“Quarterly Investors call of HCL Infosystems Limited”

May 2nd, 2014

Moderator: Good afternoon, ladies and gentlemen. Welcome to the HCL Infosystems' Quarterly Investors Conference Call. I would like to now hand over to the Managing Director & CEO - Mr. Harsh Chitale.

Harsh Chitale: Good afternoon to all of you. We would like to begin with a disclaimer, this call may contain some forward-looking information including statements concerning our outlook for the future and some of them are anticipated events.

In the last quarter, the company underwent business transformation, moving away from certain old businesses to building future businesses, which are the growth pillars i.e. services and distribution.

In distribution business, the non-telecom distribution business showed healthy growth. While, the telecom distribution business witnessed a drop quarter-on-quarter, improvement in the gross margin percentage helped to maintain profitability.

The services business registered year-on-year double-digit growth as well as a good quarter-on-quarter growth. There was a net addition of Rs. 87 crores to the ACV during the quarter. The quarter started with Rs. 400 crores of contract bank and ended with Rs. 487 crores of contract banks.

In hardware & solutions business, the company continued to execute the existing order backlog and there was a significant cash conversion. Going forward, the focus will be on pursuing SI Services that are asset light and continue to execute & close old SI projects backlog.

The computing products business, a part of hardware solutions business, is on the course of being wound down. The business is moving towards a traded distribution type of business model instead of manufacturing branded products. During this transition, there were certain repositioning charges in this quarter and some are expected in the next quarter as well.

A brief snapshot of the overall business, the five different businesses are operating under different legal entities: the parent entity, HCL Infosystems', comprises of distribution business & HCL computing products business.

HCL Services business consists of enterprise services business, consumer services business called HCL Care. HCL Insys Pte Ltd, a subsidiary of HCL Infosystems, operates managed services business in Singapore.

HCL Learning is learning business. HCL Infotech is solutions business with its subsidiary HCL Infosystems MEA, in Middle East does enterprise solutions business.

The telecom distribution witnessed a sequential volume drop from OND'13 quarter to the JFM'14 quarter, owing to the Diwali quarter. In comparison to the corresponding period last year, the JFM FY14, the business was flat. Despite the muted business, gross margins expanded due to improved operational efficiencies and widened scope of activities and engagement with Telecom principal. During this period, HCL further expanded its footprint into the rural territory by addeding 88 new rural distributors.

The non-telecom distribution business continued to grow rapidly. The business stood at Rs. 188 crores last year, a growth of 25% year-on-year and 12% quarter-on-quarter. Revenues in JFM FY14 were Rs. 236 crores owing to additional sale in each product category as well as addition of few additional principals and additional categories such as Philips monitors etc.

The P&L for distribution business's with consolidated revenue for telecom and non-telecom distribution declined from Rs. 1425 to Rs. 1230. There was a combination of revenue growth in the non-telecom distribution and decline in telecom distribution. The PBIT for this business moved from Rs. 23.9 crores to Rs. 28.2 crores. Additional scope of engagement with telecom principal and operational efficiencies helped in improved margins despite a decline in volumes.

The consumer computing and mobility, a part of hardware solutions business, being phased out of the core business is progressing as per plan. The phase out period requires charges on profitability for inventory liquidation charges, inventory devaluation and reconciliation & collection with/from channel partners. With these charges, the business registered a loss of EBIT of negative Rs. 33.6 crores as against Rs. 27.9 crores in last quarter.

Almost 70% of the gross working capital in this business has been liquidated and balance is expected to be wound down by June this year. In the process, additional inventory charges and reconciliation charges are expected in next quarter.

The services business, the second growth pillar, continued the growth momentum by registering 8% quarter-on-quarter growth and a 14% year-on-year growth. The services contract bank grew from Rs. 400 crores at the start of the quarter and to Rs. 487 crores at the end of the quarter. Both the service segments, enterprise services as well as consumer services registered a healthy growth.
The enterprise services grew from Rs. 148 crores a quarter back to Rs. 160 crores in this quarter.

HCL have been operating managed services business for certain Singapore government agencies in Singapore. These contracts have ACV of $10 million. The growth in enterprise services for the quarter was on account of a large win in Singapore. This has almost doubled that engagement by adding a $9 million contract bank in Singapore. The new engagement would start reflecting in revenues from 1st of April 2014.

The Break-Fix services business, inked additional OEM tie-ups contributing to some growth. The services engagements were expanded with Dell and Delta etc. Few new service offerings on enterprise segments were launched during the quarter namely mobility services and enterprise management services. Although, both of them are small in terms of revenue contribution, but in terms of technology trend it is extremely important for us to position early in both of these make some early wins.

The consumer services grew from Rs. 17 crores to Rs. 19 crores, a growth of 87% year-on-year. There has been quarter-after-quarter growth for last 4 quarters and the business is now profitable at Rs. 19 crores a quarter. The business signed additional engagements and OEM relationships with De'Longhi and Lenovo and has started a repair factory work for two domestic phone brands. The walk-in centre, operated under HCL Touch brand expanded its footprint 268 stores continues to expand quarter-on-quarter.

The services segment combined revenues stood at Rs. 178 crores for the quarter as against Rs. 165 crores in last quarter, a sequential growth of about 8%. The business delivered a profit before interest and taxes (PBIT) of Rs. 15.7 crores. There has been a marginal drop in profits from Rs. 15.7 to Rs. 14.5 because of staffing cost in Singapore for the new engagement of $9 million ACV contract which begins on 1st of April.
The business launched additional productivity and service delivery improvement initiatives. The key initiative is the 100% automation of the field engineering team and services team, enabled with bikes as well as with field force automation on their handhelds with enhanced location and call closure & tracking features. The results of these initiatives would be visible going forward.

The HCL Learning business continued to experience subdued market sentiment in education industry. Consequently HCL is extremely selective in pursuing opportunities and extremely cautious on the acceptable levels of credit exposure and payment terms in this market. The business is adding marquee schools in the domestic segment such as Sanskaar Valley and Delhi Public Schools. HCL have been able to expand its learning footprint in overseas markets by adding about 200

classrooms for DigiSchool in Ghana, in Nepal and in Al Wadi in Middle East. This business, however, extremely skewed and cyclical towards April, May, June quarter. AMJ is the the peak of season and experiences a good ramp up in terms of business activity in HCL Learning.

In terms of financials of HCL Learning, consolidated revenue grew from 11 crores to 15 crores. EBIT moved from loss of 1.4 crores to loss of 10 lakhs. Q3 FY14 was close to break-even due to higher volumes and higher cost efficiencies. AMJ quarter would see this business on a very different footing as it is traditionally an extremely large quarter, with typically 2.5 to 3 times any other quarter.

HCL added 570 classrooms in Q3. Pursuing selective approach, HCL saw increase in per classroom per month rental of this business to Rs. 4900 in last quarter. This is up almost 20% from 4100 to 4900 over a 12 months' period.

Enterprise solutions business is the second business which is transitioning out from old asset heavy business model to only services going forward. The order backlog of 2600 crores at the start of the quarter in this business is down to 2400 crores as projects have been under execution. The execution rate is about 800 crores a year, meaning backlogs to be wound down in next two-and-a-half to three years. UIDAI managed services, the largest among the projects backlog, continues to progress well. HCL achieved the milestone of generating 60 crores Aadhar numbers as a part of contract. Despite the political controversies, the payments have been steady in UIDAI. The project momentum continues and payments from the customer continues on schedule in UIDAI. HCL is moving towards pursuing SI services contracts, with a backend service provider to a main SI lead. The credible IT know how experience built with previous SI projects would now be offered as a service to other systems integrators.

In Enterprise solutions financials, the consolidated revenue of Rs. 278 crores moved to Rs. 430 crores. Traditionally, JFM quarter witnesses significant progress on project milestones from number of public sector customers and government departments. This reflected in ramp up revenues in this quarter out of the order backlog.
Consequently, the PBIT moved from a loss of Rs. 12 crores to a loss of only Rs. 2 crores. PBIT before exchange rate fluctuations was Rs. 11 crores for the quarter. 100% of Foreign exchange exposure on these projects are now hedged. The forward premium id amortized over period of the contract/project. This is reported as exchange rate loss of 13.3 crores in the quarter. The provisions for bad and doubtful debts in this business have already been considered and no significant additional provisions are required.

The finance cost is the common approach all of these businesses because loans are taken at combined entity levels.

Quarterly view of the businesses brings out the movement in business lines. The distribution business with Rs. 1230-crore revenue and Rs. 28.2 crores EBIT as compared to Rs. 23.9 crores in Q2 and Rs. 24.7 crores in Q1. EBIT in distribution has grown more than 15% over last two quarters.
Services business reported Rs. 178 crores revenue and Rs. 14.5 crores EBIT as compared to 15.7 in Q2 and 7.6 crores in Q1FY14. Over two quarters, EBIT in services business has almost doubled.
Learning business reported Rs. 15 crores revenue for the quarter. The EBIT has improved quarter on quarter basis. From negative Rs. 2.7 crores EBIT in Q1 reduced to negative Rs. 1.4 crores EBIT in Q2, the EBIT for Q3 FY14 is almost at break-even of negative Rs. 10 lakhs.

The hardware solutions business, the businesses being phasing out. Both, solutions and computing and mobility put together, had negative EBIT in Q1 of Rs. 61-crore, which declined to negative EBIT of about Rs. 40-crore in Q2, further declining to Rs. 36 crores negative EBIT in Q3 FY14. The substantial part of phase out of consumer computing and mobility business is expected to be completed in AMJ. Consequently cost related to such phasing out is expected in next quarter.

Solutions business has projects with 2.5-3 years lifecycle. HCL focuses on executing the projects efficiently with minimum indirect cost, thus improving EBIT.

Unallocated cost eliminations, other incomes, investment incomes, etc are captured in last column. Unallocated income of Rs. 10.2 crores is net of these common corporate actions. This was Rs. 1.8 crores as compared to that Q2FY14 and Rs 5.5 crores in Q1 FY14.

EBIT before finance cost has improved from a loss of Rs. 25 crores in Q1 to break-even EBIT of Rs. 30 lakhs in Q2 and further improved to EBIT of Rs. 17.3 crores in Q3.
Quarterly finance cost has been fairly constant at about Rs. 38 to 40 crores in last three quarters.
Significant part of the finance cost is for the asset heavy businesses which are the hardware solutions. Finance cost would move in line with the phase out of these businesses
That was a snapshot of overall financials for JFM 2014.

We are progressing well on the strategic roadmap of building distribution and services and phasing out asset heavy businesses and extracting value

out of those asset heavy businesses in terms of distribution relationships and services and adding that further above distribution and services portfolio. We continue to execute on the strategic roadmap.

Moderator: Thank you, sir. With this, we will open the floor for a Q&A interactive session. The first question of the day is coming from SumangalNevatia from Macquarie.

SumangalNevatia: I have a couple of questions. One, I read that a distribution contract with Nokia is about to expire at December 2014. I wanted to understand is there any risk to renewal and if you can share some details regarding that?

Harsh Chitale: All our distribution contracts are periodic contracts. They are not perpetual and they do keep coming up for renewal every few years. That has been the case for the last 19 years, so far as our relationship with Nokia. Every few years, they come up for renewal. Same would happen this December. As of now, we do not anticipate any risk and we continue to have extremely strong association with Nokia. That is the reason why, as you saw in the quarter, actually we took over some additional scope and hence got additional gross margins in the quarter as a part of that additional scope. There will be a discussion that will happen around the renewal towards last four-five months towards the end of the contract period. We do not expect any risk as of now.

SumangalNevatia: My second question, as far as the repayment run rate is concerned, I mean, we understand that for the receivables, we don't anticipate any bad debt. But what is the current repayment run rate? In terms of quarterly, how much are we receiving regarding that?

Harsh Chitale: There are no additional bad debt provisions anticipated because we have already taken them on a conservative manner. There is still a total receivable in our solutions business which is both in terms of unbilled receivable which has to eventually get billed as well as billed and yet to be collected put together is about 1200 crores. That 1200 crores is what has to be recovered from the customer. Our total collection out of this right now is running at close to 250 to 300 crores a quarter.

SumangalNevatia: As far as the exposure is concerned, any specific state to which we have a large exposure for this?

Harsh Chitale: We do not have a very high exposure to state. Our exposure is on three large accounts. One is, of course, the new contract of UIDAI that we are executing which is a central government. Then, we have two-three large contracts in defence that we are executing with Ministry of Defence. So

that is the second area where we have receivable exposure. The third bucket is our old contracts where we have completed work which is with the state telecom companies, which is BSNL, MTNL and ITI where we have completed work and we expect receivables. Some of that is already provided for, some of that is getting under arbitration and litigated. There are some receivables. The fourth bucket is state utility discounts in Rajasthan, Himachal Pradesh and Jharkhand. So it is actually spread across these four and not concentrated in any one particular department or state.

SumangalNevatia: Thanks. Sir, my last question. Now, we have an ambitious plan to expand a service vendors close to 260-270 to 1000 in the next few years. If you could just elaborate on the timeline of this expansion and how capital-intensive will these be?

Harsh Chitale: This is not capital-intensive because this is through franchisee. Our fundamental investment there is identifying the franchisee partner in training the franchisee partner in giving him access to our IT systems in doing the QC and the quality control. So it is more of controlling the franchisee partner and getting him on to our network and hence it does not entail much capital investments our side. In terms of timeline, we are adding at the rate of about 40-50 on an average in a quarter. It is about two-and-a-half year kind of a journey.

SumangalNevatia: Sir, what will be the cash balance on the book as of 31st March?

Harsh Chitale: The cash balance, cash and cash equivalents on 31st March is 437 crores.

Moderator: The next question is coming from Ms. Neeta Khilnani from Ventura.

Neeta Khilnani: Good evening, sir. I have a couple of questions. Firstly, sir, you mentioned that there has been an increase in the scope of engagement with Nokia and that margins have increased due to this. Sir, can you just throw some light on what is the scope increase and how much of the margins improved and are they sustainable?

Harsh Chitale: Yes. So essentially, in rural territories or tier 2 and tier 3 towns, traditionally, Nokia approached that market to multi-tier structures. So it was given to a national distributor, to a regional distributor, to a micro distributor, to a retailer. In each of these, there was an inventory, there was a cost involved. As a part of this increased scope, we actually de-layered one layer out of this and added from our side a sales officer to cover the territory directly as opposed to having to appoint one layer or one tier of distributor. To be able to do this, there was some extra

margins that was provided by Nokia. And that is about 0.5 to 0.6% of sales. Since that activity has been done, it is a sustainable margin.

Neeta Khilnani: I guess, the margins in this segment are about 1.8 to 2%, so this would move around 2.3 to 2.5%?

Harsh Chitale: No. The margin movement is already happened in the quarter. It is not that there will be additional margin movement. In the last quarter, there has already been that margin movement.

Neeta Khilnani: Sir, in the services segment can you tell me an update on the order book in the IMS and Office Automation space and how much is it from India and overseas?

Harsh Chitale: Yes. We have two types of services in services business in the enterprise part of services. Our Care business, which is the consumer part of service operates at 19 crores a quarter as we saw, out of that 178 and all the rest is enterprise services. In that enterprise services, we again do two types which is one-time services and other which are long-periodic contracts where actually there is a clear visibility of contracts going forward. Our contract bank of this period contract moved from 400 crores to 487 crores. That means, for next 12 months from 1st January, we had 400 crores of contracts that were there. So we would have built 400 crores over 12 months on 1st of January. That now stands at 487 crores. There is that much addition to the contract bank within one quarter, which is the periodic contract part. Also, the one-time services keep coming all the time and they are short cycle. So it's difficult to give you a view of how that is moving. But the correct indicator of how our service business is doing is the contract bank which has moved from 400 to 487.

To your other question of how much of this is out of our overseas customers versus in India, our overseas contract bank is largely in Singapore and that has moved now from about $11 million to $20 million and this $20 million is 20 million Singapore dollar. So out of this 487, now about 100 crores is out of Singapore and the rest is out of India.

Neeta Khilnani: Sir, what would be the difference in margins between these two geographies? I believe India-based contracts are lesser in margins than compared to overseas?

Harsh Chitale: That is right. So India-based contracts are in single-digit EBIT percent and Singapore-based contracts in high teens in terms of EBIT.

Neeta Khilnani: We have 26 crores from the sale of property in this quarter, profit from sale of property. So is this anything to do with the winding down of the manufacturing business?

Harsh Chitale: It is a result of phasing out of our hardware solutions business, not necessarily manufacturing, we have not sold any of the manufacturing plants. But as we have reduced our focus on hardware solutions, there has been lesser requirement of office space in some of the places. As that office space keeps getting filled up as we continue to phase out, we are consolidating into fewer offices and whatever the excess space available is, if it is rented, there is an effort going on to give up the rented space and get the rental cost reduction going forward. Wherever if our own premise which is getting under-utilized, then we have sold book gains and whatever we needed to rent out of that, then just taken that much portion on rent.

Neeta Khilnani: Is there a possibility to see more success in the coming quarters?

Harsh Chitale: Yes. There could be some more that could come, as we continue to reduce our overall real estate requirement, as we wind down these hardware solutions businesses.

Neeta Khilnani: Employee expenses historically if you look at the quarterly numbers, it was on an average 120 crores in FY13. But in FY14 onwards, the average has been around 20 crores. Sir, am I missing something here?

Harsh Chitale: No. Our reported numbers are not comparable because last financial year was before we got approved restructuring and this financial year is after the subsidiarization has happened and HCL services, HCL Learning, HCL Infotech has moved out of the parent entity into subsidiary. What you are seeing are the standalone numbers and hence standalone numbers of last year and this year are not comparable.

Neeta Khilnani: The consolidated statements they would be more or less in line.

Harsh Chitale: That's right. And that is why what I am sharing here on the call is the consolidated view.

Neeta Khilnani: Like I mentioned that the company has 437 crores and cash equivalence, I believe there has been no dividends declared this quarter. So is there any specific use of the cash that you have in mind or…?

Harsh Chitale: We have taken loans for our SI business and pretty much all of the working capital in the SI business is about Rs. 1200 crores which is our gross working capital. All of that is funded out of loans. Those assets are largely securitized and loans have been taken against those. As we keep releasing cash either out of collections of receivable or out of winding down of fixed assets that were required for that business, our first effort would be to actually retire all those loans because our other businesses

which are asset-like such as distribution and services where we are putting emphasis and growing they don't need that kind of capital deployment. So our first emphasis would be to retire those loans.

Neeta Khilnani: What would be the loan amount as on March?

Harsh Chitale: On March 31st consolidated is 1095 crores.

Moderator: Sir, the next in line is Mr. Srivatsan from Spark Capital. Mr. Srivatsan, your line is unmuted.

Srivatsan: Hi. I just wanted to understand, in the non-telecom distribution business, how would be the working capital and capital requirements and what kind of margins are we looking at. Basically, what kind of margins these would be operating and what kind of margins you could possibly see year, year-and-a-half down later when we get substantially higher scales?

Harsh Chitale: Okay. I will walk you through the margin of that business. In the non-telecom or other than telecom distribution business in Q1 was at a negative of Rs. 2.5 at EBIT. So the business was at loss, as we started building it up. In Q3 now, it is at positive of 1.8 crores. There is a quarter-after-quarter improvement in this business as the volume continues growing. And this Rs. 1.8 crores of EBIT has brought 230 odd crores of revenue. Still this is not the entitlement rate of the EBIT because the SG&A is heavy relative to the business volume that we are getting today.

We expect more from the non-telecom business because the gross margin profile of this business is better than that of telecom business. Enterprise product distribution typically is at a much higher margin and hence we do expect the margin profit in this business as the volume scales up to be a bit better. Coming to cash deployment in this business, this business does have a typical working capital cycle of about 30 days.

Srivatsan: Okay. And in terms of the scale down that we are doing in the Systems Integration business, I just wanted to understand your comfort in terms of the incremental contracts. What kind of payment cycle are you looking at? Is there a possibility that the new contracts that we are executing; we could end up in a similar situation as we are with the current telecom or some other government entities where our payments are not getting released in 150-160 days. Is there a risk mitigation strategy to ensure that too much of cash is not stuck in the new contracts that we are executing as the time progresses?

Harsh Chitale: We are not taking any new contracts where there are hardware affects working capital exposures for the company. When I use the word old and

new, it was basically relatively new. But still we have one-and-a-half-year old contract with UIDAI or defence contract or very old jobs that we picked up five years back with our state telecom companies or state discounts. But in terms of new contract bookings on SI project, we right now are not picking any new SI project contracts, except when they are purely services in nature. And there, this kind of exposure does not come.

Srivatsan: No, I just want an update on the projects that we are executing now. What kind of payment cycles we are expecting and is there risk mitigation to ensure that if it gets extra-elongated we don't continue to execute without receiving the payments?

Yes. So on the projects that we are executing, if we are half-way in those executions and the only risk mitigation strategy is to execute them faster and come out of them because on those projects the gross working capital deployment has already happened. And the only way that you recover is by completing the project, getting the sign off and collecting that money. We've gone contract-by-contract and evaluated, if there is an option of doing so and is there an option of working with the customers to get out of that contract. Wherever such options existed, we've already implemented those. But whatever we have in our contract bank i.e. Rs. 2400 crores of backlogs those we believe need to be executed to completions.

Vasant: Sure. And on the services business side we are seeing good ramp up. I just wanted to understand in terms of the Singapore contracts that we have got, when will the good part of it will go into execution what kind of margin trajectory would these have? So is it fair to assume that the service and business level have substantially higher margin trajectory possibly at the same time next year?

Harsh Chitale: Yes. In the Singapore contracts' what we had in first phase was $11 million. This is already under execution and is a part of the numbers for last quarter. The one that we've now booked in the last quarter of additional $9 million a year, that revenue would be recognized from April. So from 1st April that revenue recognition has already started. We would see that jump arising out of that contract in AMJ. In the earlier question that was asked, I think, by Ms. Neeta, the margin profile on Singapore contracts versus domestic contracts, is much higher. They are in teens in terms of EBIT which is higher than the domestic contracts. So as the business mix changes in their favour, there would be a result and impact on the EBIT.

Srivatsan: What kind of capital will get released over 6 month period post the inventory reconciliation in your HCL branded products business that is being winded down?

Harsh Chitale: The total inventory and receivables that we have invested in our products business is around Rs. 400 crores, the gross working capital or the gross capital employed which includes net fixed assets, debtors and inventory, the gross capital is down by almost Rs. 250 crores in this last six months, as we are progressively reducing gross capital but a significant part of that will be used to liquidate all the liabilities there are on these businesses.

Srivatsan: The net figure would be about Rs. 100-150 crores?

Harsh Chitale: Yes, but all of that will be used to pay the liabilities. We don't anticipate whether it will result in the release of cash for other businesses.

Srivatsan: In the systems integration business there is Rs. 1200 crores in gross working capital. Just want to know if there are any large creditors that would correspond to it? Are there any payments that are currently stuck?

Harsh Chitale: A major part of our gross working capital that is employed. In our SI business we have Rs. 1305 crores of gross working capital and the total liabilities are Rs. 800 crores, keeping net working capital at Rs. 500 crores of. As our money gets released, Rs. 500 crores of cash generation should happen in the SI business.

Moderator: Sir, the next question is from Mr. Ankit Pandey from Quant Capital. Mr. Ankit, your line is unmuted.

Ankit Pandey: Hi. Good evening to the management and many thanks for taking my question. I just had a couple of questions around your distribution business. I think it would help if you just can clarify how much of the non-telecom distribution is composed of consumer electronics and durables?

Harsh Chitale: The consumer products part of our distribution business is about Rs. 90 crores of the total Rs. 236 crores from non-telecom distribution.

Ankit Pandey: That's about 40% or so?

Harsh Chitale: That's right.

Ankit Pandey: Could you quantify the restructuring losses that the business incurred in this quarter?

Harsh Chitale: The losses incurred are essentially on three fronts. They are on account of the products we sold below the input cost to liquidate our inventories quickly. Secondly, the inventory in our books taking the charge in terms of NRV value on that inventory. Thirdly, on account of the receivables which are with our channel partner, credit note reconciliation and receivable reconciliation and settling of counter claims.

Ankit Pandey: We've recorded losses of about Rs. 20 to 30 odd crores in last two quarters. When do you think that you would make a net breakeven in this segment?

Harsh Chitale: We expect AMJ quarter to be another quarter wherein these charges maybe there as we phase out the rest of our product line as far as the personal computing and mobility businesses are concerned.

Ankit Pandey: In your services business, it is indicated that we are seeing a large pipeline in Singapore & the Middle East, we expect that the deal pipeline could grow from the current run rates business to about 10 to 13 million USD.

Harsh Chitale: When the pipeline was 10 million USD, we had anticipated its growth in terms of the total potential we see in Singapore. We now serve 53 customers, as a part of our contract with IDA and will keep farming into existing account to get more business. In Middle East, our service client-base is still small. It's still largely solution-centric and hence our current effort has been to wind down the business in Middle East before we can ramp up our services presence.

Ankit Pandey: Okay. That was helpful. And on the enterprise side are there some litigations in your receivables?

Harsh Chitale: We have about Rs. 200 crores of receivables which are under arbitration, of which, we've already provided for Rs. 150 crores. Some of the preliminary arbitration awards have gone in our favour. But till the money finally comes in, we would not record them as it is a long process.

Ankit Pandey: Can you share how much the state-owned entities such as MTNL, BSNL, ITI would constitute in your receivables book?

Harsh Chitale: We don't have it readily available.

Ankit Pandey: And one final question, if I look at the finance cost, it's still running at about Rs. 160-crore per annum. So I assume that you had indicated that we are receiving about Rs. 250-300 crores per quarter of receivables. So this has not been used to pay your debt? And if that is the case, I don't

see much change in your other income in this quarter, removing the extraordinary income would not really change this. So can you just clarify a bit?

Harsh Chitale: Out of Rs. 1300 crores of gross working capital in SI business, there are about Rs. 800 crores of liabilities that need to be paid back, hence not all the collection that happens go straight into the free cash flow. There is an outflow on account of liability repayment and some of the liability repayments can be repaid ahead of collections. There could be a cash flow mismatch, depending on whether the loan amount is moving down at the same pace. Not the entire collections amount Rs. 200 to 250 crores is used for loan repayment. Today, most of the amount is going into the liability repayment or a creditor repayment. And only the balance is getting into loan repayment, from January 1st to 1st April 2014, our loan amount is steady at Rs. 1095 crores because whatever we have collected went in settling creditor repayment on that business.

Ankit Pandey: All right. Thank you so much and all the best.

Moderator: Sir, the next is Mr. Ashish Agarwal from Hellmann Global. Mr. Ashish, your line is unmuted.

Ashish Agarwal: Good evening. Just one book keeping question, What's the annual CapEx plan on a consolidated-basis for the current year and for next two years?

Harsh Chitale: Our CapEx requirements are about Rs. 20 to 30 crores a year on account of replacement of existing IT infrastructure, laptops etc because our focus businesses distribution and services there is very little capital employment other than what little one would make in the backend remote infrastructure management centre.

Ashish Agarwal: Thank you, sir. Thanks a lot.

Moderator: Sir, next is Mr. Srivatsan from Spark Capital. Mr. Srivatsan, your line is unmuted.

Srivatsan: On the telecom distribution business, what kind of overlap are you seeing between the touch points we have both between the telecom and the non-telecom distribution? Is there delivery or distribution synergy?

Harsh Chitale: One big part of our distribution happens through modern trade or organized trade like Reliance, Chroma etc. There is an initial overlap, common account management, common supply chain, common credit management and so on. This is the immediate synergy there that we've been leveraging. The Consumer durables part of our non-telecom

distribution which is about Rs. 90 crores has really leveraged that synergy. That's one big part of the synergy. While in tier one & tier two towns you may have a separate telecom outlet and a separate consumer durable outlet but in the rest, some of these outlets converged but the bigger synergy has been in the modern and organised trade.

Srivatsan: Can you quantify the credit risk and what kind of delinquencies we typically have in collection from especially in general trade population?

Harsh Chitale: 100% of our credit out into the market is in short as we have 100% credit insurance. And our track record on delinquencies over last five years is so good that we have very competitive credit insurance rates, hence we have ensured 100% of the credit out into the market. As per the guidelines of credit insurers IDA, they give you up to 80% and the rest 20% default risk is yours. At any time, total credit that in the market for entire distribution business is about Rs. 180 crores. On a Rs. 1200 crore of distribution business a credit of Rs. 180 crores, which is about 10 or 12 days of average credit into the market. We've not had any major delinquency since many years.

Srivatsan: Sure. Just wanted to know your thoughts that if GST sees reality what kind of benefits it could reap us?

Harsh Chitale: Our assessment is that if GST may not materially impact us much because while theoretically when the GST comes you can have fewer warehouses and can operate through fewer warehouses and still fulfil delivery. Most of our distribution of warehouses geographically has been to fulfil SLA commitments where you can fulfil short cycles, as opposed to VAT requirements. Today, we have warehouses in every state because of cycle time requirements for delivery. Even when GST comes into practice, the physical cycle time to fulfil will still be there. For example, there could be few warehouses between east-Maharashtra and Chhattisgarh.

Vasant: Sure. Thank you, sir.

Moderator: Sir, there is a question from Mr. Ankit Pandey from Quant Capitals. Mr. Ankit, your line is unmuted.

Ankit Pandey: In the services business, our margins are still running low in the single digits. So what's the kind of timeline on this do you think?

Harsh Chitale: Our services business has three broad pieces. Our overseas services piece is in its high teens and the domestic enterprise services which are in high single digit. HCL Care is about now turn to profit. So it's a combination of these three which you are seeing. As Care volumes continue to grow,

it has grown 87% year-on-year, we will see margin expansion. As our overseas services business ramps up, the overall service mix will drive healthy margins.

Ankit Pandey: In the manufacturing business, the hardware and system integration, what's the kind of mix that we expect to execute going forward?

Harsh Chitale: The manufactured products part of that business would go away. That leaves the system integration part of the business where we are executing projects in the order of Rs. 200 to 250 crores a quarter. In the last quarter we did a run rate business about Rs. 250 odd crores and we expect to continue on the same lines. We need a 3 year timeframe to complete the existing order backlog.

Ankit Pandey: My question was specifically around the hardware mix, if you can just quantify that roughly?

Harsh Chitale: So in our system integration business, hardware makes almost 80% of the entire revenue.

Ankit Pandey: Okay. Just a suggestion from my side. If you could provide some more statistics on the distribution side of the business that could be helpful, say, the number of touch points, the number of principles that we add quarterly that would be helpful, we would like to have some more qualitative data.

Harsh Chitale: Sure. A great suggestion. We will give more granularities in terms of our coverage, touch points etc.

Ankit Pandey: Thank you so much.

Harsh Chitale: Since there are no further questions, thank you for taking time to understand a bit more about HCL Infosystems and how we are trying to transform. Look forward to talking to you again in the next quarter. Thank you.

Moderator: Thank you so much, sir. That does conclude our conference call for today. Thank you all for your participation. You all may disconnect your lines now. Thank you. Have a good evening.