January 15, 2025

The General Manager
BSE Limited
Corporate Relationship Department
Phiroze Jeejeebhoy Towers
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Mumbai- 400 001

BSE Scrip Code: 532281

The Manager
National Stock Exchange of India Limited
Listing Department
Exchange Plaza
5th Floor, Plot No. C-1, Block-G
Bandra-Kurla Complex, Bandra(E)
Mumbai-400 051

NSE Scrip Code: HCLTECH

Sub: Audio recording of the Conference Call held on January 13, 2025

Dear Sir/ Madam,

In terms of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, enclosed please find a copy of the transcript of the Audio Recording of the Conference Call held on January 13, 2025, post the announcement of the financial results of the Company for the quarter and nine months ended December 31, 2024.

The is also available on our Company's website https://www.hcltech.com/investor-relations.

This is for your information and records.

Thanking you,

For **HCL Technologies Limited**

Manish Anand
Digitally signed by Manish Anand
Date: 2025.01.15 19:08:17 +05'30'

Manish Anand
Company Secretary

Encl.: a/a

“HCL Tech's Q3 FY25 Earnings Conference Call”

January 13, 2025

Management:

Mr. C. Vijayakumar – Chief Executive Officer & Managing Director
Mr. Shiv Walia – Chief Financial Officer
Mr. Ramachandran Sundararajan - Chief People Officer
Mr. Nitin Mohta – Senior Vice President & Head - Investor Relations

Moderator: Ladies and Gentlemen, Good Day and Welcome to the HCL Tech's Q3FY'25 Earnings Conference Call.

As a reminder, all participant lines will be in 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 touch tone 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: Good day, everyone. A very warm welcome to HCLTech Q3 FY'25 Earnings Call.

We have with us Mr. C. Vijayakumar – CEO & Managing Director, HCLTech, Mr. Shiv Walia – 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 on 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 document and all the factors that can cause the difference.

Over to you, CVK.

C. Vijayakumar: Thank you, Nitin. Good evening, good afternoon and good morning to everyone. I wish you all a Happy, Healthy and Prosperous New Year and thank you for joining us for the Q3FY'25 Earnings Call.

We are also celebrating a remarkable milestone, 25 years since HCLTech became a publicly listed company. Shiv – our Founder and CEO set then, as we got listed, HCL Technologies is dedicated to building long standing relationship with all of stakeholders and creating outstanding value for our shareholders.

From then till December 2024, our employee strength has grown from below 3,000 to 220,755 as of end of December 2024.

Our revenue has grown from 166 million by the year ending June 1999 to $13.77 billion in the last 12 months ending December 2024, representing a CAGR of 18.9% over the 25-year journey.

Our annual profit on similar timelines has increased from 22 million to 2.025 billion, which is a CAGR of 19.4% over a long 25-year period.

And since we are talking about public listing today, an important fact – We have delivered a total shareholder return at 20.6% on a CAGR basis from IPO till January 10th, 2024. And even more importantly, we also delivered the highest TSR over the last 10 years among the large cap India headquartered IT companies, and #1 in cumulative TSR for the last 24 years.

Overall, a remarkable achievement. Thanks to the support of our employees, clients, investors and analysts like you, thank you all.

Now getting into our business performance for the Quarter:

Historically, Q3 related to the market has always been a strong quarter for us, thanks to the business portfolio mix.

Our revenue grew 3.8% sequentially and 4.1% on a year-on-year basis in constant currency. Our operating margin stood at 19.5%.

Our Services business grew 2.2% sequentially and 4.9% year-on-year in CC terms. This was supported by IT and Business Services growing at 1.5% sequentially and 5.8% year-on-year.

Engineering and R&D Services grew 5.4% sequentially in constant currency and 1.1% year-on-year.

HCL Software delivered a good performance, growing 18.7% sequentially while declining 2.1% year-on-year in constant currency. HCLSoftware's Annual Recurring Revenue (ARR) stood at 1.022 billion, a 0.6% decline year-on-year in constant currency. This growth moderation on a year-on-year basis is on the back of good year-on-year growth for the prior five quarters. The current EBIT percentage of 34.5% is also an all-time high for the HCLSoftware business.

In terms of geographies:

Americas grew 6.2% year-over-year and 1.9% sequentially, while Europe grew 3.5% sequentially and 2.6% year-on-year, all in constant currency. The rest of the world remained flat on a quarter-on-quarter basis, while it grew 2.9% year-on-year on CC basis.

As verticals, we had strong growth in Technology and Financial Services with a quarter-on-quarter increase of 2.5% and 1.9% respectively in constant currency during the quarter. The growth in Tech and Financial Services is in line with our commentary in the past of witnessing increasing spending patterns in FS and Tech verticals.

Retail and CPG also had even higher growth with the quarter-on-quarter of 13.7% growth in constant currency terms. This growth was also broad based, but the strong double-digit quarter-on-quarter growth was a function of a large project execution which got completed last quarter.

Similarly, we had a solid 4% quarter-on-quarter growth in CC in our Telecom and Media business, attributed to the closing of HPE CTG acquisition and a contribution of one month revenue from the business.

And during a period of relatively slow industry growth, we continue to grow our top customers; we added two in the $100 million category, added four in the $50 million category and four in the $20 million category on a year-on-year basis. Our top five and top 20 clients continue to expand their business with HCLTech.

In terms of booking:

We won 12 deals, seven deals from Services and five from software in this quarter and total new booking TCV for Q3 stands at $2.1 billion with small deals growing stronger than the large deals in an era where large deals are getting broken into smaller chunks. This growth in small deals won is what we would want to see as it is also in line with the client spend patterns.

We are also noticing the average duration of signed deals getting shorter. The shift towards shorter tenured deals naturally leads to moderated TCV, but the more important metric in this context is ACV and it is quite good. On a year-on-year basis, ACV has grown 23% and sequentially it has grown 9%.

We are also seeing a sizable number of deals influenced by AI and Gen AI. Some of our largest wins are enabled by AI-led transformation and I will talk about AI-related propositions and the progress we have made in a while.

Our pipeline continues to grow and remain strong and is getting closer to an all-time high. You might remember our all-time high pipeline was in the back of a mega deal at the start of the last fiscal year. This time it's broad-based and it is backed on several deals led by a digital application business, engineering and R&D Services and a digital process operations business. Both Americas and Europe have shown strong growth in the pipeline as we got to this near all-time high pipeline.

On the people front:

Our people count stands at 220,755, which is a net addition of 2,134. Our attrition stands at 13.2% on an LTM basis, slightly higher compared to the previous quarter, which is a natural consequence of the demand pickup.

Coming to some of our key verticals:

Telecom, Media and Technology sector is undergoing a dynamic shift, prioritizing more with less, driven by efficiency, measurable impact and ROI focused investments. Despite cautious discretionary spending, particularly among OEMs, HCLTech is leveraging next-generation technologies like cloud and generative AI alongside the acquisition of CTG assets from HPE to deliver transformative, future-ready solutions. This deal, while expanding our partnership with HPE gives us industry-leading IP, engineering and R&D talent, and client relationships with top global communication service providers, especially in Japan and Europe to strengthen our Engineering Services capability and to expand the position in the Telecom Services market.

We are spearheading Gen AI innovation, leveraging partnerships and dedicated labs to integrate AI solutions for our clients. Our ongoing digital and cloud-related initiatives along with strategic partnership with hyperscalers are driving growth in the tech sector.

Relationship with industry leaders like SAP and ServiceNow further strengthen our position, driving innovation and operational efficiency for our clients. I will also talk about the partnership with SAP in detail a little later.

HCLTech remains focused on network modernization and enhancing digital customer experience - positioning ourselves for sustained growth in the Telecom vertical.

We continue to see strong momentum with the recent wins. Fortune 50 Telecom Company expanded their partnership with us to enhance the client operations with automation and AI solutions such as AR/VR live retail dashboards and smart hubs for better user and client experience. We strengthened our capabilities in AI-driven contact center transformation by further expanding our partnership with a US based global technology company to help transform contact centers with generative AI and cloud-based solutions.

Coming to Financial Services:

We are continuing to see improvement in client spending. The adoption of AI by enterprises is poised for growth, with Financial Services progressing from proof-of-concept to enterprise rollout supported by robust business cases. This advancement encompasses process automation, AI-driven analytics which will enhance risk assessment, strengthen fraud detection and offer personalized financial advice.

Additionally, we have seen a promising increase in large and medium-sized deals across Europe. The type of deals includes platform modernization, whether it is through platform replacement or legacy modernization enabled by Gen AI. As organizations embark on their journey towards their ideal operational state, they're actively seeking providers who can efficiently manage their legacy systems for improved efficiency and assist them in navigating the transition to their future state. A number of wins during this quarter in the Financial Services segment as we have called out in our investor release. A few call out would be a leading US based Financial Services firm will accelerate their migration to cloud and enhance product engineering and application capability using our cloud smart ecosystem. A Fortune 500 Financial Services firm, selected us as its strategic partner for Hybrid Cloud and Network Solutions as well as Digital Workplace Transformation, again leveraging our AI capabilities.

In Latin America, a Financial Services provider will be using our Domino and BigFix Solutions to manage the life cycle and compliance of 19,000 devices and 3,400 servers across more than 600 locations.

The Central Bank of Ireland has now signed a 7-year contract with us with option to expand for up to further three years for data center managed Services. These partnerships emphasize our commitment to delivering innovative solutions and exceptional service.

In Engineering Services, we are seeing decent momentum with our new integrated sales organization fully operational. While Europe continues to remain challenged, specifically in the auto sector, we have a few good wins globally; a Japanese semiconductor major partnered with us to co-develop a next-generation computing SOC for automotive applications, including ADAS and infotainment solutions.

A leading Europe-based global automobile major selected us to transform the supply chain with SAP-based solutions. Our engineering work is at the core of clients' business model, making us a strategic partner for them. Clients like Teradyne acknowledge that our support and collaboration have been key in solidifying their position as a global leader in the automatic test equipment market.

We also received the Intel Partner Award for Market Acceleration in SI/GSI/MSP Category.

HCLSoftware, while I talked about the revenue and margin performance, in terms of directionally software defined Services, also called a software-as-a-service is fast emerging as a change agent, which will fundamentally alter the way that the world operates, automating tasks and processes in a range of industries and professions.

We as the only Indian service provider are uniquely positioned for the medium to long term with a dedicated products and platform organization that operates largely independent of the Services business with its own GTM and R&D investments.

While the business grows strong QoQ, there was a subpar performance on a YoY basis with some customers deferring their renewal decisions as well as expansion conversations.

During the quarter, we won several deals including a large one where a UK based retail chain selected HCLSoftware's BigFix workload automation, the full suite of DevOps, iControl and iAbsorb from the HCLDry iShoot and APP Scan to enhance security, infrastructure protection, development processes, software management, automation and digital transformation.

Our investment in Zeenea for Metadata Management and Data Cataloging is showing good progress and a combined solution is resonating with the market.

Multiple analysts are now recognizing the strong propositions we bring by getting many of our products into their quadrants and grids. You may recall that some of these products were taken out a few years ago before HCLSoftware acquired and decided to refresh them.

In terms of our SAP business- There has been healthy growth across commercial and customer applications business. We continue to see strong traction in our SAP business led by S/4HANA migration opportunities. We are investing in this and other commercial platforms.

Recently, we inaugurated an Innovation Lab for SAP business AI in Germany to enable digital transformation for our clients. The Innovation Lab opening underscores the strategic partnership between HCLTech and SAP and will help clients to shift the transition to SAP, S/4HANA, Cloud through Rise with SAP by utilizing SAP business AI technology. There have been a few notable wins during this quarter in the SAP space.

Coming to Generative AI:

It's getting more real. The cost of using LLNs or conversational AI models are reducing. It has dropped more than 85% since early 2023, making more use cases viable.

We are witnessing an increase in momentum in data, AI and generative AI opportunities, AI Force deployment and customer interactions in AI lab. Agentic AI is another big opportunity where we can enable our clients as they empower their employees and customers with more AI-led features. There has been a number of examples of the AI-led wins which you can read from our Investor Release.

Multiple analyst recognition for our AI, Gen. AI solution including endorsement from Technology Business Research of our AI Force platform and underscores the impact that we are creating. Focus from customers is on strategic transformation with AI, GenAI in high impact use cases.

We are continuing to invest in repeatable horizontal and vertical solutions to accelerate high impact use cases. Calling out a few, industry-focused solutions are intelligent, regulatory and safety platform in pharma, trade surveillance and Financial Services, smart eye quality assistant in manufacturing. Horizontal Solutions include AI Force-led legacy modernization, contact center transformation using hyperscaler solutions, and Agentic AI for IT operations.

During the quarter, we also accomplished a few other critical milestones to enable future growth in space. Integrated AI Force with GitHub Copilot to accelerate value and benefits across software development life cycle.

We launched IBM Responsible AICOE with our AI and cloud native labs in New Jersey. Two new cloud native and AI labs launched with partners -- ServiceNow in Noida and SAP in Munich. We also established responsible AI in governance office. We continue to supercharge progress as the fastest growing top ten IT Services brand and continue to get recognized by Media and analysts. Happy to inform that HCL Group has been honored as One of the Best India's brands in ET Now Best Brand Conclave. We are recognized by Newsweek as One of America's Most Reliable Companies 2025. We were also recognized by Forbes as One of the World's Best Employers for the 5th Consecutive Year. We are the only India headquartered company in the Professional Services Category to be among the top 10 for five years in a row. We also received (+125) leadership recognitions from analysts during the last quarter.

Project Ascend is progressing well on various fronts. Teams are working in full speed to drive various actions that have been planned. We have deployed GenAI solutions internally to drive this efficiency initiatives.

In 2025, we expect companies to increase their IT investments. We have seen improvements over the last two quarters. We do see an overall improvement in the discretionary spending environment. Our clients are investing to drive innovation and efficiency with Gen AI and data at the center of such initiative.

On this backdrop, there could be some significant changes in the global business landscape during the year, which can impact our clients and their spending priorities. While we are confident on the pace of the medium-term recovery from what we have seen, bear in mind our Q4 outlook accounts for certain specific factors which we will explain a little later. On the positive side, small deals are getting converted quicker while larger deals are taking time to convert.

With that, I will request Shiv to walk you through more details on the numbers and then we will come to the Q&A.

Shiv Walia: Thank you, CVK. Good morning, good afternoon, good evening and happy new year to all of you. Thank you for joining our Q3 financial year '25 earnings call.

Let me walk you through our Financial Performance for the Quarter:

Starting with the revenue performance:

Total revenue for the quarter is $3,533 million, a 3.8% increase quarter-on-quarter and a growth of 4.1% year-on-year in constant currency terms.

Coming to the Services side: Services revenue came in at $3,145 million, which is an increase of 2.2% quarter-on-quarter and a growth of 4.9% year-on-year in constant currency terms.

Software revenue for the quarter is $400 million at 18.7% increase quarter-on-quarter and a degrowth of 2.1% year-on-year in constant currency.

Moving on to the profitability metrices: Our EBIT is at $690 million at 19.5% of revenue, which is an improvement of 93 basis points quarter-on-quarter basis. Net income for the quarter is 544 million at 15.4% of revenue. We are pleased to note that this is our highest ever EBIT and net income in a quarter.

Just to give you some color on how our margins have moved quarter-on-quarter:

The Software business contributed 114 basis points improvement at the company level. I am pleased to note that this represents our all-time high margins in Software business. Services margin dropped by 22 basis points quarter-on-quarter. Our margin improvement plan **Project Ascend** gave us approximately 100 basis points in this quarter, which majorly offset the wage high impact of 80 basis points, furlough seasonality impact of 14 basis points and CTG acquisition and impact including integration expense of 20 basis points. Forex gave us 80 basis points in this quarter.

I would also like to spend a minute on our Return on Invested Capital (ROIC): Our ROIC continues to improve. Thanks to our ongoing focus on profitability and efficient capital management. The last 12 months ROIC is at 36.6% for the company, up 385 basis points year-on-year and Services ROIC now is at 44.7%, up 455 basis points year-on-year.

Software continues to improve with ROIC at 18%, up 160 basis points year-on-year.

Cash generation is the another highlight I would like to focus your attention on: Cash generation remains strong. Over the last 12 months, operating cash flow is at 285 billion, while free cash flow amounted to 2.72 billion. Operating cash flow to net income conversion is at 141% and free cash flow to net income is at 134%.

Our balance sheet continues to strengthen with gross cash at 3.5 billion and net cash at 3.24 billion. Cash generation has improved on the back of our improved DSO performance. Total DSO including unbilled is currently at 77 days, a two days improvement quarter-on-quarter and a nine days improvement year-on-year. This is the best ever DSO performance in recent years.

Now, moving on to the EPS and Dividend:

For our shareholders, the diluted EPS for the last 12-months came in at INR62.91, which is up 8.7% year-on-year. The board has declared an interim dividend of 12 per share for the quarter and on completing 25 years of listing, the board has also announced an additional special dividend of six per share. The record date is 17th of January '25 and the payment of the same shall be 24th of January '25. That brings our 12-month payout at Rs.60 per share, effectively distributing 95.2% of our net income.

Now, moving on to the guidance:

As mentioned in our investor release, our revised guidance for the financial year '25 are as follows. The revenue growth guidance is for the full year is 4.5% to 5% year-on-year in constant currency terms. This includes approximately 50 basis points contribution from HPE CTG acquisition Services. Services revenue growth is also expected to be between 4.5% to 5% year-on-year in constant currency terms. EBIT margin guidance is unchanged at 18% to 19%.

That is all from my side and now I will pass it on to the operator for the Q&A. Thank you.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Ankur Rudra from JP Morgan. Please go ahead.

Ankur Rudra: Just a quick question on the guidance and also your comment on the ACV up 9%, 20% YoY. Seems to be implying a negative at the midpoint for the 4th Quarter. Can you maybe elaborate a bit more in terms of where that comes from? And, since you mentioned smaller deals are converting faster, could you broadly talk about discretionary spending across the industries?

C. Vijayakumar: For Services, the organic Q4 ask rate which was (-1.32%) to (+0.6%) to reach the lower end and higher end of the guidance. We have seen an improvement in the demand; small deals are getting converted quicker and larger deals are taking time. That is why you see the TCV has not changed materially, but ACV has. While we feel good and confident of the pace of recovery, Q4 outlook accounts for a couple of things; one is successful delivery of a large transformation program which is coming to an end in Q3, there is a planned reduction in the mega deal which was expected and ramp up in some of the discretionary deals also will take some time because some of the conversions happen towards the end of the year. Now ramp up and getting into revenue only partially will get realized. So, the underlying momentum remains quite strong, but some of these factor's kind of make Q4 a little soft.

Ankur Rudra: Thank you. How does calendar 25 looks to you right now, given how you're seeing conversations around budgets and spend perspective? One of your peers highlighted that they are seeing improved deal signings and revenue conversion. Now you of course have some one-offs in 4th quarter, but historically we've also seen a softness in your 1st quarter. How should we think about the next four quarters on a momentum perspective?

C. Vijayakumar: See, we've called out the pickup in discretionary spend if you really look you have seen a broad-based nature of our growth in Q2 and Q3. And we talked about Q4 as well, I think, excluding these two factors which would be visible in retail CPG and the telecom vertical, we expect good growth in other verticals. Our annual guidance is released in April when we close the earlier fiscal, so numerical answer or even a directional answer, you probably will have to wait. I think the Q1 softness that you saw last year was also specifically due to one large deal getting into the second year. I think that element will not be there, or it will only be there marginally in Q1. Other than that, I think it should be a regular BAU kind of a quarter. Beyond that, the pipeline is good, and we think we will deliver a good booking in the next couple of quarters. Beyond that, I don't want to give you any direction on FY26.

Ankur Rudra: I appreciate the color. Just one last question on AI. You spoke a lot about Agentic AI. Just a question, the impact of this, is it different from what you had highlighted during the analyst day back in August? And overall, is Agentic AI adoption going to be additive or diluted to your service portfolio? Thank you.

C. Vijayakumar: Yes, I think it was similar to the conversations that we highlighted during the analyst day. Now, I think some of this is getting better enabled, especially in the business process space. Agentic is much more promising and I think the real difference is the cost at which you can do this is going to make a big difference because Agentic uses small or very small models and very, very specific models. That makes the whole price performance of what we want to achieve much more compelling, and we think the adoption will accelerate. At this point, I see it as a net positive because the biggest driver due to GenAI is the legacy modernization programs. So, I think that is picking up a lot of steam. Mainframes, where clients were very hesitant to touch, at least clients are happy to initiate certain programs around it. The second big element is data, we've seen a good uptake in our data pipeline and the bookings in the last quarter. I think these two and a little more drive towards cloud adoption. I think these are really the core discretionary spends, but it is getting accelerated due to some of the POCs that have been done or early experience on Gen AI.

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

Surendra Goyal: Yes, good evening, gentlemen. CVK, can you share the ACV trends on a LTM basis now that HCLTech has started disclosing that data point again?

C. Vijayakumar: Surendra, I don't have the LTM trend readily available. We can share it maybe towards the end of the call if we can.

Surendra Goyal: Sure. And the second question is on planned reduction- was it known in October when you reported the second quarter? And the reason I ask is the upper end of your guidance was building in a pretty high growth, implied growth in 3Q, 4Q. And in the press conference, you said that 3Q played out at least for services in line with what you thought?

C. Vijayakumar: Yes. So, I think our guidance was 3.5% to 5%, and the midpoint of that was 4.25%. And if you look at our organic guidance now, the midpoint continues to be 4.25%. In this whole, when we provided the guidance, we had assumed Q3 to be stronger and Q4 to be weaker because we knew this anniversary impact of the large deal would kick in Q2. It's not at the same proportion as we talked about last year. This is a little gradual impact. We had a small impact in Q3. There'll be a little more impact in Q4 and maybe a residual impact in first part of Q1. So, we had factored that in. The large transformation project coming to an end where we will recognize the revenue of the completion that was also factored in and that's why Q4 was stopped.

Surendra Goyal: My question was more relating to the higher end of the guidance, but I get the point.

C. Vijayakumar: Yes, and then higher end of, the guidance also factored in our regular performance in the software business at the midpoint. And like the last two, three quarters, we saw a very good uptick. So, if that momentum continued, then we were kind of inching a little bit above our midpoint. So, those were the rationale for the previous guidance. And now also we are at the midpoint organic exactly the same.

Surendra Goyal: And last question on software, could you elaborate a bit on that? Is it more a timing issue or are you seeing client's kind of maybe behave a little differently?

C. Vijayakumar: No, I think the client behavior is not changed. And in fact, there is definitely a very good acceptance and a renewal rate, all of that has gone up. Some of the renewals and new closures that we were expecting to happen in December did not happen. Now, this should not be interpreted that the shortfall will get made up in Q4 because there is no certainty of the outcomes on the transactions which did not happen in Q3. So, we still bake in the low single-digit type of growth for the software business on a full year basis.

Moderator: Thank you. The next question is from the line of Abhinav Ganeshan from SBI Pension Fund. Please go ahead.

Abhinav Ganeshan: I just wanted to understand one small clarification - do you think there can be any impact on your BFSI vertical going forward due to the forest fires which have happened in California. If I look at it, we are working with 3 of the large 5 insurance players which are focused in California. So, if you can give some color on that, that would be useful.

C. Vijayakumar: At this point, we have not seen any impact. I think it's an evolving situation and I think when similar things happen, clients want to bring more optimization and things like that. But these are very large nationwide insurers. So, we think the business will continue to be robust in these clients at this point. And, it's a little early to even get a view of what the impacts could be.

Moderator: Thank you. The next question comes from the line of Vibhor Singhal from Nuvama Equities, please go ahead.

Vibhor Singhal: CVK, just wanted to get some color on the manufacturing vertical. I think a couple of quarters ago we had called out that we had seen some weakness in the German automakers and overall vertical. What is it that you are picking up at this point of time and if there is still weakness, do you believe that will persist for some time and your overall outlook on how we should look at the sector from the next three months perspective?

C. Vijayakumar: Manufacturing ex-automotive looks good. We see discretionary spend and some of the projects are driven by SAP. If you look at my open demand for manufacturing, the numbers are higher than what it was at the end of September. Automotive continues to remain challenged. I think there will probably be one or two more quarters of decline before some green shoots will come. The reason I am saying this is while there is pressure and there are declines, it's also an opportunity for us to construct large transformative type of deals. We're seeing some traction there and over it is still a couple of quarters away before something meaningful translates.

Vibhor Singhal: Got it. That was very helpful. My second question is on a different retail vertical. This vertical had typically been quite weak all through the last year for entire industry. We had one of your peers recently talking about the vertical bottoming out and we too have delivered quite a handsome performance in this vertical in this quarter. So, if you could just throw some light on what are the moving parts in this vertical, do you think most of these consumer companies or which pockets are the ones which are seeing this kind of momentum? And specifically, is it more US retail or Europe retail, which is kind of showing a stronger performance than the other one?

C. Vijayakumar: Yes, our performance is driven by the US Retail CPG client base. Of course, there is one big transformation project which came to an end which created the double-digit sequential revenue growth. But even if I exclude that, there has been some good momentum in three or four large clients in this segment. The open positions are also, may not be as significantly higher like in FS, Tech and other verticals, but Retail and CPG is also showing some improvement more in the US.

Vibhor Singhal: And could it be just a quarterly thing that this was a quarter in which there were holidays and a bit of momentum that these vertical catches or do you think this at least at this point of time appears to be sustainable?

C. Vijayakumar: No, I think it's very correlated to the wins. So, the next quarter you will see a dip in retail CPG because the big project is over and that will have an impact. But our general booking is higher, but it is not going to compensate for this dip. But overall, the pipeline in this segment is looking good.

Moderator: Thank you. The next question is from the line of Rishi Jhunjhunwala from IIFL Institutional Equities. Please go ahead.

Rishi Jhunjhunwala: Just a couple of questions. Firstly, can you clarify once again, you said minus 1.32% to plus 0.6% 4Q implied growth. One is, did you mention it for services and is it organic or does it already include the impact of HPE asset?

C. Vijayakumar: I specifically said for services organic Q4 ask rate minus 1.32% to plus 0.6%.

Rishi Jhunjhunwala: Understood. Okay, great. The other question is on just the broad-based nature of growth. If you look at it from a client concentration perspective, our top five clients are pretty much growing at 30% plus for the last four quarters. So, a large part of our growth this year has been primarily attributable to the top five. Just wanted to understand, are you seeing clear signs of growth spreading to your non-top five and even beyond top 20?

Given that you have made some comments on the ACV side, but just wanted to understand whether is growth becoming a bit more broad-based versus what we have seen in the last year or so?

C. Vijayakumar: Yes, I think at a macro level, what your conclusions are correct, but if you just adjust the state street divestiture and adjust for one large program where we had the second-year impact, then you will see a much more broad-based growth. So, these two are some specific items which might kind of compensate for some of the things. Across many verticals, you will see the same momentum. So, I think with this data point, you should be able to arrive at a slightly different conclusion.

Moderator: Thank you. The next question is from the line of Kumar Rakesh from BNP Paribas. Please go ahead.

Kumar Rakesh: My first question, CVK, was around the mega telecom deal which we have. There is a planned ramp down in the 4th Quarter. Is there any other background on any of the changes which you are aware of over the next one year, which may be coming up?

C. Vijayakumar: Next one year, nothing that kind of stands out because we didn't do a mega deal outside of that deal last year.

Kumar Rakesh: Okay, and in this mega deal, there's only one planned ramp down which will play out in the 4th quarter.

C. Vijayakumar: Yes, I think a very small piece in Q1 as I mentioned earlier, but largely it should be done in Q4.

Kumar Rakesh: Got it. Secondly, on your software business, we have seen despite revenue coming down on a YoY basis, the margin was pretty strong, actually among the highest which we have seen in this quarter. Similarly, last quarter also, the margin was pretty strong. So, is there any change in the mix of products which you are selling? Is it just a quarterly phenomenon?

C. Vijayakumar: Maybe Shiv, you can respond, and I will add something more.

Shiv Walia: So, the Q3 is a seasonally strong quarter for us for software, but the margins this quarter improved because of two factors. One is the reduced cost as well as lower amortization benefit, we got in this quarter. So, these two factors added to the improved margin in this quarter.

C. Vijayakumar: And also, to add, we had discontinued some products as well. So, that also helps us slightly improve the margins.

Kumar Rakesh: Yes, so that should have reflected in the lower amortization as well.

C. Vijayakumar: Yes.

Kumar Rakesh: Can you quantify if possible, how much of that benefit is coming from your amortization?

C. Vijayakumar: I think we didn't want to call out the by service segment how much amortization.

Moderator: Thank you. The next question is from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah: CVK, if I understood correctly, last year in the 1st quarter, we called out close to a 2% QoQ dip because of the normal seasonal softness in services business, offshoring in one of the large BFSI deal and some revenue run downs in the discretionary sales. While entering in the 1st Quarter of this coming financial year, FY26, seasonal softness may continue but the other two parts may not continue. In that scenario, one can directionally believe that the 1Q FY26 as a start could be better than 1Q FY25?

C. Vijayakumar: I think your observation that two of the three factors will not play out in Q1 of FY26, but I don't want to give a commitment on how Q1 will really play out. Qualitatively, the three things that contributed in FY25 Q1, only one of them, which is the normal seasonality productivity benefit. Only that will play out. Beyond that, of course, it all depends on how this quarter goes and the bookings and a lot of other elements would come into play.

Sandeep Shah: Okay, fair enough. And second, on discretionary spend revival, do you see across most verticals or which verticals you believe it has not been happening? Is it more beyond BFSI and Tech services?

C. Vijayakumar: Yes, I think it's across the board except we still are not seeing any pickup in Life sciences and Healthcare and even the segment which we call as public services which is what energy, oil and gas, utilities, TTL and then Public Services. These two we still don't see. All the other five verticals we are seeing open demand from end of September to end of December has gone up. And it's an improving trend.

Sandeep Shah: Okay, thanks. And the last question to the CFO. I think you called out 20 bps impact because of the M&A this quarter. So, I just wanted to know what it could be, looks like for one month. In the coming quarter it may have an incremental 40 bps impact or lower than that because some of the non-recurring M&A related costs may not come in the 4th Quarter.

Shiv Walia: It's going to be around the same range because we did have some integration cost also in this quarter so I don't expect it becoming 40 basis point.

C. Vijayakumar: The recurring component will remain there is.

Shiv Walia: Because when we acquire, initially start with the amortization of some of the intangible effects also so that will continue but not the initial integration cost.

Moderator: Thank you. The next question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: Two questions from my end. So, the first one is that, see, if you look at the software revenue in the current quarter and compare it with the 1st quarter of this year, I compare it with the 1st quarter because the 1st quarter revenue in this year and the last year was the same. The differential this time is $67 million versus $87 million during the same period in the prior year. Now you also mentioned that one shouldn't assume that the shortfall will come back. So, does this mean that this is like a loss revenue and this is a new base revenue run rate for this business? Second is this really driven by the shutting down of your products or it is just a client has sort of chosen not to sort of renew something.

C. Vijayakumar: Yes, so I mean, I think when I said that you should not extrapolate the comment that some of the renewals and some new opportunity discussions got delayed, you should not extrapolate to Q4 because those outcomes are still not clear. And these are the customers could decide not to renew, or they may decide not to expand on the renewals. So, there are many scenarios. So, it's still subjective and it's not like a sure shot it will come in Q4. So, I think that's why we called out a caution. And what was the other question?

Nitin Padmanabhan: No, I think that covers it. The second question is, I think, see over the last 18 months, we really have not seen any meaningful spending from clients. So, considering there has been a lull, there are two scenarios. One is that do you think that there will be, because they're not doing spending and you have increasing technical debt, no matter the macro, there will be a pickup in spending. Is that a fair way to assume things? Or do you think that there was an overspending earlier and thereby the 18 months didn't have it? So, how are you thinking about it broadly?

C. Vijayakumar: Yes, I think I did touch upon this in Investor Day as well. I think some of the challenges that the industry faced were also two parts. One is that during COVID there was a steep increase in spend, a moderation of that created the decline for a few quarters, maybe starting from December 2022. And the second one, of course, because of the macro, there is some tightness in the decline budgets and spending and reprioritization that has been happening. I think the reprioritization topic, while still it is relevant, but we are seeing customers at least modernizing data, cloud migration, and app modernization. These conversations are moving forward with some starting of projects. So, I think that is the difference. And that trend, we saw it last quarter. In FS, we were seeing some green shoots in tech, and that has really played out well, and now we're seeing in other verticals, barring the couple that I called out. So, I think with this factor moderating, customer spending should improve, as we've seen in the last couple of quarters.

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

Ravi Menon: Congrats guys on the broad-based growth and the improvement in ACV. What is your take on how to think about how HCL Tech is positioned in the competitive space when demand is picking up? I mean, historically it's been thought that you guys are not very strong in applications and not very strong in discretionary spending or when spending picks up, you will not benefit as much as your peer group. How should we think about that now?

C. Vijayakumar: So, Ravi, I mean, I think this question has been asked in the past, but if you really see - the proof point was FY23, where when the spending was robust and without a large deal, we delivered the highest organic growth in services across industry. So, I think that we should put to rest about our ability to maximize when there is a strong spending environment comes up, both in engineering and in application space. We feel pretty confident, and we are gearing up for an environment where there will be improving spend. It may not be so rapid like the way it happened during COVID, but it will, we are seeing the right signals, and we are tracking it highly, with a very high level of precision. And I think our conclusions are based on that and we are well prepared. However, we should just keep in mind that there could be significant changes in the policy environment and the overall business landscape in the coming days and weeks and months. So, which might change some of the clients thinking and maybe spending patterns and reprioritization. Barring that, I think we are really well prepared to harness the upcoming momentum.

Ravi Menon: Thanks, CVK. A quick question on the H1B issue. And I know that HCL Tech historically has moved away from visa dependency, and I think you had more than 70% of your workforce in the US location. Would that roughly be correct?

C. Vijayakumar: Yes, I would request Ram to respond to that please.

Ramachandran S.: Yes, but in fact it's closer to 80% of the US employee base is now local. So, you're right, the reliance on H1B is one of the lowest in industry in proportionate terms. So, we don't expect any impact because of the H1B changes.

Ravi Menon: Thank you. One last question from me on the ER&D side. You were talking about how this quarter, we might still see some softness in ER&D, but it looks like that's done well. Were there some unexpected areas of spend that picked up?

C. Vijayakumar: No, I think, my comment was not on overall ER&D. I think my comment was specific to automotive segment, of course, which has a contribution towards ER&D. But the telecom, tech; telecom, the nature of deals are a little different, but tech has got good projects. And even some of the manufacturing, I think our open positions have significantly increased in ER&D. And right now, we are trying to see how best we can fulfill that is our biggest priority for this quarter because some of this happened towards the end of the last three weeks or last four weeks of the quarter. And I mean, the overall ER&D in the two quarters we've had good growth organically as well. So, we think that momentum would continue.

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: Yes, thank you for joining this call and we are looking forward to some exciting times in the overall business landscape and we will keep you updated as we progress and thank you for your continued support and have a good evening.

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