"HCL Infosystems Quarterly Investor Conference Call"

January 23rd, 2015

SPEAKERS: **Mr. Premkumar Seshadri, Executive Vice Chairman and MD - HCL Infosystems Ltd.**
Mr. Sandeep Kanwar, CFO - HCL Infosystems Ltd.
Mr. Sutikshan Naithani, Joint President Consumer Distribution Business - HCL Infosystems Ltd.

Moderator: A very good evening, ladies and gentlemen. I am Yogesh Sharma, the moderator of this call. Thank you for standing by, and welcome to the HCL Infosystems Quarterly Investor Conference Call. For the duration of the presentation, all participant line will be in listen-only mode. And we have a Q&A session post the presentation. Before I go ahead and hand over the call to the management, I would like to read the disclaimer and the legal notice. This may contain forward-looking information including statement concerning HCL outlook for the future as well as other statements, beliefs, future plans and strategies, or anticipate events and similar expressions concerning matter that are not historical facts. The forward-looking information and statements are subject to risks and uncertainty that could cause actual result for the materially from those and that may be inferred to the expressed in or implied by the statements. HCL assumes no obligations to publicly update or revise these forward-looking statements even if experience of future changes make it clear that any project results expressed or implied therein do not materialize. All trademarks are the sole property of their respective owners. The enclosed financial provide a line of business wise view based on unaudited management account to provide more granularity and are not as per the reports segments. Legal notice: although considerable care has been taken in the preparing and maintaining the information and material contained herein, HCL makes no representation nor give any warranty as to the currency, completeness accuracy, or correctness of any of the elements contained herein. Facts and information contained herein are believed to be accurate at the time of posting. However, information may be superseded by the subsequent disclosure, and changes may be made at any time without prior notice. HCL shall not be responsible for or liable in respect of any damage, direct or indirect, or of any nature whatsoever resulting from the use of the information contained herein.

For walking through the numbers, we have Mr. Premkumar Seshadri, Executive Vice Chairman and MD, HCL Infosystems Ltd.; Mr. Sandeep Kanwar, CFO, HCL Infosystems Ltd. and Mr. Satikshan Naithani, Joint President Consumer Distribution Business, HCL Infosystems Ltd. will be joining us for the Q&A session.

Premkumar Seshadri: Thank you. Good afternoon. I would like to begin by a recap on (Slide 2) which covers the definition of the core and focus businesses of the company, mainly consisting of four key elements; the distribution business essentially consists of consumer distribution and enterprise distribution. . Secondly there is HCL Services, which is focused on three core businesses which is enterprise services for the domestic market place, Consumer Services and Global Services consisting of two entities in Middle East and Singapore respectively. The third business is HCL Learning Limited, which is focused on two areas - K12 content and learning, and career development, which is focused on vocational education. The fourth and last element is HCL Infotech, which is the system integration arm which also consists of some of the hardware solutions business at this point of time.

I would like to share a summary and consolidated view of the P&L (Slide 3) of the OND FY15 quarter. The consolidated revenue had moved from Rs. 1683 crores to Rs. 1445 crores. I would like to draw attention to the sub-total column that shows revenue of Rs. 1445. This represents the core focus businesses that I referred to earlier. And in the next column we have the PC and mobility business which, as has been stated in the previous quarters, is a business that is essentially in the process of being completely phased out. So if you look at it in the context of the core businesses, the revenue has moved from Rs. 1683 to Rs. 1445. But however, from a consolidated point of view, the residual PC businesses continue to be in the system so the movement is to Rs. 1450 crores. In terms of the PBIT the movement has been of Rs. (6.7) crores in the JAS FY15 quarter to Rs. 13.1 crores in the OND FY15 quarter, which was essentially a positive movement in the context of the core business. The PBIT shows that, if you remove the exceptional gains and the PC & mobility business, actually it is a movement from Rs. 2.8 crores to Rs. 11.6 crores in the context of operational results.

In column 2 again in the context of the sub-total of the profit, it is actually Rs. 29.6 crores which is a movement from the Rs. 1.5 crores. But in real terms it is Rs. 2.6 crores to Rs. 11.6 crores. In this context the consolidated net loss after provisions and interest cost for the quarter that ended 31st December 2014 is a net loss of Rs. 49.6 crores including the PC and mobility businesses which are essentially being phased out. The phase out has been almost completed with a little residue left and the exercise is expected to be completed in this quarter.

Reference Slide 4, revenue has been impacted due to the product rationalization in our telecom distribution which began in Q1FY15 and continued into most of Q2FY15. However, towards the end of Q2FY15, the launch of new models enhanced product demand in December, and this has resulted in some momentum that can be witnessed presently. In the Q&A session we could take some more questions around it and we will also do a deep-dive later in this presentation.

On the services side, there has been growth momentum in both revenue and margin and in the SI business, the focus has been on ruthless execution. The order backlog has also been continuously reviewed and there has been effective execution which is good news for the last quarter.

In our Learning business we had changed the business model to a very asset-light business. Positive indicators of the partner-led content-centric strategy can be seen. On the own-brand product, which is the PC business, the planned business phase out is almost near completion.

We are also happy to note that the company achieved an ICRA rating of A1 for short term commercial paper borrowing. From an organization leadership enhancement perspective, the quarter witnessed the infusion of key leaders at the corporate level apart from key leaders in the services business and this has bolstered the kind of leadership bandwidth that the company has been seeking.

Slide 5 talks about our telecom business quarter performance in detail. One of the highlights of this quarter has been the signing of the extension of the Microsoft agreement for the next three years. The Windows phone which was launched towards the end of Q1 in a revised format has seen a very good demand in December 2014, and also had increased the rural contribution thus far which was at 9%, to 20% plus. Lumia itself contributed in excess of 25% in the Dec 14.

One of the key aspects of demand change in the last quarter in the telecom business was the online channel risk that was manifesting, and to a large extent, this has been risk-mitigated by our own participation in that segment. We will discuss this at length during our Q&A.

Slide 6 essentially focuses on the non-telecom consumer distribution business. Here again, the momentum that we are witnessing in sign-ups of new consumer durables and so on is moving at the right pace and in line with our expectation. Also successful pilots have been launched with major consumer durables. And from a channel ramp up perspective, we have moved from 17 to 24 distributors and the dealer network has increased by 63%.

On consumer distribution revenue basis, though, there has been a significant drop in revenue to Rs. 905 crores in the last quarter as against Rs. 1105 crores in the JAS FY15 quarter and Rs. 1305 crores in the comparable last year quarter of OND FY14.

In Slide 7, the focus is on enterprise distribution. We have gained significant momentum in Q2 in terms of transitioning the business. As you are aware, we were largely an own-brand direct-selling organization. The momentum to transition this business into a direct-to-customer to partner-to-customer has been good and the key elements of the transition have been done in a very elegant and seamless manner. Despite the low startup pipeline, volumes were maintained, because we migrated into a new module which starts with a very limited pipeline.

In terms of the continued investment in the channels we have witnessed the on-boarding of a significant number of channels, 183 system integrators and VARs who have come on board in the last quarter. Even in the context of customer or partner momentum, we have signed up with some key brands in this space and we expect the translation of the same into revenue in the quarters ahead.

On the warehousing and supply chain aspects, there has been internal productivity and warehousing optimization elements that has been brought in and we are also continuing in terms of expanding the scope.

On the revenue side, it has remained steady despite the change in volume and the change in the strategy from direct to partner. There is revenue of Rs. 123 crores in OND FY15 against Rs. 120 crores in the previous quarter (JAS FY15). And similarly revenue in the corresponding quarter in OND FY14 stood at Rs. 120 crores a year ago.

I would request our CFO, Mr. Sandeep Kanwar to walk you through Slide 8.

Sandeep Kanwar: We have seen a drop in the overall revenue by almost Rs. 200 crores in this quarter, primarily in the telecom distribution business, for reasons that we have just covered, and which we will go into detail later in the call. But on a PBIT level, we have seen a delta of Rs. 7.6 crores, which is largely a function of the drop in the revenue. Overall we did see optimization from Q2FY14 to Q1FY15, but onwards to Q2 there has been a drop in the margins as a result of revenue drop.

Premkumar Seshadri In Slide 9, the services business has essentially shown good momentum both in the enterprise and consumer services businesses, as the overseas business, both the Middle East and Singapore businesses have continued to grow on revenue and bottom line. There is a good amount of momentum in the infra consulting solutions that we have launched along with cloud services. Positive indicators are also there in the context of productivity and service delivery initiatives. Proprietary tools, which has been a core differentiation strategy of the company has also been launched and has witnessed very good acceptance at the client level. On an overall revenue basis, the OND FY15 quarter saw Rs. 184 crores revenue for the enterprise services as against Rs. 159 crores in the same period last year and Rs. 172 crores in the last quarter (JAS FY15). A good momentum is being created in this space.

In Slide 10 that highlights consumer services, robust growth can be witnessed. Apart from the growth from the revenues and the generation of the momentum, more importantly we are definitely witnessing a lot of consolidation and leadership well ahead of the market place, which is a very important element in this business. The business is also showing very good signs of scaling up, both in the context of the kind of services verticals and the kind of customers that we are addressing. And we also have got very strong pipelines. Our discussion has started in the context of taking this business global. The consumer services business is now at Rs. 39 crores in the last quarter (OND FY15) as against Rs. 34 crores in the previous quarter (JAS FY15). The growth has been almost greater than 100% on a year-on-year basis.

I again request Sandeep to take you through Slide 11.

Sandeep Kanwar: There is improvement in the Profit/Loss before exchange differences and provisions which has moved from Rs. 0.8 to Rs.3.5 crores. This is a marginal improvement, but the trend is in the right direction. In year-on-year terms there is significant drop. With the wind- down over the last few quarters, the impact on warranty will be there. So this is largely the impact of warranty. And as we add on multi-brand services in many of the additional services, plan is to ramp back up and cover up the warranty losses.

In addition to this, when we are looking at our overall portfolio of services that we are providing to the market, we are also looking internally. And as a result, we have had to take certain charges on a few of our businesses. We had taken charges first in Q1 of Rs. 2.2 crores. And in this quarter we have taken a more significant charge of Rs. 7.8 crores. So net-net the PBIT before interest and tax is at minus Rs. 4.3 crores for the quarter in the services business.

Premkumar Seshadri Slide 12 focuses on our Learning business. As we indicated earlier, the model has changed from being a very asset heavy dependent business to a direct revenue channel-based and asset-light business. The acceptance of the new model is very good. New partnerships have been in place because we are migrating from a direct to customer, to a partner to customer model. We have also re-launched or in the process of expanding the career development centres which have been rebooted with a vocational education mindset. There are significant adjacencies emerging in this market place and we do believe that the overall learning and content business will be driven by a completely different model going forward. Enhanced customer delivery capabilities are further enabling increase in customer satisfaction, which is extremely crucial because there are many stake-holders. It includes the student and a larger ecosystem supporting the same. We have achieved revenue of around Rs. 7 crores in the OND FY15 quarter despite migration of the business model from an asset-heavy to an asset light one. Sandeep will comment on the profitability.

Sandeep Kanwar: The Q2 number is almost purely service and content-centric without the product element which is the reason for the revenue dip. But in terms of operating margins, it is at par with past margins, if not better. In line with our previous existing policy, we do tend to provide for lease rentals that are over a certain number of months, which is in our case 12 months. So we have taken another charge of Rs. 5 crores in this quarter,. This is on a conservative basis and we will follow this policy going forward as well.

Premkumar Seshadri: Slide 14 is our system integration business. Many of the projects have reached milestones in this quarter which has translated into growth in the context of profitability. Also we had a steady order book backlog reduction with ruthless focus on execution. Aadhaar, which is a very core program of the country, we have now covered almost about 73.25 crores of Aadhaar cards against 68 crores in the last quarter. This business unit also houses the Products PC and mobility business, which will be almost phased out in the quarter ahead.

Sandeep Kanwar: If you look at this business, the slide (Slide 15) has a combination of system integration solutions, PC and Mobility, which has been disaggregated earlier and which Prem had covered. But for simplicity's sake, we have combined them here. If you look at it from the PBIT point of view, we had a negative of Rs. 47.1 crores in Q1, which is Rs. 18.9 crores in Q2. And breaking that up into the PC mobility business which is in the process of getting exited out, there is a Rs. 28 crore loss in both the quarters in this business. So if we remove and keep that aside, the rest of the business of SI solutions had a negative of Rs. 18 crores last quarter, which is a positive of Rs. 9 crores this quarter except that, our SI business is cyclic to some extent, linked with the achievement of milestones. So there is some degree of volatility. But certainly this view helps to understand better the overall results for this segment as well as for the company as a whole.

Moderator: Thank you so much, sir. Participants, with this, we start the Q&A interactive session. The first question is from Mr. Ankit Pandey from Quant Capital.

Ankit Pandey: Thank you for taking my question. A very warm welcome to Mr. Premkumar. It has been quite a while since you have been appointed in the executive role and you have had a look at the overall business. I was wondering if you could just give us a brief overview of what vision you bring to HCL Infosystems. You have had a prolific career with the HCL group earlier so you have a lot of sense. But I was wondering what vision you have for HCL Infosystems. If you could just lay it out in simple terms for the investor community, we would love to hear from you.

Premkumar Seshadri: Thank You, Ankit. There are four key businesses and each these businesses are actually today in a very exciting place of growth as far as the overall market demand is concerned. Let us look at each one of them.

In our overall distribution business there has been a significant amount of churn both in the telecom mobility space as well as in the enterprise IT space. The overall market share that HCL has in the context of being an enterprise IT provider ranges anywhere at an average in the last decade to be between 8-15%. And at its peak it was about 15% and whereas today it is significantly lower. One of my immediate tasks is to actually build that business up to get to that market share essentially on the ground and on the credentials of having perhaps the best service network in the country on one dimension and having the credibility of being a valid and credible partner in the technology space on the other dimension.

Secondly, in the entire IT technology space there is the emergence of newer areas of businesses, essentially around cloud, in the context of social media and so on. So fundamentally, our focus has been to really look at a very seamless integration of our services business alongside with our distribution business to create together a very robust, deliver, build and maintain kind of an operation which will take us to that kind of a market share that perhaps we have seen at an average in the last decade or so.

Ankit Pandey: Do we have an overlap in the kind of Care services that you provide; is that one key area of focus for you?

Premkumar Seshadri: No. The overlap is essentially around products, as we cover two segments of the market. We cover the consumer segment of the market and we cover the enterprise segment of the market. In each of these segments, we also cover the consumer distribution side and the enterprise distribution side, similarly the enterprise service side and a consumer service side. We have four independent businesses which are connected in the hip, with respect to the distribution and the services side.

Ankit Pandey: Right.

Premkumar Seshadri: In our distribution business, in the enterprise and the consumer segment, the growth and the opportunity is significantly increasing. We have been in this business for more than a decade and have built credibility and unparalleled channels and thereby have become the partner of choice. In fact, there are many opportunities in the consumer distribution business and our leadership is essentially looking at picking the right partners, which meet our profile and exhibit adjacencies to our business. Over the next few years, you're going to see a very robust distribution arm which covers general trade, organized trade as well as the online trade.

Our synergy and growth vision is to sustain and grow our market leadership in the telecom distribution business where we are the leaders, and build strong capabilities in the enterprise distribution side, and support both of the businesses with the services business in such a way that they are complimentary both in the context of margin expansion as well as client access.

The system integration business has got significant competency, expertise and intellectual capital which is parked inside our engagements. Our vision is to try and take these into productization; a significant start has already been made in the last quarter. We look at it in the context of how we could productize these solutions and make making vertical specific solutions. This business would be ready for taking on a new type of integration projects. This would keep business asset-light and build a partner ecosystem that would essentially take care of the asset-heavy side of this business. Our focus is on our core competencies of execution in the context of build, design, maintain and operate. Our focus is essentially going to be in that space, making it asset-like but with a very large intellectual property coming inside it.

The services business has been our oldest business. We have 38 years in this business since the time the company started. And I think our access rights into the client community here are second to none. Our focus on this business was a little different, but we have got the right leadership into this business and in the next investor call, you could also see the chief executive of the services business interacting with you. Fundamentally, our focus there has been to significantly expand our reach in the market place, expand the product portfolio that we have and to look at newer innovative high margins services business including global business. Same also refers to the HCL Care business which we call the consumer services business.

Our country is at the cusp of significant investment in talent and skill development, be it from the school level, right up to post-formal education and pre-higher education. We are essentially sitting on a very big opportunity. We believe that the K12 business that we were moving away from being an asset-heavy business to a content-only strategic multi-medium focus is a very large business. We have invested in R &D on three components. First dimension is to take the content higher and higher in terms of the quality, in terms of its applicability, in terms of its feasibility across various types of school environments, be it in the global environment of international schooling, the CBSE, or the state boards. At the second level, is the channel we are building for delivering this content instead of being just purely dedicated to the school channel. We are also looking at it in the context of migrating this into other channels that are emerging in this space, which we will look at in terms of launching in the course of this quarter. In the third dimension, we are looking at cloud based consumption, completely migrating content onto a cloud environment and also looking at mobile devices becoming a key part of the strategy. So in all the three dimensions is the focus on R&D. And the entire R&D has been revived and we are looking at significant launches including a large part of this content. We already have orders and we already built pipeline from the global community who are interested in the content. Similarly with respect to the vocational development centres where we are essentially looking at talent management in specific areas or corporate talent requirement both in the context of training as well as staffing.

So in each of these four businesses which I call the focus business, I think there is a very clear roadmap for the next five or six quarters in each of these businesses.

Ankit Pandey: Thank you so much, Prem. That was very helpful indeed. If I could just comment on the kind of vision that you have, I think some of the main differences that you have mentioned are in the system integration business where you are not looking to wind down but you've got a different model there.

Number two, I think the investor community had the impression that you want to move away from the learning business altogether. And now I think you have a different situation and you have outlined a different set of initiatives that you're standing to pursue over there.

But maybe I'll just come back in the queue later on. I would like sort of like to probe a little bit more into your vision of taking the enterprise distribution for the services.

Premkumar Seshadri: Okay, Ankit. Thank you.

Moderator: Thank you so much, Mr. Pandey, for your question. Once again, I request all the attendees, if you wish to ask any question, please press 0 and 1 on your telephone keypad and wait for your name to be announced. Again we have a question from Mr. Ankit Pandey from Quant Capital. Your line is open; you can go ahead and ask your question, sir.

Ankit Pandey: I understand your services business is focused on some domestic infrastructure projects, you have some lucrative overseas opportunities in infrastructure, especially in Singapore, in the public sector. I would like to know more about how you are planning to beef up the enterprise distribution with some offerings in the services.

Premkumar Seshadri: The services context in our distribution in the enterprise space is through a context of value added distribution. If you look at the present consumption of enterprise hardware inside India incorporation has been through the focus of the channel management areas being a fulfillment partner which essentially looks at what price can you give the products and what kind of requirements can you meet of mine. So fundamentally I think our focus has largely been in terms of trying to create a solutioning value added perspective because that's what we bring from the context of being a direct-to-customer company, direct-to-enterprise company until recently.

The focus has been to try and look at what can we do in terms of a large amount of hardware and equipment-based services which actually go alongside very seamlessly because these are all moved through channels, and to be able to upgrade these channels in a way which we've already seen. We've already seen significant amount of these channels being trained over the last quarter and actually getting down and building a pipeline.

So fundamentally, the synergy that you see between distribution and hardware service is the area that we are focused on.

Ankit Pandey: So hardware services should be interpreted as some of the channel providers you are now going to provide services?

Premkumar Seshadri: Not the channel partners. The end-customers through our channel partners.

Ankit Pandey: Okay. I suppose it's not asset-heavy, but is that going to be margin-enhancing or is that going to be volume-enhancing, how should we look at that perspective?

Premkumar Seshadri: It is definitely not asset-heavy at all in the services business. The services business on products sold by the distribution business is actually incremental margin and a differentiator.

The second part is that includes migration services, one-time services, break-fix and managed services all put together apart from security operation centres or network operating centres.

Ankit Pandey: So essentially this is more of infrastructure management and care services, break-fix services, which would expand organically as you expand your enterprise distribution network? That's the idea I'm getting.

Premkumar Seshadri: Yes. The only difference between what you said is our care business traditionally and continues to be a different business which is focused completely on the consumer servicing side. So you should keep that away. Consumer services actually tag along with the consumer distribution side. What we're trying to say is that both of them are persuading penetration of the market. And in that pursuit, each of those converts could be commonality of those businesses but there could be other businesses independent to each other.

Ankit Pandey: Okay. So if I look at the distribution business as it stands today, very small amount, say 10% is coming from the enterprise side and 90% is coming from the traditional telecom side.

Premkumar Seshadri: Yes.

Ankit Pandey: So could you just give me first of all on the telecom side? In the new contract now signed with Microsoft, would you say we've got a little bit more lee way to the previous restrictions that we had or that we couldn't move outside of a particular portfolio of Nokia. Do you think we have a little bit more sort of a rubber band there that we can stretch and we can do something more about it in the… do you think that position has been increasing in leverage?

Premkumar Seshadri: I have Sutikshan with me here who heads the business. But to give a simple answer, a simple answer to the question is yes.

Ankit Pandey: Thanks, that's great.

Sutikshan Naithani: So just to add what Prem has said. If you are referring from the perspective that can distribute other telecom brand, the answer is no but it will allow us to do more than what we were doing earlier. We will be serving a larger portion of the business as we move along. And I think in due course of time, we will be announcing that also.

Ankit Pandey: Larger portion, you mean 50-50 between us and them?

Sutikshan Naithani: Yes. So something on those lines where we will be handling some more portions of the business.

Ankit Pandey: Moving on to the consumer side, I think the way things are going right now, I think we were earlier under the impression that this is a nascent stage and we're sort of incubating this and margins are still not quite there. Do you think the margins are breaking even or can break even in the next couple of quarters or so? Because at the end of the day, we're still looking at a distribution kind of profile as far as profitability margins are concerned. So you think that security is reaching there?

Premkumar Seshadri: I think we have reached a stage of take off after the pilot has been very successful. The work has translated itself into being predictable. That is key thing to look at from a point of view of defining a business as mature is there is a predictability of demand, a predictability of our conversion of that demand, the predictability in terms of profitability which are at the very narrow margin of change. I believe this business has reached that point. There is a top-line revenue growth perspective, as we are leaders in this segment I think what we are doing today is to try and take this market and set the trend in this market both in the context of the kinds of services, the margin category of services, and also in the context of looking at our cost structure to be the most optimized and rational in this business; because of some of the lee ways and understanding that we have and some of the learning's that we've had over the last one year.

Ankit Pandey: Could you break general traction we have in telecom into telecom and non-telecom, if you could get some idea?

Premkumar Seshadri: The market momentum in terms of fresh demand generation, the proportion of revenue differential between the two is significantly loaded in favour of the telecom business. The other businesses, both in the consumer distribution side as well as the enterprise distribution side are nascent in the context of our presence in the market place. Given that nature, what I would give you is a significantly long-term view of this. We believe that the proportion that you're talking about today, which could be as high as about 90:10 ratio in terms of how it skews up, but we believe that over a significantly long-term period it would almost be 50-50 as we go along.

Ankit Pandey: On the services side, the commentary is not very different from what I heard a quarter ago. Can you give us a sense of how are you looking to approach the market both domestically and overseas? Are you looking to penetrate in overseas locations other than our traditional strongholds which are Middle East and Singapore? That is number one. And secondly, if you could describe the scenario for us where are we positioned in the domestic market.

Pemkumar Seshadri: In the domestic market place, we were semi-present; we have increased our presence in terms of our participation in renewals that are happening in the infrastructure space. I would believe that over the next few quarters you would see a lot of momentum with us participating. A very simple indicator is an increase of 100% pipeline over the previous month. So that's the context I would say for the next six to twelve months. And you would see that participation being very crucial in the way we do it from a domestic point of view.

Second element is that we also invested in and got a remote resolution centre (RRC) and some proprietary tools completely tested and working in some of our clients in significantly large installed base which essentially lend themselves to adoption quite fast in the market place over the next few quarters. Our focus there is tools-based and our focus there is managed services. Apart from the low end of the spectrum which is essentially what you would call the break-fix businesses. But the break-fix businesses with the appropriate value add is the change that we are making. Some part of it is also in terms of how we are managing a channel strategy in the same space. And because of the channel strategy, we also have some cost advantages which will translate itself into margins.

That was the commentary on the domestic business. In the overseas business, we will continue to stay focused on the Singapore and UAE market place. But at the present moment, both in the consumer side of the business and the enterprise side of the business, we are looking at services from a globalization point of view beyond these two shores, definitely the US to start with Infra services

Ankit Pandey: If one has to understand what exactly are you trying to do in the overseas business which is different from earlier, say last year or so. What exactly do you plan to make changes? I mean, you did highlight that, of course, synergies with the enterprise distribution side of things. If you could just give me a brief overview of what exactly different are you trying to plan now?

Pemkumar Seshadri: We are not looking at expanding our infrastructure services operations until now to the US. So we've already started having some discussions in the context of looking at it from tech-support, to break-fix, to managed services for a spectrum and type of customers that we are focused on, which I would say is mid-market plus.

Ankit Pandey: If this is going to be provided in overseas locations where we don't have physical presence it would require a different level of investments altogether if you're going to provide break-fix services in the US, for example.

Pemkumar Seshadri: We have a model which is extremely asset-light. At this point, we won't disclose the model, but it is significantly aligned to remote resolution to start with. And supporting that would really be a set of strategic partnerships with people who actually are doing that business from the ground there.

Ankit Pandey: So am I to infer that the distribution model for the enterprise distribution really is going to be overseas also now?

Pemkumar Seshadri: No. I'm talking about only services.

Ankit Pandey: Okay. So the synergies really that we talked about earlier are purely for the domestic business?

Pemkumar Seshadri: Precisely. They are purely for the domestic side. There is a significant commonality of customers for distribution and services in the enterprise space, but both of them are independent access and independent customers, and also independent market places. While the distribution focus is completely domestic, the services business is global in nature.

Ankit Pandey: Could you just give me an idea of what is the manpower we have in India in services?

Pemkumar Seshadri: We are close to about 9000 odd people.

Ankit Pandey: This is in services only?

Pemkumar Seshadri: Yes.

Ankit Pandey: Would we require setting-up onsite facilities etc. So do you think all that will be now asset-light too?

Pemkumar Seshadri: We are not looking at any investment at this point of time until we get new business.

Ankit Pandey: And how do we plan to get the businesses?

Pemkumar Seshadri: We'll have partnerships which will get us the business.

Ankit Pandey: Would you be leveraging the group's sense?

Pemkumar Seshadri: We are not looking to leverage any of that.

Ankit Pandey: If you could give us what are your medium-term goals here in the in the services business?

Pemkumar Seshadri: Our perspective is to get right at the table for discussion for differentiated propositions which are extremely tools-based and remote-resolution based.

Ankit Pandey: Okay.

Pemkumar Seshadri: Not resource-based. So to say, I mean, remote resolution in the context of overseas is offshore-based.

Ankit Pandey: Okay. So any idea you would like to give us on margins for services over the next 12 months?

Pemkumar Seshadri: No guidance on that at this moment. We will look at it in the next few quarters.

Ankit Pandey: In the learning business. You mentioned that the strategy was significantly different from the impression we had earlier. So if you have to give a very broad kind of comment here, but it seems that are trying to once again move into different areas. But do you think we can sustain this business and this business will hang on with us, it will be part of HCL infosystems say three years, five years down the line?

Pemkumar Seshadri: I think from a content point of view, see, each of these businesses have a trajectory and a market place relevance which is different. So from a context of our K12 and vocational learning business, learning is an independent business, we should look at it quite independent of what it does. Firstly, the career development would be a captive resourcing for us which could be well leveraged. It may not be the entire population that is absorbed. But we definitely believe there is relevance there. But more importantly these are businesses on which we believe existing assets of the company are well-leveraged. In the context of learning, there's a significant amount of investment and a large amount of content-related value that exists in the company so the objective is to monetize that. You can monetize this in different forms. Our perspective is to scale and make this truly a differentiated set of offerings across all the three dimensions I told you. So till that time which is what I would call from now to the complete maturity phase that we get into, it would be a business that we will stay focused, stay invested and will keep growing and growing profitably.

Ankit Pandey: In learning, are we talking about going into private cloud and mobile devices, do you think it will make sense to bring it under the services umbrella? After all, it does imply a lot of work on that side. And then as far as reaching out to clients, I think, would be in a better position overall, also if you're looking to invest abroad, I think do you think it makes sense to get it under the services umbrella here?

Pemkumar Seshadri: Watch this space is what I will tell you.

Ankit Pandey: In the system integration business, we used to talk about an order book of about Rs. 2000 crores. So now I think you've moved away from that comment and you are trying to bring in a different model with partner/vendors where essentially there would not be a severe balance sheet risk we used to carry. Am I to read that right?

Pemkumar Seshadri: No, that has been misunderstood. The right word would be that if I start with an order book of Rs. 2000 crores which has milestone projects in the coming years and I complete some of the milestones and I keep billing, my order book files will keep coming down.

Ankit Pandey: That is right. I mean, we earlier did state that.

Pemkumar Seshadri: That is in the context of size of the order book which is coming down with the execution and milestones that we are doing. Now the way we are basically looking at it in terms of growing that business in the way the present businesses are, it would have meant it to be asset-heavy business. We consciously took a call to not look at an asset-heavy business model. So thereby it'd be important for us to understand how we really leverage our capabilities, expertise and intellectual property to create to a new go to the market. Now we are confident we have a strategy, we have a plan, and we also have partners. We have been able to productize and put these pieces together over the next two quarters so to form a robust plan to go to market with. As far as the system integration business, our focus today continues to be execution of the existing contracts and whatever upgrades that come alongside with that, to support the client, get to a customer satisfaction level at a very high level, as well as to be making sure that we can reach the milestone, beat the milestones and get the money home.

Ankit Pandey: Okay. So any plans to invest abroad in SI?

Pemkumar Seshadri: That is not part of the plan.

Ankit Pandey: Because we have a very small book abroad. I think we used to show a small figure for revenue size. I mean, we have that here. But we used to have a very small book.

Pemkumar Seshadri: So basically we are looking at putting lot of wood behind asset-light scalable business. We want to essentially focus on taking our businesses to the market in a way which allows it to scale fast. We may take time to launch abroad, but once we launch, I think we should be ready with rapid scale up there.

Ankit Pandey: Okay. What about investments in people? Last quarter we did announce three prominent hires on the services side. Where do you think we have gaps in the leadership at the top? Where do you think we may hire? Do you think we can bring in some capability where we lack?

Pemkumar Seshadri: Well, on the services side, we have a chief executive who has come onboard. We also have the new Head of Sales. On the overall enterprise level from a marketing and strategic point of view we have a new person who has come onboard. So wherever we have capability requirement we have taken people onboard and we would definitely scale up in the learning business and continue to invest in productization and technology operations side.

Ankit Pandey: This is only in the Learning business.

Pemkumar Seshadri: No in all the businesses including the SI business, to productize, there's a good amount of technology requirement.

Ankit Pandey: Okay. And of course we're going to invest in US in the Infra-Management Services.

Pemkumar Seshadri: We would be leveraging our domestic capability.

Ankit Pandey: If we compare with HCL Tech, it's going to be the same market and similar offerings. So where are we going to sort of differentiate or navigate?

Pemkumar Seshadri: There is nothing to navigate there. I've been part of that system for a long time. I understand that what we offer has a very minimalistic conflict. If there is conflict, we'll come to it.

Ankit Pandey: Okay. That is great. And if one has to ask you about investments how much amount are you looking to invest for the next year? How is the balance sheet going to look like? Can you give us an overview of the financial situation?

Pemkumar Seshadri: You should watch out for our '15-'16 fiscal plan. Even then I would not be able to entirely answer your question. But would definitely give you some kind of shades of where we are going, the direction and the vision ahead. At a broader level we are essentially focusing on growing businesses instead of businesses that are winding down.

Ankit Pandey: Thank you so much and all the best with the management.

Pemkumar Seshadri: Thank you.

Moderator: Thank you so much, Mr. Pandey, for your questions. The next question we have from Mr. H. R. Gala from Panav Advisors.

H. R. Gala: Hello, Mr. Premkumar.

Pemkumar Seshadri: Good evening.

H. R. Gala: Thank you for sharing your broad business strategy. As an investor, we would like to know that by when we would stop burning cash. Can you share the strategic direction as to when this is likely to happen?

Pemkumar Seshadri: If you look at the trend over the last quarter, and consider the broad statements that we have made, today you will get a sense of the trajectory each of the business is taking. When does the line cross and when does this outperform the graph that has been ruling for a while, I think it's a matter of interpretation. We are focusing on growing and looking at reporting market share wherein we are growing in some of these businesses.

So there are three things that have to happen to answer your question. First we need to understand where the intent and focus is. We have already shared the intent and focus. Second is the consistency at which we are going on with that intent and focus. This I will be able to share in the next quarter. Third is a broad overview of what kind of markets we are approaching and what kind of shares we are targeting in the given market. We will be able to share the data by the New Year. So it is a matter of time which I won’t be able to define today, not because I know far less about it but moreover I want to be sure about it before I share it with you.

H. R. Gala: Okay. I understand and appreciate that. My only question is that the path which we are now going to follow of totally rejuvenating each of the businesses on the lines which you have described, will it result in expansion of margins. And my second question is that how long it will take to clear the back baggage if there are any.

Pemkumar Seshadri: To a large extent, over the last two to three quarters, we have become lighter and lighter as far as the baggage is concerned. Some of this baggage is related to events, some of these are related to milestones and some to our collection cycles. So we are close to a very clear predictability in terms of what will happen when. But that's all I can share with you at this moment.

H. R. Gala: Okay. I understand. Looking at the balance sheet, we are really pleased that our receivables, inventory, loans, advances has been under control. Even the payables have come down. The utilization of cash has been very good. I would like to know how long it will take to cross the line maybe by the next few quarters.

Pemkumar Seshadri: Yes. Hope so.

H. R. Gala: Okay. Thank you very much. And wish you all the best.

Pemkumar Seshadri: Thank you.

H. R. Gala: We'll discuss more when we connect.

Pemkumar Seshadri: Thank you.

H. R. Gala: Thank you, sir.

Pemkumar Seshadri: Thank you so much, sir, for your question. We have a next question from Mr. Karan from Religare Capital.

Karan: What's the reason behind the decline in the distribution business -Y-o-y decline?

Sutikshan Naithani : One of the key reasons was the product rationalization which was happening at the principal side in the last two quarters. And if you remember there was a huge announcement of closing down of few categories of businesses like Asha and the X-Series. It started in the first quarter of this financial year. And it practically ran through most of the quarter two also. Now if you see, the product portfolio is getting completely revamped, and more and more smartphones are getting launched into the market. We have quite a healthy portfolio now which is getting built month on month.

Karan: When do you see growth coming in this segment specifically in which quarter?

Sutikshan Naithani: As mentioned earlier this business is directly linked with the portfolio which is growing steadily and of course the Windows operating system which is now getting more and more popular.. With more and more additions in the portfolio and with mass adoption of Windows portfolio you will be able to see positive growth.

Karan: Okay. Thank you, sir.

Management: Thank you.

Moderator: Thank you so much, Mr. Karan, for your question. Sir, there are no more questions in the queue. So I would like to hand over the floor back to you for final remarks. Thank you and over to you, sir.

Management: Thank you for joining us today. I hope we were able to give you a sense of the focal businesses and the direction that we are going. I am looking forward to interact with many of you as we go through the next few quarters and would try to address some of the questions that you had in person. For any other questions, please reach out to Kapil at kapilkap@hcl.com. Thank you very much for being with us.

Management: Thank you.

Moderator: Thank you so much, sir. Thank you all for your participation. That does conclude the conference call for today evening. You may all disconnect your line and have a great evening ahead. Thank you so much.