HCLTech

hcltech.com

July 17, 2025

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BSE Scrip Code: 532281

NSE Scrip Code: HCLTECH

Sub: Transcript of the Earnings Conference call held on July 14, 2025

Dear Sir/ Madam,

In terms of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, enclosed please find a copy of the transcript of the Earnings Conference Call held on July 14, 2025, post the announcement of the financial results of the Company for the quarter ended June 30, 2025.

The is also available on our Company's website https://www.hcltech.com/investor-relations.

This is for your information and records.

Thanking you,

For **HCL Technologies Limited**

MANISH ANAND

Digitally signed by MANISH ANAND
Date: 2025.07.17 14:13:40 +05'30'

Manish Anand
Company Secretary

Encl.: a/a

HCLTech

"HCLTech's Q1 FY26 Earnings Conference Call"

July 14, 2025

HCLTech

CHORUS CALL®

Management:
Mr. C. Vijayakumar – Chief Executive Officer & Managing Director
Mr. Shiv Walia – Chief Financial Officer
Mr. Ramachandran Sundararajan – Chief People Officer
Mr. Vijay Guntur – Chief Technology Officer
Mr. Nitin Mohta – Senior Vice President & Head - Investor Relations

Moderator: Ladies and gentlemen, good day and welcome to HCLTech's Q1 FY26 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 this conference, please signal the operator by pressing "*", and then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nitin Mohta, Head - Investor Relations. Thank you and over to you, sir.

Nitin Mohta: Thank you, Dorwin. Good morning and good evening, everyone. A very warm welcome to HCLTech's Q1 FY26 Earnings Call.

We have with us Mr. C. Vijayakumar – CEO and Managing Director, HCLTech; Mr. Shiv Walia – Chief Financial Officer; along with the broader Leadership Team to discuss the performance of the Company during the quarter, followed by a Q&A.

In the course of this call, certain statements that will be made are forward-looking, which involve a number of risks, uncertainties, assumptions, and 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 upon information presently available to the Management, and the 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 statements in the formal investor release documents, and all the factors that can cause the difference.

Over to you, CVK.

C. Vijayakumar: Thank you, Nitin. Hello, everyone. Hope all of you are doing well. Thank you for joining us today for our FY26 Q1 Earnings Call.

Let me start with the business performance for the quarter:

Historically, Q1 has been a soft quarter for HCLTech, which is something all of you know. During this quarter, our revenue increased by 3.7% on a year-on-year basis, while declining 0.8% sequentially.

The growth rates I mentioned and would be referring to today are all in constant currency. This year-on-year growth was driven by several verticals, including Technology and Services, Telecom and Media, Retail and CPG, and Financial Services. The ramp-up in March within the Tech vertical has significantly contributed to this robust growth in the Technology and Services vertical.

Geographically, it was driven by the rest of the world as well as Europe. During the quarter, the environment remained stable at an overall level, while there were some variations across verticals, and it did not deteriorate as feared at the start of the quarter. Our operating margin came in at 16.3% and was lower than our plan.

Q1 is seasonally the weakest quarter of the fiscal year, and the below-plan operating margin was driven by 3 factors. One, our utilization dropped during the quarter, as we built capacity in March for specialized skills, and a large deal that is taking time to ramp up. This utilization drop was also due to ramp-down in specific areas like automotive. In addition, the people that were released due to productivity benefits could not be redeployed due to skill and location mismatch.

The second aspect was a one-off impact from a client bankruptcy.

And third and lastly, even though we have been hit by these unforeseen challenges, we remain committed to making investments in AI and go-to-market capabilities. In fact, given the growth momentum we are currently enjoying, we accelerated and pulled forward some of our Generative AI investments and the platform efforts that we are working on.

Coming to our segmental performance:

Our Services business grew at 4.5% year-on-year, while declining 0.1% sequentially. Our IT and Business Services grew 3% year-on-year, and our Engineering and R&D Services grew 11.8% year-on-year.

HCL Software had a weak quarter after several quarters of good performance. It declined 3% year-on-year. However, the Annual Recurring Revenue, ARR stood at $1.06 billion, a 1.3% increase year-on-year. This augurs well for the future as we consciously are working to improve subscription for the SaaS revenues.

In terms of geographies:

During the quarter, USA grew 0.5%, while Europe grew 9.6%, Rest of the World grew 15%, and India grew 1.3% all year-on-year.

Our top performing verticals were Technology and Services, which grew at 13.7%, Telecom and Media at 13%, Retail CPG at 8.2%, and Financial Services at 6.8% year-on-year.

During the quarter, we made healthy additions to our client portfolio across verticals and geographies. We added 6 in the $50 million category, also added 11 in the $20 million category on a year-on-year basis.

On a QoQ basis, we had a lot of clients across categories, including 2 in $50 million category, 6 in $20 million plus category, 4 in $10 million plus category, and 8 in $1 million plus category. This is a very impressive execution, and it also sets us well for future growth.

Coming to bookings:

We had a decent quarter. In terms of numbers, our net new booking for the quarter was $1.8 billion. We also won a large consolidation opportunity in the Financial Services vertical this quarter. This is not accounted for in the TCV value for Q1. You will recall, we had a couple of large deals in the pipeline which we were expecting to close in Q1. These deals have moved into Q2, and this delay is unrelated to external factors.

We are optimistic about their conversion, and if all goes as per plan, the TCV number should see a step-up next quarter. The booking was well balanced across service lines, geographies, and verticals, as you would notice in the investor release.

Happy to note our portfolio is incrementally getting more balanced than it was even a few years ago. We continue to win more in Digital business and Engineering Services, an agenda we had set for ourselves as a part of a medium-term roadmap.

Our pipeline continues to remain strong. Our Digital business is seeing a number of large deals due to an engineering-led approach, and a very strong client conviction of our AI propositions and Data and AI capabilities.

Our focus on application modernization and longstanding strength is a key contributor to our success and the strong growth in our pipeline. We are doubling down on this trend by incorporating AI at the core of this proposition. Additionally, we are investing in an AI-driven data lifecycle management platform. There is a healthy demand for efficiency-led deals across the board.

Discretionary spending varies across verticals. If I break it down to the vertical level, Financial Services and Technology are showing promise; while we see Public Services and Telecom to be stable; while we see some stress in Manufacturing, driven by Auto, Life Sciences, Retail, and CPG segments.

Clients are continuing to look for AI-led transformational propositions, be it in software development or IT operation services. The share of AI and Gen AI continue to grow as they become central to nearly every deal. Gen AI is now central to IT Services strategy; Agentic AI is gaining traction, especially in operational efficiency and accelerating application modernization programs.

On the people front:

Our count stood at 223,151, which is a slight reduction of 269. Our IT Services voluntary attrition on an LTM basis stood at 12.8%, lower compared to the previous quarter.

On our AI-Gen AI related progress:

I wanted to update you on 3 strategic dimensions:

1. Ecosystem.
2. Offerings.
3. Client engagement.

On the first axis is the maturity of our enabling 'Ecosystem' consisting of our people and partners. Our market momentum has ensured that we are perceived as a very attractive partner to leading tech OEMs, ISVs, hyperscalers, and pioneers like OpenAI.

During the quarter, we announced a strategic partnership with OpenAI to drive large-scale enterprise AI transformation as one of the first strategic services partners. We are well positioned to take advantage of the Enterprise AI spend as we work on developing the most comprehensive AI ecosystem.

Similarly, this quarter, we announced a partnership with UiPath to accelerate agentic automation, launched a suite of agentic AI solutions in collaboration with Google Cloud, and integrated NVIDIA AI Enterprise with AI Force and NVIDIA Omniverse with a physical AI solution, SmartTwin.

As a testimonial to this maturing momentum, we have received many leadership citations in AI and data this quarter. We were named a market leader in HFS Horizons Generative Enterprise Services 2025 Report. ISG recognized us as a leader in Advanced Analytics and AI services. We were cited as a leader in IDC's MarketSpace for Worldwide Data Modernization Services 2024 Vendor Assessment. We were also recognized as a Microsoft Responsible AI Partner, and we won top honors at AWS GenAI Premier League Awards 2025.

On the second dimension of 'Offering Maturity' – HCLTech was first to launch a full stack AI portfolio featuring AI Force, AI Foundry, AI Labs, and AI Engineering. These offerings are designed to drive end-to-end service transformation and value stream innovation for our clients.

Some key aspects:

Our AI Force platform is now deployed across 35 clients and 70 plus deployments and is the key solution enabler for several of our new wins. AI Engineering is gaining good traction in physical and kinetic AI or robotics domains, while our data and cognitive infrastructure offerings have gathered momentum in the AI Foundry cluster. AI Labs are now moving to the next level, building CoEs with partners and clients in niche and emerging tech areas.

We are advancing our portfolio of industry-focused repeatable solutions across verticals. These offerings are developed with a strong governance framework to ensure enterprise readiness and compliance.

Building on FY25 innovation momentum, our platforms such as Contact Center as a Service, NetInsight, Trade Compliance, InsightGen, and Clinical Advisor are maturing, while next wave solutions like Invoice-to-Payment and Lab-as-a-Service are being launched. These initiatives are designed to accelerate time-to-value and deliver measurable ROI.

HCL Software is making significant progress on Agentic AI, UnO, Agentic Builder, and Orchestration platform to build the agents, introduce the Max AI in HCL Unica Plus for smarter decision-making, and hyper personalized and real-time campaigns.

Commerce AI in HCL Commerce to build agents that augment complex testing and reduce manual effort.

On the third and last dimension of 'Client Engagements' – we are witnessing the size of our engagements increasing steadily from exploratory POCs to strategic multimillion-dollar partnerships. Some key examples from Q1 reflect this momentum, like we signed a multimillion-dollar engagement with one of the largest Australian logistics companies for AI-led service transformation using AI Force.

A leading Europe-based telecommunication Company selected HCLTech to modernize its technology and operations stack. The partnership will enable zero-touch operations through hyper-automation powered by Gen-AI. HCLTech will leverage its AI Force platform to modernize applications at scale and introduce Agentic AI for proactive issue resolution and integrated data intelligence.

A Europe-based automotive major selected HCLTech to deploy workplace management and agentic AI solutions to enhance operational efficiency and service quality, improve customer experience, and support new technologies.

A global sports body partnered with HCLTech to create a Gen-AI-powered commentary platform to revolutionize live match broadcasting. This AI-driven solution analyzes live feeds, identifies key events, and provides real-time insights, enhancing storytelling with summaries during all game phases. The platform built on HCLTech's AI Foundry's scalable cloud infrastructure, supports multiple data streams.

A global aerospace major partnered with HCLTech to develop a Vision AI solution that optimizes cargo container placement in aircrafts. Leveraging HCLTech's AI engineering and intelligent automation capabilities, the solution aims to improve load distribution, space usage, and cargo operations.

A Japan-based global imaging leader partnered with HCLTech to develop a Gen-AI-powered camera setting recommendations engine. Powered by HCLTech's AI Engineering, the solution develops real-time personalized photo recommendations using live data, leveraging advanced LLMs and unique HCLTech frameworks.

We continue to win a lot of recognitions and accolades from the market, analysts and partner and investor community. I think a couple of these that were announced this quarter are must-know, as it has a significant impact on our shareholder value creation. We are the only service provider positioned as customers' choice in all 6 Gartner Voice of the Customer Quadrant evaluations related to IT services. This is the first time any service provider has achieved this. Equally important is the fact that no other service provider is in this quadrant for more than one category.

Just to mention the 6 to help appreciate how much of the IT landscape of an enterprise is covered, when you add these:

1. Public Cloud IT Transformation services.
2. Custom Software Development Services.
3. Data Center and Hybrid Infrastructure Managed Services.
4. Outsource Digital Workplace Services.
5. Managed Network Services.
6. Cloud ERP Services.

I would like to thank all our employees that make this and many more such recognition possible.

HCLTech figured among Asia's Most Honored in Extel's 2025 executive team rankings. For the second year running HCLTech was the most decorated India headquartered IT services Company in the survey. It achieved 17 top 3 rankings across overall buy side and sell side categories in Technology, IT services and Software sector, out of which 9 were number 1 rankings. Humbled by all your strong belief and support. Thank you.

Looking ahead, we are improving our revenue guidance now for FY26 to 3% to 5% in constant currency, based on better Q1 performance and the outlook for the remaining quarters.

On margin guidance, we are adjusting our EBIT guidance to 17% to 18%, due to the factors I mentioned earlier:

1. The unanticipated impact in Q1 for reasons I mentioned earlier, and which could continue partly into Q2.
2. Investments in Sales and Marketing and AI capabilities to address the growth momentum.
3. We plan to execute a restructuring program, both on people and non-people side during the rest of this fiscal year. The one-time costs because of this are baked into the above guidance. We are doing this to provide us the structural agility to address the market demand in the AI era.

We are optimistic about meeting our revised guidance, supported by superior revenue growth, positive booking expectations for the coming quarters. This outlook is further reinforced by our consistent track record of strong operational execution demonstrated over the last several years.

Now, I would request Shiv to walk you through more details on the numbers.

Shiv Walia: Thank you, CVK. Good morning, good afternoon, and good evening to all of you. Thank you for joining our Q1 FY26 earnings call.

Let me walk you through our financial performance for the quarter.

Starting with the revenue performance:

Total revenue for the quarter is $3,545 million, a 0.8% decline quarter on quarter and a growth of 3.7% year-on-year in constant currency terms. With this, our revenue has crossed the milestone of LTM revenue of $14 billion.

Services revenue for the quarter came in at $3,227 million, which is a decline of 0.1% quarter-on-quarter, and a growth of 4.5% year-on-year in constant currency terms. The strength of our all-weather portfolio helped us offset the headwinds from the usual Q1 seasonality. Software revenue for the quarter is $330 million, a drop of 3% year-on-year in constant currency terms.

Let me share the details on profitability now:

Our EBIT is $578 million at 16.3% of revenue. The net income for the quarter is $440 million at 12.7% of revenue. This quarter, we traded short-term pain in profitability to secure our long-term growth leadership. Q1 margins usually have a negative impact due to seasonality for us. This time, it was amplified due to 3 factors that CVK just called out. It is important to note that we did not cut back on our investments in sales, Gen AI and people capacity to secure growth.

Now, on the margin bridge explaining the same:

The Company margins dropped by 161 basis points quarter-on-quarter. The higher sales and marketing investment had 30 basis points impact. Lower utilization due to specialized hiring and skill and location mismatch challenges cost us 80 basis points. One-off impacts during this quarter, which include a client bankruptcy had 30 basis point impact. Other major factors such as lower share of software in the revenue mix had 20 basis point impact. We did not get any benefit from the forex this quarter.

Project Ascend is on track and was instrumental in helping negate the impact of increased average resource cost.

Now, moving on to Return on Invested Capital, which is ROIC:

Our ROIC continues to improve. Thanks to our ongoing focus on profitability and efficient capital management. The last 12 months ROIC is at 38.1% for the Company up 353 basis points year-on-year and services ROIC now is at 45.2% up 236 basis points year-on-year. The software continued to improve with ROIC at 20.8% up 473 basis points year-on-year.

Let me share the details on our strong cash generation:

Over the last 12 months, operating cash flow is at $2.57 billion, while free cash flow amounted to $2.42 billion. Operating cash flow to net income conversion is 129% and free cash flow to net income is 121%. Our balance sheet continues to strengthen with gross cash at $3.46 billion and net cash at $3.19 billion. Our total DSO, including unbilled, is currently at 82 days, flat on year-on-year basis.

Now to the shareholder:

The diluted EPS for the last 12 months came in at Rs. 62.57, which is up 3.4% year-on-year. The Board has declared an interim dividend of Rs. 12 per share for the quarter. The record date is 18th of July 2025 and the payment of the same shall be on 28th of July 2025. That brings our last 12 months payout to Rs. 60 per share, effectively distributing 95.8% of our net income.

That is all from my side for now and I would like to hand over the session to our moderator for the Q&A session. Thank you. Over to you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question comes from the line of Ravi Menon from Macquarie. Please go ahead.

Ravi Menon: Hi, thank you for the opportunity and congrats on good revenue performance. CVK, the way you described your utilization mismatch, it seemed like more of a timing issue for a deal, at least in part. So, then are you expecting these margins to probably exit this year closer to back to our original range?

C. Vijayakumar: Yes, I think we are very clear. We are not setting, structurally, the margin bar lower. I think it will continue to be 19%-20%. In the next 3 quarters, obviously for all the reasons that we explained, there is going to be certain headwinds. So, this year, we will be between 17% and 18%.

Ravi Menon: Right. And it looks like Hi-Tech, you saw really good growth sequentially, even one of your peers reported they have also seen decent growth there. And this is a segment that I think the whole cost cutting started back in 2023, right? So, should we think of this as a good sign of a cyclical recovery in this sector? Or is it still too early to call it that?

C. Vijayakumar: Yes, as I called out, we are looking at a strong demand in Financial Services and Tech and Services verticals. And this quarter, of course, the growth in Tech vertical also, it is very broad based, but definitely the 6% kind of sequential growth is driven by one large deal where we had on-boarded the entire team in March, exactly on 6th of March. And of course, this is a very cutting-edge solution on contact center transformation using Conversational AI and this will require this talent base to be deployed, and we had some good success in the 1st quarter, but the ramp up has been gradual. We think it will ramp up fully in the 2nd quarter and in the 3rd quarter, we should be fully optimally performing on this team. Outside that, structurally, the tech vertical continues to give us a lot of confidence, so FS and Tech, definitely strong, we see some concerns in other verticals like Auto in Manufacturing, Retail, CPG and Life Sciences, there is pressure, but rest of the verticals looks okay to me.

Ravi Menon: Thank you so much. Shiv, one follow-up. You were saying that there is no gain in the margins from forex, so I thought there was a sharp depreciation of the Rupee against both the Euro and Pound. So, why have we not seen any uplift from that?

Shiv Walia: So, this quarter, we did have some gain in Euro, but that was offset by some loss in the INR depreciating versus previous quarter. The cost base we have is INR in India, so that is why they both kind of offset each other.

C. Vijayakumar: And usually any appreciation in Euro or Pound translates to very little in terms of margin improvement for us because our costs are quite significantly there onshore as well.

Ravi Menon: Got it. Thank you so much.

C. Vijayakumar: Thank you.

Moderator: Thank you. Our next question is from the line of Sudheer from Kotak Mahindra Asset Management Company. Please go ahead.

Sudheer: Thanks, CVK for the opportunity. The first question on margin front, if we look at the full year guidance downgrade by around 100 basis points, how much of that downgrade can be attributable to one-off factors, be it client bankruptcy impact plus restructuring impact, how much can be attributable to the utilization mismatch issue and how much can be attributable to pulling forward of AI investments?

Shiv Walia: Sudheer, I will just give the walk. In Q1, the margin is 80 basis points lower versus the last year. So, the full year impact of this dip is 20 basis points; higher sales and S&M investment, we expect, is going to have an impact of 13 basis points; utilization, which is one of the factors we had impacting Q1, is going to have some follow on impact in the subsequent quarters and we expect that to have an impact of 10-20 basis points; and the restructuring cost, which also CVK talked about, would have an impact of 30-40 basis points in the subsequent quarter. Putting together all, it is around 100 basis point impact year-on-year.

Sudheer: Understood, sir. And to Ravi's question earlier, I think CVK mentioned that probably the exit margin would be closer to our aspirational range of 19%-20%, that looks like a steep pass over the next 3 quarters. So, any thoughts on how we would be reaching there?

C. Vijayakumar: Just look at it like a full year margin because quarter-on-quarter margin has a lot of cyclicality for us, like Q3 will peak and Q4 will dip. The comment I made was that on a normalized basis, we would be closer to our desired range. And there are multiple levers, like even the utilization, as Shiv mentioned. We obviously had a big gap in this quarter. It would significantly moderate in Q2 and in Q3 we should be in line with the expected margins. A lot of these restructuring costs would be mostly in Q2 and a little bit in Q3. That is the color that we can provide and the rest of it is in a normal cyclical seasonality in our business.

Sudheer: Very much, sir. And just one last question as AI adoption involves more into an Agentic AI level, there is a talk about a potentially big data center refresh as the current data centers are not equipped with a capacity to handle AI workloads. What is your view on this? And given our strong presence in IMS, what are we doing to potentially leverage on this thing?

C. Vijayakumar: Yes, we have launched the cognitive infrastructure proposition, and we are already seeing some early wins in this. We had one marquee win in the last quarter, which we will probably announce during this quarter more formally. And we think it is a big opportunity, but obviously, we don't want to play in the assets kind of game. We are totally focused on services and so we worked with a lot of partners to deliver, GPU as a service and things like that. We also see a lot of traction at the Edge infrastructure, Edge AI, we see good traction and we see that as well as a big tailwind. But I think the pickup is going to be gradual. Even a lot of customers who are deploying Edge AI, they are starting with one factory, one big location and then based on success and all the proof points they will expand to other locations. So, it will be a gradual ramp up and I definitely see that as a big strength and capability of ours, which will really come to our big help in this particular space.

Sudheer: Thank you, sir. All the very best.

Moderator: Thank you. Our next question is from the line of Abhishek Pathak from Motilal Oswal. Please go ahead.

Abhishek Pathak: Hi, team. Congrats on a good quarter. So, just to double click on the margins, do we expect the AI investments to continue into FY27 as well? I ask that because should I be expecting FY27 margins to again operate in the 18%-19% ballpark or are we rebasing the expectations a little bit because the investments I am sure will be slightly higher than what we are building in right now? That is the first question. And the second question CVK was around revenue conversion from deals. Did you expect that or rather did you see that getting slightly better in Q1 and do you expect that to improve in the next couple of quarters considering a couple of deals that we were supposed to win have spilled over, should we expect those deals to pick up and ramp up quicker than earlier, which means the revenue impact will be much better as compared to earlier. So, those are two questions. Thank you.

C. Vijayakumar: Abhishek, the investments are in Gen AI and little more expansion in our go-to-market teams. Obviously, as with every investment, these are people capability, platform build, and of course, a lot of token costs All of that is baked into this. We think it will normalize because growth will also catch up and these investments will catch up. Our expectation is in the next financial year, which is FY27, it should normalize and we will be back to our SG&A percentage. That is what we expect on the investment front.

Revenue conversion depends on the timing of closure. Since the closure of these two deals moved from Q1 to Q2, the impact of this through this year would reduce, but what is encouraging is the discretionary spend in a couple of verticals, especially FS and Technology. We feel good because our earlier assumption was environment will deteriorate because we were really talking about the impact of tariffs in the beginning of last quarter. But we did not see that kind of deterioration. So, that is positive. But these two deals moving to Q2 is little bit of headwind on the overall revenue, but we feel very comfortable with our 3%-5% guidance.

Abhishek Pathak: Got it. Thanks and all the best.

C. Vijayakumar: Thank you.

Moderator: Thank you. Our next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: Hi, thanks for taking my question. My first question is pertaining to this restructuring charge. CVK, what is driving this restructuring? Is it to do with the fact that the evolution of services is changing in terms of how contracts are restructured, location agnostic services are happening and hence some restructuring on the onsite conditions, just trying to understand is it pertaining to the pay services business?

C. Vijayakumar: I think it is a combination of both. I think the first aspect is some of the acquisitions that we did in the past. Of course, we have done the integration, but we were not really clinical about facilities and other cost rationalization. So, that is one and Automotive has seen a ramp down and we are not looking at a very quick recovery here. And even if the recovery is happening, the skills required are really more offshore based capabilities, so we see some restructuring is required there. So, these two are things which we were waiting to see if things will pick up and we don't believe it is picking up and even if it is picking up, it is not going to be in the right location. So, we are going to take some firm decisions on this. The second aspect is what you talked about. Of course, we have had a good amount of people released due to the productivity improvements. Now, not all of them are readily redeployable because the requirements for some of the entry level or lower end skills are being addressed through Automation and other elements. So, the training and the redeployment time is longer. Some of them will get redeployed, but some of them, it may not be possible. So, some amount of change in the industry is also kind of causing this. But as we adjust to this, a lot of proactive trainings are happening. So, as we adjust to this, we see this moderate because we are also looking at people who could get potentially released, who should be upskilled and things like that much more proactively now. Given that we have seen a good cycle of optimization led releases. So, I think in the future, this should get adjusted in the normal course of business.

Gaurav Rateria: Got it. Second question on the talent strategy, we did talk about accelerating the intake of freshers last quarter and we kind of saw that happening this quarter. What we kind of hear is that because of the productivity gain, a lot of the junior level jobs are getting automated, but at the same time, we are seeing an increased intake of the fresher. So, how do we reconcile what is really happening and eventually how do you think the overall pyramid will shape up over the next 3-5 years, keeping in mind the reputable solutions that you are building in, the platforms that you are building?

C. Vijayakumar: I will request Ram, our Chief People Officer, to respond.

R. Sundararajan: Yes, sure, CVK. So, we are calibrating our approach. This is something that we have been talking about for a couple of quarters now. One calibration that we are doing is we are focusing more on specialization. So, our fresher intake is no longer, just based on numbers, it is based on skills and specialization, so that is one level of calibration that we have done in terms of how we are approaching the fresher hiring program itself. We have also reindexed our composition plans as well for our freshers while the regular cadre in the India context the base compensation is Rs. 4.25 lakhs. The specialist or the elite category that we do now is in the range of 3x higher than the base composition that we do on the services side. On the software side, it's upwards of 4x of the base composition that we do. So, there is extreme level of specialization that we are focused on, and we are attracting talent by also revising our compensation plan. So, there's significant amount of work that has happened over the last 6-8 months to overhaul and recalibrate our entry level talent plans and that is showing some early signs of the program working well and that's what we look to accelerate.

Gaurav Rateria: Thank you for the detailed answer. Last question, if I may squeeze in what are the factors that you take you to the upper end of the guide? Is it more dependent on macro? Is it dependent on your deal wins getting back to the aspiration level of 2.5 million plus per quarter? Thank you.

C. Vijayakumar: We have seen some macros play out differently in different verticals. So, we are just assuming that same will continue. We are not expecting some recovery in Manufacturing and Life Sciences and Retail & CPG, but at the same time we expect FS and Tech and Services to continue the discretionary spend. So, we are looking at whatever we are seeing now will continue during rest of the year.

On Bookings, some of the vendor consolidation deals that we have signed, though they are not in TCV, we really expect a very-very quick ramp-up.

Especially in Financial Services, to support some of the growth which we have lost due to the deals moving from Q1 to Q2. These are the assumptions and at this point, we feel very comfortable with our revenue guidance. Thank you.

Moderator: Thank you. We have the next question from the line of Kumar Rakesh from BNP Paribas. Please go ahead.

Kumar Rakesh: Hi, good evening and thank you for taking my question. My first question was more of a clarification. So, you called out lower utilization as one of the drivers for the lower margin in the quarter by about 80 bps. If I look at your headcount, sequentially it has come down in line with your services revenue and on a YoY basis, the decline is actually lower than revenue growth being actually higher. So, where is this lower utilization coming from? Is it the subcontracting which has hinged up and that's where you were building capacity?

C. Vijayakumar: A large part of it was the ramp-up that we did in March. I think I called it out a couple of times. That was one element which is causing this, and the second element is really the people who are getting released from productivity benefits and inability to redeploy them. And the third element was the decline that we have had in automotive for maybe now 3 quarters. That has also released some capacity, and we are continuing to see non-linearity in our business- like revenue growth and people count growth. We saw that significantly play out in FY25 and even in Q1, the year-on-year revenue growth versus year-on-year people count that there is a decoupling. So, you will see that and, but you can still have underutilized people within the existing people universe that we have.

Kumar Rakesh: Thanks, CVK for that. My second question was a couple of weeks back you announced your collaboration with OpenAI. So, how do you plan to use that to create a differentiation in your offerings?

C. Vijayakumar: Yes, I have our CTO – Vijay Guntur, so I will request him to talk about it. Vijay, over to you.

Vijay Guntur: Thank you, CVK. The OpenAI partnership is expected to give 3 benefits. One, we went through a qualification process that OpenAI had to qualify. It will help us work closely with OpenAI to serve OpenAI's customers and do their forward engineering and get OpenAI adoption into customers. That is the first benefit. The second benefit is our own internal adoption of OpenAI as an enterprise. It will unlock productivity benefits within the organization. And third, we expect to take some of our IFRS (Industry-Focused Repeatable Solutions) which we talked about and enable them with OpenAI's models and their technology so that we can co-sell in the market. So, those are the three benefits that we have from the partnership. It's early days but that's our expectation.

C. Vijayakumar: And just to add, we also have a team of 50 highly specialized people who are being embedded into these training programs which will really give us the cutting-edge capabilities. While a lot of customers are adopting the LLMs, but their ability to holistically get benefits within an enterprise is being challenged. So, I think these trained people will really be a force multiplier for us across our existing clients and the new opportunities that we are working on. And actually, I am even happy to report that some of the large deals that we are pursuing in application modernization, and the entire software development lifecycle is also getting positively impacted by the AI force and the data lifecycle platform that we are now very actively talking to a number of customers. And OpenAI is a very integral to all these platforms that we have built in.

Kumar Rakesh: Got it. Thanks a lot, CVK and Vijay for that.

Moderator: Thank you. Our next question comes from the line of Ankur Rudra from JP Morgan. Please go ahead.

Ankur Rudra: Thank you. Just want to quickly check, starting with demand, could you elaborate a bit of reason for the slightly softer than expected signings? I know you said it will complete by July but any particular reason for that and also the delay in the large deal ramp-up you're seeing, is that client-specific or is that something in the demand environment you're seeing? That's question number one. Secondly, on the margin side, if you could also elaborate, is there anything you're seeing from clients in terms of asking for lower pricing or AI-led productivity passthroughs which is out of turn, which is also making you a bit more cautious about where margin is going?

C. Vijayakumar: So, demand from a signing perspective, of course, two signings which we really expected towards the end of June, that got delayed to sometime this month. It's purely procedural delays and technically we just could not get it done before the year end. I don't see anything else. They are very much intact, and we've already ramped up quite a bit for some of these opportunities. So, that's on the signings. And what is not included is one large vendor consolidation win in FS, which will give us very strong revenue growth through this year and even next year. But we could not consider it because as per our definition of booking, time and material-based constructs do not go into our booking. They only go into booking after we ramp up and we are able to bill. So, that's on the signings.

With the large deal ramp-up, we had on-boarded a lot of talent in conversational AI and contact center transformation based on a partnership with a big technology firm. We did that in March. And of course, all of them were working on various clients. Now, as a part of the transition, some of the work got a little bit delayed. So, we did get good growth from this ramp up and that's what is showing up in the tech services vertical growth this quarter. But still about a third of the team is not fully utilized. So, they will get into utilization during this year. And these are really high cost and highly specialized talent. So, I think that's the reason for that. It's not really a demand environment or client specific. It's just the timing based on on-boarding of people and changing the client contracts and things like that into our books. And this cuts across multiple verticals because it's a horizontal capability that we ramped up based on an exclusive partnership. Now we need to make sure they're being fully utilized. And we are continuing to see a strong pipeline for contact center transformation led by AI. And this really plays very well into that, Ankur. Did you have anything else?

Ankur Rudra: Thank you. No, the demand was good. I think on the margin side, my question was, were you getting any demands for pricing or cost takeout out of turn?

C. Vijayakumar: Not out of turn. When renewals are there, definitely customers have expectations and competitive pressures as well. So, we obviously have to react appropriately to that. We haven't seen anything out of turn, but obviously a lot of customers are asking us, and we are also proactively talking to a lot of clients about what can be done. And the reason we are doing that is, I mean, when the renewal comes, we should be much more prepared. And we should have enough proof points and conviction about what we can really drive. So, I don't see anything out of turn, but we are definitely proactively working with clients to see what is the art of the possible.

Ankur Rudra: So, if I can ask a quick follow up, when you go proactively to a client, I think you said 35 clients have AI Force already. Would that be unexpected, for example, pricing, productivity pass off if it can do it then?

C. Vijayakumar: I think we are being very transparent. We are telling the clients, if you allow us to use AI Force and use all the recipes that we've created, we will showcase to you the optimization that is possible. And then to scale it up within your environment, it needs a lot of sponsorship within your organization. And we are very happy to proactively do this. And it will mean some reduction in revenue for us. And we are okay with that. And the whole hypothesis is when we are doing that, there is going to be an increase in wallet share in the existing client. And Ankur, if you look at the number of renewals that we have done in this quarter-9 renewals, in 8 of them, the total revenue from the client is higher than the existing run rate that we had. So, we have been able to get a little more wallet share, which more than offsets some of the productivity benefits that we have given. And that is a trend that we are seeing.

Ankur Rudra: Okay. That's great. Appreciate it. Thank you so much and best of luck.

C. Vijayakumar: Thank you.

Moderator: Thank you. Our next question is from the line of Vibhor Singhal from Nuvama Equities. Please go ahead.

Vibhor Singhal: Thanks for taking my question. CVK, just one question from my side. You mentioned about these productivity benefits and you going to clients proactively telling them that basically these are the productivity benefits that we can pass on, even if that means let's say slightly lower revenue. How similar is this entire productivity benefit thing? So, how similar is this to the earlier cycle of the IMS business being cannibalized by the cloud business that we saw some 6-7 years ago? How prolonged do you think this is going to continue? Do you think this is going to eventually lead us to some period of maybe a lower kind of growth and then only the incremental growth from new opportunities picks up? Some cover on that would be really helpful.

C. Vijayakumar: It's slightly difficult to quantify how similar it is, because a lot depends on the level of automation maturity in each of the clients. Even though we have been having machine learning based or AI based automation, IntelliOps and all those products prior to Generative AI, there has been a big variation in how much clients have adopted. So, depending on where they are, the benefits could be higher or lower.

Vibhor Singhal: Right. But do you see, the kind of cannibalization that we saw initially when the cloud business started, and the IMS business was impacted, a similar thing might well be possible in the other businesses that we do this time because of productivity benefits by GenAI?

C. Vijayakumar: I think in IT operations, whether it is infrastructure or application operations, if you have leveraged machine learning and classic AI quite well in bringing automation, the incremental benefit from Generative AI is only marginal. It's only in a software development lifecycle- 25% to 30% benefit is realistic. And in a lot of business process operations, we think it can be 40% to 50%. So, this can happen fast, because we are seeing contact centers where a very large number of people get reduced by 75% even by implementing Agentic, Conversational AI and things like that. So, I think in these two areas, it will definitely create deflation. But the only positive aspect is there is so much of legacy applications and legacy landscape. So, modernization gets accelerated in a lot of these cases. So, that is also causing some kind of demand uplift to offset this deflation.

Vibhor Singhal: Sure. Thank you.

Moderator: Thank you. Our next question is from the line of Prashant Kothari from Pictet. Please go ahead.

Prashant Kothari: Hi, sir. I just wanted to understand how the management incentives aligned to this margin volatility that we're seeing in the business kind of going down this year and hopefully coming back up next year. How are our incentives and management incentives kind of aligned to this? Thank you.

C. Vijayakumar: Sorry, we didn't understand the question. There was some noise on the line.

Prashant Kothari: My question was, how are the incentives for the management aligned with this margin volatility that we're now seeing in the business? Now margins are supposed to go down this year and then again, kind of maybe next year. How are our interests aligned with the management? Thank you.

C. Vijayakumar: I think we have, obviously, we know the reasons for margin drop. So, if you look at the top leadership level, we are aligned to do what is right in the long term, not necessarily looking at individual years as a big metric. Of course, it is a metric, but not necessarily a big metric. But if you look at the larger organizations, some normalization due to these one-off factors are definitely considered when we evaluate the performance.

Moderator: Thank you. Ladies and gentlemen, we will take that as our last question for today. I would now like to hand the conference over to Mr. C. Vijayakumar, CEO and MD, for closing comments. Over to you, sir.

C. Vijayakumar: Yes, thank you. And I really appreciate all of you joining. I know it's late in the evening in India. And thank you to everyone who's joining from across the globe. We have started the year on a strong revenue momentum. We absolutely have some work to do on the margin front. And we are very committed to do all the right things to ensure that we deliver to our guided range and also improving it as we exit the year and come back to our normal guidance range as we look at the next financial year. Thank you for your support. And I look forward to talking to you or seeing you in the subsequent interactions. Thank you and have a good evening.

Moderator: Thank you. On behalf of HCLTech, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.

(This document has been edited for readability and is not a verbatim record)