



HCL Infosystems Ltd
“HCL Infosystems Quarterly Investor Conference Call”

Q4 & FY15 Earnings Conference Call

August 24, 2015

Speakers : **Mr. Premkumar Seshadri, Executive Vice Chairman and Managing Director**
 HCL Infosystems
 Mr. S G Murali, Group Chief Financial Officer, HCL Infosystems Ltd
 Mr. Bimal Das, Joint President Enterprise Products, Distribution Business, HCL
 Infosystems Ltd
 Ms. Kanika Sagar, Chief People Officer, HCL Infosystems Ltd

Moderator : Welcome to the fourth quarter and full year earnings audio conference call of HCL Infosystems. There would be a presentation, followed by a question & answer session. Throughout the presentation, all participant lines will be in listen-only mode. This presentation is available in the Investor Relations section of the company's website. We would like to begin with mandatory disclaimer. This call may contain forward-looking information, including statements concerning our outlook for the future as well as some of our other statements of belief, future plans and strategies. These forward-looking statements and information are subject to risk and uncertainties that they entail.

We have amongst us Mr. Premkumar Seshadri, Executive Vice Chairman and Managing Director HCL Infosystems, Mr. S G Murali, Group Chief Financial Officer, HCL Infosystems Ltd, Mr. Bimal Das, Joint President Enterprise Products, Distribution Business, HCL Infosystems Ltd and Ms. Kannika Sagar, Chief People Officer, HCL Infosystems Ltd.

The conference would now be handed over to Mr. Premkumar Seshadri.

Premkumar Seshadri : A very good afternoon to all of you. It is my pleasure to be talking to you on completion of our fourth quarter and full year, ended 30th June. It's a very tough day out at the stock exchange today but, I'm sure you would hear some good news from us. I will start with Slide number 2 of our presentation, which gives an overview of our businesses. Our Distribution business is bifurcated into the Consumer Distribution and Enterprise distribution to talk about the outlook for this business. Our HCL Services business is divided across three core elements –Domestic Enterprises, Consumer Services and Global Services. HCL Learning is another wing of the Group, along with HCL Infotech Ltd. which is focused on the System Integration business.

I will now move to slide 3 of our presentation, which essentially talks about the highlights of Q4. The Q4 revenue grew sequentially at 22% over Q3 to reach Rs. 1686 crores, an increase of Rs. 310 crores on a quarter-on-quarter (Q-o-Q) basis. The operating profit improved in Q4 and FY15. In Q4 the operating profit was Rs. 19.9 crores positive versus Rs. 6.4 crore negative in Q3 FY 2015. Whereas, last year we had a negative of Rs. 57.3 crores which is now in a good zone of Rs. 21.7 crores positive. The Enterprise Distribution revenue increased by 31% Q-o-Q and 19% year-on-year (Y-o-Y). The Consumer Distribution grew 26% Q-o-Q, registering the first sequential increase from Q4 2014. The Enterprise Services grew 19% Y-o-Y, whereas the Consumer Services business grew 136% Y-o-Y. An important aspect of the year was a ~ Rs. 1000 crore execution of the order book in the SI business. There were many accolades this year, the key ones being the IT Services Provider of the Year for India by Frost & Sullivan and being recognized as a Great Place To Work by the relevant people. To walk you through the rest of the presentation, it's now over to our Group CFO, Mr. S G Murali

Murali :

Good afternoon to all of you. This has been a good quarter for us. The revenue grew from Rs. 1376 crores in Q3 to Rs. 1686 crores in Q4. This is for the first time after a long time that there is a positive momentum in our revenue after a continuous decline quarter-on-quarter. Our revenue grew across all business segments., The Distribution business grew from Rs. 939 crores last quarter to Rs. 1191 crores in this quarter. Our Services business grew from Rs. 244 crore last quarter to Rs. 254 crore in this quarter.

The learning business moved away from product sales in the last year to selling content this year. The business grew marginally compared to the last quarter, from Rs. 6 crores to Rs. 7 crores.

The SI Solutions business is at Rs. 234 crores in the quarter. Overall we are at Rs. 1686 crores this quarter compared to Rs. 1376 crores in the last quarter.

The Profit before provision for doubtful debts and write offs and impairment, was at negative Rs. 6.5 crores in the last quarter. This quarter this is in the positive at Rs. 19.9 crores. However, the provision for doubtful debts and impairments in this quarter is at Rs. 30 crores compared to Rs. 15 crores in the last quarter. The loss before Interest and Tax was better than the previous quarter at Rs. 5.3 crores. The finance cost has increased from Rs. 29.8 crores in the previous quarter, to Rs. 34.5 crores this quarter. We had a one-off credit in the last quarter of roughly about Rs. 2.2 crores, which was a settlement of a previous period.

In this quarter, the overall debt went up by about Rs. 75 crores, resulting in an additional average debt resulting in an interest cost of more than Rs. 2.5 crores, and hence the finance cost has gone up. The debt will be around this territory at Rs. 1250+ crores. Finally the loss is at Rs. 39.7 crores this quarter as compared to Rs. 45.3 crores in the last quarter.

Moving on to the Enterprise Distribution business, it was clocking about Rs. 45 crores month over month average, for the first 8 months of the year.

We deepened our reach through an expanded distribution network for the SIs and OEMs, where we are over about 600 today. With the OEM sign ups done in the last 3 quarters, we have now been able to clock an average of about Rs. 80 crores per month, consistently between March and June.

Now, annualizing the business which was at about Rs. 500 crores in the first 8 months of the year, today it has stabilized at around Rs. 1000 crores, which is annualized of the last 4 months. We are continuing to expand our reach through our partners. We are continuing to sign up new OEMs. 47% of the business is now accruing from channel partners, which is likely to go up. Thus, the business is now growing on a steady pace. The revenue for the current quarter grew 31% over the last quarter and overall the revenue grew 19% compared to last year. It should be noted that the month of June typically clocks higher growth because most of the corporates get their annual operating plan approved in the months of April and May Keeping in

view our last 4 months' performance, we are clocking an average of 80 and it is likely to go up further.

There is good news from the Consumer distribution business. The revenue which earlier had dropped consistently Q-o-Q has started looking up. It was at about Rs. 1400 crores, in the first quarter of last year, then it came down to about Rs. 755 crores, and for the first time it has gone up to Rs. 950 crores. There are two things that happened; one, the strengthening of the rural distribution which is showing very good growth, and two, for the first time we got into online distribution which has started clocking well. The entry category actually witnessed a 24% growth over the last quarter, and the microfinance channel is a huge opportunity. This, coupled with the financial inclusion, is an opportunity for improving our reach in the rural market. Again, we have a very strong rural distribution, and we are trying to see how best we can leverage the rural distribution in the non-telecom space. We have been working with various product categories and brands over the last two quarters and we are continuing to strengthen this area. This is an opportunity for growth. Overall, the consumer distribution revenue increased by 26% over the last quarter.

The Distribution business, overall, is at Rs. 1191 crores compared to Rs. 939 crores in the previous quarter. The profit before provision for doubtful debts is at Rs. 23 crores and the Profit before Interest and Tax is at Rs. 22.5 crores compared to Rs. 16.6 crores. For the year we are at Rs. 4382 crores with a Profit before Interest and Tax at Rs. 82.7 crores.

There is a very good growth in the Services business, both in Enterprise Services and the Consumer Services. Overall, we have grown 30% on a Y-o-Y basis. The HCL AMC's that dropped due to exit of manufacturing for the last 2 years, will be replaced by new OEMs which are what we are servicing today. 80% of the renewals have already been executed. Q-o-Q, the order book is actually building up, in second quarter of last year we were at about 12 Crs ACV booking; we moved to about 52 crores in the last quarter of this year, which is showing a good track record. Overall, I would say that it is an area where we are witnessing consistent growth. While we continue to make investments in this space, we are also signing up with new OEMs which requires lot of capability building, as well as investing in backend tools and technology.

Consumer services has been a very good story. Overall, we have seen a growth from Rs. 67 crores in the last year to Rs. 158 crores in the current year. Again, we continue to sign up with various brands for servicing the consumer category devices, this is one area where we have again seen our reach increasing consistently over that last four quarters.

Coming on to slide no. 10, the Services revenue for the quarter is at Rs. 254 crores in this quarter compared to Rs. 244 crores in the last quarter. The

total revenue for the year is at Rs. 927 crores, the loss before interest and tax is at Rs. 10 crores. For the quarter it is at negative Rs. 4 crores, largely because of the continued investment in this business. This is an area again for growth.

In the Systems Integration business - we have been focusing on execution of the current pipeline of orders. Orders executed during the year were at Rs. 982 crores. We are happy to mention that the Aadhar card enrolment has now touched 87.5 crores citizens till the end of Q4. The Financial Inclusion (FI) business is a budding business at this point in time, and has registered a 60% growth over the previous year.

New projects such as child enrollment, mobile update, digilocker are all additional opportunities in the Aadhar space. The PCM mobility business has almost reached the tail end, and the entire inventory has been liquidated. The Enterprise hardware revenue has the FI space, the solutions and the PC mobility, where the PC mobility has almost reached the tail end.

The revenue for the System Integration business, as slide no. 12 shows, is at Rs. 948 crores. For the quarter it was at Rs. 238 crores and the loss before interest and tax is at Rs. 90.7 crores. For the quarter, the loss is Rs. 6.7 crores, which has come down consistently Q-o-Q, and the PC mobility will wind down towards the end.

Finally, the consolidated revenue for the year was at Rs. 6195 crores, bit lower than the last year. Profit before provision for doubtful debts and impairment, was at Rs. 21.7 crores compared to a loss of Rs. 57.3 crores in the last year. Though the provision for the year has been at Rs. 111 crores compared to Rs. 51 crores for the last year, overall the loss before interest and tax narrowed to Rs. 50.5 crores compared to Rs. 67.5 crores in the last year. The bulk of the loss is from the PC and mobility business where we had a loss of Rs. 67.8 crores. The net interest cost is at Rs. 123 crores compared to Rs. 118 crores in the last year. The overall loss for the year at Rs. 173.5 crores is lower compared to the previous year loss of Rs. 185.8. The gross debt has increased, to Rs. 1253 crores as compared to Rs. 1112 crores for the last year. The net debt has gone up from Rs. 590 crores to Rs. 884 crores in the current year.

Moderator : Thank you very much. the Question and Answer session will begin now. If the participants have any questions, they can press '*1' followed by their name and their organization's name and then can ask their question.

Srivathsan : Hi, this is Srivathsan from Spark. Can I get an update on the whole System Integration business? The idea was that over a period of time the working capital and funding requirements would ease up, but if you had to see just

yearly numbers also, debt levels and other things have only gone up, so by when we can see some of these working capital getting eased, especially that's stuck in the System Integration business and can we see a reduction in debt over the next, , 12-18 months.?

Premkumar Seshadri : In the context of the System Integration business, there are 2 or 3 data points that are crucial. The first data point is the extent of execution. In the last one year, we have seen a ~ Rs. 1000 crore execution , in this business. The second perspective that really comes in is that, at what stage how much of these projects are in the build state and how much of them are migrating into the service space. So, fundamentally it is the build stage where the larger amount of asset heavy investments take place. In the maintain stage the asset heaviness of the entire contract reduces and it becomes a lot lighter. So, there are two crucial data points here, one, significant execution has happened this year and when you look at it in the context of the about Rs. 1000 crore execution, with a large part of it being on the build side, it signifies that there is a lot more capital deployed to deliver this business. Obviously that was the reason for the overall debt increase With the order book being where it is today, the size of the build has shrunk significantly, and over the next year, you will see that many of these projects are actually moving into the maintain stage, outside of the build stage. And all the execution that has been done so far are now due and receivable from the various projects, so cash flows are expected over the next two quarters, because lot of the build is going to convert to cash.

Srivathsan : So, could we see this gross debt or net debt number we are running at, reduce by a sharp degree over the next four quarters?

Premkumar Seshadri : Yes, that would be a reasonable estimate, because our objective would be to try for that. If you look at it in that context, the lion's share of the total debt is in the System Integration business.

Srivathsan : Okay. The Services business has seen very good growth, but unfortunately on the profitability side there has been a nose dive. so So I wanted to understand that within the various portfolios of services, be it the Enterprise side or the Consumer side, what the gross margins and EBIT margins would be, and whether this weakness in profitability is due to some specific accounts or pockets?

Premkumar Seshadri : Okay, I will divide this answer in three parts. The first part is the genesis of this business and the point of arrival. The point of arrival was at the beginning of last year largely, with contracts which needed to get into various levels of execution. Now, over the year, we have significantly

raised the service offering as well as the price points and the margin points. However, some of these contracts ran for a large part of this year and hence the impact in terms of augmenting those margins was limited. The second aspect was that a large part has to be booked and then billed. As you know, in regards to any IT services revenue the earlier the booking is done, the more you get as a benefit through the year. So if you look at the TCV of contract and pipeline today, which has grown exponentially over the last two quarters, the delay has been in terms of ramp up in contracts. The pipeline is the reason why you see the positive impact on revenue being lesser, while the effort is still there. The third crucial aspect is that in terms of re-portfolioing the entire services catalogue in terms of our offerings, we have looked at it not just in the context of the traditional services such as multi vendor technology services and managed services, but also in the emerging areas of support like cloud, internet of things and so on. These require competency building of a significant nature, so apart from manpower intensive competencies in terms of effort, training and so on, it also had a key element in terms of infrastructure to support. We have built a very strong remote resolution centre and a complete operational centre in Pondicherry, the costs of which are baked in to a very large extent in this year's operations itself, both Capex and Opex in nature. Going forward, some of these investments will continue, so on the Services side, such healthy investments will extend for another few quarters, but the breakaway from that in terms of gross margins is definitely in the anvil. This is visible in all the large contracts that we are winning today where the portfolio has migrated to areas of customers which are able to absorb these high end services at a different price point compared to what it was as a portfolio one year ago.

Srivathsan : Continuing on the Services business, this year there have been almost Rs. 19 crores of provision for bad debts and write-offs. This is pretty high at 2% of revenues so I wanted your thoughts, on these pockets of collection issues?

Premkumar Seshadri: These were largely contracts of the past, which were being serviced this year. In servicing these contracts there are two elements of bad debts and provisions, there are provisions associated with bad debts, and some of the spare obsolete inventory which had to go because because of the migration from HCL's own manufactured PCs and mobility devices and so on, to other global OEMs kind of equipment. So when you look at that migration, a large part of that base was becoming obsolete because everyone would have gone in for a tech refresh after maybe 3 years. So this year would have seen year 5, 6 and 7 in many of those products. So there has been an obsolescence cost built into it, plus many of those

contracts were low on margins and had a weight which was basically going down to payments due at the end of the year and at end of 6 months and so on. Those contracts have been cleaned up and in our estimate, if we believe that some of them were not collectable, we have provided for it. This is in the nature of the ongoing business, we have almost migrated to a new portfolio, but we will still have some of those contracts because some of them were signed for 2 years and 3 years and so on.

Srivathsan : Okay. My last question and then I'll come back later. It would be helpful if you can give us a sense of the capital employed, gross capital employed in each of these businesses, three broad business categories that you have?

Premkumar Seshadri : Yes, Murali, will share that with you by the end of the call.

Rohan : Hi, I am Rohan from Alpha Enterprises. I want to understand what caused the turnaround quarter-on-quarter in the customer distribution business. Also, could you elaborate on your e-tail strategy and what new products have been rolled out?

Premkumar Seshadri : I think 2 or 3 things contributed to the last 6 months of positive movement on the consumer distribution side. Due to better streamlining, the Telco product has become largely a Windows based product. This migration to Windows has been very positive. Today, almost a third of the entry level products is essentially Windows based. The second aspect was that we were continuously looking at newer channels and reach vehicles. The focus so far has been on the OT and GT, general trade and organized trade areas in rural pockets. Newer channels of reach into these markets are being looked at. So two key channels that we invested in the past have started firing. The first one was essentially around the online channels. Today as a company we have the end to end capability to look at any of the online e-tailer marketplace for their end to end distribution requirements. Many contracts have already been signed up across the Telco range and we are gradually also signing up in the non-Telco businesses. The second aspect was a greater emphasis on rural India and the rural economy as a whole, which necessitated our work synergistically in the financial inclusion space, to look at microfinance channels. All the key major microfinance channels today are key channels from a rural India context.

Rohan : Okay. Please elaborate what percent of your distribution sales comes from e-commerce and rural/microfinance?

Premkumar Seshadri : I am, at this point of time, not getting into the break up across channels. There is a lot of work still to be done in this space and there is some classified information that is available, but in percentage terms our growth rate across these two channels is almost 2-3 times our normal growth rate across other channels.

Rohan : Just to understand in terms of e-commerce, would you basically be an exclusive vendor for, say, the erstwhile Nokia Windows phone on a platform like Snapdeal or how exactly does that work?

Premkumar Seshadri : I won't get into the names of my customers, but definitely the names such as the ones you have mentioned, we do service them and in most cases for all the products that we are involved in, we are exclusive distributors for them.

Rohan : Okay, and would your margins be favorable compared to your offline distribution?

Premkumar Seshadri : There is a slight difference in margins. , the online channels obviously are seeking better price points given the fact that their go to market is based on price as a key pull, but it is not very significant in the context of the overall margins.

Rohan : Okay, and sir, the last question on distribution. Would this result in increase in sales? How much would you attribute to seasonality and how much is sustainable kind of improvement that you see?

Premkumar Seshadri : Yes, you re right – it will. Seasonality pickup actually comes around Puja and Diwali to Christmas.

Premkumar Seshadri : Srivathsan asked a question on the gross capital deployed .

Murali : The segment wise break up - the Hardware Products and Solutions roughly about Rs. 930 crores, Services it is Rs. 220 crores, Distribution is about Rs. 40 crores, Learning about Rs. 16 crores,the lease/rent

receivables about Rs. 262 crores and unallocated balance, which is roughly around Rs. 1030 crores.

Srivathsan : Hi. I am Srivathsan. I wanted to know about the lease rentals of Rs. 250 crores and unallocated of Rs. 1030 crores?

Murali : The lease rentals is part of the unallocated, the total is about Rs. 35 crores, of which the lease rental received over the next 2-2.5 years is roughly about Rs. 252 crores. There is a goodwill of about Rs. 635 crores and tax of about Rs. 93 crores, . So overall it is about Rs. 1030 crores. We also have some liquid assets of about Rs. 250 crores at the end of the period.

Srivathsan : Would it be fair to say that lease rentals are effectively the cash flows you need to get from the Systems Integration business because some of it is more cash flow and its just that it is structured as lease?

Murali : No, let me explain. Products were sold in the past, both for the learning business where we had to sell the hardware along with the content. Then in the Enterprise distribution in the older order we were selling as a part of the solution. There was equipment being sold on lease, all that has been stopped for the last 15-18 months. This is only what is yet to be collected, there is no investment in this business for almost the last 18 months.

Srivathsan : Continuing on capital efficiency, how would you look at it from a capital requirement point of view as there is a net debt of more than Rs. 900 crores. Are you looking at any other source of capital? Do you think that with your internal accruals plus what can be maneuvered around on the treasury side, it should be able to see through next 12-18 months?

Murali : We are burning roughly about Rs. 30 crores of cash per quarter. As the EBITDA improves, this number will start going down in the normal course of business. In addition to that, , as we complete projects over the next 4 quarters, the SI cash flows which are locked up should come in, which is when the significant debt reduction will happen.
There will be a marginal increase in debts, say about Rs. 100 crores over the next one year, but as and when the SI cash flow starts triggering in, net debt should start declining in the current financial year. It will take probably another two quarters for you to start seeing it. As the projects

get completed, as the SI cash flow comes, the net debt should start coming down.

Srivathsan : But just to play devil's advocate, you would also have a decent amount of execution that will play through this year too , which will again have a decent order book to go through. Even if Rs. 600 - 700 crores is to be executed for the year, that is going to consume working capital, so on a combined basis, will it release enough cash to repay debt?

Premkumar Seshadri : I think you should look at the working capital requirement in the context of the stage of the projects. As I said, there are three stages of the project - there is a significant build, an incremental build which comes as part of the contract, and then there is the maintain part. The maintain part has the least cash requirement, and the build part has the maximum. And there is a middle part where there are some minor incremental areas. Two things that we have done to de-risk this situation. One, what we are seeing is that significant part of our projects which are pending today are lesser on the heavy build side. These are largely on the maintain and marginal build area. The second part is that by now we have reworked with many of our OEMs. These are some of the ways in which we are trying to make sure there is not much stress in terms of the way we are managing the working capital in terms of receivables and payables.

Murali : See, the net is likely to decline, because what will be collected will be more than what we may have to deploy for the execution of the project. So we will start seeing a decline after 2-3 quarters. Most of the projects are coming towards the fag end, all the projects are 70 to 90% complete.

Premkumar Seshadri : The bulk of the build is done. There are still a few projects which are in the build phase, but the bulk of the heavy build which required a lot of hardware is behind us.

Srivathsan : Okay, coming back to the Enterprise business, especially the non-Telecom piece, wanted to get your sense on the recent vendor additions, how do you see it in terms of growth? Do you think we could see an accelerated growth this year? That's part one, second is in terms of your core pitch, what would be the USP on which you are winning some of these logos; and just wanted to get your thoughts on GST, if it plays through, how is it going to play through, in terms of logo ramp ups, or is there some incremental business opportunity?

Premkumar Seshadri : Are you referring to the Enterprise?

Srivathsan : Enterprise business and Enterprise distribution.

Premkumar Seshadri : HCL had a very strong access to these clients. This was limited to the PCs and bit of the servers that we had. Over the last 9 months, the key differentiator has been our being a little technology and OEM agnostic., Our role within this access door which is open, is that we have as a product suite that is much larger. I will ask Bimal to touch upon the growth consistency on this. I will come back to your question on GST.

Bimal : Good afternoon. Like earlier Murali had said earlier, 47% of our business is happening through channels, and our pipeline for large projects is looking good and conversion is also happening at a rapid pace. So there will be high growth in future as well. Our focus is on channel business, which is ever growing as far as we are concerned. Source of pipeline for inducting new OEMs to our portfolio is also happening at regular intervals. So we are looking forward to good growth. In addition, we are also focusing on significant business which will come from new verticals and new technologies. We have built a dedicated team to drive that behavior which will bring in value to our ecosystem including partners and OEMs. This is a new thing from what is available in the market today. So that will bring a lot of value to our ecosystem.

Premkumar Seshadri : Coming back on the opportunity with greater projects like GST and so on, we are not directly participating in these new businesses, but we are aligned with almost every one of the key players, both in the context of the System Integration services piece as well as from the equipment and product side. So we have to play in this market, but would do it at a different term than what perhaps we had done in past, as being the primary bidder. With the impetus of the government on smart cities, Digital India and so on, we have a significant amount of opportunities, that we are cutting and slicing to focus on some of the discreet competencies that we have. We will actually start opening up on these in a very significant way over the next few quarters.

Srivathsan : My last question is on the SI business. It would be helpful if you can disclose your order book at the end of June, in terms of what would be the build piece and what would be the maintenance piece?

Premkumar Seshadri : I wouldn't be able to give you a breakup on the build and support piece, but I can definitely give you the total order component.

Murali : The total order book size is roughly about Rs. 1400 crores, and roughly about 60:40 is the ratio between the build and service components. The build portion should get largely completed in the next 2-2.5 years. It would keep tapering down very fast. Most of the build will happen in FY'16. And then some part of the build in the next year and then it will be a very small component in the year after.

Dala : This is Dala from Panav Advisors. I wanted to have a view on what kind of capital expenditure did we have in this year?

Murali : The capital expenditure in the last year was less than Rs. 20 crores.

Dala : And how much are we planning to spend in the current year?

Murali : In the Current year there would be some investments that we will have to make because of our various initiatives across businesses. I cannot share a number at this point in time, but as we have not been investing for the last couple of years; this is the time for us to refresh some of our technology aspects. We have to make some investments on the back-end for the Services business, where remote resolution is going to be a major differentiator for our services play. So we have to invest in the back end for the remote resolution, we have to invest in the service, customer service delivery infrastructure, and we will have some investment for our IT infrastructure.

Dala : Will it be significantly higher than 20 crores that was spent in FY 15?

Premkumar Seshadri : It would be of a higher order than what has happened in the average of the last 2-3 years.

Murali : Given the size of our balance sheet, it would not be very significant. But it is definitely going to be higher than what had been done in the last couple of years.

Premkumar Seshadri : Essentially all of these investments are in the technology side, operational center side for services and so on. After it having been withheld over the last few years, some investments started last year, it will continue now into the coming year.

Dala : You are anticipating that the operating cash flows will increase from the variety of measures which you mentioned, such as margin likely to go up and working capital requirement to go down. In view of that, where do you see the net debt which, I believe, on 30th June '15 was Rs. 880 crores?

Murali : Yes.

Dala : And that increased from 790 of last year.

Murali : It was 590, which has gone up to 880.

Dala : Taking into account this capital expenditure and the improvement in the working capital and operating cash flow improvement, where do you see the debt settling by the end of this year?

Murali : In the initial quarters we will continue to invest in the working capital for the System Integration projects. Most of the projects are reaching milestones where we can start collecting the cash. The cash burn which will continue to come down as our profitability improves over the coming quarter, despite having a small capex, is not a substantial amount when compared to the current working capital. We will start realizing on our SI receivables, somewhere between the third and the fourth quarter. We expect to end the year with a lower debt. I don't want to put a number at this point, but the debt definitely will be capped.
It is a question of another three quarters, we will see the debt start to go down.

Dala : Okay, that's great. This System Integration pending order book which you said is worth Rs. 1,400 crore, does it mainly relate to Aadhar?

Premkumar Seshadri : It is multiple projects. Aadhar is just one of them.

Dala : Okay. Will it be possible for you to give some breakup between Aadhar and the other projects? I believe there are some Defense related projects?

Premkumar Seshadri : Yes we have many projects, each of which are unique and perhaps the only one done anywhere in the world. So there is significant amount of competency, capability and intellectual property. And there are multiple projects, Aadhar is just one of them.

Dala : And the Defense projects are also there?

Premkumar Seshadri : There are very significant Defense projects of very high security nature involving futuristic technologies.

Dala : Okay. Sir, are we in a position to give some broad guidance about is expectations in FY'16?

Premkumar Seshadri : I wish I could, but I am not.

Dala : Okay, but definitely improvement will be seen in the topline and bottomline than what we have achieved?

Premkumar Seshadri : I would state three things, number one that there is a trend in the way we are looking at our Distribution business; there has been growth from last year to this year in terms of our Services business, these are the key growth businesses. There is the large part of the SI build which has really happened, we are now in the position to start looking at receivables and dues as these builds have been executed. So given these as the backdrop, we believe that the pipeline in terms of funnel that has been build by the team across Distribution and Services is very robust.

Dala : Okay. The last question from my end, Can you tell me about the Rs. 67.8 crore loss that we have included on PCM mobility in System Integration business, and can you give me the quarter wise breakup., Only Q4 has been given in the slide.

Murali : Yes. The PC mobility in the first quarter was -28.7, the second quarter was -28, the third quarter was -7.9, the fourth quarter was -3.3. Overall, it is -67.8.

Gurminder : This is Gurminder from Principal Mutual Fund. Sir, you mentioned that debt should increase by roughly 100 crore, whereas in your answer to the previous question you gave a guidance that it should come down, So I am a little confused whether we are guiding for the same level of debt which has peaked or an 100 crore addition or something which will end up lower than what it was last year?

Murali : There are three components to it; one, there will be an incremental capex during the year. Though there is a capex which will be higher than the previous year, it will not be significant compared to the overall balance sheet size.. Second , there is a cash burn which would start going down as we get into profitability over the coming quarters. The third is that if the debt has to really go down, it will be largely from the SI cash flows which will come in. And we have reached the last phase of execution in the SI projects. So by Q3 or Q4 of the next year, depending on successful execution and the customer, cash flow should start trickling in, which will help bring down the debt., However, the cash flows have to be substantial enough to repay the debt after capital expenditure, after accounting for any cash losses during the year. But I would say that the SI projects should generate cash flows towards the third and the fourth quarter of this current financial year.

Gurminder : Okay, and it was earlier mentioned that June and September of this year will get pushed to probably Q3, Q4 now next year.

Premkumar Seshadri : What do you mean by June and September?

Gurminder : Actually in our previous discussion with one of your colleagues, there was a guidance towards expected cash flow visibility from System Integration contract around the September quarter. I think you made it clear in this call that it is likely to be around Q3 or Q4 rather than the September quarter?

Premkumar Seshadri : Yes, I think the builds have been completed in June ,and September, which continues to be the statement, which means the build is done and then there is the whole collection time.

Murali : You would be aware that in the SI industry, there have typically been some delays.

Premkumar Seshadri : The projects will be completing the build phase in a large way between June, September and December, so this is the part where a good part of the build will happen, but we will get the money after sometime.

Gurminder : Okay, then the real cash is expected by Q3, Q4 of FY'16.?

Premkumar Seshadri : Yes.

Gurminder : Your provisioning has actually doubled, in FY'15 versus FY'14, that is, from 111 crore versus 51 crore on a consolidated level. Are we in a position to see what would this number look like going forward. I understand that the PC mobility is in a phasing out state and we should be through with that. Hopefully none of your old contracts should result in major number in this line item.

Premkumar Seshadri : You would have seen that since last four quarters at least, most of the wind down businesses are out, especially the PC, mobility businesses. These had a lot of provisions and write-offs. So a good part of that is distinctly out of the system at least on the PC and mobility side. Apart from this, we look at it on a quarter-on-quarter basis and I would state that this number is something that we will have to take a call only at the end of every quarter with respect to what is the value that we can keep and so on. The good news is that all the wind down businesses are almost completely phased out or at the tail end.

Gurminder : So, the important indicator that maybe is the Rs. 30 crore per quarter burning It looks like if the topline is improving then that should be taken care of too. Thank you.

Parimal : Sir my name is Parimal Metani. I wanted to know the nature of your business tie-up with Ricoh India for the Learning business? What is the nature and can you give me the update about how you plan to monetize the Aadhar business that we have in our kitty?

Premkumar Seshadri : I didn't understand the second question.

Parimal : I mean how would we benefit from the Digital India campaign or we would benefit or not?

Premkumar Seshadri : I'll answer the second question first. We would benefit from all the government initiatives very significantly because over the last 5 years the organization has invested significant capacity, capability and intellectual property inside many of these initiatives. Be it in the context of identity management through biometric, which is one of the core components of our projects. So our competency is very clearly available on very high security environments where a lot of capability has been built which is reusable and fungible across all Digital India and Smart City initiatives. From the telecom business, where we have done some of the most complex telecom networks both on the build side and the operate side, all of these are prerequisites in any Smart India, Smart City and Digital India initiative. On the security side, the kind of work that has really happened with respect to some of our defense projects essentially brings out a large amount of capability and reusable components as the case may be. So given all of these, I think there are multiple opportunities that we are trying to leverage. You would see much of that getting rolled out over the next 2-3 quarters, because these are clearly some of the key elements of the way we are trying to look at the go to market.

Parimal : If you can elaborate it will be much better, because I know you have lot of interest projects that you have done for the Government. If you can give certain example it will be really helpful.

Premkumar Seshadri : I will not be able to define it clearly over this call in terms of what those elements are, but what I can say is that the capability that is required in many of these initiatives are available only inside HCL.

Parimal : Do you think this will be a significant part of our business going forward?

Premkumar Seshadri : We are looking at packaging these capabilities and taking it to the market in various forms, not necessarily in the same System

Integration format. These could go as individual components of solution that could go to corporate India, or it could go into some key build areas where we support it for whoever is trying to drive these projects. For example, in the SI business there has been a very large requirement of the Government of India very recently that required the entire solution to be constructed around open source capability. Now I am not sure if you know that the entire Aadhar program was 100% open source.

Parimal : I am aware of that.

Premkumar Seshadri : So that gives you a sense of where our capability rides.

Parimal : So we are in a position to monitor this thing in terms of going ahead to monetize?

Premkumar Seshadri : The word monetize will be forward looking. I would say that we will definitely be able to leverage.

Parimal : Okay. Sir, how does the tie up with Ricoh work?

Premkumar Seshadri : I won't get into the details of our contract and so on. They are a strategic partner in our go to market with respect to the K12 segment. Until last year, our focus on the K12 segment was a large amount of equipment hardware bundled alongside with our content, and on a lease rental basis given to the schools. We have completely exited the hardware component and the lease rental business and are essentially focused on content and looking at the EBITDA and margins pertaining to content. We have invested quite a bit in the context of building further content. So a partner like Ricoh would look at supporting this thrust by taking our content and maybe looking at packaging it together with their equipment in the way they want to because they have a big stake in the equipment and hardware segment.

Parimal : Okay, and is this revenue sharing or how does the entire deal work?

Premkumar Seshadri : No, we have no skin in the game.

Parimal: Okay sir, thank you very much.

Moderator: Sir, there are no further questions from the participants. I would like to hand over the proceeding back for any final remarks.

Premkumar Seshadri : Thank you all for being here. I think we, as an organization, had started over the last few quarters to get into the growth and momentum phase. The pipeline has been a very positive news, but we still have a lot of work to do, we still have a lot of build in the SI businesses and also need to look at some of the larger contracts in the services business. We also have quite a bit of investments to make in many of these businesses to upgrade the technology landscape of the company and augment our customer experience. This period has also seen us doing very well in many areas with respect to our customer experience, such as winning the Frost and Sullivan IT service provider of the year. On behalf of the team, I would like thank you very much and look forward to catching up with you at the end of next quarter. Thank you very much.