HCLTech

hcltech.com

April 30, 2024

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BSE Limited
Corporate Relationship Department
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BSE Scrip Code: 532281

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NSE Scrip Code: HCLTECH

Sub: Transcript of the Earnings Conference Call held on April 26, 2024

Dear Sir/ Madam,

This is to inform you that in terms of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the transcript of the Earnings Conference Call held on April 26, 2024, post the announcement of the financial results of the Company for the quarter and year ended March 31, 2024, has been uploaded on our Company's website https://www.hcltech.com/investor-relations/call-transcripts

A copy of the transcript is also enclosed.

This is for your information and records.

Thanking you,

For **HCL Technologies Limited**

Manish Anand
Digitally signed by Manish Anand
Date: 2024.04.30 10:33:43 +05'30'

Manish Anand
Company Secretary

Encl.: a/a

HCLTech

"HCL Technologies Q4 & Annual FY'24 Earnings Conference Call"

April 26, 2024

HCLTech

CHORUS CALL®

MANAGEMENT: **MR. C. VIJAYAKUMAR – CHIEF EXECUTIVE OFFICER & MANAGING DIRECTOR – HCL TECHNOLOGIES LIMITED**
MR. PRATEEK AGGARWAL – CHIEF FINANCIAL OFFICER, HCL TECHNOLOGIES LIMITED
MR. NITIN MOHTA – HEAD, INVESTOR RELATIONS, HCL TECHNOLOGIES LIMITED

Moderator: Ladies and Gentlemen, Good Day and Welcome to the HCL Technologies Q4 & Annual FY'24 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nitin Mohta – Head (Investor Relations). Thank you and over to you, sir.

Nitin Mohta: Thank you, Darwin. Good morning and good evening everyone. A very warm welcome to HCLTech Q4 & Annual FY'24 Earnings Call.

We have with us Mr. C. Vijayakumar – CEO and Managing Director, HCLTech; Mr. Prateek Aggarwal – Chief Financial Officer, along with the broader leadership team to discuss the performance of the company during the quarter followed by Q&A.

In the course of this call, certain statements that will be made are forward-looking, which involve a number of risks, uncertainties, assumptions and other factors that could cause actual results to differ materially from those in such forward-looking statements. All forward-looking statements made herein are based upon information presently available to the management and the company does not undertake to update any forward-looking statements that may be made in the course of this call. In this regard, please do review the Safe Harbor statements in the formal investor release documents and all the factors that can cause the difference.

Over to you, CVK.

C. Vijayakumar: Thank you, Nitin. Good evening, everyone and thank you for joining us for our Q4 & FY'24 Annual Investor Call.

Starting with the Business Performance:

When we started the year, there was cautious optimism around growth in line with the market situation and the backdrop of reduced discretionary spend and slowdown in some industry verticals. Overall, as a company we are very happy that we responded to the uncertain situation with much needed agility and flexibility, and I am pleased that we have delivered good growth with good control over our profitability.

Overall, our annual revenue grew 5% in constant currency year-on-year and 5.4% in US dollar. This strong growth is attributed to both momentum in our Services business as well as our Software business. And the most important highlights for the year, we have translated this growth into even greater value creation for our shareholders with the free cash flow growth of 27.7% year-on-year.

The entire growth came on the back of healthy growth across segments, different industries and geographies in Services business as well as software business. I want to thank all 225,000 HCL techies for a phenomenal performance in what has been a challenging year for the industry.

Our Services business grew 5.4% year-on-year in constant currency, and I think that's the fastest growth in the industry.

Software grew 2.3% in constant currency year-on-year basis and our operating margins stood at 18.2%, well within our guided range.

Before I get into details of our performance, I want to share a few organizational changes that we have made which we have been working on in the last few months:

The first was really integrating our engineering and R&D services sales with IT and business services sales. Now, we have an integrated go-to-market structure, and this is aligned with the increasing demand of clients seeking strategic partners with comprehensive capabilities across engineering and IT services. This will enable a much broader reach of our ERS capabilities across all geographies, all the verticals, and we believe this will accelerate the growth for our engineering business and IT and business services segment as well.

As we do this, we have the following three leaders with role changes as we get into FY'25. Kalyan Kumar, who was the Chief Product Officer for the Software business, and CTO and Head of Ecosystems, will now exclusively focus on the HCL Software business as the Chief Product Officer and taking it to the next phase of growth.

Vijay Guntur, President of our Engineering and R&D Services, will now be our Chief Technology Officer and Head of Global Ecosystems.

And with that, Hari Sadarahalli who's led all our asset-heavy industries within Engineering Services, will now lead the Engineering Services business and delivery organization in his expanded role. I wish them and the larger leadership team very best in all the new endeavors ahead of them.

Coming back to our performance:

IT and Business Services grew 6.2% year-on-year. Engineering Services grew 1.6% year-on-year in constant currency. Digital foundation, digital process outsourcing, and our overall portfolio of digital services contributed to the year-on-year growth. Even amidst the slowdown in discretionary spend, our digital growth was 5.3% YoY and now contributes to 37.3% of our revenue. We have a very strict classification of what is considered as a digital revenue, and we have discussed about that in past conversations. While there was good growth in different parts of our digital business, the one that stood out is cloud transformation and cyber security, both of them had impressive growth along with growth in our SaaS portfolio.

Software business grew 2.3% year-on-year in constant currency. This business has made significant strategic progress by focusing on subscription and support revenue and steadily growing annual recurring revenue. The subscription and support revenue has grown from 78.8% in FY'23 to 83.8% in FY'24. You will see a ARR growth slowdown on a year-on-year basis and the drop on QoQ is attributed to decisions we made to discontinue some small parts of our telecom product portfolio.

In terms of verticals, geography growth was led by Americas, the largest of the IT services geographies, grew 6.8% year-on-year in constant currency, followed by Europe 5.5% year-on-year in constant currency, while rest of the world declined 7.1% year-on-year in constant currency.

Our top performing verticals were Financial Services. We have delivered an extraordinary growth in Financial Services which grew at 12.1% amidst the macro concerns. And manufacturing grew at 9.8%, of course enabled a little bit by the ASAP acquisition and retail, CPG grew 8.2% year-on-year.

During the year, we made very good additions to our client portfolio; we added three customers in the $100 million category, we now have 22 clients in this category. If I go further down the range, we have 137 clients in 20 million categories, an addition of six on a year-on-year basis.

From a booking perspective, we booked $2.29 billion as new deal wins. Just to remind everyone, we call out only net new wins and renewals are not included in our total deal win numbers. Our annual bookings are at $9.759 billion, which is at 10.2% growth compared to FY'23. During the year, we had a total of 73 large deals including 21 this quarter across products and services.

Our pipeline continues to grow and remain healthy. A lot of brand transformation work that we have done over the last couple of years has also helped us emerge as the fastest growing brand among the top ten services companies according to 2024 Brand Finance reports.

Talking about a few wins this quarter, most of them are in our investor release, but a few that I would like to call out. A Europe-based manufacturing company selected HCLTech as an IT transformation partner to manage its ERP landscape across SAP and other connected business systems including SAP S/4HANA landscape. Our ecosystem partnership with SAP is now showing very good results.

A Japan-based global medical technology major selected HCLTech as its strategic partner for R&D transformation and innovation.

We will provide new product development, sustenance, and digital engineering services to support the clients global design centers and manufacturing sites. This is a very good win in the world's second largest technology market.

A US-based manufacturing company selected us to establish a product-aligned IT operating model to bring IT and business together for a faster go-to-market. We will transform the network backbone underlying commercial applications and critical business processes worldwide and leverage AIML technologies and extreme automation to deliver to this client.

On the product side, a US-based advertising and marketing technology service provider has expanded its partnership with HCL Software. The advertising company will deploy Unica to deliver data-driven marketing campaigns and services to its clients, reaching millions of customers every month.

We also announced a deal. Of course, this is a deal for the current quarter with State Bank of India for the MarTech platform, which is the modernized Unica platform that we have, to drive marketing automation and end customer experience management for over half a billion end users.

Specifically, on GenAI, we are seeing a lot of traction on AI and GenAI-related opportunities where clients are seeking realistic benefits. We have had good success building a strong pipeline through successful POCs for various clients. We are also channeling our efforts to get people trained on GenAI to ensure we are able to deliver software development in the most effective way possible.

We also recently launched HCLTech AI Force, a generative AI and automation platform that powers the dynamic suite of solutions designed to inject intelligence into every facet of software engineering workflows across development, testing, support, and maintenance. AI Force accelerates time-to-value by transforming the software development and engineering lifecycle, delivering greater productivity, improving product quality, and ensuring faster release timelines.

Talking about a few wins specific to GenAI, a global top technology company selected us to transform its product validation and sustenance experience with GenAI.

A leading Financial Services provider selected us to migrate its existing machine-learning models to new age GenAI platforms for greater agility improvement and innovation in service delivery.

A leading US telecom company selected us to leverage data engineering and GenAI to automate the data pipeline for analytics and reporting needs of the sales and marketing team for the enterprises ensuring good governance and quality.

In terms of people, our headcount ramp up continues. We had 1,537 net new additions and added 12,141 freshers in FY'24, which is lower than last year adjusted for the market conditions. Our people count at the end of last quarter stands at 227,481. Our attrition continues in the right direction all through the year. On an LTM basis, our IT services voluntary attrition is at 12.4%, one of the lowest in the industry.

We continue to win several awards from analysts and advisors as a leader in many services. Notable ones beyond the areas we are well known includes SAP S/4HANA services, digital commerce, hybrid enterprise cloud services, where we were recognized by our clients.

Another important one this quarter, HCLTech received "Gold Award at The Economic Times Human Capital Awards for Innovative Hiring and Unique Practices for our TechBee Program", which is "HCLTech's Early Career Program". Also, Ethisphere named HCLTech among the "2024 World's Most Ethical Companies". MCSI ESG Assessment kept us at a AA-rating for a second consecutive year. And for the second year in a row, we are included in the S&P Global Sustainability Yearbook for 2024.

Now, I want to talk a little bit about the few key trends that we are seeing in the market. Amidst cautious optimism, enterprises are focusing on specific strategic priorities such as AI, Engineering and FinOps.

While discretionary spending is yet to rebound, overall, enterprise IT spending is expected to remain moderate or healthy. Discretionary project-based spending remains under pressure and AI-related spending is coming at the cost of other areas in the IT budgets, effectively leading to doing more with less or at least doing the same with less.

Enterprises have big plans around AI but have learned from the cloud migration journey. So, the widespread adoption of GenAI, customers are cautious to ensure ROI is not compromised for the speed of execution.

Engineering and R&D spend and outsourcing of that continues to grow globally. Enterprises are preferring partners with a comprehensive portfolio of IT business services and Engineering Services as it offers multiple advantages to them.

Like the way we integrated our infrastructure, which is now digital foundation and digital business services, led to more integrated opportunities and really created a new revenue stream for us. We believe bringing IT and engineering capabilities together lends itself to unique service and solution offerings which is going to drive a new set of deal momentum for us in the market.

GenAI will serve as a growth catalyst for data, cloud services as well as the SaaS market. We are making sure our data and related practices have the right offerings and the capacity to address the market demand. It's also important to bring the domain expertise into picture to get the full benefit and we are investing in that as well.

Moving to FY'25 guidance, I believe FY'25 will be a year of consolidation both on the demand and supply side. Clients have been consolidating their technology spends over the last many quarters. We expect them to invest this back into AI and other emerging technologies that drive productivity, resilience and business growth. This year would also be an opportunity for vendor consolidation, and it will benefit the providers who can scale and deliver the best quality of services.

Coming to guidance for FY'25:

Revenue growth, we are guiding for 3% to 5% in constant currency. Of course, all of you must be wondering with a strong exit momentum, why is the guidance 3% to 5%? But there are some finer details on Q1 which Prateek will share. Operating margin guidance is 18% to 19% range. We have delivered 18.2% and we continue to remain focused on improving margins. However, the guidance for the year remains the same ranges; 18% to 19% as we had in the last year.

With that, I will request Prateek to share more details. Over to you, Prateek.

Prateek Aggarwal: Thank you, CVK. Hello, everybody. Good evening, good morning, good afternoon, wherever you are. Hope all continues to be good with you.

I am going to quickly cover the results in some detail for the Q4 and then go into the full year and then go to the guidance. So, to start with the quarter overview, HCLTech revenue stands at 3.43 billion for the quarter, 6% up in constant currency terms year-on-year and services is at $3.1 billion, which is up 3% sequentially and 6.7% year-on-year in constant currency. We therefore continue to be the fastest growing Tier-1 IT services company amongst our peers.

IT and business services revenue stands at $2.55 billion, up 4% sequentially and up 6.7% year-on-year in constant currency, and ER&D is up 6.4% year-on-year in constant currency as well. HCL Software is flat year-on-year in constant currency terms.

The EBIT clocked in at $603 million, which is 17.6%, which is down about 48 basis points year-on-year. Services margins reduced sequentially by about 73 bps and year-on-year by about 29 bps. Net income for the quarter came in at $480 million, which is 14% of revenue and which was flat year-on-year.

To give you a sense of the way the margin moved during the quarter, at a company level EBIT margin reduced by 218 basis points, which was caused by the seasonality in the software business that had an impact of 156 basis points. So, software seasonality, December quarter being a peak quarter came down in revenues and that had an impact of 156 basis points and the balance dropped for the services. On the services margins, the 73 bps drop is primarily due to the increment. There was an increment that we had called out earlier, but over and above that, given the good year we had, we went over above that to give about 20 bps equivalent increment for even the E4 and above the middle and the senior leadership going beyond the increment block that we had placed six months back in July of 2023. So, that was the biggest reason. Then there was some seasonal travel and marketing events which took away about 25 bps and the balance was exchange-related small drop because of the way the forex currencies move.

Moving on to the FY'24 overview therefore, the total company revenue came in at $13.27 billion, which is 5% year-on-year in constant currency terms and software was up 2.3% year-on-year and the ARR now stands at 1.02 billion, which is an increase of 0.7% on a year-on-year basis.

Services stood at $11.92 billion, which is 5.4% up in constant currency terms, and we continue to be the fastest growing Tier-1 IT services company for the full year as well.

And IT and Business Services revenue in that number, came in at $9.8 billion, which is up 6.2%, and ERS was 1.6% increase in constant currency terms. The EBIT at a company level was $2.4 billion at 18.2% of revenue and that was an increase of 5.7% year-on-year. On a year-on-year basis, the services margins increased by 11 basis points. Net income for the year came in at $1.9 billion or 1,896 million, which is 14.3% of the revenue and increased by 3.2% year-on-year. In rupee terms, it increased by about 5.7%.

Return on invested capital is an important metric we have been focused on. We published our entire page giving details of that calculation as well. Given our continued focus on the profitability and managing the capital efficiency, the last 12-months of the FY'24 ROIC stands at 33.8% for the company as a whole, which grew 3.4 percentage points, 341 basis points year-on-year, and within services increased by 4.3 percentage points year-on-year to a number of 41.6% now on a last 12-month basis. Even software continues to deliver good ROIC at 16.5%, which obviously has all the investments in the denominator.

Getting to the guidance band then, as CVK already pointed out and you have read, 3% to 5% is the guided band and we have received quite a few questions on that since we published this, so we are just sort of answering that upfront. And obviously the question arises that we are exiting FY'24 on a strong note and the exit run rate itself sets us well to deliver the lower end of the guidance that we have given and therefore let me explain our guidance with some more details.

In Q1, as you know, there is the usual annual productivity pass back that we have for a large number of our clients and the same impact would be there this year as well. But over and above the usual annual productivity pass back, there is an offshoring impact in one of the large FS deals that we started last March, which is expected to land the Q1 revenues at about (-2%) versus the (-1.3%) that we had in the June quarter of last year. So, (-1.3%) was the June '23 quarter versus March '23 quarter and this year, we expect June '24 to come in somewhere around that (-2%). Therefore, based on that as the starting point from that quarter, the guidance of 3% to 5% that we have given basically turns out to be a CQGR beyond that in a range of about 1% to. 2.5%. Please note that the June '24 quarter, the Q1, does not have material impact of the sale of the DPO JV with State Street which we have already announced as we will be recognizing from revenue as per certain contractual clauses even in the June quarter. As you know, we have announced already that the deal closed on 2nd of April, and this is how the accounting will pan out and the full impact of this divestment will actually start flowing from 1st of July 2024. So, I've already talked about the CQGR, given the Q1 expectation that has been baked in, it translates to 1% to 2.5%. That is the math behind our guidance and given our strong double-digit growth in TCV of the new deal wins in the previous year, we are confident to deliver that.

As far as margins are concerned, we continue to hold the margins expectation at 18% to 19% for the fiscal year coming ahead.

Cash generation has been a great story. I mean, cash generation in the last 12-months, we generated operating cash flow of $2.7 billion, which is an increase of 22% year-on-year. And the free cash flow of $2.6 billion almost was up 28% year-on-year. As a percentage of net income, the typical ratio that we look at, OCF as a percentage of net income was 143% and free cash flow was 136% of net income.

Our balance sheet continues to grow in its strength and gross cash at the end of March is now $3.39 billion and the net cash is $3.11 billion. The cash generation that I talked about was driven by a five-day reduction in the (DSO), day sales outstanding, which reduced including unbilled revenue basis from 88 days in the last March quarter to 83 days in this quarter.

From a shareholder perspective on EPS, the earnings per share came in at 56.86, which was an increase of 5.6% year-on-year and the board has declared an interim dividend of Rs.18 for the quarter, which brings it to a total of Rs.52 for the full year, and given that EPS is 57.86, that is almost 90% of the total for the year. The record date for the dividend is 7th of May and the payment date would be 15th of May as per the regulations. So, we continue to pay out in the range of 87%, 88%, 89%, 90%, which is obviously much higher than the minimum 75% that we had mentioned about two and a half years back.

That's all I have for now and moderator, over to you for Q&A. Thank you.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Kawaljeet Saluja from Kotak Securities. Please go ahead.

Kawaljeet Saluja: I have a couple of questions. The first question is for Prateek. Prateek, I am just trying to understand the math that you gave for revenue decline in June quarter of 2%. Now, let's say if you have a mega deal, let's say $600 million over a period of five years, maybe like $120, $125 million of revenues, even if that shifts offshore, should it lead to such a big swing in a quarter just from offshoring? The second question relates to the deal wins. Now, if you look at FY'24, if I strip off the contribution from Verizon, then the deal flow in FY'24 has been quite moderate and which is a little bit counterintuitive because in a challenging environment, you have longer tenured deals that normally flow through. So, normally your TCV should ideally look good, whereas actually for you it has been deteriorating. So, is there anything related to the competitiveness or anything that you're basically seeing in terms of win rates that are different? The final one actually is for CVK. CVK, I am just curious about the change in the org structure, or rather integrating ERS with the IT and business services. Because if you look at ERS, historically the decision-maker in the ERS has been your vice president of engineering or the product owner, whereas for IT, it is the CIO or the business owner to whom you're basically selling those services. So, when you're integrating the sales, right, who's the decision-maker, has a decision maker from the client change for you to integrate ERS and ITBS sales process?

Prateek Aggarwal: So, let me take maybe the first two questions and then CVK might have some additional comments and of course the third question. So, Kawal, see, the thing is for these large deals or any deals for that matter, there is a fair valuation that is required by the accounting standards, which is what we do, and therefore, for the period that the work is being delivered only or predominantly onsite in the high cost geographies, there is revenue which gets allocated to that period more than proportionately, it's not a straight line. In addition, when the work moves offshore, then the revenue for the offshore part is proportionately lower than the straight-line method. So, that's the basic math. I don't want to sort of go deeper than that, but hopefully that gives you the answer why that is a big impact, and this is a very large deal as you seem to know. The second question is I'll start with, you cannot really strip out my largest deal and start looking at numbers that way. All said and done, we delivered almost a total of $10 billion for the year, which is an increase of 10% and that's the only way I would suggest looking at it and maybe CVK would want to add a few things and talk to answer your rest of that question.

C. Vijayakumar: Kawal, on the TCV and the tenure, whatever duration, we did not see any change. The large deal, of course, it was a six-year deal, but other than that, the large deals have mostly been a three-year tenure and this whatever 9.8 billion has a mix of small deals and large deals and large deals average will be three to four years and small deals are a much shorter duration. And all of this is net new. Renewals is usually where you tend to do a five-year and we don't include any rate card and all those things. We think the booking has enough momentum especially looking at what we have done in Q4, will have a good execution in the coming quarters. So, that should help us. Now, coming to the more strategic question on organization structure and the integration of IT and Engineering Services from a sales perspective, if you look at the TMT segment, telecom, media and tech, in most large organizations, the CIO is really part of an overall CTO organization. There is lot of IT functions are managed by the platform organizations and it's a part of that decision-making hierarchy. So, we see a lot of joint propositions in this segment which will really help us by giving a much bigger reach and would help us to kind of sell a little more differentiated solutions in this segment. When you look at the asset-heavy industries, of course, CIO is making a lot of decisions on IT, but predominant amount of tech spend is really happening outside the CIO organization like the head of manufacturing, head of supply chain, the ITOT integration programs, the IoT programs, digital manufacturing, a lot of that, while they're engineering heavy, but there is a significant amount of IT landscape which supports it especially in a cloud kind of operating model, the decision-making is much broader. And also you look at in the other segments where we don't play for our Engineering Services like lot of service-led verticals like media, retail and a lot of these organizations have, the marketing organization, the CMO spend is not something which we have targeted in a big way, but given a lot of capabilities of how we are present in the TMT segment on the CMO propositions, we think we can make a greater impact in the service-led verticals through this integrated offering. So, we have been thinking through this for maybe last two years and we have done a few verticals in the middle of last year and now all the verticals are joint integrated go-to-market motions.

Kawaljeet Saluja: I think a fair point on hi-tech and media, but let's say if you look at something like an auto, I mean, what will the middleware or let's say consolidation of ECUs into DCUs, what has that got to do with what you're doing on the ERP or enterprise IT side actually?

C. Vijayakumar: In fact, automotive is a classic example where combining this is a much greater value proposition to our clients because if you see even the most hot segment in automotive is really like the most of the NVIDIA GPUs, almost 50% has been sold to the private instance of AI and half of that has been sold to the automotive segment which means you need to build the entire data stack, you need the entire data engineering. There is an underlying IT stack. All of that is not under the CIO organization. In fact, we believe we can capture greater IT and engineering spend by much more integrated proposition in verticals and automotive is definitely one of the top segments there.

Moderator: Thank you. The next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: My first question is with respect to the offshoring of large deal, just out of curiosity, isn't this something that should be part and parcel of the normal business course every year in terms of deals moving from onsite to offshore and impacting some amount of revenues. Is it materially different than what you have seen in the last 2-3 years, which is why you are calling it out and having kind of an impact on your guidance for the next years? The second question is on your medium-term outlook of margins of 20% on the upper band that you had shared in the past, what kind of revenue growth is required to hit that and where are we in the journey of our talent pool in terms of incorporating more of freshers and improving the pyramid? Where are we in that journey? How much of scope is there to improve the cost structure to be able to hit that 20% mark?

Prateek Aggarwal: I agree with you, it is not something completely out of the ordinary. It is business as usual in any normal quarter. There would be some deal like that happening pretty much all the time. The difference and the reason we called it out is simply because it is this quarter which is the June quarter has traditionally been weak quarter, which is the reason I called out the number from last year for the same quarter. So, it happens to be on top of that and second obviously it is the big TCV number, and it does have a larger than most other deals. So those are the real two factors which lead to calling it out. To be honest, I would rather tell you and all the investors upfront rather than you coming to find out next quarter when I declare the results. I think it is a material fact which helps us explain the guidance that we have given. So, that is the sum and substance of it, Gaurav.

C. Vijayakumar: On the margins, of course our aspiration continues to remain 19% to 20% is our aspirational margin range, this year we are forecasting it to be 18% to 19% and if you look at the overall cost structure and the supply chain of our talent, we had almost doubled our fresher hiring from FY21 to FY23, I think 13,000 to 27,000, roughly those are the numbers, but this year the number reduced to 12,000 and as you know it is a proportion. It is very linked to the growth. So, I think growth is going to be an important thing when the discretionary spend is back. I do think that is the time when the fresher hiring will again pick up and that will continue to create a tailwind for margins. As we had indicated, this is a long-term journey. We need to have a sustained focus on shaping our cost structure and this is a journey and obviously there will be some moderation based on the growth that happens every year and last year growth was much lower than FY23's growth. So, I think that has some impact, but I think the trajectory and the aspiration and the momentum and focus on this continues.

Moderator: Thank you. The next question is from the line of Ravi Menon from Macquarie. Please go ahead.

Ravi Menon: Prateek, just on the guidance again, last year, so I looked at your IT business service, it was almost just flat Q-o-Q basis, ER&Ds got declined and we talked about how some large programs have got terminated and we will be back to growth in that and even the year before that IT business services and ER&Ds have a decent Q1. So, struggling a bit about how we can get to this low end of the guidance and the (-2%) in Q1?

C. Vijayakumar: So, Ravi, are you talking about annual? What is that you said IT business was flat?

Ravi Menon: The Q-o-Q CC growth in Q1 FY24 if I recover and that is just about flat Q-o-Q IT and Business Services. ER&D had declined by about 5%, correct, but that was due to some deals that we had I think in high tech that ran down, but overall that shouldn't really recur, right?

C. Vijayakumar: Yes, I think we have done a done our forecast based on where we are in Q4 and how Q1 will pan out. I wouldn't be able to exactly compare the drop in Q1 of FY23 and what were the drivers and what are the drivers for this, but generally, of course ER&D was an outlier in Q1. I don't think we are looking at a similar situation. We will do better, but I think on the IT side, we will see a drop. So, collectively, that is where the numbers will land.

Ravi Menon: The other thing is, overall, the deal wins, you are talking about a deal tenure being 3 years mostly except for the very large deal that we won in communications which is 6 years. Overall, if I take 4 year kind of average, we should be looking at adding 2.5 billion more or less and with the revenue runoff, even if you take that to be 10%, which I think is on the higher side because typically I think retention rates are much better than that. Even then, we should be adding $1.2 billion in revenue. That should be a 9% growth year-on-year. So, I am still trying to understand where the headwinds are as the environment getting a lot worse compared to where we were this time last year or are you worried that it might actually get a lot worse.

C. Vijayakumar: I think you crunched a lot of numbers but see first is the runoff is of two categories. One is, there are some productivity benefits, which is year-on-year that has some decline in characteristics. And the second one is in the existing book of business, there are a lot of programs that teams are working on and based on clients, budget prioritization, some of that runs off. So, we have assumed the same level of runoff that happened in FY24. We have extrapolated that to be happening in FY25. So, I think you will see some kind of logic which will moderate some of your numbers, and of course Verizon contributed to almost 20% to 23% of the booking that was 6 years and I think last quarter what we saw was more 3-year tenure deals and the good mix of large and small deals, but general trend would be a 3–5 year kind of window. You cannot extrapolate this all net new wins, but the ACV of this will have to be offset with a lot of projects spend which projects which come to a conclusion. So, I think all of this math will eventually work out to the 3% to 5% guidance and with the State Street divestment as well, being factored in.

Ravi Menon: And one last thing sir, on the software products, that was up 5% year-on-year last quarter, but now we are flat year-on-year, and you did speak about telecom product being divested, but apart from that anything else that could cost us to go down materially?

C. Vijayakumar: No, I think, we had a 13 million drop because of the decision that we made a few quarters back on discontinuing some of the products and that had a 10 million impact on the ARR. That is the only thing that is visible. Otherwise, I think we have had good growth in the software business. It is the strategic direction and all the changes that we have initiated, all of that is kind of panning out as planned. We are happy with the progress that we are making on that front. And as you note that we are also, at the same time we are looking at converting a lot of perpetuals to term licenses that also saw a good uptick from 79 to 84/83. So, I think we are progressing in all the levers quite well.

Ravi Menon: And with the offshoring colleague, wouldn't we see a bit of at least a margin improvement? So, should we expect that next quarter?

C. Vijayakumar: Yes, I think in a big portfolio, there are lots of puts and takes. So, I think all of that is factored in 18% to 19% guidance.

Moderator: Thank you. The next question is from the line of Vibhor Singhal from Nuvama Equities. Please go ahead.

Vibhor Singhal: So, again, just harping on that again, offshoring part. So, as I think a lot of people have before and this generally should be business as usual in a normal course of business, but if it is as big as to be called out separately and impacting the growth for the full year, so one, I mean any other project that you see in our portfolio where you could probably, I mean similar kind of negotiations are happening or given the environment they could run the risk of a similar kind of runoff? And secondly, in the overall scheme of things, is the impact on revenue is that big, wouldn't it also help our margins as well. So, giving the guidance and saying does that mean that there should be at least some benefit on the margin front if we are losing out on the revenue part?

C. Vijayakumar: I think if you have a mega deal and if you have done a lot of people transfer and year one revenues is higher and then when we convert it to a delivery model which is solution for the client, there will be a drop. Of course, one large deal is kind of impacting from March and the other large deal that we have signed is of course Verizon, which will have its impact sometime towards the end of end of this calendar year. So, all of that we have baked in into the numbers.

Vibhor Singhal: And my first question, any other deals where you think this could a similar risk stands or there could be similar kind of runoffs?

C. Vijayakumar: No, I don't think so. I think generally if you sign a mega deal, I think some of this is to be expected. We do hope there are a lot of good pipelines and we do hope to sign mega deals this year as well given the overall pipeline and some extent it will compensate, but that will happen as the year progresses.

Prateek Aggarwal: Vibhor, I would just like to say the word that you used "risks", these are all predetermined, fair valuation is the accounting term for it. So, these are not risks that are transpiring or runoff. It is not something which is depleting from the earlier planned kind of a thing. It is very much a part of the plan as you yourself mentioned and I think Gaurav mentioned earlier, these are business as usual. These are known in advance. It is just that there is a time period between the work that gets done on site predominantly and then at a certain point in time, it gets offshored or predominantly offshored. Depending on the size of the deal and the timing of it, it could be material to the overall company's numbers, but the guidance that we are giving you is for the total year as we do every year and we have a good solid track record to sort of deliver on the guidance which obviously we want to maintain and that is the spirit in which we give the guidance, not everybody does as you know. So, we are giving you the guidance based on things which are pre-planned and pre-determined by the accounting rules. So, there is no surprise in it is all I am trying to call out here.

Vibhor Singhal: Just one last question to CVK. CVK, on the tech vertical, I think this year I think most of our verticals have done quite remarkably well. Is the tech vertical, which has kind of dragged the overall door down, what is the outlook on that vertical? What was the overall thing that you saw or the reason for the weakness this year and do you see that changing next year or do you think it is going to be more of a docile segment this year as well?

C. Vijayakumar: So, I think our tech vertical is a very concentrated portfolio. If you take the top 10 customers in the tech vertical, I think they will contribute to a very large percentage of revenues, more than maybe 60%. These are obviously very large tech platform companies and last year definitely there was a significant pressure to do cost reduction and improve efficiency across most of these customers. And as we speak, we think we see the pipeline is looking better. I do think a lot of the tech companies are investing especially in more R&D kind of work and we expect this vertical to grow in FY25.

Moderator: Thank you. We have the next question from the line of Surendra Goyal from Citigroup. Please go ahead.

Surendra Goyal: CVK, if I understood it correctly, you mentioned that Generative AI spends are possibly crowding out discretionary spending and there is a negative impact, given that Gen-AI projects are relatively small at this stage, would that mean that the net impact of this trend from your and IT services perspective is a net negative? How would you really think about this?

C. Vijayakumar: I think Gen-AI has 2 dimensions. Of course, the efficiency dimension which from our perspective, the biggest opportunity in the software development, product engineering kind of areas and second is the business or vertical use cases which starts with POCs and based on the success and confidence in POCs, they will scale into larger programs. At this point, on the first software development efficiency, that is where we have a head start with our AI force platform. Microsoft also recognized the effectiveness of this platform in deploying co-pilots and how we can deliver an end-to-end efficiency in an effective way. So, we are looking at this as a way to gain more market share in the software development, large programs in existing clients and new clients and we have the secret source of how to get this efficiency done in a predictable way based on the number of internal and client programs that we have done. So, I think it is more of using Generative AI as a differentiator. Of course, it is a capability available to everyone, but given our long heritage in software engineering, we had built significant capability in using AI in product engineer. Now, the same platform with some more augmentation is super effective for large software development shops, so that is the first piece. I think it is more about gaining market share with the differentiation that you can bring and how well you can execute to the proposition. The second one is still POCs. We have not seen any large program; the maximum deal size is under $10 million in many of these POCs and program and I think it's going to take some time for those programs to scale because the results of the POCs are of course there are some exciting benefits that will accrue out of this. But to really get it operational at an enterprise wide level, it needs a lot of other things to be streamlined, including your data architecture, the security, whether you want to do a private AI stack or you want to do hyperscaler and do you want to customize an LLM or you don't want to customize, whether you are willing to take the liability or some of the providers are willing to take the liability. So, there are many intricate issues which is going to take some time to kind of find the right balance and right solutions. So, I see only the POCs continuing to increase, and it will pick up slowly, but I think the efficiency paradigm is where we will really make a big impact in the short term.

Surendra Goyal: CVK, that is helpful, but my question was more on the interplay of Generative AI and discretionary spend that you spoke about, like this kind of explains how Generative AI can help, my question is more on why, like what is the net impact of these two things?

C. Vijayakumar: I think any Generative AI program brings a lot of surround spend to the higher priority levels, so I think it will cannibalize some discretionary spend, but it also paves way to some newer areas where the client should put more emphasis on, and data is number one and cloud migration or repatriation both are also getting a little more attention due to Gen-AI. So, I think these two or three areas definitely have positive effect, but of course they will try and look at other areas to optimize to put money here. So, that is why we have assumed the same environment as FY24 in FY25 as we plan and guide for this year.

Surendra Goyal: Just one quick question for Prateek. So, once you kind of explained like -2% as a possible likelihood, even the second quarter with the State Street impact and the fact that your deal flow has been in the 2 billion range and if one assumes that Verizon ramp up is largely in the base, then even that quarter looks tough, so is the guidance more back half ended this year? Just wanted to understand.

Prateek Aggarwal: Generally speaking, Surendra yes because Q1 and Q2, I have already called out these two factors, but it is key to remember that we did book $2.3 billion this quarter, which will start playing out some in the next quarter and definitely all of it in the September quarter and we will continue booking hopefully around that 2 billion mark that we have been doing for a long time now and hopefully keep on increasing a little bit as we go along. So, it is a running book of business and just because we are giving the full year guidance and we wanted to explain that in detail we typically do not ever give you quarter guidance as you know. The only reason we mention that is to explain the guidance, like I said before and also because we did not want you to get that surprise post factor, I would rather tell you beforehand.

Moderator: Thank you. The next question is from the line of Ankur Rudra from JP Morgan. Please go ahead.

Ankur Rudra: CVK just taking a step back, 1Q is weak, we get it, but overall, you have had a very good year, you have got great momentum and good sign-ins, if I just take a step back and just so that the full year, FY25 or FY24, what does it seem like your commentary and guidance suggest that '25 will be a weaker year than '24, given how good things generally are?

C. Vijayakumar: So, Ankur, at this point our guidance is 3% to 5%. Definitely, there has been a learning from how FY24 transpired. We came of very good year in FY23, so there was a little more optimism, and we factored some softness in the environment based on what we saw by end of 22, but what panned out was much higher. Now, we factored all of that a similar trend in FY25. So, I think it is the vantage point with which we entered FY24 and what we are entering FY25 does have an impact on this. At this point, obviously 3 to 5 means the growth is going to be lower in FY25 than FY24 assuming the environment would be the same.

Prateek Aggarwal: Just the number of questions on this guidance, I was resisting, but I will come out and say, there is only one other company which gives guidance like we do and our numbers are kind of better and compared to most others, I think we would still be, we have been at the top end of the growth amongst Tier-1 players in FY23 when you look at the services growth of 15.8% and then last year, FY24, again we are at the top with 5% total and 5.4% in services. Even with this the bottom end of this range would be higher than most others. So, I do want to, it is not the end of the world, come on, it is lower than what you were expecting I know. We have tried to explain it in the detail that we have, but yes, we are just starting the year and we will see where we go.

Ankur Rudra: Just one clarification on the guide. I think from what I can understand you have not baked in any discretionary spend or R&D spend recovery in the guide now versus before?

C. Vijayakumar: So, Ankur, in every year, there is some amount of runoff and some amount of backfill that happens as well, right? It is not that say discretionary spend, let us say from 100% reduces to 90%. That can have a significant impact on the growth rates. So, it is not that we are assuming there will be no discretionary spend. We are saying there is a similar pattern that we saw, of course industries, clients that might vary, but we have taken the total quantum of existing book of business where clients reduce the spend due to business prioritization. It is a very involved exercise. We have done that for the last 4 months and we have factored similar and proportionate number in this year, but that does not mean that there is no discretionary spend at all. I mean there are lots of things which keeps happening and as you would know in any year, the book of business that we have is not 100%, maybe 70% is where we have firm booking order book flowthrough, but there are a lot which happens during the year and some of that is definitely there in the guidance.

Ankur Rudra: Just building a bit more on the last question that Surendra asked, if I just back in the 2% decline in 1Q and maybe a softer 2Q because of the State Street ramp down you highlight, the ask for the upper end of the guidance seems to be in the 3% to 4% range for the second-half, is that sensible to you to your comment about it is the second-half semi guidance?

C. Vijayakumar: Ankur, I think if you look at our trajectory in the last 4 years, I think we start Q1 very low and Q2 picks up, Q3 peaks and then Q4 moderates. That is the kind of trajectory that we have seen and all the pipeline and the bookings that we expect, I see a very similar trend this year.

Ankur Rudra: So, my question was if you can look at both sides of spending wallet for your customers, software services in fact even hardware, if on your perspective, do you think Generative AI is helping software spending and relatively crowding out services spending right now because we can see generally software parts of most global peer portfolios are doing well. Service is under a bit more pressure. What do you think what you see on those sides?

C. Vijayakumar: I think software vendors are able to get away with the significant price increase which customers are left with no option, but to kind of agree to this, the increase in price and obviously I mean then they look for efficiencies elsewhere. So, either if you are in a large, if you have a large footprint the customer expects more for less and in some areas where they have not really outsourced, they tend to outsource more. So, that is the reality. Even if you say the overall IT spend is growing at whatever percent, a significant percentage of growth, that incremental dollars is because of the inflation and the software costs. So, that is just the additional color that I can provide you.

Moderator: Thank you. Ladies and gentlemen, we will take that as a last question for today. I would now like to hand the conference over to Mr. C. Vijayakumar - CEO and MD for closing comments. Over to you, sir.

C. Vijayakumar: So, thank you all of you for joining the call and a lot of interesting questions. As we have delivered industry-leading growth in FY23 and industry leading growth in FY24, we continue to remain very optimistic about our differentiated portfolio and the balanced mix of services that we have and some of the significant organizational changes that we have made. All of that we expect to really auger very well for our services business and our stability and increasing growth in software also continues to give us confidence. So, from of course the guidance for this year and mid to long term, I think our business is getting more and more stronger. The mind share for HCL Tech in the G2000 category has significantly catapulted and our overall leadership position in the industry is very strong and we expect all of this to continue contributing to healthy growth and market share and mind share for us and thank you for your support and look forward to talking to you in the next call. Thank you everyone.

Moderator: Thank you. On behalf of HCL Technologies Limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.