See, when we did the planning for the year, there were certain broad assumptions, which included getting the rate increases as well as a part of our overall model. And some of that has taken more time. We expected certain things to happen in the first quarter which did not happen. And the attrition and the overall hiring and backfilling costs also continue to remain high. We were expecting that to moderate a little bit. But as we see in the first quarter, the situation was more or less the same, if not higher, in the first part of this quarter and more or less across the quarter as well. And then as Prateek talked about some of the outsourcing costs are also a little bit reactionary steps that we had to take to continue to fulfill some of the commitments in certain geographies where we could not do the right people mobility solutions. So, we had to resort to some higher price for outsourced services, which also had some significant impact in the quarter.

Gaurav Rateria: So, should one assume 1Q to be bottom for the margins? And this is in context of the wage hike that we are likely to see through in the coming quarters. Are we likely to absorb all of that and 1Q should be the bottom for the margins? How should we think about the progression going forward? Keeping in mind the puts and takes that we have.

C. Vijayakumar: Yes, I think you can see our margin trends in the past 3 years. It does take kind of a trajectory. Usually, Q1 has been the lowest margin quarter across the last 2-3 years. I think that's a similar trend that we will see. And whenever we have had the salary increase, that quarter, mostly, we have offset the salary increase spend through optimization, because if you just see the sequence, in April, the productivity step downs happen, and some of the related cost outs also start happening at that time. And they really start showing more results in the Q2, when the salary increase also hits. Generally, we've seen an improving trend from Q2 onwards, and we hope to see the same this year as well.

Moderator: The next question is from the line of Mukul Garg from Motilal Oswal Financial Services. Please go ahead.

Mukul Garg: CVK, really sorry to just continue on the margin part, but I'm still a bit unclear on how the margin trajectory will show through for next 3 quarters given that as requirement for you to meet the lower end of your guidance. A - do you expect the pricing impact to compensate for the wage hike, which is going to come up over next 2 quarters in addition to the usual Q1 seasonality reversal? And also, while you just mentioned that Q2 to Q4, you should continue to see margin improvement, you also will have the P&P seasonality impact in Q4, which obviously impacts our overall profitability. How much is our confidence, sir, on meeting the lower end of the guidance band given the numbers we have delivered in Q1 and the potential impact in Q4 from P&P?

C. Vijayakumar: As Prateek said, we expect to be in the lower end of the 18% to 20% band. So, I think it's quite achievable and we feel confident of the trajectory.

Mukul Garg: So, there are enough levers for you to kind of bake in both the impacts, including the Q4 impact and reach the 18%.

C. Vijayakumar: Yes. I think for Q4, we have a couple of more quarters for all the levers to play out. So, obviously, Q4 will always be a little lower than Q3, but Q2 and Q3 will see an uptick. There could be a little moderation in Q4.

Mukul Garg: And the second question, again, sorry, just a clarification on your earlier comment about utilization improving. I know you don't share the figure, but in the context of, low employee addition this quarter, higher attrition and elevated fresher intake, was there a meaningful positive directional movement in utilization in Q1? And should we assume that there will be a moderation in next quarter as you ramp up the fresher onboarding?

Prateek Aggarwal: So, Mukul, since we don't publish the number, I'm not going to give you a quantitative answer for that. Utilization continues to be a lever for us to improve because we have hired 34,000 people, which includes a lot of laterals as well as a lot of freshers. So, as you can imagine, the training and deployment of those freshers does take a little bit of time. So, utilization continues to be a lever that we are looking at to deliver some of that gains in margin that we talked about.

Mukul Garg: Just one final clarification of, what was the revenue shift, which happened to P&P from IT in Q1? If you can just share the quantum.

Prateek Aggarwal: Yes. So, Mukul and everybody, that is just some of our products. Actually, DRYiCE is the brand, which is the internally developed products, which we have moved under P&P because that's the nature of the products. It's a software product. So, when we do that inter-segment transfer pricing, that $13 million that you see in the inter-segment eliminations as negative 13, that 13 is appearing both in P&P revenue as well as in the ITBS revenue. And potentially that number will continue increasing not only because of DRYiCE, but also as ITBS and potentially ERS start selling more and more of our software products, that number would continue to go up.

Moderator: We take the next question from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah: Just the first question in terms of the margins. So, Prateek, what can go wrong in achieving the lower end of the guidance of 18%. And just a follow up on that. In terms of dependence on your margin levers, which you called out, is it the dependence on a price hike higher versus the other levers which you called out. And third, do you believe most of the margin uptick will happen in 2Q, 3Q as CVK has called out?

Prateek Aggarwal: Sandeep, we are at 17%, right? We have all guns blazing to move that number up. That's the simple answer. Now, how much will come from barrel 1 versus barrel 2, is a planned number. How much will come we'll tell you next quarter when we come and the quarter after that how much has come. At this time, it is a planning number. We are going all out on all the levers. Let's leave it at that for now.

Sandeep Shah: So, Prateek, just wanted to understand, do you believe is there a risk to achieve the lower end? Or do you believe it's fairly achievable looking at the planning?

Prateek Aggarwal: We believe it is achievable. That's why we have stayed with the guidance.

Sandeep Shah: And just second question in terms of the this quarter's FCF generation. Just a follow up in terms of this quarter's free cash flow generation has been weaker in this quarter. So, what is the reason for the same?

Prateek Aggarwal: That's something which is a momentary thing. Some clients' collections got delayed. Almost half of that delay, we have already caught up in the 10 days, 11 days that have gone by in July itself. So, that's something which will come back. Most of it should come back next quarter itself. Hopefully most of it will be back in July. So, that's just a small thing.

Moderator: We take the next question from the line of Ankur Rudra from JP Morgan. Please go ahead.

Ankur Rudra: My question initially is on the guidance of margin. You did say you're looking at the lower end right now. Just curious what will lead you to change your margin guidance if you think you're already looking at the lower end at the end of Q1?

C. Vijayakumar: Of course, Ankur, that is heavily influenced by Q1 performance. So, we have to recognize the realities, that is the Q1 performance. So, that's really the primary factor. Some of the things that we expected did not happen. So, we're just factoring that and then kind of looking at a lower end of the guidance band.

Ankur Rudra: Just looking at, CVK, in the last 1-1.5 years, has there been any change in the threshold margins or type of business you've been accepting as new orders?

C. Vijayakumar: No. As we speak, we have significantly increased our pricing. Of course, with a lot of digital businesses execution, it needed us to invest a little bit more upfront in some of the transformation deals. And that, of course, has an impact on the margins. And that would also slowly come off as these programs reach into a normal execution cycle. So, we've had some tremendous growth. We've had a 19% growth year-on-year in Services. It's probably close to the highest growth in the industry. A large part of it has come from our Engineering services and our Digital business. So, some of them will, because of the uniqueness of the programs and the criticality of the client relationships, we have done a few things to ensure that we execute very well. And we've also invested a little more consulting effort to make sure these transformation commitments that we've made, like the whole IT operating model change, has required a significant amount of effort on change management. And our positioning here is quite different from a lot of other similar service providers. So, all of that has meant that we've built some extremely good client roster, very, very impressive digital transformation programs. It's coming at a slightly higher cost to start with, and we know exactly where the levers are to optimize. And we are working on that.

Ankur Rudra: Just to change track lastly, given what your portfolio is today, how do you think this would weather a slowdown or a recession if it happens in the key markets?

C. Vijayakumar: I think we have the best balanced portfolio. I think P&P first of all is extremely distributed across geographies and verticals. And the past trends also indicate that in any kind of slowdown P&P will still continue to deliver. So, it's very neutral to some economic slowdown. And the rest of the services business I think are mixed between change and run are quite balanced. And as we see, we see a significant number of large deals in the pipeline. And we believe our booking momentum will continue and we will do much better in booking this year, given the solid start that we've had in the first quarter. And that obviously means it's helping us to do well in the subsequent quarters and probably in FY24 as well.

Moderator: The next question is from line of Ravi Menon from Macquarie. Please go ahead.

Ravi Menon: First question is on the Product & Platform business. I think we're hoping to get some metrics to help track the transition to the subscription. I don't think we found that in the release. So, wondering if you are planning to provide that in Q1 as you said earlier?

C. Vijayakumar: We will start providing this in the future quarters. We could not have the right metrics, so we will provide them in the future quarters.

Ravi Menon: And secondly, how should we think about your fresher hiring? As this is a new thing that you have done and you are traditionally a natural heavy hiring company. So, having taken a large number of freshers last year, have you found that you're taking probably longer than your peers to train and deploy them? Is that why you've decided to go a little slow on hiring this quarter? Should we read as that rather than any demand side changes?

C. Vijayakumar: I think we've built up some capacity, and they were getting ready to get into primetime and we leveraged that. But we have a big plan for this quarter. We plan to add 10,000 plus freshers. Even last quarter, we hired 6000 plus. It is true that for us is it's taking a little longer, if you take the average time to make a fresher billable or productive; in some parts of our business, it's taken longer. And there also we've adopted a number of steps to reduce it. And in this batch that we are onboarding the 10,000, we think the outcomes will be much better.

Ravi Menon: It sounds like you have an idea to structurally move down the overall cost. If we take a medium-term view, should we think that you are looking at gross margin expansion from current levels?

C. Vijayakumar: Yes. I think 18% to 20% is what we think we should get to and I think we have some work to do. And I'm very confident that all the levers that we're working on will enable us to improve overall margins.

Ravi Menon: And one last thing. Are you factoring in the rupee depreciation in this at all or this is as of the current currency?

C. Vijayakumar: We've factored in what it is as of 30th June. Beyond that, I don't think we've done any factoring in of that.

Moderator: The next question is from the line of Manik Taneja from JM financial. Please go ahead.

Manik Taneja: My question was for both CVK and Prateek. In the recent quarters you have been suggesting that we should probably think about our services growth tracking the headcount increase. Now in the current quarter, the headcount increase has been relatively subdued. So, how should we be thinking about this trajectory going forward?

C. Vijayakumar: I think some additional capacity that we had built up got utilized. And if you look at the year-on-year employee headcount additions, it's quite in line with the revenue growth. So, I don't think you should read anything into this quarter's dip in net hiring.

Prateek Aggarwal: I think given the 10,400 number that we've already given for just for freshers for next quarter, that itself tells you the way the wind is blowing.

Moderator: The next question is in the line of Kumar Rakesh from BNP Paribas. Please go ahead.

Kumar Rakesh: CVK, my first question was to you. A little longer term over the last year or so, we have been one of the most proactive company in terms of employee management. We were among the first company to move to work from home. We also rolled out one-time bonus. Wage hikes have been consistent and also paid out pretty lenient paid leaves. But when it comes to attrition, over the last one year, despite all of this, our attrition has doubled. I understand this has been a very unique experience for the industry how our attrition has panned out. But what is our learning at the end of this entire exercise and this transition?

C. Vijayakumar: Rakesh, great question. I think you have to take some comfort in the fact that attrition numbers for HCL are significantly lower than the industry. And all the initiatives that we took has helped us reduce our attrition. Our attention on employees and all the care that we took all through the last maybe 9 or 10 quarters has definitely helped reduce it, but you have to see the systemic trend in the industry. I think that you have to kind of weigh this with respect to that. If you take industry attrition, we are significantly lower than the industry. But it is still not desirable and we do believe it will start stabilizing. Maybe we'll l have one more quarter of pain, but after that it should stabilize.

Kumar Rakesh: If I could just understand one part on the margin side, so couple of main levers for our margin one is the aggressive fresher hiring and hence managing the pyramid to benchmark it against larger peers and also the price hike. Now both of these could come at risk if the demand slows down. So, in such a scenario, are we confident that rest of the levers are enough to support our margin? Or there could be a potential downside to this margin in case there is a demand slowdown?

C. Vijayakumar: Rakesh, we have 3 primary levers, which is your average people cost, that's one lever. The second lever is utilization. And the third lever is realization. So, I think we have all the 3 levers working. And I don't see the demand slowing down because if I look at the pipeline and the large deals momentum, I feel pretty positive, maybe slightly there could be a change in the demand pattern. But I think overall demand outlook is really looking good. Our pipeline is near all-time high. And we also feel good about the outlook for this quarter in terms of booking. So, I don't see a slowdown kind of scenario at least in the near future.

Moderator: The next question is from the line Sudheer Guntupalli from Kotak Mahindra AMC. Please go ahead.

Sudheer Guntupalli: Prateek, you guided for 18% to 20% margin 3 months back, and now adding a caveat that you will be towards the lower end of the band. And possibly we are now entering a period where the relative visibility is lower due to issues like macro, etc. So, why not cut the guidance band and make it more prudent/realistic in line with the changed situation? Why that inertia in the guidance now?

Prateek Aggarwal: I guess that's more about how to handle communication. We are keeping the same guided range. We're just giving you additional color that given the way Q1 has turned out, we are obviously 1% lower than the lower end of the guided range. So, that's the reason for the additional color. We didn't see any real reason for tinkering around with the range itself. I don't know if that answers you or you're looking for something else.

Sudheer Guntupalli: Fair enough. And secondly, CVK, we do agree that year-on-year numbers looks optically good. But we also need to note the point that our recovery from COVID lows happened relatively later than some of our competition, and especially first half of FY22 was not very great for us like it has been for the rest of the industry. And more so in the case of June '21, which was impacted by second wave of COVID also in India. So, if you keep aside the year-on-year trends for a minute and look at the sequential trends, don't you see or isn't it correct to interpret that there is a significant slowdown that we are seeing in the momentum?

C. Vijayakumar: No, numbers don't reflect that. Because if you take out the Q1 of last year, Q2, Q3, Q4, we grew 5% plus sequentially in services. Now followed by that, we've 2.3% sequentially. So, I mean, year-on-year trend is just math, right? Over the last 4 quarters we have grown 19%.

Prateek Aggarwal: Equally, I think we need to keep certain, I mean, I don't know, call it seasonality, but there are these productivity commitments that we've given to several of our clients which kick in April for us. This is not this year, not last year, this has been there for several years together. So, I mean, world over, growth is best seen on a year-on-year basis. And that's why we always look at that. Of course, we look at sequential also, but because of this seasonality that I already mentioned, it is expected that the June quarter would be a little lower than the going in rate that we saw in the previous 3 quarters.

Moderator: Thank you. Ladies and gentlemen, due to paucity of time, that would be our last question for today. I now hand the conference over to Mr. C. Vijayakumar for closing comments. Thank you, and over to you, sir.

C. Vijayakumar: Thank you, everyone, for joining us for our first quarter commentary. As I said earlier, we remain very optimistic about the demand pattern supported by our all-time high pipeline and the bookings that we've seen in this quarter. We have some work to do on the margin front, which we are working very diligently on, and I'm very confident of improving the trajectory from here on. With that, thank you for your time and have a good evening.

Moderator: Thank you. Ladies and gentlemen, on behalf of HCL Technologies Limited, that concludes today's call. Thank you all for joining us and you may now disconnect your lines. Thank you.