



HCL Infosystems Quarterly Investor Conference Call

Q2 FY16-17 Earnings Conference Call

1st November 2016

**Speakers : Mr. Premkumar Seshadri, Executive Vice Chairman and Managing Director,
HCL Infosystems Ltd.**

Mr. S G Murali, Group Chief Financial Officer, HCL Infosystems Ltd.

Ms. Kannika Sagar, Chief People Officer, HCL Infosystems Ltd.

Moderator:

Good day, ladies and gentlemen. Welcome to HCL Infosystems' 2nd quarter results audio conference call. We will start with the presentation and then follow up with the Q&A session. During the presentation, all participant lines will be in listen-only mode. This presentation is available in the Investor Relations section of the company website. We would like to begin with a mandatory disclaimer. This call may contain forward-looking information, including statements concerning our outlook for the future as well as some of other statements of beliefs, future plans and strategies. These forward-looking statements and information are subject to risks and uncertainties that they entail. We have on call with us Mr. Premkumar Seshadri, Executive Vice Chairman and Managing Director, HCL Infosystems; Mr. S G Murali, Group Chief Financial Officer, HCL Infosystems Limited; and Ms. Kannika Sagar, Chief People Officer, HCL Infosystems Limited. I would request Mr. Premkumar Seshadri to take over the conference call.

Premkumar Seshadri:

Welcome to the HCL Infosystems' Quarterly Results call. Before going into the numbers, I would like to explain the structure of the organization through which we will try to decipher the numbers across our businesses. At a broad level, HCL Services includes global and domestic services, Infotech essentially focuses around the system integration (SI) business. We will look at HCL Infosystems, from perspectives of consumer product distribution and enterprise distribution.

Four quarters ago, we had grouped the entire enterprise business across enterprise products, enterprise services and global services. Seen in that context, our quarterly results show that our thrust on enterprise business continues to deliver. Despite headwinds from our consumer business, the contraction of our loss is aligned with our turnaround journey. Augmented emphasis around SI project execution and commercial enablement for payment realization remains a critical focus area ahead.

With regard to the enterprise business, we have aligned a strong GTM across emerging technology areas and the

same has seen positive client traction. Further, our investment for creating state-of-the-art remote support centers has been completed. We are well poised to leverage these investments as the muted environment improves.

Global Services business in this quarter has shown a positive momentum with a steady profitable business in Singapore and good traction in the Middle East. We have also reached a critical milestone in a security and surveillance project for a customer (utility company) in this period.

In Singapore, our customers continue to express confidence in us and we have renewed the contracts successfully for an extended period of time. Our customer satisfaction has been the best in this period. We have been recertified as a gold partner for Cisco and have won the prestigious CMO Asia Award for Brand Excellence in Telecom Services Sector.

The headwinds in the Consumer Business, that is our telecom business, due to portfolio gaps and product availability, have impacted almost 6% Q-o-Q drop in revenue. A key change is happening around this business which can be explained further, later during the Q&A session.

With regard to the SI business, we have executed orders worth about Rs 90 crore in this quarter. We have completed a prestigious smart card project for PDS Solution in a union territory.

Mr. Murali will now present a consolidated and a detailed analysis of each line of business.

S.G. Murali:

The revenue for the quarter is at Rs 1002 crore (refer slide 5), showing a decline compared to the previous quarter, which was at Rs 1148 crore. The decline has been across a couple of businesses; one in the consumer distribution business, revenue declined from 472 crore in Q1 to 442 crore in Q2. Over the last few quarters, the revenue has been declining due to the portfolio gaps.

In the enterprise business, we have got into a steady state, at Rs 100 – 110 crore per month. The revenue in the last quarter, at Rs 333 crore, had been remarkable, as against Rs 244 crore in the present quarter. The last quarter was exceptionally good from an annual billing perspective and also due to the change in business model in this quarter for one of our large customers, where they moved from normal procurement model to an e-procurement model where most of the players saw a decline in revenues, hopefully this should get compensated in the next quarter.

With regard to Services, we have had a marginal growth over the last quarter. Rationalization of contract has impacted the revenues in the last two quarters. With the rationalization almost completed, we will now begin to see some traction in the Services business.

In the Learning business, the revenues are at Rs 4 crore, same as in the last quarter. System Integration largely depends on the projects, which get implemented during the quarter, and the costs incurred in the project. While in the last quarter the revenues were at Rs 122 crores, it is at Rs 76 crore this quarter.

Overall revenue, we are at Rs 1002 crore compared to Rs 1148 crore in the last quarter.

The profit before provision for doubtful debts & expected credit loss is at Rs 1.3 crore, lower than the last quarter when it was at Rs 4 crore. The provision for doubtful debts is at Rs 8.3 crore for this quarter. We are at minus Rs 3.3 crore for profit before interest and tax, which is marginally lower than minus Rs 4.5 crore. Despite a drop of almost about Rs 150 crore in revenue, we have been able to sustain the same level of profitability as in the last quarter. The net finance cost has increased marginally. A one-time penal interest, amounting to Rs 2 crore, has been charged by the long-term lenders for security creation which was to be completed but got slightly delayed because it involves multiple lenders—the working capital lenders and long-term lenders. Overall, the weighted average debt for this period was slightly higher. The profit before tax is at

minus Rs 49.1 crore compared to minus Rs 45.8 crore in the last quarter.

It needs to be noted (refer point 6, slide 6) that as per norms under IndAS, common cost have been allocated to respective businesses in line with management reporting. The previous period numbers including elimination have also been reclassified accordingly. The common cost is at Rs 1.9 crore for the last quarter and at Rs 1.2 crore for the current quarter.

In Enterprise Product Distribution business, there has been an overall revenue growth of 21% year-on-year; however there has been a decline of 27% on a quarter-on-quarter basis. This is primarily owing to seasonality impact and higher anniversary billing in the software business in the last quarter.

With regard to Enterprise Services, our revenue is at Rs 244 crore compared to Rs 240 crore in the previous quarter. We have also started witnessing benefits of optimization of manpower and infrastructure which was done over the last two quarters and also some early benefits from the synergy of GTM, which we hope should start translating into higher revenue numbers going forward. The business mix has been progressively moving towards advanced payment term compared to an arrear payment terms which was there for a large part of the contracts earlier. In essence, the whole portfolio is becoming better with improving payment terms and margins, with the rationalization of loss-making contracts and cost optimization. We hope to build a better services business going forward.

For the Enterprise Business, the revenue is at Rs 488 crore. The loss before interest and tax is at Rs 18.5 crore compared to a loss of Rs 28 crore in the last quarter. A large part of this benefit, has however come from the Services business due to cost optimization and contract rationalization initiatives which we had carried out in the last couple of quarters.

The Consumer Distribution business (refer slide 9) has seen a decline of 6% quarter-on-quarter (the revenue was

Rs 472 crore in the last quarter compared to Rs 442 crores). The business has been able to sustain itself despite the declining revenues over a period. The profit before interest and tax for this business is at Rs 3.3 crore compared to Rs 10.7 crores in the last quarter (refer slide 10). The margins are under pressure, largely because of the shrinking volumes. This is one of the reasons for lower profitability in the current quarter.

With regard to System Integration, (refer slide 11), we clocked a revenue of Rs 76 crore this quarter compared to Rs 122 crore in the last quarter. We have executed projects worth Rs 90 crore during the quarter. We have a pending order book of roughly about Rs 1000 crore. The build phase has been continuously coming down and we expect that most projects would attain completion between December 2016 and March 2017. This is a good trend as execution is the key focus at this point in time. The annuity type income from the support services is roughly about Rs 650 crore.

Besides this we also executed a key digital project during the quarter in one of the union territories, as mentioned earlier, a power project also reached a commercial milestone closure. There is another project which is nearing a commercial closure in this quarter and we achieved a key signoff milestone in a major defense project.

With this, I hand it over back to Prem. Thank you very much.

Premkumar Seshadri:

Thanks Murali. I think you have made an in-depth analysis of the consolidated and the line of businesses. I will pass it on to the moderator for the next step to organize the Q&A.

Moderator:

Thank you sir. Participants, if you wish to ask a question, you may please press '0' and '1' on your telephone keypad and wait for your name to be announced.

Sir, we have a question from Mr. Gautam, an individual investor.

Gautam: One of the questions that I had was with respect to build, operate and transfer. We have been executing the SI projects for some time now and as I see most of our peers find it hard to get the payment back. Do you expect any negative feedback from the project after its completion around December and March? Also, HCL Infosystems had tweeted about the new area of hyper-convergence networks. Would you like to share any update on this area?

Premkumar Seshadri: In our SI projects, we do the build phase as well as do the annuity in terms of the support phase. As for the specific question you have on some negative surprises that may emerge as we get close to the completion of the build phase, we have been monitoring the costs as well as the risks associated with the execution on an ongoing basis. As our revenue accrual is also based on a definitive process, any eventual surprises gets internalized and the profitability which is Q-o-Q includes that. It is true to have some issues like damages or SLA related credits etc, but we do not see any other significant negative surprises that may impact us.

As far as the hyper-convergence network and associated areas that we are working on, for the last two or three quarters, we have been continuing to invest in the emerging technology spaces entirely aligned to the digitalization area in the domestic market. Perhaps in the new fiscal year, as we build some traction, you would see some big wins in this space.

Moderator: We have a question from Mr. Gurvinder from Principal Mutual Fund.

Gurvinder: Can you talk more on your consumer business. The revenues have halved since last year. So what's the strategy there?

Premkumar Seshadri: As I stated in the executive summary, this is an area that we have been watching closely. And as you are aware, our relationship was tightly coupled with a particular brand and we were mutually exclusive on both sides. That was the focus of the business over the last two decades. However, there has been a significant drop in the business over a year, though the decline had begun in the last two

or three years. We are on the verge of a strategic shift in this space. We see new platforms evolving. We are thinking of multiple platforms in the context of the operating system as well as ecosystem of the devices. This plan would get executed over the next three to four months. In the Consumer Business, this transition, would perhaps spread across this quarter and the next. Hence, presently, you will find this business is a little muted as compared to the last quarter.

Gurvinder: I wanted to know about the liability side; has there been any change between the last and this quarter with regard to debts?

S G Murali: Last quarter we had a gross debt of Rs 1353 crore; this quarter we are at Rs 1355 crore. Our net borrowing in the last quarter was Rs 1029 crore. We are at about Rs 1048 crore in the current quarter.

Moderator: Thank you very much, I would like to hand it over back to Mr. Seshadri for closing remarks.

Premkumar Seshadri: Okay, if there are no further questions we will close this. Please feel free to reach out to our investor relations at sumeet.ahluwalia@hcl.com for any further questions.

Moderator: Thank you, Speakers. Thank you, participants, for joining this session.