"HCL Technologies Earnings Conference Call"

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Moderator Ladies and gentlemen good day and welcome to HCL Technologies Earnings Conference Call. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Vineet Nayar. Thank you and over to you sir.

Vineet Nayar Good evening, good afternoon and good morning to everybody. Welcome to the Q2 results of HCL Technologies. I am very happy to share the results with you, the revenue in this quarter is up 18% YoY and for the full calendar year it is up 26% YoY. At the EBIT level for this quarter we are up 42% YoY and for the full calendar year we are 33% YoY. At the EBIT level we have expanded our margins by about 150 basis points. Another milestone we have achieved this quarter is a billion dollar plus deals which excludes any renewal of existing HCL contracts these are 18 net new deals adding to a billion dollars plus in this quarter. We also have another milestone where two customers have moved into the hundred million dollars category, two additional customers, and I will talk a little bit more on that. Out of the billion dollar deals that which we have done about 82% of the wins by value terms has come from healthcare, manufacturing and financial services which is also one of the growth areas which we have seen. 57% of the deals we have announced have come from US by value terms and 42% from Europe. The growth you see in front of you in this quarter is largely driven by the same healthcare, financial services and manufacturing and also we have seen growth in retail and CPG in this quarter. If you look at the slide in front of you, you would realize that overall the custom applications and infrastructure have grown year on year full CY11 on CY10 at about the same level which indicates that our total IT outsourcing focus strategy is working and therefore it is driving growth both in application and in infrastructure which is very different to the overall degrowth of application as projected by the industry analysts. Our transformation business both on enterprise and engineering have also not done badly and have grown at about 20% on 22% respectively on CY11 over CY10. Also, in constant currency they have registered a good growth in this quarter at 6.5% and 4.0% QoQ respectively, so the growth is lesser than the overall custom application and infrastructure but it is not bad and that has been the highlight for the calendar year and they have also driven growth in this current quarter.

From a vertical point of view the growth drivers continue to be the same. Financial services because of vendor consolidation. Rahul Singh has taken over the Head of Financial Services globally last quarter and he would share with you on what he sees in financial services. On CY11 over CY10 basis, Manufacturing has grown by 32% continues to be driving and health care at about 24%. Energy & Utilities this quarter we have seen a dip which is largely driven by the India SI business which Anant will explain when he talks about it but overall the Energy & Utilities on a full calendar year basis has been a big growth driver for us at 34%. Retail and CPG have also shown a 27% growth rate YoY for the calendar year and also done well in OND'11. Interestingly as we had predicted the Europe Continent is doing extremely well at about 30%, there is a weakness in the rest of the world largely driven out of India in the current quarter but overall they have grown by about 46% on CY basis and America is now catching steam with 20% growth on CY basis however there is a 7% growth in constant currency for this particular quarter.

One of the interesting facts about HCL is we have been able to enter new customer relationships because of vendor consolidation focus and also total IT outsourcing focus and that has resulted into the quality of customers changing dramatically over the last few years. Today we celebrate the fact that now all top 10 customers of HCL are Global 500 or Fortune 500 which was only 4, about three years ago. So there is a churn in the existing customers and therefore new high quality customers have come in at the top 10 that is driving the growth in top five customers by about 7.7% in top 10 by 4.9% in this quarter. You have also seen the service adoption index in the top 10 customers of 3.4 out of 5, that means if you take our five service lines which is Engineering, BPO, Enterprise Application, Custom Apps and Infrastructure, our top 10 customers on an average consume 3.4 of all the services including ERS and if we exclude ERS then you even get a better ratio which shows that our growth in these customers have been because of our success in cross-selling and upselling services. That has resulted into our significant expansion in the hundred million dollar customers which have moved from 1 to 3, $50 million increased from 4 to 9 and $20 million from 21 to 42 so there is an expansion across the board on the size and the scale of the customers indicating that quality of customers have moved up substantially, the cross-sell and the upsell has dramatically moved up and therefore the size and the scale of higher-level of customers have moved up. And that is the result of our ability to be able to (a) enters the accounts of the vendor consolidation exercises and then expand our footprint in those accounts through better cross-sell and upsell.

With these opening remarks, we are pretty happy with what results we have achieved in this quarter and the overall macro environment commentary I would comment at the end of all the presentations so I hand over to Anant to talk about has been happening on the Infrastructure front.

Anant Gupta

Good morning, good afternoon, revenues were at US$ 239 million YOY growth of 21.4% and EBIT grew 3% sequentially and 33.3% YOY. We had a marginal dip in the quarterly revenues for infrastructure which was largely driven by softness in India SI business. So if you look at it on a constant currency basis we dipped by 0.7% which is largely from the India system integration business and the public services area. And thus alludes to the point which Vineet mentioned earlier which is largely within the public sector and the utility space. Outside that we continue to see high growth rates in both the global services business and public services business outside India, in fact the global service business grew faster than our consolidated quarterly growth rate of last quarter which we reported at 4.3%. If you look at the trends in the demand environment they continue to be driven by both markets one is the renewals and the churn from the renewal markets which we term as second-generation outsourcing engagements as well as the first time outsourcers but obviously what is driving it faster is the churn from the renewal market which is both standalone infrastructure engagements as well as total IT outsourcing engagements which is integrated proposition between application and infrastructure. We are seeing an increase in relevance of new certain service models like application operations as well as infrastructure as a service which are now being offered and accepted as a part of larger IT outsourcing deals. So besides seeing just run the business, we are seeing elements of transformation where customers are looking at quick win transformational benefits along with the sustained RTB benefits that they would get. If you look at it, from two good recognitions in the global market one around our managed security services especially in this environment both in the US and Europe we have been rated world in the Magic quadrant of Gartner's for discrete managed security services. The other key element really being recognized as one of the fastest growing partners in the evolving cloud ecosystem you would recall we had positioned ourselves in this market as a cloud enabler for large enterprises as well as an aggregator so that we provide a single window of services so we continue to see that beginning to take shape and we are seeing them integrated into large transformation engagements as they come up for renewals.

If you look at some of the drivers for growth in terms of booking I mean we had a very good quarter in terms of booking engagements and they continue to be across all geographies largely driven through EMEA and Americas, we see continued increase invitation of large and complex deals especially in the larger G100 to G500 segment. The other aspect really is if you just take Europe, our global delivery model which we had kind of put in terms of being able to deliver services to global corporations in various languages continue to be an important element of our wins in EMEA, so our wins actually doubled in this previous quarter over the quarter before that and in terms of invitations again the invitations and participation in large engagements actually stands 70% higher than the whole of the FY11. Trend is similar in the segments like banking & financial services, healthcare and manufacturing sector. With that I will hand it over to Steve.

Steve Cardell Thanks Anant. So just to give you an overview of enterprise application, we finished the calendar year with a strong quarter sharing 6.5% constant currency growth quarter on quarter and there are few things that helped our performance this quarter. In terms of trends in the marketplace we continue to see the same 4 big trends that we have seen in the last two quarters and which we expect to continue to be the drivers of demand that have also first being the mobility plus Oracle and SAP making significant investments in turning almost all other applications onto some form of mobile platform. We continue to see investments in data particularly in heavy processing industries such as retail and utilities and across general supply chain operations. In terms of cloud as it relates to application of service we see two things here, we see the big vendor's try and take their components of their applications and provide them in a shared manner on the cloud, though also seeing some smaller new entrants coming in from the cloud offerings that are competing with the established players.

And then finally we are seeing a lot of discussion in the marketplace about the opportunities that memory is posing particularly Hanna product for SAP and Exadata for Oracle, combined with big data. We are seeing a number of new services being offered in the marketplace. In terms of this quarter it was the first two trends mobility and big data that were really the catalyst for discretionary spending and also you all have no doubt seen SAP posted a very strong quarter, this quarter, and so number of deals they were able to get across the line helped our performance as well in the quarter. In terms of our recognition on value propositions we continue to work close with SAP and picked up from them the mobility Showcase award at the European SAPPHIRE conference in Madrid in November and in terms of helping our revenue growth this quarter we released the latest version of the iMRO product which is a joint development with SAP which is sold both on our paper and their paper and a number of the discretionary projects that we picked up in this quarter were from companies who bought the new iMRO product. Essentially what this product does is takes the original iMRO release which was designed for the aerospace and defense industry and broadened this application to any asset intensive industry so particularly Oil and Gas, Chemicals, Utilities and Travel & Transportation. We continued our collaboration with SAP and we now have a joint portal were both employees of HCL and SAP work together on innovations and develop those innovations collaboratively. One other thing that gave us some tail wind this quarter is that we have been scaling up our Oracle practice and trying to bring that more into in-line with our SAP practice, we picked up two things from Oracle, one was a number of specializations crossed 25 this quarter so we have 18 ordinary specializations and several advanced specializations and second, we become credited at the 2.0 delivery partner which is essentially is an indication of our capability across all of the Oracle enterprise products and gives us an ability to both train our own consultants and consultants from other firms.

In terms of growth drivers in the market we continue to do well in the verticals that we have been investing in over recent quarters, so both iMRO and our other enterprise asset management product are helping us build deal flow in asset intensive industry and we continue to focus on this over the next couple of quarters, particularly on the Oracle side platform that we have been building across clinical trials, research and development and supply chain, and we continue to grow our capability and our reach in that area. And the investments that we are making in utilities with our partnership with eMeter is allowing us to extend smart grid offering across the entire application that is necessary to enable the smart grid to happen. So now I will hand it over to Rahul.

Rahul Singh Thanks Steve and good day to everybody. Financial services we saw a revenue for the quarter closing at $258 million and this reflected a 6.1% quarter on quarter growth on constant currency and YoY quarterly growth was 21.8%. The division also recorded a calendar year growth of 29.4%, reflecting good growth momentum. The growth momentum continues to come from a combination of existing large accounts so our top 10 accounts continue to contribute about 60% of the total but we also had new logos which were added through the year and the last quarter as well which contributed to the growth. The pipeline continues to be healthy and most importantly the pipeline is for diversified services so in addition to the core applications we have pipeline in Infra, BPO and the EAS services plus also the pipeline is good in Europe and ROW. And hence we have seen good deal wins across all these geographies US, ROW and Europe. The demand environment for financial services continues to be challenging we are all aware of that so there is increased regulatory scrutiny and lot of pressure on customer retention in our client base and therefore there is a lot of focus in terms of customer experience management and taking care of regulatory solutions. Also, the clients are focused on cost cuts and driving efficiencies so we are seeing deal renewals where there is focus on vendor consolidation and total cost of outsourcing. On the transformational side our clients are led by as I had mentioned earlier through the customer retention, experience management so there is a lot of focus on business intelligence, custom analytics also a lot of focus on multi channels, mobility, social media. Our clients are trying to organize around these so opportunities for us as service provider. Also, as regulatory focus increases, there is focus on regulatory and compliance solution which our clients are expecting. We are seeing pipeline with large deals and large deals across the integrated service lines so there is an element of global delivery rebadging, etc.. We are also seeing the emergence of certain amount of non-traditional competition in our market place. So HCL is organized around this through focus on domains and solutions so our growth drivers are essentially to bring more domain and solutions-oriented approach to our customers and we are doing that through leading product partnerships and also focusing on delivering what we call it as fully loaded service lines to our clients. There continues to be focus in our delivery in terms of cost optimized solutions so applications, rationalization, standardizations and also leveraging from our experience in terms of mature processes and IT service delivery. We are also offering client solutions which are integrated in nature through multi-shore opportunities and 24X7 delivery. Also on the pricing side more focus on business and outcome based pricing. We continue to see growth recognition in the market especially on our insurance and capital market products and Everest has positioned us as a major contender here. We also have seen recognition coming on the insurance side. In terms of innovations in-line with the client's market expectation we are focusing on mobility led applications and have a couple of applications there, plus we see focus in terms of client experience and have put out client on-boarding solutions in the marketplace. With that I would like to hand over to Anil to take us through the financials.

Anil Chanana Good day to all of you before I start with the financial side of the presentation let me talk about two recent actions which the board has taken. One being the increase in FII limit, so the FII limit in the company has been increased from 24% to 49%, this however is subject to the approval of the shareholders and the regulatory authorities. We in HCL are also engaged partially in a regulated business where the FDI is restricted to 49% and so therefore this cap of 49% will also be the overall limit on the overseas direct investment in the company. Second, Shiv has been reappointed as the Managing Director, he has been the managing director since the year 1999 and this reappointment is for a period of five years and it is on new remuneration terms and the shareholders of the company will be getting the notices etc for the approval very shortly.

So let me move on to the financial performance this quarter and while I talk about the quarter I will also talk about the CY11 over CY10. US$ 1022 million in terms of revenue which is up 3.7% on constant currency basis. The EBIT is up 42.6% YoY and the EPS under US GAAP is up 29% YoY. If you take the quarter numbers, the reported numbers are 2% revenue growth and 4% net income growth. The key feature here is the margin expansion each at gross level, at EBITDA level and EBIT level of 150 basis points QoQ. If you look at YoY the picture becomes more interesting, so at gross margin it is 140 basis points, on EBITDA it is 220 basis points and on EBIT it is 270 basis points. Look at the company's performance as I said CY 11 over CY 10, our revenues grew by 26.2% and our EBIT grew by 32.8% and EPS in fact has grown by 44.1%. In INR terms, the EPS which we have reported is Rs. 31.6 which is up 46% YoY.

Moving on to the next slide, the constant currency growth for the company as a whole is 3.7% with currency impact of -1.7%. Volume growth in Software Services of 4.9% QoQ in OND'11 was better then 4.0% volume growth in JAS'11. In the margin analysis EBIT margin expanded 156 basis points be more accurate. We have exchange impact of 260 basis points and outside the exchange 104 basis points have been used up through annual increments, milestone bonus, SG&A investment. Actually SG&A is 14.9% in constant currency and partially offset by the operating efficiencies which have starting kicking in this quarter itself. At the net income level the margin expansion is from 10.7% to 10.9%.

On a YoY basis, on a constant currency basis growth is 18.7%, the exchange loss is very marginal here just 0.4% so this is this quarter which is OND'11 as compared to OND'10. In terms of EBIT side there is an expansion of 270 basis points, the exchange gave 400 basis points and outside of exchange it is 130 basis points, the similar factors have kicked in here. In terms of net margin the expansion is from 10.3% to 10.9% which is 64 basis points.

Moving on the cash flow, operating cash flow performance continues to be very strong, in fact this quarter the conversion ratio which is the conversion of net income into operating cash flow has been 118%, so for H1 it is 72% and we took various cuts on CY basis and on FY basis, we continue to do very well exceeding 100% on a two-year rolling average basis also. Moving on to the receivable position we are seeing the receivables ranging between 73 to 77 days although there was a quarter where it had gone to 71 days. Unbilled ranged from 16 to 21 days. Therefore things are absolutely under control both in terms of the billed receivables as well as the unbilled receivables.

Moving on to hedging position we are following a layered hedging policy so we do not take any view on the currency and every month we continue to replenish our hedges. Our hedge book as of December end is US$ 1.2 billion of which the balance sheet hedges are US$ 171 million and the cash flow hedges amounted to US$ 980 million. If I just take the $/INR hedges, the dollar rupee hedges are US$ 940 million cash flow hedges out of which there is a less than one year portion which represents 40% inflow and US$ 435 million are the hedges for the period beyond one year to support our portfolio which have long-term annuity contracts. In terms of the booking rate, the booking rate for the forwards for less than one year is Rs. 49.51 while for more than one year is Rs. 54.40. The MTM rate which has been applied for the purpose of calculating the OCI for or any MTM losses is Rs. 57.06 on an average because as of 31st of December the spot was Rs. 53.10 and the premiums were pretty high which they continue to be of course, though the spot has now significantly came down. US$ 940 million is the dollar rupee hedges and the other currencies are US$ 40 million.

If you go on further our US$ 980 million of hedges at MTM rate of Rs. 57.06, we will run into a MTM of US$ 73 million and you can see the MTM which has been applied for the respective period on QoQ disclosre; However we have taken a cut just using the as if it's a held to maturity like type of asset and taking Rs. 53.10, which was the spot on 31st of December, it drops down to 19.3 million.

Moving on in terms of tax provisions the tax provisions this quarter has been 25% however the estimates for FY12 have moved up, earlier we had predicted we will be in the range of 24% to 25% now it looks like we will be in 25% to 26% range. Accordingly for FY13 also, it has moved up by one percentage point from 22% to 23% to 23 to 24%

In terms of employee stock options it is at 3.3%, at market price 1.1% and below market price is 2.2%. These options vest in tranches running all the way till 2016 and the table below gives the charge quarter after quarter, so for FY 12 we estimate it to be US$ 4.1 million in Q3 which will be JFM'12 and US$ 3.9 million in the last quarter of the fiscal year. Going forward it is v similar run rate so it will be US$ 15.7 million for FY 13. With this I will give it back to Vineet.

Vineet Nayar We will open this to question and answer because half an hour is already gone and I just want to make sure that we have enough time for Q&A. So operator we are ready for question-and-answer.

Moderator Sure sir, thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from Nitin Mohta from Macquarie please go ahead.

Nitin Mohta Thank you, my question is regarding pricing, for first time you have seen a slight decline so any thoughts over there and a follow-up after that?

Anil Chanana Let me answer this question. The realization in reported currency terms has come down however in constant currency terms there is a slight increase so I would say it remains flattish. But so far as the pricing is concerned there is no change in the dollar pricing which we charge to our customers.

Nitin Mohta Secondly earlier you had indicated that currency benefits are going to be passed on to your clients and I do see that in this quarter you have invested that in milestone bonus and increments but going forward is there any discussion going on with the clients, if that can be passed on in dollar pricing?

Vineet Nayar No our pricing is in dollars to our customers and therefore the question of passing the discount to them is not there. Ee believe that whatever currency gains we will get, we will partly invest in business, partly it will go to fund the hedge losses and partly it will be released through EBIT expansion.

Nitin Mohta That is all thanks and all the best.

Vineet Nayar Thank you.

Moderator Thank you. The next question is from Mitali Ghosh from Bank of America. Please go ahead.

Mitali Ghosh Thanks. On Infrastructure Management Services just wanted to understand Anant how large is the India as a proportion of IMS and since you mentioned that the global IMS business grew at over 4% it would appear that the India part declined very sharply just trying to understand perhaps the extent of decline and how many quarters you expect this could actually continue and why?

Vineet Nayar Let me answer and Anant you can add to that so that I can explain the softness on the India business and the reasons for the same. What really happened in this quarter Mitali is that we got surprised by the speed at which the dollar moved from Rs. 45 - Rs. 46 to Rs. 53 and a lot of SI contracts which were supposed to be fulfilled in India we put a pause to that fulfillment predominantly because from profit-making contracts we were very fast running into loss-making contract especially when they had a foreign component into those pricing so therefore that was one reason for the softness of the India business and you are absolutely right that it was a very steep fall in India business because it was a conscious decision we took. And overall global business has actually grown faster than the JAS'11 Infra business but the softness in India business brought the ROW into a negative trajectory. The public services degrowth also is attributed to that because there was a significant growth on some of the public services projects in JAS'11 and we put them on slow growth in the OND'11 because of the reasons I talked about and therefore the degrowth that you see in public services is also because of that reason. Anant would like to add to that.

Anant Gupta It is only in terms of whether we see it going forward to answer that specific question I think on a couple of areas, there are areas where there is a benefit from moving ahead in the quarter so we definitely see some of it coming back. We see definitely the OND'11 as a one-time aberration for India SI business so JFM'12 and AMJ'12 going forward we believe we ashall be much better.

Mitali Ghosh So you think those would be better because you have renegotiated the contracts or you are connecting the rupee to appreciate?

Anant Gupta No I think it is largely a renegotiation of contracts and in terms of looking at the specifics in terms of what was provided in them for the fluctuations so it is largely renegotiations.

Mitali Ghosh Okay just on the global IMF business while that has grown like we discussed relatively better, it is obviously much slower that what it was three or four quarters ago and just trying to understand is that partly quarter aberration in the sense of how deals have ramped in the last few quarters and do you expect that trajectory to change in the next few quarters, given you had such a sharp deal wins in this quarter?

Anant Gupta So on a going forward basis I would not comment but if I just draw your attention to what happened previously we did have a couple of quarters if you just look at the OND'08 quarter we had significant amount of very-very large wins more than the normal growth rate so which obviously then translated into a steady state business in the following quarters after that. So we have had a good deal booking in OND'11, assumed I will come back into the revenue flow after a couple of quarters so we will have to wait for that to happen.

Mitali Ghosh And just one other question on enterprise solutions that saw very good growth this quarter, Steve do you expect this to be sustainable because obviously there is a lot of concern on the discretionary IT spend and I think Vineet you also touched upon that in your remarks on television so just a little bit elaboration there?

Steve Cardell The thing that we saw for certain this quarter was that we were well positioned in the market and we won more than our fair share of the deals around this quarter and as we commentate SAP had a good quarter in the discretionary space. So the thing that would be consistent next quarter is that we believe will continue to be well positioned and win more than our fair share of deals. But the question that is harder to answer is what will be the flow of the deals next quarter even SAP surprised themselves this quarter about how strong that was, so we think are well-positioned, we think will win more than our fair share and what we need to do is to see what is the flow of deals looking like in the next quarter.

Vineet Nayar Mitali our view is that the flow as we sit today is going to be significantly lower than what it was in OND'11, so we continue to be concerned about the discretionary spend but I think what Steve is saying that both in ERS and EAS we have demonstrated that in case the flow comes in, we would be able to gain a significant market share from that flow but discretionary continues to be a concern.

Mitali Ghosh Sure SAP was a strong quarter like you mentioned the licensing sales typically what is the cycle in terms of flow through your business I would've expected to be longer than reflecting in this quarter itself?

Steve Cardell It depends on the nature of the license sales which was very strong for SAP this quarter because of the two big acquisitions they have made, so sideways on business objects which is much more near term and discretionary in its nature. What tends to lead to a longer and larger pool through is where its core enterprise software sales. So I think we saw some more near term discretionary spend projects that ramped up in the quarter rather than the sort of larger longer term core ERP software sales.

Mitali Ghosh Sure thanks and one last very quick question, on the margins you have guided for constant currency stability year-on-year, just trying to understand how should we think about the gains from the rupee how much of that can perhaps flow through the margins?

Vineet Nayar Mitali we are not giving any guidance on that and guidance of 14% in constant currency remains intact and whatever currency gains we get, we will split them, a decision that we will take quarter-on-quarter, of some being invested back in business it will depend upon the opportunities, if the deal flows are good we will invest more if the deal flows are less then we will invest less. So it can be split in invest back in business, fund the hedge losses and release some of that into EBIT expansion. Specific guidance in terms of what percentage would be each bucket, we are not in a position to give right now. We will take that decision on quarter-by-quarter basis but our attempt is that we should use a substantial part of that to reinvest in the business in a variable fashion so that we can turn the tap off in case the currency moves in a different direction. We will invest if we see an opportunity and only if we see a very strong ROI on that opportunity as we have done in this quarter, we saw a big opportunity in total IT outsourcing deals, we saw big opportunity in investing more in continental Europe which we did and that is exactly the process we will follow. Specific guidance quarter-to-quarter we are not in a position to give right now.

Mitali Ghosh Sure I understand thanks a lot and congratulations for your deal wins.

Moderator Thank you. The next question is from Pankaj Kapoor from Standard Chartered Securities. Please go ahead.

Pankaj Kapoor Hi sir. Congratulations on good quarter. Just wanted to understand the impact of the deal wins that we have announced in this quarter on the near-term margin trajectory. Do you see any major transition cost which can pull down the margin outside of the currency below 14% also? That is the first question and second in terms of again on the deal wins was there any slippages in terms of the decision-making on few of the deals that you spoke of last quarter, which you expect to close in this quarter? Thank you.

Vineet Nayar I think, first is the margins whatever is visible today of the deals we have signed, I do not see a negative trajectory on margins. They have been factored in and in our assumptions and it remain intact. So there is no positive surprise, there is no negative surprise with whatever data we have on the table right now. On slippages, I think, it is important to understand the markets we are in. In the total IT outsourcing market which is largely been driven out of churn, there is a contract in date for existing vendor contract and therefore the customer is in a significant timeline pressure to conclude the contract with a new vendor in case he or she wants to move out of the existing vendor partner. And therefore they are unlike fresh outsourcing where they can keep on delaying because there is only a cost of delay but there is nothing else. In this particular case, the contract period comes to an end; therefore, they have to take a decision at least nine months before the contract period comes to an end so that they give themselves sufficient time for contracting and all that stuff. So therefore, we did not see any slippage on any deals on the churned volume which was coming in. We saw slippages on discretionary spends and that so I don't know whether I can call slippages because we did believe most of the conversations going on. There are lots of conversations which are going on the discretionary side and I commented that on the last quarter also that most of them are for budgetary purposes, they are trying to put them into the budget. Some of them have promised that they will close in October-November-December but we didn't believe it. So even on discretionary side yes, there were two or three which went to the next quarter but nothing surprised us. So deals decision did happen as we anticipated and we were not surprised that they did happen.

Pankaj Kapoor Sure sir. Thank you and all the best.

Moderator Thank you. The next question is from Divya Nagarajan from UBS. Please go ahead.

Divya Nagarajan Hi, I think, I missed this number earlier on a previous question. What is the current proportion that India business contributes to the infrastructure services, please?

Vineet Nayar India business constitutes 4% to 5% of our total revenues. This time, in this quarter it is down to between 3% to 3.5%.

Divya Nagarajan And I am also trying to understand what you said by that some of these projects became unviable because of currency depreciation. Is this because some of your supply costs went up because of input cost going up or I'm just trying to understand what exactly went on there.

Vineet Nayar That is correct, for example we have a very large SAP rollout in a public service power project and the SAP license cost is bundled into our complete solutions, importing the SAP license at this particular juncture, SAP and multiple others licenses were budgeted at Rs. 46 is coming in at Rs. 53, it makes the product unviable unless we either re-negotiate back to the vendors or we go back to the customer and saying this is unviable. Same is true with insurance rollouts which we are doing, we are doing about three insurance rollouts in the country today which are leveraging foreign insurance platforms and the license cost and the support cost of those products also could go up. So we need a breathing time to be able to (a) negotiate both with the vendor and with the customer and arrive at a solution which is acceptable to all parties. As soon as we saw this swing happening in that other direction we said let us pause and let's take time to sort this out before continuing to execute those contracts. Most of them we have sorted out some of them are still needed to be sorted out and that is the reason Anant is saying that the growth in India business will be back next quarter.

Divya Nagarajan One more question on deal flows, I think, last quarter in the beginning of the quarter you talked about deal flow picking up, you have actually seen a billion-dollar plus worth of deals being signed in. How do you see the next three months progressing in terms of deals flows?

Vineet Nayar The deal flow in JFM is much lesser than OND. So here is the maths. There are two data points which we track, one is the immediate deal flow, in JFM it looks much lower than OND and therefore decisions in JFM in our funnel is going to be lower than the decisions in OND. Having said that when I look at the TPI data which most of the time turns out to be accurate at least from a training point of view, it talks about US$ 47 billion worth of deals across 249 customers coming up for renewal in this calendar year and some of them we are already seeing appear in the decision matrix for this calendar year. If you assume that the 30% churn will continue and that is a big assumption, the churn last year was 30%, I don't see a reason why the churn should come down but it is possible it could come down but let us take that the 30%

churn continues then we are talking about a $15 billion market. If we talk about 20%-30% saving from moving from a contract which is written in 2005-2007 into a contract which is written in 2012 then the available market size will come down to about 40 customers, 40 deals and about $10 billion in business. So purely from that point of view I think, there would be an opportunity, the renewal data is true, the only assumption is 30% so if that 30% assumption continues to be valid for this year we would see good deal flow but, however, we are not saying that evidence in JFM. Anyway, JFM is too early because if you go back to OND 2008 we saw a peak in ONDO 2008 and then JFM fell off till deal flow started picking up something in July-August-September. So I don't have an anticipation, I don't have the exact dates when these are coming in through renewals but my sense is if 30% remains a right assumption then we will be able to see higher deal flows towards the end of the year.

Divya Nagarajan Thanks and all the best for the rest of the year.

Moderator Thank you. The next question is from Ashwin Mehta from Nomura. Please go ahead.

Ashwin Mehta Hi sir congrats on a good set of numbers. One question in terms of our India business which is ramped down, in the contracts which have not been negotiated with customers still, are there penalty possibilities in that? If we stop the execution, are there penalty clauses which possibly kick-in in that?

Anant Gupta Not really because the contracts do provide for what you call a joint conclusion on them beyond a certain range. Normally every quarter in normal course of business, currency does fluctuate but given that it has fluctuated beyond a reasonable level it will ask for both parties to discuss itself. I think it is a mutual discussion and then therefore during that period it does not apply, post non-conclusion of that event, there is obviously the force majeure available to us.

Vineet Nayar I think, you should be very clear we will execute all our contracts, we will execute all our commitments irrespective what it costs us. The breather was so that we are able to re-negotiate with all the parties concerned so that we neutralize the impact on us. We have no doubt that we will execute everything we committed and I am happy to report that most of the contracts we have been able to re-negotiate with all the parties concerned and come to an acceptable situation because of which we are confident about the next quarter.

Having said that, you must also understand that now India business is going to be challenged from the bids in progress. So if the bids in progress whoever has bid had made assumptions of Rs. 46, so when these come in for decision in the next year a lot of vendors will like to withdraw or go back and ask for price revision and that is what we are watching. So, obviously new contracts we are not going to take at the prices at which we had bid. We are going to seek ability to be able to give revised financials which I think, most likely the respective party should agree because every other vendor is going to also seek the same because these fluctuations are very-very large but that is going to be an interesting place to watch and that will drive the longer-term growth in India. So India is from my point of view yes the short-term issue of OND resulting in to JFM is largely solved but overall there would be a softness in the Indian market till we are able to figure out a way because most of these large public sectors undertaking deals take about 1 year to 18 months to come to a decision matrix. Since, it is going to be an interesting position to be in and we will see how to navigate that position.

Ashwin Mehta Okay sir, fair enough. The second question is in terms of our cash flows, we had a pretty decent cash generation in this quarter but given the significant rebid deals which have been signed, do we see a change in terms of trends wherein our second half typically looks better in terms of cash generation?

Anil Chanana So, I put the data not only annually but also on two years basis. So there could be variation from year to year but overall it is 100% on a two-year basis so we don't see any significant movement there.

Ashwin Mehta Okay and just the last question in terms of classification, we had earlier indicated that EAS is largely core ERP and most of our business intelligence, our analytics related work goes to our custom application segment. So has there been any change in terms of classification because what we have highlighted in terms of growth is that growth is coming from mobility and big data in this particular quarter?

Vineet Nayar I think, the SAP oriented we have which is in extension of the SAP product itself comes under the EAS practice the rest does not.

Ashwin Mehta Okay, fair enough sir. Thank you.

Moderator Thank you. The next question is from Sandeep Shah from RBS Equities. Please go ahead.

Sandeep Shah Congrats on good numbers. Sir, just the trend which is emerging is some acceleration in terms of offshoring within the Europe so do you accept the same and if yes, do you realize this within your existing set of customers or also beyond that and within the first time outsources also?

Vineet Nayar It is a difficult question. So first is, I don't think I have applied my mind completely to this and it's a off the cuff reaction to your question that does not consider to opinion. However, I would believe that whatever data we have in front of us indicates more offshoring from first-time outsourcers, more deal wins from vendor consolidations, existing customers offshoring more, therefore I'm not sure if I have seen that trend. It is moving from one customer to another customer means it is the customer centric approach rather than mega-trend like the vendor consolidation or the churn trend. Different customers are doing it but I'm not sure whether it could be called a trend and especially I presume your question was specifically with reference to Europe.

Sandeep Shah Yes, that's what. So you mention that offshoring from the first-time outsourcer is actually increasing. So is it only in US or you also witnessed in Europe?

Vineet Nayar Europe, so what is happening is that Europe was dominated not by the IOPs, it was dominated by a lot of local players and those local players are losing out significant market share which is moving to IOPs so that is the reason I'm calling it first time offshorers and they are not first-time outsourcers but they are first-time off shorers, that trend we are seeing, that is the mega trend. But in existing customer that is the trend, I'm not sure I have seen there.

Sandeep Shah And coming to the 3rd Quarter margin, if you look at the absence of one-time employee reward as well as BPO being breaking even. So if I'm not wrong on a constant currency the margin on a sequential basis may further go up by 80 to 90 bps, is it correct because of these two tailwinds coming forward?

Vineet Nayar I think, you are right that margins to these two tailwinds will go up. I think, the question which faces the management every time like we faced in terms of what we do on SG&A, let me explain this, this is the point I wanted to make. At HCL in 2005-2008 growth trajectory, what we discovered was that the growth was very difficult and it was being won out of a lot of NNs means new customer acquisitions because of the quality of existing customers and so everybody else will drive the growth on an organic basis just because the whole industry is growing whereas we had to work a lot harder to grow that customer. So we took a decision that whenever an opportunity comes in we should get into a high quality customers and that was defined as a core area. So we identified things like continental Europe, we identified South Africa, we identified some of the Asia-Pacific customers and then we identified this whole total IT outsourcing churn business, we identified vendor consolidation kind of businesses, we identified EAS as the way to go in and that is the reason we did the acquisitions, we identified vertical platform based business as an opportunity going into our customer and that is the reason we rejig the entire BPO business. So we did all that so that we get into higher quality customers which is the reason we declared that all 10 today are Global 500 customers with five of them as Global 200 and that itself is a very big growth driver. So we continue to be focused on that area, we truly want to get. One of the things we have not announced is, we have got into four financial services customers who were not HCL's customers and all of them have signed up Master Services Agreement with HCL this quarter. So they are not part of the $1 billion deal predominantly because this is the Master Service Agreement, they have given us the right now to go into this customers and hunt for business. Now, that in my mind is very large investment into those four deals which went in for almost zero return because the revenues will start coming in as we hunt for business but I think 2-3 years down the line each one of them will be $25 million-$30 million business at least for HCL because all of them are very- very large financial services companies in the world. So my view is that as we get these tailwinds and we get lucky with the exchange and we get some of the tailwinds out of the BPO benefit, we would want to redeploy that back in business as we see the opportunity. So we would want to take the decision quarter-on-quarter based on the opportunity we see, if we do not see the opportunities of growth we will not invest but if we see opportunities of growth of getting into these marquee customers and some of those deal announcements will happen over next one-two months as the customers agree to share the name as AstraZeneca did so that is our focus area. So I'm not right now willing to comment on the fact we will be released margin into P&L, it is wise to assume that we will not or we will release part of that margin and reinvest the margins to be able to get into the doors of many Global 100 or Global 200. So we are today monitoring global 100, global 200, global 300 because never before have we seen so many customers open for vendor consolidation, and this is the first time they are opening their doors for HCL to be considered because otherwise they say we already have Mr. X, Mr. Y, Mr. Z, why should I consider HCL. For the first time, we are seeing the door opening and since we have seen the door opening, we are going to right ramp through and do whatever investments are required. So by the time we come out of this year and the next year the customer quality in our business and the license to hunt in that business should be very very attractive business proposition for growth of HCL because you must remember at some time the churn in the business will go away so today HCL growth is sharply focused and churn in the business and vendor consolidation. Someday this churn of the business and the vendor consolidation will go away and that time we want to find ourselves inside the doors so that we can cross-sell and upsell and that is the reason that 3.4 service adoption index is also very critical. So if you want service adoption index and the quality of customers we are putting our foot in and the total wins on rebidding which we are winning against large global players are the three strategies where we are going to make significant investments and that decision will take quarter-by-quarter. Sorry for the long answer but I just wanted to make sure that you understand the strategic intent of the company.

Sandeep Shah Yeah, that was helpful. Sir, just in that scenario what is the current number of global or Fortune 500 or 1000 customers today versus one or two years back?

Vineet Nayar So the way I'm tracking it internally is that if it is a top 10 customer within HCL it is of significance, if it is not a top 10 customers of HCL, it may be a Fortune 500 or a Global 500 company but HCL is not significant to them. So three years ago we had only four of them in the G500, today we have 10. We had only two in the G200, today we have five, that is the progress we have made.

Sandeep Shah Okay sir and just a last question if I'm not wrong for this quarter we guided for some 2500 fresher addition and if I'm not wrong we ended up close to around 1800 fresher additions. So why this is being lower than the guidance and what is the strategy on fresher's addition going forward?

Vineet Nayar I don't remember this guidance but if we did then we made a mistake. I think, we have taken all the fresher's which we have given an offer to and this brings the fresher deployment to close. Now whatever fresher's we will hire will be hired from the street that means off-campus so maybe if we did give this guidance then we made a mistake. So our strategy was on freshers now I can tell you in hindsight our strategy was very clear, we did anticipate that there is a possibility for HCL to crack some big deals and we would need a lot of laterals to be able to execute to big deals. If you remember, the last time it happened we had to hire a lot of laterals from the industry which was a good decision for the fact that we could deploy our laterals into the new bids but it was a bad decision that they did not understand HCLs processes and systems so therefore it was a very painful absorption of HCL processes plus a new customer plus a new project. This time what we did was, we hired a lot of freshers more than we normally do, have deployed them into existing projects. We would be ready to release our existing laterals who would lead the new projects and hire new laterals from the market who will sit under the HCL laterals so that was the cycle which were attempting to do and I think, we got that cycle right so that's where we are but maybe we got this number wrong, I don't remember this projection but if we did, then I think we made a mistake because we were very clear on this number right from day one.

Sandeep Shah Okay. Sir, any offers given for fresher's to join in, campus freshers to join FY13?

Vineet Nayar Yes, we have. Right now, we are not sharing that number because we are still making up our mind as to given a fact what we have done in this quarter, we are just re-working the number so next time I will come we will share that number with you.

Sandeep Shah Okay thanks and all the best.

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

Ankur Rudra Good evening gentlemen, thanks for taking my question. I know, we have been discussing this for quite awhile, just want to take a last stab at the infrastructure decline. Just to clarify, there wasn't any impact from any of the geographies outside of India in this business or any sort of impact from unseasonal slowness here?

Anant Gupta This is correct. There was no impact from the global infrastructure, from markets outside India. In fact they have grown higher than the previous quarter's growth that we have reported so all the impact largely has been in the India side business and not the public service side.

Vineet Nayar So let me say it again because this question has come third time, right. I think, what Anant is saying is that we grew, so let me give you specific numbers. We grew 4.5% quarter-on-quarter in JAS'11 in infrastructure services business. Outside India, which is what we call global infrastructure business we outgrew 4.5%, that means we substantially outgrew 4.5%. If you do the maths of the total India business coming down from 4% to 5% of our company's revenue to about 3% to 3.5% of the company's revenue, you will understand that the India business was a substantial dip and the only way that dip could have been made up was by substantial growth in the infrastructure global business so you can do the maths and you can see that the global business of infrastructure substantially grew higher than what it grew in JAS'11. So I hope that any doubt on this question is rested with.

Ankur Rudra Thank you sir. The only reason I ask is, I remember in December there was some indication that HCL might be facing some unseasonal slowness across customers. I was wondering if you have seen that at all and if this was a business which saw that is the only reason I asked it again. Just moving onto enterprise application I think, it is helpful you clarified the strength we saw in the quarter may not be sustainable dependent on the deal flow but having said that the big trends you highlighted, could you highlight outside mobility and big data of the four big trends? How many of them has the capability to participate in a big way?

Steve Cardell So for mobility and big data we certainly have the capability for cloud from an SAP and Oracle point of view, but we have not that set as a priority focus. So the software vendors are initially focusing their propositions there on the smaller end of mid market and our business as Vineet talked, will focus on large enterprise**.** The second area of cloud which is really when new competitors are coming in are the areas of homogenous from one companies to the next so HR administration procurement, sales force operations and we are looking at some of the solutions that are coming to market from both SAP and Oracle in that space but we have not seen much traction there. Yes, we have that capability but we have not seen much market traction in that area and then in memory I would say that Exadata and Hana particularly Hana are almost an empty box which you have to build an application onto that this relevant for a particular horizontal or vertical and again we are not seeing volume deals for there we are seeing pilot projects and the likes we are involved in some of those but are not at this point translating into material revenue from the services perspective. But in terms of capability we have the capability in all of them.

Ankur Rudra Just a question for Rahul on BFS, you mentioned you are seeing a few non-traditional competitors. Can you just elaborate on that please?

Rahul Singh Yes, it is a trend which is more little bit long-term that we are talking about here that we do expect to see more platform based offerings and that is a non-traditional competition that I’m referring to here. In our current funnel, yes, the deals are more traditional vendor churn consolidation oriented.

Ankur Rudra Okay, fair enough. Just one last question for Vineet, if you can talk about the nature of the budgets outside of the re-bid activity you are seeing in terms of your expectations for CY12, based on what you have seen so far?

Vineet Nayar I think, it’s a very uncertain environment and I can tell you the pieces of certainty. The uncertainty is the macroeconomic indicators are worse than ever before. The uncertainty is that the current budgets of our existing customers will be lower or flat compared to what they were last year. Most of the budgets have been finalized and we can see that. The transformation budgets in their budgets are the decisions taken quarter-on-quarter, therefore, there are hardly any budgets and therefore, the question of annual budgets is gone and therefore the visibility of revenue growth based on a customer budget assumption is highly diluted in the current environment. The only certainty which we have seen is the deal pipeline which is coming from vendor churn and that is an absolute certainty because the decisions will get done. We have seen certainty on vendor consolidation where we are getting into MSA because they have taken us into MSA, some amount of business will definitely flow to us and we are seeing certainty on increased vendor consolidation activity happening in healthcare and financial services and if we win them then we will see an expansion. So it is a mix bag, it is uncertain when it comes to existing customer budgets, transformation budgets, countries like Japan, countries like India, it is a certainty on the deal pipeline, it is a certainty on the book which we have already built in this quarter and the execution of that. So I would say, it is the mix bag and I truly believe that in this environment as we are there are three specific focuses which HCL has identified for itself, (1) if there is a global 500 customer who emerges in saying, I want to evaluate a new vendor, HCL will give it all its might to make them happen irrespective to where that vendor is across the globe, (2) We will do a damn good job focusing and executing whatever we have won so far and (3) Will focus on MSA's we have already got and expand them so that we can increase the market share. Those are the three things which are in control. The things which are not in control is how would the customers budgets move in, how would they take a decision on transformation because if you look at the whole transformation budget we are unfortunately in a cycle where you start with 100 and goes down to about 55-60 by the end of the year and that whole 35 has to be filled up. So right now that filling up is happening through RTB and if you saw the growth of last year we delivered the growth of last year because RTB grew at about 35% last year means the calendar year and the CTB which is transformation grew at about 20%. Now the question is, will the growth of 20% continue for next year? There is significant uncertainty of will it or won't it and we don't know either for sure and that will impact. I don't see a problem with RTB but I see a problem with CTB that will impact the overall growth rate of the company for the calendar year 2013.

Ankur Rudra Fair enough, thank you sir.

Moderator The next question is from Kunal Sangoi from Edelweiss. Please go ahead.

Kunal Sangoi Thanks for taking my question and congrats for a good quarter. My question is with regards to Vineet, you emphasized a lot about putting a foot into doors some of the new G500 type clients. Would want to understand your top account strategy for G500 clients that you already have? How are you balancing the hunter versus farmer mix, if you can highlight that please?

Vineet Nayar So what we believe that the customer is seeking is execution and efficiency in what you are delivering, proactiveness and giving them solutions which we are giving to the hunting customers and third is the ability to bring cross-sell and upsell this new ideas. So we have implemented extremely strong quarterly governance meetings which are value based. We have to most of our customers given them top 10 ideas which we think should transform their business and we have also done something which is margin dilutive to us which we have, we have gone ahead and given the proposition which we are giving to all our hunting customers, to our existing customers and saying if you move into this mode of business which is around idle on run the business then you can save this much amount of business from your existing spend and we have done that very successfully. So we have passed those proposals with all our large customers so that there is no competitor of ours which can come up with a compelling proposition which is different to our compelling proposition which is already on the table and yes, it may result into a short-term revenue loss or a margin loss and this is something which we are doing for the last 18 months so it is not a new strategy. So that prevents our competition to come in with a new proposition which is what we are doing to our competition in the hunting side and plus focusing on dam good executions. So cross-sell upsell, give him a proposition which we are already giving to our hunting customers despite its impact on negative revenue because you are giving him 20% saving which is what we are doing for hunting customers and I think, the customers like us because of that, we are proactive before anybody goes to them we go to them and say if you are willing to change your contract and ways of working in this fashion than we would be able to deliver higher benefits to you and the customers love us because we are proactive and therefore, there is a higher opportunity for them not to open their gates for vendor consolidation in our business and that is our attempt.

Kunal Sangoi Sir, the only reason I asked this is that if I look at H1 growth within top 20 accounts then clearly two buckets get highlighted which is top 11 to 20 where the YoY growth still remains at about 11% and also the average account size of those customers continue to be quite small.

Vineet Nayar Yes, your analysis is right, this is in transition so a lot of customers who used to be in top 10 are now moved into top 10 to 20. So those customers unless they are replaced with bigger customers that 10 to 20 will continue and you are rightly focused that over the next two years we should clean up the top 10 to top 20 quadrant so that those customers who are smaller will move to top 20 to 30 category but your observation is correct. There is nothing you can do to cross-sell and upsell to them, it is just a typical size of the customer and the fact that you have taken everything which it can give. Without taking name, if you take an outsourcing deal of a company which is let’s say $4-5 billion in revenue side and it is not investing in transformation then your budgets are stagnant in that case. So the only hope we can have is that yesterday he was a top 10 customer and tomorrow he should to be top 20 to top 30 customers rather than trying to break your head in up-selling and cross-selling to that customer. That is the reason there is a very sharp focus on getting into G500, not the Fortune 500 but G500 which are very large companies so that the return on investment on cross-sell and upsell is very good.

Kunal Sangoi Sure, that was helpful. Thank you and all the best.

Moderator Thank you. The next question is Shashi Bhushan from Prabhudas Lilladher. Please go ahead.

Shashi Bhushan Thanks for taking my question and congrats on a good quarter, Just one question this quarter we had pretty good growth from EAS and despite that our billing rate has been muted on a constant currency terms. Any specific reason because billing rate for a year is generally higher than other businesses?

Vineet Nayar I don’t know, how this maths adds up, unfortunately I don’t have an answer for you. It’s a combination of many things, right. So many things make a whole, Anil you may want to do this analysis.

Anil Chanana We have not done it on the service level, we have done it on the overall company level, there was a marginal improvement and that too came on the onsight so maybe that is coming out of EAS is quite possible but let me not confirm, we can confirm it separately.

Shashi Bhushan Thanks, that’s all from my side.

Moderator Thank you. Ladies and gentlemen due to time constraints that was the last question. I would now like to hand over the conference back to Mr. Vineet Nayar for closing comments.

Vineet Nayar Thank you everybody for attending this conference. I once again re-emphasize the fact that the HCL business model of five service lines going to market across six very focused verticals with diversified geography is a very interesting model and alternate business model to some other growth models we have seen in the industry and I wish you the very best for the year and keep watching this Christmas model and hopefully we will successfully executing our strategy. Thank you very much and have a great year.

Moderator Thank you very much. On behalf of HCL Technologies that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.