HCL Infosystems Quarterly Investor Conference Call

Q1 Earnings Conference Call

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

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

Mr. Bimal Das, Joint President, Enterprise Distribution Business, HCL Infosystems Ltd.

Moderator: Good day, Ladies and Gentleman. Welcome to HCL Infosystems First Quarter Results audio conference call. We will start with the presentation and then follow up with question and answer session. 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 the other statements of belief, future plans and strategies. These forward looking statements and informations are subject to risk and uncertainties that they entail. We have on the call with us Mr. Premkumar Seshadri, Executive Vice Chairman and Managing Director, HCL Infosystems Ltd., Mr. S G Murali, Group Chief Financial Officer, HCL Infosystems Ltd. and Mr. Bimal Das, Joint President, Enterprise Distribution Business, HCL Infosystems Ltd. Now I will hand over the call to Mr. Premkumar. Over to you, Sir.

Premkumar Seshadri: Thank you. Welcome to the investor call. Moving to slide number 3; it gives an overview on the group in the context of the various businesses. The blue-dotted line essentially covers the enterprise business. Over the last three quarters, we have been clearly focusing around the consumer and the enterprise businesses, especially the enterprise business.

As an organization, we have the Services, Infotech and Learning business apart from Infosystems, the parent company.

Moving on to slide number 4, the quarter that went by, there was a sequential increase in revenue close to 7% quarter-on-quarter. The revenue stood at Rs. 1148 crores versus Rs. 1069 crores in the last quarter. This was backed by continued focus, trust and growth around the enterprise business which has grown to about 3% quarter-on-quarter. On the product side, there has been almost 5% growth. During this period, our consumer business grew about 4% which has been due to reversal of a trend of the past. We'll talk about it more when we come to that relevant section.

Apart from this, in the system integration business the key highlight has largely been execution; the pending order book is essentially at about Rs. 1100 crores versus Rs. 1180 crores last quarter. In this quarter we are deeply involved in some of the defence projects like the Defence Communication Network project which is the largest single satellite network in the Indian Defense Forces, spread across the country; integrating communication between the Army, Navy and the Air Force.

Apart from this, quarter has seen the Loss before Interest come down to as low as Rs. 4.5 crores. Also, the Loss before tax in the quarter stood at Rs. 45.8 crores.

The key part from recognition point of view has been that HCL Services was felicitated at the World Quality Congress for the best use of Lean Six Sigma.

From a highlights perspective, sticking to the numbers, there has been a sequential growth of 7%. There has been continued growth in the enterprise business of 3% quarter-on-quarter and increase of uptake in the telephone business by about 4% in this quarter. As the numbers indicate, the profitability has been better versus the last quarter. An important aspect is starting this quarter our reports would be based on IndAS, which is a very key requirement that we have to undertake.

With that, I would now handover to Mr. S G Murali, who would briefly walk you through the IndAS related change and then deep dive into the numbers. Over to you, Murali.

SG Murali: Thank you Prem. Good afternoon to all of you. We have transitioned accounts to the IndAS. And accordingly the transition date for the adoption of IndAS by the HCL Infosystems group is July 1st, 2015, and the group has adopted the notified IndAS effective the transition date.

Moving on to slide number 5, the revenue for the quarter increased from Rs. 1069 crores in Q3 FY16 to Rs. 1148 crores in Q1 FY17. Overall, the revenue has gone up by Rs. 79 crores. Profit / (Loss) before provision for doubt debts / write-off & expected credit loss improved from Rs. (20.3) crores in Q3 FY16 to Rs. 4.0 crores in Q1 FY17. The provision for doubtful debt, write offs and expected credit loss during the quarter is marginally lower than the last quarter i.e. at Rs. 11.2 crores. The loss before interest and tax for the quarter, is at Rs. 4.5 crores versus Rs. 28.2 crores in the last quarter. The finance cost is marginally lower at about Rs. 41.3 crores versus Rs. 43 crores in the last quarter. We had an exceptional item in the last quarter which is the impairment of the goodwill for the learning business which is about Rs. 70 crores. Hence, before the impairment and the exceptional item, the loss before tax and exceptional item decreased from Rs. 71.2 crores in Q3 to Rs. 45.8 crores in Q1. Therefore, after the exceptional item, the loss is at Rs. 45.8 crores versus Rs. 142.3 crores in the last quarter. Overall, this has been a good quarter.

Moving on to the slide number 6, is a repetition except that it gives a breakdown of the enterprise distribution and the enterprise services which has been combined in the previous slide as enterprise business. This is to bring in more transparency. The enterprise distribution business registered Rs. 333 crores of revenue. The loss before interest and tax is at Rs. 3.4 crores. The services business registered Rs. 240 crores revenue. The loss before interest and tax was at Rs. 15.4 crores.

Moving on to slide number 7, I would now handover to my colleague Bimal Das who heads the enterprise business to take you through the general highlights of the business.

Bimal Das: Thank you Murali. Good afternoon, everybody. The enterprise business encompasses of enterprise products and services. On the product side, we continue to show growth and momentum like earlier quarters. Our key focus area in this business is the channel and corporate wherein we have made significant growth quarter on quarter. We exited certain segments by design. In the last quarter, March being a month which is normally high for certain segments. And as far as the services business is concerned, we are flat quarter on quarter versus the previous quarter. Our productivity initiative which we have initiated earlier has now started to gain momentum and we would continue our focus on that. In addition to this, we recently launched (a couple of months back) 'One GTM', internally named as 'Enterprise 360', it has started showing some results on the ground, and that is where we are focusing on as an organization. For more, I would now hand over to Murali.

SG Murali: Thanks, Bimal. Just to reiterate, from the Enterprise Services we had mentioned in the last quarter that we had been reviewing the contracts, especially the legacy contracts for viability. We have been actually rationalizing some of these contracts and renegotiating them with the customers. As a result, the revenue has been at the same level in the last quarter despite the contract rationalization; most of which should get completed in this quarter.

Moving on to the slide number 8, the Enterprise Business registered revenue of Rs. 573 crores for the quarter. The Enterprise Distribution which is the product business registered revenue at Rs. 333 crores, and the enterprise services business registered revenue at Rs. 240 crores. The Loss before provision for doubtful debts / write-off & expected credit loss for the quarter is at Rs. 12.7 crore out of which Rs. 1.7 crores is for the enterprise distribution business and Rs. 11 crores is for the enterprise services business. Provisions for doubtful debts / write-off and expected credit loss for the overall enterprise business is Rs. 6.6 crores. The overall loss before interest and tax for the enterprise business is at Rs. 18.8 crores out of which the loss for the enterprise distribution business is Rs. 3.4 crores and the loss for the services business is Rs. 15.4 crores.

Moving on to slide number 9, I would now handover to Prem.

Premkumar Seshadri: Moving to the slide number 9, this quarter the Consumer Distribution business registered 4% increase in revenue which in some form has bucked the trend of the last three or four quarters. From Q2 FY16 to Q3 FY16 the revenue dropped from Rs. 567 crores to Rs. 453 crore after which stabilizing and moving on to Rs. 472 crore. There has been some discussions around the product area which has created some excitement among the channels. So we'll have to see how this pans out over the next few quarters. But importantly, given the shrinking of the business, the profitability has more or less sustained purely on account of the cost exercises that the company has focused on and been able to create a lot more productivity in terms of per person on the field and so on. This is notwithstanding the reduction in the overall size of the business. Just to give you a context, over the last five or six quarters, from Rs. 900 odd crores, that business is now at Rs. 472 crores. I'm happy to state that in the last quarter, as an organization, the Enterprise business as a whole moved significantly higher than the Consumer Business. And this quarter, that trend is continuing. This essentially states that the decision taken about a year ago to focus around the Enterprise is beginning to show very good dividends. On the financials pertaining to that, I again pass on to Murali to share with you the deeper dive in terms of the items of the Consumer business and to give you an idea on the SI and the consolidated view.

SG Murali: Moving on to slide number 10. The Consumer Business revenue for the quarter is at Rs. 472 crores compared to Rs. 453 crores in the last quarter. The profit before provision for doubtful debt/write off and expected credit loss is at Rs. 12.2 crores compared to Rs. 9 crores in the previous quarter. Of course, in this Rs. 12.2 crores there is a small element of one-time settlement of some of the accounts. The provision for doubtful debt, write off of an expected credit loss is almost close to zero; and the profit before interest and tax for the quarter is at Rs. 12.4 crores compared to Rs. 8.7 crores in the previous quarter. Like Prem mentioned, despite the shrinking volumes which we have had over the last several quarters due to continuous optimization on the operational level, we have been able to sustain and maintain the profit at this point in time despite the shrinking volume.

Moving on to slide number 11, in the System Integration and Solutions business our focus on execution of the projects which is the build phase, continues. In this quarter we have executed projects worth Rs. 80 crores and the pending order book is about Rs. 1100 crores. This was Rs. 1180 crores in the last quarter. The build phase out of this is approximately Rs. 225 crores, the managed services approximately Rs. 200 crores, and the support services and annuity type contracts is about Rs. 675 crores out of the Rs. 1100 crores.

Prem mentioned about the Defence project which we had completed and inaugurated on June 30th. UIDAI continues to make global milestones and has enrolled 1.02 billion citizens under this program for the Government of India under the Aadhaar project. The revenue for the quarter is at Rs. 122 crores compared to Rs. 79 crores in the previous quarter.

Moving on to Slide number 12, the consolidated revenue for the System Integration and Solutions Business contributed Rs. 122 crores compared to Rs. 79 crores in the last quarter. Profit/(Loss) before provisions for doubtful debts / write-off and expected credit loss for the quarter is at Rs. 23 crores compared to Rs. (6.1) crores in the previous quarter. The provision for doubtful debts, write offs and expected credit loss in the quarter is at Rs. 4.2 crores compared to Rs. 7.5 crores in the previous quarter. And overall, the profit before interest and tax for the SI business, including the solutions part, is at Rs. 18.9 crores compared to a loss of Rs. 12.9 crores in the previous quarter.

With this, I hand over back to Prem. And if there are any questions, we will address them.

Premkumar Seshadri: Thank you, Murali. I think you have explained the perspective around the numbers, the individual items in terms of the key lines of business that we are focusing on. And I now leave it back to the moderator to open up the session for interaction.

Moderator: We have the first question here from Mr. Gaurav Jalani from Avant Garde Wealth.

Gaurav Jalani: Hi, I'm new to the company. So, I have a couple of basic questions. One is about the Enterprise Products business - what kind of business is it, are you distributing to corporate?

Premkumar Seshadri: It is the Enterprise Products distribution into the Corporate and as well as Enterprise Services.

Gaurav Jalani: No, I'm talking about the Enterprise Services is a separate segment, right? So you've got Enterprise Distribution. So, that is distribution hardware products to corporate, is that the nature of the business?

Premkumar Seshadri: It includes Hardware & Enterprise Software Solutions.

Gaurav Jalani: Okay. And the Enterprise Services business, what does that comprise of?

Premkumar Seshadri: It comprises all Infrastructure Services related to the hardware that we sell as well as to look at managed services, IOT and Cloud, apart from Mobility related.

Gaurav Jalani: What is the typical duration of the contracts in your Enterprise Services business?

Premkumar Seshadri: If you look at it, there are managed services contracts which run for multiple years. There are some which are on an annualized basis and there are projects within the services which are like technology refresh related projects and so on, which could be anywhere between one month to three months in terms of a duration, with roll out of a significant amount of new software across locations. So these are services which vary across different types of contracts. Areas such as managed services, which means remote management, remote network management, data centre migration, are projects which may be anywhere between one to three months.

Gaurav Jalani: Okay. So, in terms of profitability, you've been reporting losses in this business. So when do you expect to turn profitable in the Enterprise Services business?

Premkumar Seshadri: Fundamentally I would say that the primary focus of this business, at some point of time, was that we were actually the manufacturers of product; with our HCL brand of servers and desktop and laptops and so on. Then we moved away from the manufacturing side. So the Services business was built predominantly as an organization which was meant for servicing our existing products that we were selling. And for a client, we could also be looking at some third-party infrastructure that we could support. But it was largely a field-support organization. Today that portfolio has been completely revamped because that portfolio of pure field-support area is low margin businesses spread out across the country. We were present in multiple locations across the country. So that has been re-portfolioed over the last one year where we have started looking at investing in the right places. So the loss that you see is the Go-to-Market (GTM) investment to a large extent in terms of building capability, around the newer emerging services space as well as in terms of reorganising and retraining the whole organisation towards it. Apart from it, in terms of setting up a new GTM organisation, because the earlier GTM organisation was focused on only businesses wherein we actually had to service our hardware. Today, there is no need for that. So fundamentally we are reaching out to a definitive state of accounts across businesses and verticals; and this required appropriate level of investments, which is the GTM investments that we have been making. As far as we are concerned, we are on the right track with respect to our investments and the kind of growth that we are seeing in pipeline. Obviously the pipeline has to convert into business and business will have to convert into revenue. So I think we are on the right track with respect to that. I won't comment on a very specific timeframe when this would be there. But I would say we are definitely on the right track in terms of what we are doing in terms of investments. Today if you look at it, on a year-on-year comparison basis, a significant part of this Rs. 240 crores is not the traditional business that we were there one year back. So a rework of the portfolio is already happening. But I think this has some distance to cover in that space.

Gaurav Jalani: One follow up question: of the Rs. 240 crore of your quarterly revenue the cost basis is approximately Rs. 260 crores, so that cost base is meant to support what kind of revenue. What are the kind of margins in this business once you achieve this scale? Is it a 10% margin business, 20%, what is the range?

Premkumar Seshadri: Just to give you a perspective around it, without telling you as to when that we would reach the scale, there is a scale that we have defined in our mind which would definitely be a much larger number than the Rs. 240 crores that you see today. But at that level, this business typically, as an industry perspective, would be anywhere in the range of about 10% to 13% EBITDA. That's where this business will be as we go along; because you'll have a portfolio of domestic as well as global. There's a good part of our global business which is growing very well, both in Singapore and the Middle East. These are the two markets that we are present in today. We are seeing good growth in that. And as the mix changes, and we have more of the Middle East and the Singapore, over a period of time, the number that I gave you would become better.

Moderator: Thank you very much. We have the next question from Mr. Amrut who's calling from Edelweiss.

Amrut: My question is regarding UIDAI contract. Can you please explain what are the terms of the contract and how do you benefit going forward? Now, we have this entire ecosystem of database of 100 crore individuals who have an Aadhaar number? Currently we're seeing DBS started opening a bank account just based on the data. So do we make money on these transactions? What are the rights and if we have these rights, what are the economics on this? Does our work just end after getting this database?

Premkumar Seshadri: I think this is a point that we have answered many times in multiple investor calls. Our focus as a Master Service Provider is to ensure that the entire enrolment and the infrastructure that is required to run, maintain and managed this is taken care by us. And that is the focus of the entire contract. So if you look at it, we have now crossed the issue of almost a billion Aadhaar cards. So that is the primary focus of this business. And I'm sure if you look at it from the previous transcripts, you'll have a very detailed view on the micro details of about the contact.

Amrit: Okay, Sir. I will go through that. Many thanks.

Moderator: We have the next question here from Mr. Gurvindar from Principal Mutual Fund.

Gurvindar: Can you also guide us to the debt numbers now, what was in March 2016 and have you monetized any asset for anything to reduce it?

Premkumar Seshadri: I'll give you the debt number. The gross debt for the quarter is at Rs. 1353 crores compared to Rs. 1303 crores from the last quarter. The net debt is Rs. 1029 crores compared to Rs. 1034 crores in the last quarter. We have not monetized any asset during the quarter.

Moderator: Thank you very much. Moving on to the next question, we have Mr. Sheetal from Kotak Portfolio Management.

Sheetal: Sir, could you please throw some light on your learning business and what is the strategy going ahead?

Premkumar Seshadri: In the Learning Business, there's a lot of action happening in the gateway space. As you are aware, our focus around that business was built around a BOOT model of looking at hardware, software and the content. We are completely looking at a re-portfoliozation of the same and looking at various new initiatives on how we could look at strategic alignment of this business. So from a scale point of view, this is a business which perhaps has not seen a lot of investment from us over the past few quarters. We are still ascertaining the right kind of a mix as we focus on the learning business to retrieve the LRRs which are already in the market place which is in the range of about Rs. 60-100 crores for the business at this point of time. That is the present focus of the business, apart from incremental content sale to the existing customer base.

Sheetal: So isn't it prudent to hype up this business or look at it in a different perspective rather than trying to re-inaugurate the same model and incur losses for that?

Premkumar Seshadri: One of our perspective was to keep it at the lowest level without burning cash. I mean that is the focus of it today. But at this point of time, our focus is largely on the Enterprise Business, and our entire investments if at all is going in that direction.

Sheetal: Sir, in terms of Consumer Distribution and Enterprise Business provision for debts and other things we have been making every quarter, when do we expect significant pruning of this provision? Can we do one-time provision and get away with it? What is the strategy?

SG Murali: The Consumer Distribution business is somewhat on a cash-and-carry model. We have not had any significant provision in the recent past. This is largely a cash-and-carry model. We had some segment of this business which is very small for which we had some provision from the past couple of quarters but it's still very insignificant.

For Enterprise Distribution business again, if you look at it, the provision is just about Rs. 1.9 crores, and overall if you see on a total revenue of about Rs. 1150 crores – I have said this in the past as well in the last couple of calls – the provision is about Rs. 11.2 crores, which is about a percentage. Given the multiple businesses that we have, given the large number of customers that we have and the type of contracts which are both short term and long term in nature, and given that in the thirst of business we are doing a lot of rationalization which I have maintained in the last quarter and this quarter as well, there is some provision in the services because the LDs which are being contested, but we need to provide and move on. But otherwise if you see overall, we are well within 1%. On a business of this scale, I think this is a reasonable level.

Sheetal: Sir, going ahead, should we expect that this kind of provision in terms of what you mentioned?

Premkumar Seshadri: We have a large number of contracts which we have inherited and we kept continuing. And there are new customer contracts which are coming. Business is also changing. So I would say that we have to evaluate this quarter to quarter. But largely if you see the 1% provision on a revenue of Rs. 1150 crores, it is something which is very reasonable given the number of businesses that we have and the large number of customers that we have.

Sheetal: Okay, sir. In Consumer Distribution also, you mentioned about rationalization of products. So what kind of business are we now focusing on and what products that we have discontinued in terms of Consumer Distribution business? If you can just give some highlights about that?

Premkumar Seshadri: Maybe you got it wrong. I am not talking about any rationalization of product on the Consumer side. On the Enterprise side, we stopped manufacturing our own products and we went into distribution of products from others. As far as the Consumer Distribution business is concerned, it is almost entirely mobile handsets of Microsoft.

Sheetal: Okay. Thank you, sir.

Moderator: Thank you very much. We have the next question from Mr. Gaurav Jalan from Avant Garde Wealth.

Gaurav Jalan: I have a couple of questions about the System Integration business. You mentioned that you have an order book there for around Rs. 1100 crores. Over what period is that executable?

Premkumar Seshadri: See, the Build phase out of the Rs. 1100 crores, is roughly about Rs. 225 crores should take us between 9 to 12 months for a complete build up. The managed services contract is largely with UIDAI which goes up to 2019. For the annuity contract which is the support services and minority contract, the average tenure is about 7 to 8 years. Some of the contracts extend to about a couple of years or more. Some contracts are smaller in nature, but on an average the term is about 7 to 8 years.

Gaurav Jalan: Okay. So in this business, your profitability would be largely depending on which phase of the contract? Won't you move beyond the build phase assuming it becomes profitable for you?

Premkumar Seshadri: I think it's a question of the overall contract value and how we are looking at the recognition over the period from the start of the contract. So each of these contracts should have a different perspective on it. It's not that one size fits all because the nature of the contract itself is different. There are milestone-based payments. There are some defined timelines-based payments and so on. At a very high level, what you said makes sense. But it may not be following that pattern consistently across the projects.

Gaurav Jalan: Okay. So in this quarter the profitability that you have reported in the business of Rs. 19 crores is about 16.5% EBIT margin. I am assuming this is not a sustainable rate. Is it fair to expect that the profitability in this business should be lumpy on quarter-on-quarter basis?

Management: See, in this quarter, there are couple of projects which have been completed and signed off with the customers. When we do projects of long tenure and these projects get completed, there are certain, I would say sign-offs, which are done by the customer. Conservatively you take the cost for any expected variations and when the sign off is completed, there could be a positive upside. We have had some upside in a couple of contracts which got completed in this quarter.

Gaurav Jalan: Okay. Sustainably, what is the average margin that we can expect in this business?

Management: It depends on project to project. It also depends on what comes in this quarter as milestones. So there would be the same project. In the quarter that went by, you would have seen some important milestones. There may not be impotant milestones for the next few quarters for the same project. So it’s a function of that. On a very broad level, you should keep looking at maybe three to four quarters and look at what area that you are looking at.

Gaurav Jalan: What is the capital employed in this business?

Premkumar Seshadri: While we dig this out, anything else that you wanted to know?

Gaurav Jalan: Yes, on the Enterprise Distribution business, is that a growth business? What is the growth strategy there because it’s a fairly comparative market I would assume? Are you looking at potentially high growth sometime in the future or more or less which kind of sustaining your current revenue run rate?

Premkumar Seshadri: I think with the context of the growth rate that we have been seeing in the last one year in terms of where we are, and the kind of margins we are generating out of that business, you will get a perspective of our integrated strategy coming together. Our perspective is that it's highly contested in this type of business. Our whole context of value-added distribution is a different context of business. So it's not about getting down to saying certain level of numbers in terms of pure distribution. It's not a pure distribution business in the true sense of it. It is the way we have structured our go-to-market, structured our portfolio and structured our integrated offering of services and products. So to a very large extent, the Enterprise success which you have seen in the last one year has sustained and we believe that we are cruising around at the right kind of growth and margin ratios. Our focus will largely be on three parameters. We need to look at our coverage into the defined businesses that we touch and our ability to look at sustaining the interest at customer level and partner levels. Apart from it, to look at it in the context of the margins that we are generating out of this business and the free cash flow we are able to generate.

So these are three things of this business which we will keep monitoring. So I will not be able to give you a universal statement in terms of what market it is, but I differ on the point of this being a much contested model because our go-to-market model is completely different. It leverages almost about 40 years of HCL into corporate India, which is quite different in the context of the rest of the organization in terms of the ability to create solutions and being an integrator of those solutions into corporate.

Gaurav Jalan: Just one follow up of that. If I were to look at the enterprise business as a whole, the overall revenue is around Rs. 573 crores. Looking onto the future, I'm not looking for any guidance or a specific number, but broadly if you could give an overview about the potential for this number to double over two-three years' period. Is that reasonable? Is that too high? Can you give a sense on what you are thinking about this business?

Premkumar Seshadri: If I have to relate this to the start of this business, then we should start looking at it over a one-year period. If I take the October-November-December quarter of 2014 which was the last quarter of that calendar year to till now, we basically stated that over the next 18 months, which is next four to six quarters, the enterprise business will overtake the overall consumer business (knowing the trajectory of the consumer business). The ratio was actually 1:3. That means we were basically looking at Rs. 1 of revenue versus Rs. 3 of consumer business. Today, it's almost about 1.5 to 1 in ratio, which means that the business has grown. And if you are talking about over the next two to three years in terms of size of business, you would not be wrong. In fact, you may be fundamentally looking at it appropriately. Our aspirations and plans would be a little different from that. Maybe I wouldn't comment on whether it is going to be more bearish or bullish but fundamentally we believe that you are not wrong.

Gaurav Jalan: Okay. Would you give me the number of capital employed?

Premkumar Seshadri: For the system integration and the solutions business, it is about Rs. 885 crores plus Rs. 165 crores is for the other solutions business.

Gaurav Jalan: Okay. So about Rs. 1000 crores in capital employed, right? On the return on capital employed, it would be 15-20% return on the capital.

Premkumar Seshadri: One of the issues in terms of return on capital employed is that some of these projects have taken slightly longer than what was actually anticipated. But if you look at that the project is completed in time and if the project's collection happens in time, we can expect something like about 15% on this. You are aware that there have been delays in the completion of these projects in the past.

Gaurav Jalan: Correct. Basically the capital employed should come down on that smaller base. There was about 15% down on the capital.

Premkumar Seshadri: Yes. And, as we complete the projects, most of these projects are at about 90% plus in terms of completion except for one project which would probably slip into the last quarter of this financial year. Otherwise, most of the projects should be getting completed between December and March. As the projects get completed; the enablement of billing happens and after that the collection process starts. And as the collection happens, this will help us to bring down the net asset. We are nearing the tail end of the bill phase.

Gaurav Jalan: Okay. From size of business perspective and especially looking at the capital employed in this business, it seems as a relevant method. The shrink over time seems like the company is focused more on the enterprise business, so here logically since the returns don't seem to be that high, you logically shrink the business over time.

Premkumar Seshadri: All of these businesses when they were signed up and the projects of national importance that we took, fundamentally in all of these projects, what we really looked at was a very common threat. All these businesses are very asset heavy. That was the nature of those contracts. So fundamentally in that context, our focus has completely shifted from being asset heavy businesses to completely asset light businesses. Hence, in that context, from a return on capital employed matrix, I think relating it to the past may not be right. You should look at our businesses as we stand today because the capabilities that have been built around is on SI solutions. This is an integral part of our offer in our enterprise services. I think 100% of it is almost asset light. You have to look at it as a migration of asset heavy business with large capital deployed to asset light businesses which will follow a trajectory of profitability which is related to asset light business. Typical jobs are with this business.

Premkumar Seshadri: In fact, during the last two years we have moved more and more toward asset light and services type of business because given the size of the balance sheet it makes a lot of sense.

Gaurav Jalan: Right. Basically if I look at the total capital employed in the company which I think is around Rs. 1300 crores, right?

Premkumar Seshadri: Right.

Gaurav Jalan: Then that figure almost currently is employed in the System Integration business. So would it be fair to say that as your business grows in the future over the next few years, your total capital employed could stay stable if not shrink going forward?

Premkumar Seshadri: Right. As the projects get completed we should see this coming down significantly. In the consumer distribution business we are largely on a cash-and-carry model. Enterprise Distribution again, we are working on a very thin capital. Services, the working capital is quite low. So as we complete the projects, we will see this coming down significantly.

Gaurav Jalan: In the Consumer Business, your revenues have been coming off over the last few quarters consistently. But it seems to have stabilized this quarter. So should we expect from thereon the revenue will be more or less stable or will we see kind of continued reduction in the revenue now again going forward as was the trend over the last let's say two years or so?

Premkumar Seshadri: I think, a few quarters back, we had made a statement. What we are looking at essentially was the principal going through its own churn in portfolio. And it seemed to be running around whatever number we saw in the last few quarters. Basically I'm not seeing any specific strategy or message which I can share which will tell me either way whether it is going to be lower or higher, but the way we are watching this is that at a consumer scenario we will ensure that we maintain the equilibrium there.

SG Murali: This is largely dependent on the OEM as well. It depends on the strategy of the OEM. We are only resellers in the consumer distribution business. As the product has seen some rationalization over the last couple of quarters, we will have to wait and watch.

PremKumar Seshadri: In the quarter that went by, we saw some renewed interest in the product which is why we got some 4% kind of sequential growth on it. Is that sustainable and will that happen? I am not sure. But at the end of the day, I think I have no negative or positive news to convey.

Gaurav Jalan: Okay. Thank you.

Moderator: Thank you very much, I would like to hand it over back to you for any final or closing comments. Over to you, Mr. Seshadri?

Premkumar Seshadri: Thank you all for being with us. Thank you for the questions. For any further queries, you can write to sumeet.ahluwalia@hcl.com

Thank you very much.