"HCL Technologies Earnings Conference Call"

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Moderator Ladies and gentlemen good day and welcome to the HCL Technologies earnings conference call. As a reminder for the duration of this conference all participant 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 please signal an operator by pressing * and then 0 on your touch-tone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Vineet Nayar, thank you and over to you sir.

Vineet Nayar Good evening and good morning to all the participants in the third quarter result announcements of HCL Technologies. I will take the first two minutes to express our condolences to all the friends and families of our customers' employees and our employees who lost their lives in the natural calamity we saw in Japan. And I would like to say it very clearly that we wish to increase our investments in Japan so that we are shoulder-to-shoulder with our customers and we will demonstrate significant amount of flexibility so that their business model continues to stay strong and we would also like to stand shoulder-to-shoulder with all our employees of Japanese origin and Indian origin so that they see that we continue to be committed to Japan. So, irrespective of how the Japanese market responds to the current situation, we would increase our investment in Japan, not decrease it. With that I would like to open the commentary today with the results which we have already declared and I am sure you have seen it.

The overall 5.8% growth rate has to be seen along with the fourth quarter CQGR of 7.3% which we are happy with and second consecutive quarter of 13% plus revenue growth rate at 33.5%.

What I am most happy with is the fact that after many quarters we have all cylinders continue to be firing, this time BPO also although that is thanks to exchange. Infrastructure 8.5%, custom at 6.7%, if you see the JFM performance along with four quarter CQGR you will see two things standout, you will see that infrastructure and applications both are performing equally well which indicates to the fact that our total IT outsourcing story is doing well in acquiring new customers and also our ability to cross sell in existing customers, infrastructure services and custom application services in infrastructure services which is the premise which we had started with, is showing results. The enterprise application of 7.6% over four quarters and the associated benefits custom application is getting out of selling cross sell and up sell into old AXON accounts is also reflection of 9.3%, custom application growth.

Engineering and R&D had a muted quarter this quarter that is largely because the Japan entire impact has been on the engineering and R&D services. But overall a 5.8% in this environment is a tremendous performance.

BPO services, we continue to guide that there will be three more quarter of pressure and therefore for these three quarters whatever quarter-on-quarter indications are there on BPO, please ignore them, the revenues at times may go down which I think will happen next quarter

marginally and at times may go up but please give us time till December of this year where the losses which we have already guided will not exceed $6 million per quarter and we would break even in January, February, March.

And so in the verticals what is very interesting is that there are three verticals on an 8% plus CQGR for the last four quarters which is financial services, energy and utility, and manufacturing which is very good and they are also the top three verticals for this quarter.

The healthcare has gone down for this quarter but on a whole I think it has registered 9.5% four quarter CQGR, so you will see a growth in healthcare next quarter.

Retail and CPG also you will see a growth. It is a dip only for a quarter. So, out of most of the verticals you will see that other than media, publishing, entertainment, and telecom, others are registering fairly robust growth and we will continue to see that trend, of the fact that these verticals are healthy.

In geography the rest of the world is performing as anticipated, we opened South Africa. Japan at 60%-70% year-on-year growth was also a contributing factor for rest of the world performance in January and February and that continues to be the growth momentum there. Europe, driven by continental Europe is doing very well for us and America although this quarter was 0.7%, the 5.1% CQGR for last 4 quarters is an indication that things are okay in America and the business model change more from RTB to more discretionary spend which we will talk about. So, overall we are pretty happy with where we are today and we call these results, all is well.

Now, we are going to dig deep into two of the horizontals which are of interest and we took two as samples so that we can get a 'run the business' and 'change the business', Anant Gupta and Steve Cardell will share their perspective on both the businesses. Unfortunately, Anant had to leave on a personal emergency, so I have requested Steve to talk about both the infrastructure business and the enterprise business on what trends they are seeing, so over to Steve.

Steve Cardell Thanks Vineet, covering off infrastructure services first. This was a landmark quarter for infrastructure in that, we crossed for the first time $200 million a quarter posting just shy of $214 million and I think also what we were particularly pleased within this quarter is the margin expansion that you have seen across HCL was mirrored within infrastructure, so although our top-line grew by 8.6% Q-on-Q the EBIT growth was 17.3%, so we saw 120 basis points expansion. We continue to see as we saw beginning last quarter traction in the second generation outsourcing deals, particularly technology and operations transformation and also the bundling of integrated application and infrastructure. And we are also starting to see some early signs of network management outsourcing as a separate slice to the market which is beginning to peal away from the traditional telco operators that have been providing solutions in this space.

We have also seen as we have seen across HCL a strong growth in Continent Europe where some of the client marketplaces that were more conservative to some of these outsourcing opportunities are opening up for us and we saw some good wins in that market in this quarter. Just on some of the growth areas that we are observing, so that continues to be a good return on investment for clients that are looking to leverage cloud technology and we are running a number of parallel projects either helping our clients define their cloud technology strategy or implementing components of that strategy.

In terms of recognitions this quarter we have been highlighted by Gartner and are the only Indian service provider to ever have been covered by the Gartner's Swap for IMS and that is an achievement that we are particularly proud of. And you can see also we continue to be rated amongst the market leaders in both Forrester and Gartner's landscape of our services.

So, just some highlights on the infrastructure performance in the quarter – if I turn out to enterprise applications, you can see that we post to 6.7% Q-on-Q revenue say for the last four quarters that is a little over 7.5%, which we see as a strong performance particularly against our competitors in the market and again similarly for infrastructure we saw balanced growth in the Americas where we saw a number of smaller but what I would describe as progressive projects coming to market; companies looking to either reposition their product portfolio or enter new geographic markets or do a strategic review of elements of their business or technology landscape. We have seen very strong growth in rest of the world in enterprise applications which is coming from two places, one is our own market expansion into new geographies or growing market share in those geographies and the second one is working for multinational customers in those market who are looking to become much stronger on the global stage and are looking to upgrade the processes on which they operate in those markets. Perhaps surprisingly we have seen strong growth in Europe and the reason I say surprisingly is for projects-based business, when the market environment is slow which it is in Europe at the moment with growth rates being cut and continued austerity measures, what we found is that that has opened up doors to outsourcing and off shoring, as companies and governments are looking to find fresh ways to reduce their costs.

A couple of of specific drivers that are driving project demand at the moment in utilities market the investment for the going to smart grid are starting to materialize as projects and we have had a number of wins this quarter using our smart grid platform as the proposition. And similarly in the banking sector we have seen a number of consolidation projects come to market where some of the acquisitions or the integrations that happened during the downturn, those banks are now having to put their IT landscapes together that has lead to a wave of projects coming out.

We continue to partner with our two primary partners in this business unit, Oracle and SAP in developing new products, which are coming to market and the two I have highlight at this point is the Armory product which has entered its third release now and we are now training other partners who can take this into geographic markets where we do not have our end presence. And we are working with Oracle to build a platform for the R&D labs in the life

sciences market, which pulls together a number of Oracle acquisition products into a single solution for those customers. I am going to pass over to Mr. Anil now to talk about the financials.

Anil Chanana Thank you Steve. So, this quarter revenue has grown by 5.8% and net income has grown by 16.5%. At all levels we see growth whether it is in gross margin, EBITDA margin or EBIT margin and in subsequent slides, I will explain where exactly this margin expansion came from.

I will move to the next slide, so you will see the 50 million increase in revenue in this quarter over last quarter, out of which 1% came from exchange particularly the cross currencies and the 4.8% is the volume growth, if you look at the table below, I am going to talk about EBIT margins. The EBIT margin has grown by 128 basis points to be more accurate, we have got a benefit out of exchange and these are multiple currencies being Euro, GBP, Australian Dollar, New Zealand Dollar, and Singapore. So, all these currencies put together gave us a benefit of 36 basis points and 93 basis point was the benefit outside of exchange, out of which 45 basis points came from the SG&A optimization. The SG&A as a percentage of revenue has declined so in value terms there is a very small increase of $2 million-$3 million. The rest is all the operating efficiencies owing to the better utilization as well as the higher realization. As you can see the utilization excluding trainees has gone up this quarter from 75% to 76.3% and the realizations in reported currency has gone up offshore by 1.4% and onsite by 1.1%.

If I go to the net margins, the change is in terms of the other income which is a small 24 basis points, and there is an increase in tax charge of 50 basis points. So, net income has moved up from 10.3% last quarter to 11.3% of revenues this quarter.

I will now talk about this year-on-year, so that you get a different perspective. Overall the revenue run rate in the last 12 months has gone up by one-third, there has been an increase of 229 million in the revenues which is 33.5% and as Vineet mentioned, this is the second consecutive quarter of 30% plus revenue growth. 30% here is volume led and 3% is exchange led. In margins, if I take away 22 basis points on account of exchange then outside of exchange we lost 158 basis points. Also there was a salary increase in the July quarter, partial impact of which is still coming, 63 basis points owing to this is yet to be recovered. The bench we created for future growth is impacting us by 45 basis points and the investment in SG&A which we brought forward is still impacting us by 50 basis points. So, this is where we are in terms of the YoY margin analysis.

I will go to the next slide. We have been mentioning every quarter that though there is a decline in JAS quarter, July to September 2010 quarter we will recover that decline over the next 12 months and I think we are all set to recover that, so HCL has expanded margins by 170 basis points outside of exchange in the last two quarters i.e. OND'10 and JFM'11 quarters and we continue to guide for the margin expansion in AMJ'11, so that the EBIT margin in AMJ'11 would be comparable to the AMJ'10 exit margin of 15.3% on constant currency

basis. In other words there will be a margin expansion, on the 31st March exchange rate, by at least 100 basis points in the AMJ'11 quarter.

I will move to the next slide, as it is typical with our business and we have been mentioning in the total IT outsourcing side, the cycle for us is in terms of converting net income to operating cash flow is a two year cycle and if you take the rolling two year period, in the last several years we had been reaching 100% or exceeding 100% and this particular quarter as well we exceeded 100%.

I move to the next slide which gives the receivable position. Our receivables, which is the DSO billed, in value terms if you look at our receivables though our revenues increased by 50 million, our receivables have gone up only by 9 million. In terms of number of days they have come down significantly from 77 days as of December end to 73 days and if you look at the benefit which has taken place over a period of one year, it is significant, and based on the results declared so far we are the best. So, DSO billed is at 55 days, the DSO unbilled is 18 days which is more because of a different billing cycle, the milestone billing in fixed price projects and adherence to the customer specific billing process requirements. So, still we are in the band of 16 to 20 days in respect of unbilled revenues.

I will go on to the next slide, the funds position slide. So, very interestingly our net debt position is just $10 million. So, one year back, we were at $100 million plus and now we are at $10 million and this particular slide contains the redemption and payment schedule of the loans; one of the working capital loans was paid so the loan funds have come down while at the same time we maintained a very healthy cash funds position of $540 million.

If you look at the treasury and other income the treasury income is not significant but you see the net-net it has moved up from $1million 3 million but it is more of a one timer which is there, so going forward you should not be assuming $3 million, you should rather be assuming $1 million, so the returns this quarter were of course certainly higher.

If you to hedges, the hedge policy is structured around providing predictability and stability in our earnings and we hedge 20% to 40% of our inflows expected in the next 12 months so we are following dynamic layered hedging policy. So, our hedges which were $256 million as of December have marginally moved up to $265 million, they are constituting of two parts, one is the balance sheet hedges of around $41 million and residual being the cash flow hedges, which are equivalent to about 60 days of our inflows. The booked rate is Rs.47.52 this is in respect of the forward and then there is a mix currency wise and instrument wise. In addition on the payable side, we have hedged $38 million of foreign currency loan, $38 million of short-term foreign currency loan. The long term foreign currency loan of $261 million provides us a natural hedge.

I will go to the next slide, this quarter the effective tax rate is slightly more, it is 21.7% and there has been higher income which has got allocated to the foreign jurisdictions resulting in a higher tax charge. In the AMJ'11 quarter we have guided for 25% of PBT being the tax

charge. We will revisit our tax guidance of FY 12, which is currently at 24%, when we come back to you with our FY11 annual results.

I will go to the next slide which talks about the employee stock options, so outstanding stock options are 4.05% of the paid up capital and it gives us a yet to vest as well as the at market price and below market price positions. Below market price it is 2.5% and at market price is 1.55%. The schedule which is given below gives charge quarter-after-quarter, so this quarter it is $5 million and next quarter it is likely to be $4.1 million. Next year for FY12 the charge is going to be $16.7 million so it is almost equally spread over the year.

I will take you to slide #20 and it is an interesting slide here, you will see the return on assets is taken a two cut space, excluding treasury investments and including treasury investments, so we are at a decent 11.9% return on assets. When you look at including the treasury investments, it is 10.2% and when you look at return on equity we are at 18.5%, this is exactly the level we were at in AMJ'10, so we have reached back at that level.

Going to the next slide it shows the growth in the earnings, so our earnings have grown two times over the last two years in March 2009, we were at Rs.13.10 annualized EPS and this particular quarter it is Rs.26.70 which is more than double. With this, we will hand over to the operator.

Moderator Thank you very much sir. We will now begin the question and answer session. Anyone who wishes to ask a question may press * and then 1 on their touch-tone telephones. Participants are requested to use only handsets while asking a question. Anyone who has a question at this time may press * and then 1. The first question is from Vihang Naik from MF Global, please go ahead.

Vihang Naik Hi good evening and a great set of numbers, I just wanted to concentrate on margins, we saw a margin expansion of about 130 basis point one of the drivers was utilization, which improved 180 basis points. What is probably the level of utilizations that we can maintain; can we cross our historical highs of about 76% odd?

Vineet Nayar I would not like to give a specific guidance on where we can take the utilization, I think the margin expansion guidance for next quarter is adequate. I would not like to comment on this question.

Vihang Naik Okay and if I am not wrong, I think your salary hikes come up in the September quarter. Can you give us any colour as to what can be the typical margin impact due to salary hikes, just a broad figure?

Vineet Nayar I think in the last quarter in JAS'10 it was 300 basis points that gives you an indication of what it was last year, we will have to take a decision of the salary hikes this quarter but if salary hikes which we decided in AMJ are the same as what we decided in AMJ'10 then we will be again 300 basis point that decision has not been taken as yet.

Vihang Naik Okay great thanks.

Moderator Thank you. The next question is from Balaji Prasad from Goldman Sachs, please go ahead.

Balaji Prasad Hi good evening everyone, congratulations on a good quarter, following up on the margins again, I wanted to get your sense on where you see the wage inflation and attrition rate pressure especially on margins and specific to HCL, could you also explain the nearly 500 basis points improvement in EBIT margins on the software services side?

Anil Chanana The factors which have led to the margin expansion in software or infra are almost similar, so what I gave you was overall company, where the margin expansion has been.

Vineet Nayar And what was your first question the impact on wage inflation.

Balaji Prasad I just exactly wanted to get your sense on how attrition is easing down or the general industry…

Vineet Nayar A lot depends on growth and with growth comes demand for people, so as you, we are also watching with interest the announcement of other three or four results, so what we do as we compute the average growth rate of the top seven companies in India and give its weight-age and that computes the predictable demand for talent and based on that you can actually predict the attrition and predict the demand for compensation increase which will come in so, one growth factor. Another factor is what is the kind of salary increases which some of our colleagues in the industry decides in April, May, June those two factors will determine what kind of wage inflations we will see, what kind of attritions we will see, so it is actually going to be quite predictable based on those two factors.

Balaji Prasad Okay thank you. My second question was on the financial services vertical. Steve made a comment in the section on integration projects coming, along with this I also wanted to get a sense on what kind of projects you are seeing because of the regulatory changes happening in the banking and financial industry and if you could give any sense of the kind of projects you are bidding for the ticket size of these projects and whom are you competing with for these projects?

Vineet Nayar So, in the banking industry what really happened is during the recession we entered a few accounts in which we were not there at all and we ended up signing those MSAs. I do not think we ended up announcing most of those accounts because banking industry is sensitive about sharing those names. So, one of the up stake in demand coming from BFSI is our account mining into these customers and our market share in these customers is going up that is the first stuff which is happening. Now, where we are gaining market share is not in the legacy applications but either in the integration projects or when they want to implement SOA architecture or a database warehousing project, or a business intelligence project or in an SAP-oracle implementation on core banking or insurance or whatever it is. So, all the market shares we are gaining are on new investment and not the legacy application maintenance which is

already there with one or the other Indian IT vendors who is already there. Now, in these new deals we compete with existing players but largely with new players, so Accenture and IBM are our prime competition when it comes to enterprise application services, in SOA again it is Accenture and there are small and medium companies within the US and Europe depending on where they are, business intelligence and analytics are most of the Indian players so that is kind of competition we see.

Balaji Prasad Thanks Vineet that probably addresses the regulatory part of the environment and the integration part of the projects; what about the regulatory changes that are coming up with new projects?

Vineet Nayar Actually I am sorry I missed that point. Yes, it is not a big driver. We have looked at the amount of money to be spent for regulatory compliance, it is not material. We have looked at it for 8 banks now. It is okay, it is not as significant as the amount of money which was coming out of integration project.

Balaji Prasad Thanks Vineet, good luck

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

Ankur Rudra Thanks for taking my question and congratulations on a great quarter. I wanted to get a sense on the demand environment particularly because we are getting sort of mixed signals about it from your peers who have reported on Friday and one of the bell weathers who reported last night and TPA commentary. So question is, is the strength we seeing in HCL numbers specific to HCL in the way its positioned or is it across the board and you have to really fight that hard to see this growth?

Vineet Nayar Let me state and this is consistent to what I have stated in the past. So this should not come as a surprise. There are 5 negative factors we see in demand. Let me start with negative because it is easy to come to positive. The first negative factor is the whole macro-economic indicators; in the US, it depends upon what data you see, what the way I see it recession is not over or at least the growth is not back. The macroeconomic indicators in Europe show that some countries are not going to do well based on the financial conditions of these countries. The inflationary pressures in the emerging markets are going to be a cause of concern and may impact the health of the companies we do business with, that is the one set of issues.

The second set of issues is moving currencies with the crisis around the Middle East, oil and whole lot of things, you know better than I know. So currency movement is going to be the second aspect of threat and these are threats which are discussed at board levels in which we see how to mitigate them.

The third set is that the regulatory conditions within these countries are becoming tougher with each passing day and therefore the business model of getting visas and moving people from one country to another which is what we call mobility is not necessarily going to be the way

the business is going to get conducted and people increasingly are wanting more and more jobs to be created in local countries and they want local people to be deployed for their projects and they want their own employees to be taken over by the company and to be used in other projects and therefore the business model is going to change and that is the third negative or changed trend from the past.

Fourth is the whole Middle East crisis. It was a good growth area for us and what that impact has on some of our customers and what that impact has on the whole territory and combined that with the Japan crisis, we are talking about some geography based issues which is going to impact us.

Fifth is the whole talent heating up which question came up in terms of what is the demand for talent in India, what is the supply for talent in India, what kind of inflationary pressure it will create, and what kind of cost structures are we looking at 5 years from now for talent if there is a competitive advantage of being in India and if there is compelling IT story from India and hence what should be doing about it. So those are the five what I call risk factors which we see in the market space.

However one of the positives which you see from the commentary is that existing customers and we are talking about trillion dollar spend on IT in which Indian IT consumes only 2.5% of the trillion dollar. What is happening is the amount of business which I think 72-73% of a business which has come to HCL over the last 12 months has come from the global MNCs and the reason it is coming from global MNCs is because the business model which the global MNCs are offering to their existing customers are coming up for bid and this is a classic situation which a lot of people are facing that if they go more off-shoring their current business model, they lose a lot of revenue and profit and therefore they do not adopt the aggressive off-shoring which needs to be adopted as the customer demands especially with the lot of local vendors in Continental Europe, this phenomenon can be seen. They hold on to the contract till they ultimately end up losing it. So a lot of churn is happening and therefore there is changing of hands. So there is no net incremental IT spend which is happening across the globe, but there is a lot of vendor churn which we see especially from the global MNCs moving to other interesting vendors. So that is the first trend which we see.

The second trend which we see is that if you look at the vendors themselves what they have to do is they have to cut down their legacy application spend and their maintenance spend dramatically because they have to spend aggressively on mobility, on e-commerce, on experience based websites, on virtualization, on cloud, on killing the legacy application and putting them to standard platforms which comply to the new regulations and better analytics so that business can take better decisions. Customers do not have funds to do all of this and therefore they are killing legacy applications and killing the existing spends on IT in a bigger way than we have seen before. So the overall IT spends may remain the same, but they are moving their funds around into more transformation projects than we have seen before. So that is the second thing which we are seeing there.

The third is that you may see the rise of emerging markets and therefore in rest of the world you saw significant growth, but one of the things which I have been discussing with my team is that we maybe sending a wrong signal to you. Although the spend in the US has gone down, the spend by US companies has not gone down; what that means is that it is quite possible and it is actually that when I looked at our top customers in Asia, in the top 10 there are 4 US based companies which are in the top 4 who take a decision in Asia and do not take a decision for Asia in the US and we count them as Asian growth because the decision is in Asia, implementation in Asia. So for example Pepsi does an SAP implementation in India and they take a decision in India. We count that as India revenue and therefore we should not mix up these two. So it is US based decisions or Asia based decisions, but the Asian based decisions are also being taken by the US companies.

So with this, what the way we see at HCL and therefore the way you see should see HCL numbers is the macro environment, there are certain risks. However, there is a significant churn in both the kind of spend which is happening in the market and who the customer wants to spend that with. So our existing customers would be rationally under threat unless we surround them with opportunities that we are cost effective to them and we are offering new products and services to them which they want to transform at which I think we are doing a good job and secondly the only way we can grow is to eat somebody else's lunch and therefore to try and move more and more global MNCs into HCL's fold.

If you look at TPI commentary, this is exactly what they are saying. There are less new business bids which are coming in from their point of view because they are largely in outsourcing consultants for run the business, not change the business. So they are less pure play outsourcing for the first time more vendor change outsourcing which is happening. So HCL's success on a medium term and a longer term will really depend upon a) its ability to expand its revenue share in existing customers with new products and services and that is the reason our structure is important, the AXON acquisition is important; b) our ability to acquire new customers away from global MNCs and move them to HCL and c) our ability to enter into new geographies likely rest of the world South Africa, Latin America which are growth geographies for all the companies who are significantly investing in them and Continental Europe and increase our market share in these three geographies. So the result which you would see in our results is less to do with overall IT spend increase, more to do with how we managed these risks and how do we capitalize on opportunities which are presenting themselves to us. I am sorry for the long answer, but I felt it was important to explain this in a fuller context.

Ankur Rudra Thanks and appreciate it. Just to tying this with the relatively weaker performance in America this quarter, does that suggest that the churn that we are seeing in different geographies like you said 75% of your business comes from churn from MNC vendors has reduced to an extent in the Americas?

Vineet Nayar You are right. That is an interesting question. I think Steve alluded to that, in the Americas, we are seeing more transformation projects and less total IT outsourcing projects. In Continental

Europe, we are seeing a massive churn from existing vendors which is where the significant amount of inefficiency exists to us and I think we have announced some of those deals by names. So you are right.

Ankur Rudra Just one final question on specific verticals like you mentioned media and telecom remains relatively weak, sort of a contrast with what we saw in IBM's numbers and also TPI's numbers. Any reason why Indian firms are not doing well in these verticals?

Vineet Nayar No, I do not think so. I think with Indian vendors what happens is, in media and entertainment if you see our relative performance over the past 9 quarters has been phenomenal. Media and entertainment has been the growth reason for HCL right through recession. Now if you see most of the media and entertainment companies, the cost out initiatives are already over, it is behind us. So RTB spend, and I think we have significant market share in media and entertainment companies. Now the spend which is coming in is in transformation and the transformation project, it will start with business consulting, it will start with some BI work, it will start with some SOA work, it will start with some maybe legacy modernization into SAP work. So those kinds of projects will come in right now rather RTB consolidation. If you go back and look at 9-10 quarters of HCL performance, media and entertainment has been the reason for HCL phenomenal growth, but now that RTB optimization is behind us in media and entertainment. Now the transformation projects are coming in media and entertainment. That is the reason you see what you see in the IBM results. Most of them are license sales which are happening there.

Ankur Rudra Thanks a lot for this.

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

Ashwin Mehta Congratulations on good set of numbers, going into FY12, you will again see pressures in terms of wage inflation. So do we intend to utilize the bulge mix lever going into FY12 because we have been hiring nearly 80% laterals out of our gross additions; are there any intentions of some alterations there in terms of lateral hiring?

Vineet Nayar This is the way HCL is thinking about these things. The recession presented us an opportunity of getting into new customers and we aggressively invested in SG&A and laterals and got into new customers so that we can expand the footprint and we can expand on market share in those accounts and that exactly what happened. If you see the $30 million customers, year-on-year there is a 100% growth on those customers which reflect a second strategy of once you get into the customer, can you expand very quickly with other services. So those two strategies we have followed successfully because of which we have delivered, I think industry leading growth rate in the last 3 years. As we move forward in the next year, the destination which we have to define is are we going to chase market share or are we not going to chase market share. If we are going to chase market share, then laterals is going to be an integral part of our strategy and that will depend a lot upon what kind of compensation increases we see in the industry, what is the market trends we see in the industry, what is the annual business plan

which is currently happening in April, May, June we see in the industry, what are our business leaders saying, what they want to do, what kind of opportunities are emerging and based on that, we will take a decision whether; so if we are going to focus on the existing customers and expanding the existing customers, yes the ratio of pressures will increase. If we are focused on new customer acquisitions and the market share increase in certain strategic markets, then you will see us continuing the lateral strategy which we have continued so far. Even if we go for a fresher increase, there will not be a substantial change in our strategy. It will move up from current percentage to may be by 10%, but it will not be anywhere close to order of magnitude which you see in some of other IOP peers.

Ashwin Mehta Fair enough and secondly in terms of SG&A, we have rationalized SG&A in this quarter. Our SG&A would probably be overstated by the fact that there are pass-through revenues and hardware revenues which do not have an SG&A. So essentially is there further scope in terms of reducing SG&A as a percentage?

Vineet Nayar For the next quarter, yes predominantly because the next quarter margin increase will come from utilization increase and SG&A decrease as a percentage, but you will see an SG&A increase starting in July-August-September all over again.

Ashwin Mehta Thanks a lot.

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

Pankaj Kapoor Congratulations on the results. Just wanted to understand how the space on the SAP side is coming up, are you seeing any pickup in demand for the SAP consulting kind of work?

Steve Cardell Steve here, we see a mixed picture on the SAP side. We are seeing strong growth in certain segments and I will highlight life sciences and health care, utilities and manufacturing where we are seeing some good growth in traditional ERP type projects. We are seeing a very strong growth on the business intelligence from business objects and some of the other smaller BI acquisitions that SAP made very-very strong software license growth. That does not give us much pull through into services as traditional ERP projects do, but there is strong business there and then we are seeing a lot of early phase work around the Sybase mobility platform which is mostly around sort of route mapping and planning phases to see how some of the back office applications can be pushed onto mobile devices particularly in areas like sales automation, linking back into the BI tool sets that's in there. So slicing parts of the market, strong growth in other parts of the market and for us the gain is all about picking the profitable segments from a SI perspective in terms of where we put our focus.

Pankaj Kapoor Fair enough. Do you see this impacting our realization from a portfolio perspective in a couple of quarter's time?

Steve Cardell Impacting in which way?

Pankaj Kapoor In terms of our blended realization going up as this whole thing improves.

Steve Cardell From a pricing perspective, what we see in the last 3 quarters is a stable pricing environment. So in the prior year there was strong price pressure. Last 3 quarters, we have seen a pretty stable price environment. We have seen some small realization improvements. Those are more to do with delivery efficiency and fixed price projects and outcome based projects rather than upward price movement with customers and I think because it is a mixed bag it is hard to call whether we will see improving potential realization from a pricing perspective, but I think as we continue to focus on delivery efficiency may be some potential for us there.

Pankaj Kapoor Fair enough and if I can just ask for a data point in terms of our revenue mix, what percentage of our revenues would be coming in from such output or non-effort link pricing models?

Anil Chanana Pankaj, it is 12%.

Pankaj Kapoor Thank you, that is all from my side.

Moderator Thank you. The next question is from Nitin Padmanabhan from India Bulls. Please go ahead.

Nitin Padmanabhan Thanks for taking my question. Congratulations on a great set of numbers. Our commentary on like-to-like increase in pricing seems to be slightly different from that our peers, I think a lot of them are talking about entering increasing like-to-like pricing this year. Why is it that we are a little different, anything that you are seeing in the market that is a little different?

Vineet Nayar I do not want to comment on what the peers are saying. Obviously there will be significantly higher margin expansion our peers will deliver compared to us, but as far as I am concerned I see in this environment, price increase coming out of COLA which is cost living index which has gone up so yes that is happening, but other than that unless you change the value mix of what you are selling to the customer, there is no increase in price either in new deals or old customers.

Nitin Padmanabhan Do you see that coming back at some point may be 6-8 months down the line?

Vineet Nayar I do not think so. You must understand, the point I am making is, the macroeconomic indicators are bad. The FMP 500 performance if you really see of the companies is not extremely good. Yes, there are some tech companies which are doing well, but overall people are flattish. They have still not achieved the profit levels of their historical past and they have fortunately been able to cut cost and bring that cost down to a certain level during the recession and they are holding the line. If you see the Forester report or a Gartner report even if the overall IT spend which is increasing in US, it is only marginal.. So in this environment, there is no compelling argument and the competition is hotter than ever before. So there is no compelling argument for a customer to increase the price of existing contracts other than what he is already contracted for in COLA and there is no argument for the customer to increase the price on a new contract with the competition more intense then for an existing customer. So unless you are changing what you are selling to your customer for a like-to-like service, I do

not believe that there is a rational argument for the near term and medium term any price up tick to happen other than the COLA increases.

Nitin Padmanabhan And just another with regard to the earlier question, with the churn that we are seeing in terms of coming down and 73% of a business coming from churn from MNC vendors. Do you see with the pace of wins that we have had over the past two quarters, how are we going to maintain that run rate in terms of wins? Is there going to be change in strategy in terms of kind of business that we approach for, that's what we did earlier?

Vineet Nayar I eluded this in my January commentary that October-November-December was the largest quarter we had faced because of which you saw JFM numbers coming in and actually it was July-August -September ending in November. We did not see the similar amount of total IT outsourcing deals in the JFM as we saw in July to September and till November and then everybody went on a holiday. But we are seeing more project work, more discretionary work. Even if you take January-February-March quarter, there is a lot of discretionary work which came in March, both in Steve's businesses which is enterprise application and in the infrastructure a lot of data center consolidation work, which we completed in March and therefore the numbers in March look pretty good because we completed a lot of projects within the March. I think the market in the short term is moving away from large total IT outsourcing which we saw in the first half of the year, to more discretionary and more project oriented, more short-term projects. And that is exactly the trend we saw during recession in OND, 2010, they were suddenly RTB investments were very large and there were smaller projects which went on till OND 2008 and then OND 2010 came up. I think for some time we will see these small projects and small discretionary projects which will drive growth and then hopefully then there should be another trigger for this big bulge RTB spend reduction and that we could see another set of large deals coming to the table.

Nitin Padmanabhan Sure thank you so much, that was very helpful.

Vineet Nayar Thank you.

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

Mitali Ghosh Thanks and congratulations to the team. I just want an update firstly on the BPO side, what are the revenues that were transferred to Tangoe, if you can just remind me and I believe you also closed the acquisition of software assets from Citibank and you have some committed revenues from that deal. If you can just take us through what kind of revenues there would be on the IT side or the BPO side and an overall update on BPO, how that is progressing in terms of you are trying to cordon off certain parts of the revenues and growth platform revenues. I believe you also had some wins this quarter, so just an overall update on BPO please?

Anil Chanana Tangoe was 7.2 million in the first half so if you take the run rate; it is 1.2 million per month.

Vineet Nayar So that Mitali, you have the numbers that $7 million, approximately 1 million per month and we lost it for two months, so one month of more negative will come into April-May-June, so that is the first part in Tangoe.

The second part on Citi this is a purely an IT deal right now, which is a platform acquisition with an assured revenue of $13.5 million per annum, that will start in the middle of next quarter which is April-May-June. So the assured revenues are purely IT. What we do with the platform will have to do something with BPO also. So from an acquisition and assured revenue it is all going to reflected in the IT revenues.

The last is on BPO, I think the BPO strategy is on track, we saw three contracts this quarter, two of them were of a significant size, one for a logistics company, one from a banking company and one from a publishing company. I think in BPO, my advice to you would be that there will be some churn on quarter-on-quarter, we are talking about some very small numbers here and there and suddenly they show as a positive growth and suddenly they show as negative growth, I expect BPO to be negative growth next quarter. You are right in terms of we are changing the revenue mix in BPO and that is going on track, I have explained to you that we will expect the $7 million per quarter loss for the next four quarters. We are revising the guidelines of $6 million loss per quarter for the next three quarters, based on the fact that trajectory is going well, so I would say all is well with BPO. We are on track for our JFM guidance, both in JFM you would see not only we will stop our investments, you will see a breakeven situation or a profit situation and we would have achieved the revenue mix which is significantly different than our current revenue mix. In the interim you may see a yo-yo so please bear with us, please in your business models please expect the worst because these are very small numbers here and there.

Mitali Ghosh Sure, so this is $6 million of loss until the December quarter, right, per quarter?

Vineet Nayar Per quarter, yes that is the cap. Initially I defined the cap at 7, now I am defining the cap at 6.

Mitali Ghosh And secondly we just wanting to understand, the 11 large deals that you closed, I mean you mentioned three from BPO. Could you give some color on, what the other deals were like and in terms of the services verticals?

Vineet Nayar I think most of them are transformation deals, most are coming out of engineering, AXON kind of projects, data center consolidation projects, virtualization projects. It was only one RTB deal; it was three BPO deals and seven transformation deals which are CTB deals. Interestingly most of them, other than four are coming out of all our existing customers where we have one new competitive RFP's and expanded our footprint into those customers.

Mitali Ghosh Okay. Finally, just on the margin side, I wanted to understand that, you did touch upon the employee pyramid lever that you have. Just on the enterprise solutions, what do you think the margins trajectory can look like over the next few quarters?

Vineet Nayar We do not give business by business margin trajectory, but firstly we will come in July and will give you margin guidance for the next year because our business planning exercise will be over by that time. Till we come back and give you guidance in July, I would say it is fair to assume a flattish margin next year over the previous year till we come back and give you the specific guidance. And when we will give you specific guidance on the margins trend we will explain to you the reasons as to what the levers are and what levers we will use and what levers we will not use and once we do the math we would come back and give specific guidance. But till that time a flattish year-on-year margin assumption in the business model will be the prudent thing to do.

Mitali Ghosh Thanks a lot.

Moderator Thank you. The next question is from Nitin Mohta from Macquarie, please go ahead.

Nitin Mohta My question is more regarding the rest of world growth that we have seen for the last three quarters, excellent growth in this part of the geography. So any color in terms of what kind of deal wins and what is the nature of work that HCL is doing in these geographies?

Steve Cardell Yes, at first just to give us a slide with the geographies we are talking about Australia, New Zealand's, South African's which has been strong market for us Japan, China, Malaysia, Singapore and so on. In terms of the nature of the projects that we are seeing there, I will say that there are a couple of trends, the first one is, we are seeing projects for European and American companies who are looking for us to help them build businesses in these markets. So although the work may take place and we may be billing the customers in China or Australia, the customers itself may be an American or European company. The first one is things are like Asia Pacific rollouts for American and European companies. The second thing which we are seeing that is as we are making investments into new countries and expanding our presence in those countries, we are seeing market share growth for us as we build our capabilities. Thirdly, what we are seeing is that there are multinational domestic companies, in those markets who are looking to increase operational excellence, so where they are looking to put in IT processes or business processes which allow them to compete on the global stage and they are looking for assistance from companies like HCL in order to help them do that.

Nitin Mohta Thank you.

Moderator Thank you. The next question is from Sandeep Shah from RBS, please go ahead.

Sandeep Shah On the margins, you also spoke about some colors in terms of the salary increase which can have an impact of 250-300 basis points next year. Even on the lateral addition, you said that the percentage recruitment may not come down significantly. On the SG&A also from the first quarter you believe that the investment may be higher and on the pricing like-to-like you said in the medium-term it is unlikely to happen. So while entering FY12 what would be the tailwinds you are counting on?

Vineet Nayar The question which you asked to me is that what was the impact on salary increase last quarter, so the 300 basis point guidance which I have given reference to July-August-September 2010 and I have said very clearly, when we will come next quarter we will guide-in in terms of impact it would have in this quarter. Secondly, I have said that the absolute amount of SG&A will increase in July-August-September because that is the time we fill in the sales guys, would it have a percentage impact of not, I have not guided to that. Thirdly, yes I have said that there is no margin uptick because of pricing change but I have said that there will be an improvement which will come because of COLA increase. So it is the same thing which I have said with the different colors. The tailwinds which are coming in, is overall depends upon where we end with utilization, there could be an upside on utilization, there could be an upside on SG&A, there could be a utilization a mix change, there could be a mix change from an offshore onside, there could be a mix change in amount of businesses we do. As I said, we have to get into our April-May-June planning for us to match the headwind to tailwind but the guidance which I am giving, till we come back to you with specific commentary is to take the financial year 2011-12 at the same margin as the financial year 2010-11, that will be the prudent thing do and then when we have finished our planning which we have not, we will give you specific tailwinds and headwinds commentary on each one of them. If you take an isolated commentary of what we are giving right now, you may end up with the wrong conclusions because these are responsive to individual questions. We would like to give you as we have always done, we would like to give you a consolidated commentary, so please wait for July for us to finish our business planning, for us to make that commentary till then it is prudent to take a flat year-on-year margin trajectory.

Moderator Thank you. The next question is from Dipesh Mehta from SBI Capital Securities. Please go ahead.

Dipesh Mehta Congratulations on a good set of numbers. I am continuing with BPO, we have added around 4500 laterals this quarter. I just want to understand thought process behind that, because in the last couple of years and we have not seen that kind of increase in a quarter. Second about consideration what we have received from Tangoe so where we have, that is already we have received it or it is not part of the cash flow? In the last is about Infra attritions is it only because of LTM or anything else to read on it, because it has increased this quarter marginally?

Anil Chanana The gross addition in BPO, you are right is 3100 and the lateral employees addition is 2500, but net-net is that it is the headcount reduction of about 464, because we do not hire freshers in BPO's, so we are trying to use more experienced guys here because the nature of the business is changing, so that is one. Secondly, to answer your question with reference to what we did with Tangoe was we did get is a one-time consideration because we transferred the customer accounts which were onsite as well as some of the processing centers which we had in the US, so we got $3.2 million as a consideration, that has been offset with the assets, etc. which have gone, and a very small amount has flown into the other income side. So it has reflected as the net off from the various line items. It is just $3.3 million is in the cash flow because of Tangoe.

Dipesh Mehta And infra attrition, because it is marginal in nature, so for the quarter we are trying the similar moderation or what is it?

Vineet Nayar I think it is quarter-on-quarter variation there and no cause of worry there.

Dipesh Mehta And for the Citibank acquisition have we already paid $26 million during the quarter for JFM or not?

Vineet Nayar No, it is split into two trenches, $13 million has been paid and the rest of $13 million will be paid after a year.

Dipesh Mehta Thanks.

Moderator Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain My question is pertaining to the client growth. If you see the non-top 20 accounts, which have grown at a rate of 8% CQGR over the last two years, as against 3.8% CQGR for top 20 accounts, is it that we are more focused on client hunting as compared to mining, which is also apparent from the fact that revenue per client matrix over peers is much lower?

Vineet Nayar From a strategy point of view the answer is no, we are very focused on client mining including the fact that when I look at $20 million- $30 million client growth that is reflecting it. The statistics which you are using a 6.2% quarter-on-quarter on an LTM basis versus overall growth of 7.5%, it is just the fact that they may not be top 20 clients, they may be lower than top 20 clients and are finding their way in the top 20 clients. But from a strategy point of view numbers may not indicate, I will have a look at it, but from a strategy point of view we are focused on client mining and that is where we are seeing the maximum growth happening. It is not coming from new customers and that you can see also from our repeat customer versus new customers revenue split.

Rahul Jain And secondly, the larger part of the incremental revenue this time has been from the BFSI space, can you help us in understanding what geo's are leading this?

Vineet Nayar Europe and Rest of the World

Rahul Jain Okay just one point, if you can give the breakup of onsite-offshore in BPO employees?

Vineet Nayar No, we do not share the data.

Rahul Jain Okay. Perfect, that is it from my side. Thanks.

Moderator Thank you. The next question is from Premchand Rao from Axis Bank. Please go ahead.

Premchand Rao Congratulations on a good set of numbers. Can you throw some light on your inorganic growth strategy? Have you identified certain areas' or certain gaps in your offering, which you want to augment through acquisitions in this coming year?

Vineet Nayar Yes, we have identified 6 areas of gaps in our current strategies which we wish to augment through acquisitions but for the last four quarters we have not been able to find companies which are attractive enough to fill those gaps, so right now the gap area's are clearly identified, the profile of the companies have been clearly identified but we're going to wait and watch for the right fit, that is the reason we did a carve out with Citibank, and interesting part of the carve out is that you have an assured revenue which comes from an existing customer and then you can build growth on top of it, which is not there with the acquisition where you have to take complete risk. We have the six areas but we have to wait and watch as to what we have to do with those areas depending on what do we see in the market.

Premchand Rao Which are the six areas?

Vineet Nayar I am sorry I'm not in the liberty of sharing that right now. Because my interpretation it will go by that we are weak in that area and I am sure that the transcript will go to our customer and that is the end of growth in that area.

Premchand Rao Thank you.

Moderator Thank you. Ladies and gentlemen will take one last question from Jay Doshi from Equirus Securities. Please go ahead.

Jay Doshi Congratulations on a good quarter and thank you for taking my question. Vineet you mentioned on television that you expect the platform BPO's to grow like infrastructure business has done for you. I just wanted to understand, what sort of market opportunities you see at the global level, what percentage of global BPO's spend can eventually transform into platform BPO's space, what competition you see today and maybe if you have some 3 or 5 year goal or target?

Vineet Nayar We have all of that, but I think I would like to come back in January of next year and explain that because we want to build that strategy and I think that whatever I say there would be a disbelief in the market on that because we have not proven it. So let me get some of these deals, let me get some of these instances and proof points on the table, before we share as to what we are targeting but at the same time you would see with interest Genpact acquisition against Headstrong is indicating that other companies are also thinking on similar lines.

Jay Doshi Thank you so much and good luck for the next quarter.

Vineet Nayar Thank you.

Moderator Thank you. Ladies and gentlemen that was the last question. I would now like to handover the conference to Mr. Vineet Nayar for closing comments.

Vineet Nayar Thank you so much for joining us and supporting us in this process, we will continue sharing data and outlook as we meet you in July, with a lot more detail of what would happen next year, but till then keep healthy and stay happy.

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