



HCL Infosystems Ltd.

Q2 FY20 results audio Conference Call

November 6th, 2019



SPEAKERS: **Management, HCL Infosystems Ltd.**

Moderator: Good day ladies and gentlemen. I am Harpreet Kapoor, the moderator of this call. Welcome to HCL Infosystems Quarter 2 FY20 results audio Conference Call. We will start with the presentation and then follow up with a Q&A session. For the duration of the presentation, all participants' lines will be in listen-only mode. This presentation is available in the Investor Relations section of the company website. We would like to begin with a mandatory disclaimer that 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 risks and uncertainties that they entail. We have on the call with us, Mr. Rangarajan Raghavan, Managing Director, Mr. Kapil Kapur, Chief Financial Officer, and Mr. Sutikshan Naithani, President-Consumer Distribution Business. I would like now to hand over the conference to Mr. Rangarajan. Thank you and over to you, sir.

Rangarajan Raghavan: Please see slide number 3 which presents the Q2 FY20 update. The Q2 revenue was at Rs. 582 Crore, as compared to Rs. 577 Crore in the previous quarter. Out of this, the distribution business revenue was at Rs. 545 Crore in Q2, as compared to Rs.538 Crore in the previous quarter. Within this, revenue for the Enterprise Distribution business was Rs. 310 Crore in Q2, as compared to Rs.

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373 Crore in the previous quarter. Consumer Distribution revenue stood at Rs. 235 Crore in Q2, while it was at Rs. 165 Crore in Q1. Loss before interest, tax and exceptional item was at Rs. 26.1 Crore in Q2, as compared to Rs.22.8 Crore in the previous quarter. Revenue from the discontinued operations of the Global Services business was at Rs. 104 Crore in Q2, with PBT of Rs.1.6 Crore. As informed earlier, we have signed up a SPA with PCCW Solution, Hong Kong, to sell off HCL Insys Pte, the Singapore business, for a consideration of 42 million Singapore dollars. We are awaiting few clearances, based on which we will be closing this transaction.

We will now move on to the next slide for the Q2 financial results update. I will request Kapil to continue.

Kapil Kapur:

Good afternoon to all of you. The revenue for the quarter was at Rs. 582 Crore, as compared to Rs. 577 Crore in the Q1 of Financial Year 19-20. Provisions for doubtful debts were higher during the quarter at Rs. 18.2 Crore. This is mainly on account of the charge of Rs. 14.6 Crore taken in our power project. We have earlier shared about the challenges in the power projects, in terms of getting acceptances and payments. So, we have taken a charge of Rs. 14.6 Crore during the quarter, due to which the provisions are higher. Accordingly, the loss at Rs. 26.1 Crore is slightly higher before interest and taxes because of the provision. During the quarter, there was an exceptional gain of Rs. 9.4 Crore on account of profit on property monetisation. Let's now move to Slide number 5 which gives us a more granular view of the distribution side of business. The Consumer Distribution business clocked revenue of Rs. 235 Crore with a profit of Rs. 3.1 Crore. The Enterprise Distribution business was a bit subdued during this quarter due to the competitive environment and market slowdown, and as a result, there was a loss before interest and tax of Rs. 5.2 Crore. The revenue for the business was at Rs. 310 Crore. I would now request Ranga to continue and take you through each of the businesses and their updates.

Rangarajan Raghavan:

Slide 6 shows the Consumer Distribution business highlights; its revenue was Rs. 235 crore in Q2, as compared to Rs.165 crore in the previous quarter. The major contribution came from HMD Global for Nokia handsets, as well as from the Microsoft Surface range of products. Moving on to the next slide on Enterprise Distribution, the downside is mainly attributed to the competitive environment and market slowdown. The Channel business maintained its share of overall revenue as the main contributor. The direct business was impacted due to delayed customer decisions. I move on to Slide number 8, which gives the consolidated financials for the Distribution business. The consolidated revenue was at Rs. 545 Crore, with loss of Rs. 2.1 Crore. Moving on to the next slide on Global Services, the business clocked about Rs.104 Crore in the quarter, same as during the Q1. The business had PBT of Rs. 1.6 Crore in Q2, again the same as in Q1. As mentioned earlier, the SPA was signed with PCCW to sell off this business. So we have taken this as a part of discontinued operations.

Moving on to Slide number 11 on the SI business, the pending order book is at Rs. 520 Crore, and this includes a year extension of the UIDAI project. The split

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is as following: build phase is about Rs. 60 Crore, Managed Services is around Rs. 80 Crore, and support services and annuity business is of Rs. 380 Crore. The business focus is on collections and taking the projects to completion. During the quarter, the businesses collected about Rs. 102 Crore, which include sizable collections from a defence project. As mentioned earlier, there are delays in the power sector, and though we expect to close these projects and resolve the issues with the customers, the results have been very slow. And because of that, we have provided about Rs. 14.6 Crore on account of such receivables during the quarter. The consolidated SI financials are Rs.37 Crore in Q2, with loss of about Rs. 20.4 Crore.

Moving on to the next slide titled “Others”, we are evaluating various strategies, such as reorganisation and monetisation of the business property assets, and of the collections of SI receivables. These are our main focus, and the Board and the management have evaluated and engaged an international consulting firm to conduct comprehensive business review of the Enterprise and Consumer Distribution businesses. These were the quarter highlights, the rest are listed in the slide as well as in our release. We can now take few questions in case you have any.

Moderator:

Thank you so much sir. With this, we will open the floor for Q&A interactive session. So participants, if you wish to ask a question, you may please press 0 and then 1 on your telephone keypad and wait for your line to be unmuted. First question of the day we have from Mr. Sanjay Shetty from Tech Mahindra. Your line is unmuted. Please go ahead.

Sanjay Shetty:

The overall impression of the performance is quite disappointing. We are seeing losses every quarter. So, I would like to know the future plan. Is it going to turn around or we just actually line this in the same situation or is it an irreversible kind of a situation? Have you got into a debt trap because as there is no operational profit?

Kapil Kapur:

To answer your question, this is something which has been created over a period of time, mainly due to delay in government projects as well as the Systems Integration business, and to some extent by the losses created by it. We internally realise it to be the biggest factor contributing to our losses. That's why while closing his presentation, Ranga mentioned that various steps are being undertaken internally to lower the debt. Some of them have started yielding results, while some are taking a bit of time because of the market situation or because of how things move. So to answer your question, bringing the debt down is the single most important priority for the management team and the Board, as that's something which is hurting the company badly. As far as the company's performance and improvement is concerned, the Board has engaged an international consulting firm to review both the distribution businesses to decide on way forward. Once that study is over and the results are available with the Board, the future course of action will be recommended. Till such time, I guess we will have to stay with the business as usual. So, it's difficult right now to say

what is going to happen and how quickly. We will have to wait for some time to get that clarity.

Moderator: Thanks for your question. Next we have Jinesh from Akimoto Advisor. Your line is unmuted. Please go ahead.

Jinesh: Hi. I wanted to ask about the Singapore business -- the business we hold. Is there any software business left in the company now after selling this?

Kapil Kapur: No. The Singapore business remains the way it was even today. It is an infrastructure management service business which caters to a large set of government agencies in Singapore. So, it's not a software or an application development business. It's to do with traditionally what this company has been doing in the form of services, that is, to manage IT infrastructure and provide services around that for large government customers.

Jinesh: But is any other business left now?

Kapil Kapur: No, we don't have any software application business except for the fact that we do sell software which is shrink-wrap software, but we are only the resellers for such software such as Microsoft and other similar products.

Jinesh: The second question is that which are the business left in HCL Infosystems?

Kapil Kapur: Largely, we now have two distribution businesses in HCL Infosystems, one being the Enterprise Distribution business which caters to IT products and solutions' distribution. The other one is Consumer Distribution business which caters largely to telecom products' distribution, such as mobile phones. There is also distribution of IT products to consumers, which is the Microsoft relationship -- Surface tablet relationship.

The third category would be the SI business, which comprises the legacy orders that we have on hand. We are trying to quickly close these and move forward with the services. Since the last three-four business years, we have not taken any new business in this category. Our efforts and focus have been to close the existing contracts in terms of their acceptance by the customer and move on to the services phase.

Jinesh: But in your slide you've mentioned that System Integration business has a pending order book of Rs. 520 Crore, including the UIDAI project. So, are we going to close that too or continue with the UIDAI project?

Kapil Kapur: The first seven years of the UIDAI contract got over in August 2019. We have got a nine-month extension, and our intention would be to close it after that.

Jinesh: Okay. And my last question is related to the total debt of the company, and how much of it pertains to the System Integration business?

Kapil Kapur: As we have a centralised treasury, we don't borrow for each business. Our consolidated loans are about Rs. 750 Crore. Neither of the distribution businesses

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need too much of money. In fact, the Consumer Distribution business is a negative capital employed business currently. On the other hand, there is about Rs. 100-odd Crore of capital employed in the Enterprise Distribution business. So, the balance can be largely attributed to Systems Integration and past losses.

Jinesh: Did we have one rights issue couple of quarters back?

Kapil Kapur: No. The rights issue was done at the end of 2017. We haven't done any rights issue in the last two quarters.

Jinesh: Earlier, we had debt of Rs.1100 Crore, which has now come down to Rs. 750 Crore.

Kapil Kapur: As I mentioned earlier, our effort and endeavour is to bring down the debt level as much as possible and there are various steps being taken towards that.

Rangarajan Raghavan: Thank you for the participation. If you still have any questions, feel free to contact us on the contact details provided.

Moderator: Thank you so much speakers for addressing the session. Thank you participants for joining in. That concludes our Q2 FY20 results audio conference call. Thank you and have a pleasant day ahead.