



HCL Infosystems Quarterly Investor Conference Call

Q3 & FY16 Earnings Conference Call

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

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

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

Moderator:

Good day, Ladies and Gentleman. Welcome to HCL Infosystems third quarter & full year 2016 results audio conference call. We will start with the presentation and then follow up with question and answer session. We would like to begin with mandatory disclaimer. This call may contain forward-looking information including statements concerning our outlook for the future as well as some of the other statements of belief, future plans and strategies. These forward looking statements and information are subject to risk and uncertainties that they entail. We have on the call with us Mr. Premkumar Seshadri, Executive Vice Chairman and Managing Director, HCL Infosystems Ltd., Mr. S G Murali, Group Chief Financial Officer, HCL Infosystems Ltd. and Mr. Bimal Das, Joint President, Enterprise Distribution Business, HCL Infosystems Ltd. Now I will hand over the call to Mr. Premkumar. Over to you, sir.

Premkumar Seshadri:

Good afternoon and welcome to the results conference. Slide number 3 in the presentation defines the flow on which we would be discussing our results today. As you are aware and to reinforce, we look at our businesses in the context of four key areas i.e. the old enterprise space consisting of four to five lines of businesses, the consumer space which is largely our telecom device distribution and the system integration business and the Learning business which is one of the smaller businesses in the group.

Moving on to slide number 4, as far as the business highlights are concerned, Q3 revenue was Rs. 1,101 Cr. vs. Rs. 1,147 Cr. in Q2. The contraction in the revenue was restricted to 4% despite 20% Q-o-Q reduction in Consumer Distribution business. We had a delinquent demand environment on the mobility business and the handset business notwithstanding a very steep reduction of almost 20%. The other businesses which are the growth businesses that we have been focusing on continued to grow thereby restricting the entire contraction to 4%.

Consumer Business revenue contracted 20%; largely due to the weak demand environment. The enterprise business

grew 34% Y-on-Y (nine month basis) and 19% Q-on-Q. This growth trajectory was seen over the last few quarters and has also continued this quarter. The services business grew Y-on-Y with a small Q-o-Q contraction, due to the rationalization of certain contracts that we have cautiously undertaken and as emphasized earlier.

As far as the SI business is concerned, the key projects are now moving towards a commercial closure. The order book as of today is about Rs 1180 crores and a significant part of certain projects have now moved from build to maintain phase and is progressing to the support phase. This development in the quarter has been due to the key focus of the company (in the last four or five quarters) in execution and we are currently in the last lap of execution cycle in this business.

In terms of P&L we are at a negative PBIT of Rs 30.4 crores for Q3 and at a negative PBIT of Rs 79.8 crores for the financial year. There is an exceptional item which we will discuss later when we get into the details of the non-cash impairment in the perspective of goodwill in the learning business of ~ Rs 70 crores.

Moving on to the enterprise business, over the last three quarters the contribution of its revenue to total revenue grew from 31% to almost 50% plus. This was in part also due to the compression of the consumer distribution business. The important aspect to the growth of this business includes a linear growth trajectory of 19% which we saw in the last quarter. Overall in the whole context, the key area of focus is being the preferred lifecycle technology partner for enterprises. This is showing a significant traction within the market businesses. We would be continuing our investments in the emerging technologies like IOT, Cloud and Mobility apart from the investments in modernization in the services business given the nature of the pipeline going forward. I would now handover to Mr. S G Murali who would walk you through Q3 P&L in detail. Over to you, Murali.

S.G. Murali:

Thank you, Prem. I will take you through the comparison of the quarter performance versus performance of the last quarter. The consolidated revenue was Rs 1101 crores

compared to Rs 1147 crores in the last quarter; amounting to contraction of Rs 46 crores. Profit before provision for doubtful debts, write-offs and impairments was marginally lower than the last quarter i.e. a negative of Rs 19.4 crores versus Rs 20.6 crores in the last quarter. The provision for doubtful debts, write-offs and impairments during the quarter was Rs 16.2 crores compared to Rs 10.3 crores in the last quarter. Loss before Interest and Tax stands at Rs 30.4 crores which is marginally higher in comparison to the last quarter where we were about Rs 28.8 crores. The finance cost has gone up by Rs 4 crores during the quarter largely because of the incremental debt. Profit before tax and exceptional items was at minus Rs 69.6 crores for the quarter versus minus Rs 64 crores in the last quarter; about Rs 6 crores which is higher than the last quarter. We had an exceptional item which Prem mentioned earlier, it's mainly on account of Non-Cash impairment of goodwill in respect to Learning Business amounting to Rs 70 crores. Loss before tax and after exceptional items for Q3 was Rs 140.6 crores against the loss of Rs 64 crores in the last quarter.

Moving on to slide number 8, the Enterprise Products distribution business registered highest ever Q-o-Q growth. We are seeing the growth here since the last 7 to 8 quarters. The business grew 48% compared to last quarter and grew 72% Y-o-Y. The business also received an ISO 9001 certification during the quarter.

As mentioned by Prem in the last call, our initiatives on go-to-market strategy wherein both the partner and the enterprise organization including our services and the distribution business are being integrated bring in operational and client synergy.

Moving on to the next slide, the enterprise services business grew 11% Y-on-Y and declined 5% for the quarter. This decline has been largely due to contract rationalization. Some of the contracts that are not viable and are low in profitability; we have tried to exit them to minimize the impact of these contracts. So there are couple of initiatives which are running, one, rationalization of the contract; second, improvement in productivity, cost as well as incremental revenue opportunities from those

customers. The pipeline of the global business continues to be healthy.

Moving on to the slide number 10. The enterprise business registered growth. The consolidated revenue has grown from Rs 453 crores in Q1 to Rs 556 crores in Q3. The Loss before Exchange differences and Provisions for doubtful debts/write-off and impairments have increased compared to last quarter. This increase has been due to the non-renewal of the low margin contracts, rationalization of certain unviable contracts in the services business. In addition, we have been continuing to invest in the organization capability building for the new services business. The provision for doubtful debt is Rs 2.9 crores; which is lower than the last quarter i.e. Rs 5.2 crores. The overall Loss before Interest and Tax is Rs 16.4 crores versus Rs 12.5 crores in Q2. The overall revenue is at Rs 1477 crores (nine-month period) and the loss before interest and tax is Rs 44.2 crores.

Moving on to the slide number 11, the consumer business witnessed a decline of 20% Q-o-Q. There was a weak demand environment resulting in lower revenue during the quarter coupled with significant brand entries and exists. This is something which we have seen in the last two quarters thereby putting pressure both in terms of revenues as well as the margins in this business. With declining volumes we have been continuing to optimize cost and ensuring we are profitable both at an EBITDA level and PBT level for the quarter.

Moving on to the slide number 12, the consolidated revenue for the quarter was Rs 453 crores compared to Rs 567 crores in the last quarter. The profit before interest and tax for the quarter was Rs 8.7 crores compared to Rs 13.9 crores in the last quarter. The business registered Q-on-Q drop in the revenue of Rs 114 crores. The business registered reduction in PBIT; from Rs 18.9 crores in Q1 to Rs 8.7 crores in Q3 this year. This was largely due to reduction in topline volumes and also lower contracted margin as we became Pan India distributor since January 2016.

Moving on to slide number 13, in the System integration business the primary focus has been on execution of the projects. The build phase of the project continues to reduce. During the quarter we executed projects Rs. 81 crores thus reducing the pending order book to Rs 1180 crores. Of this, ~ Rs 500 crores is part of build phase and balance ~ Rs. 700 crores includes support services and annuity revenue. The build phase of most of the projects is nearing completion and by March 2017, most of the projects should get completed. In UIDAI we have achieved a global milestone of one billion enrolments.

Moving on to slide number 14, the revenue of System integration business reduced from Rs 153 crores in Q1 to Rs 140 crores Q2 and to Rs 111 crores in Q3. This was largely driven by the projects getting into completion mode and this is likely to continue going forward. The provision for bad and doubtful debt for the quarter has been higher. We are at Rs 9 crores compared to Rs 2.7 crore in Q2 and Rs 1.5 crore in Q1. This provision has been mainly due to certain residual legacy businesses other than SI and also includes the provision for certain LDs which are being contested with the customers. So the loss before interest and tax for the quarter was at Rs 8.9 crores compared to Rs 4.8 crores in the last quarter. In terms of 9 month performance we are at a loss of Rs 19.8 crores .

Moving on to the last slide, the overall revenue declined from Rs. 4510 crores in 9M15 to Rs. 3718 crores in 9M16. The drop in the revenue is largely attributed to the drop in the consumer distribution business. The Profit / (Loss) before provision for doubt debts / write-off & impairment moved from Rs 1.7 crores in 9M15 to negative Rs 49.0 crores in 9M16. The provision for doubtful debts was at Rs. 40.7 crores in 9M16 versus Rs. 81.5 crores in 9M15. The loss before interest and tax is Rs 79.8 crores versus Rs 70.9 crores last year 9 months. The finance cost, however, has gone up from Rs 88.5 crores last year to Rs 106.1 crores in 9M16 due to a net incremental debt of about Rs 173 crores. The interest cost increased largely due to the funding of the cash flow out of borrowed fund during the year. The loss before tax and exceptional items at an operating level was at minus of Rs 185.9 crores compared to Rs 159.4 crores in the last year. We also have a goodwill

charge of Rs 70 crores as part of exceptional item in 9M16. The net loss before tax & after exceptional item for 9M16 was at Rs 253.1 crores compared to Rs 133.8 crores in 9M15. With this, I will hand it over back to Prem for any questions.

Premkumar Seshadri: Thank you Murali. I would now request the coordinator to open the floor for Q&A session.

Ashok Damani: Good afternoon.

Premkumar Seshadri: Good afternoon, Ashok.

Ashok Damani: How are you?

Premkumar Seshadri: Fine.

Ashok Damani: Sir, can you walk us through the enterprise service business in terms of how we would be progressing going forward?

Premkumar Seshadri: Fundamentally, in the last three quarters the DNA of the HCL organization has largely been in the enterprise space. Over the last 5-6 preceding years, we had negated the market and now we were trying to reenter the market with new propositions. We have invested a good amount of resources behind building the capability. We are also looking at all the emerging areas apart from the traditional areas which includes the field operations and the tech support space. We are also looking at investments around the IOT, Cloud and Mobility space and are considering some innovative engagement models for the rest of the business. During the last year we built a very comprehensive IT Operation Center (ITOC). This is in line with our realigned focus to the enterprise space and you would be seeing the emergence of those kinds of futuristic contracts as well as contracts around the four services. We wanted to reach the threshold point in terms of negating some older businesses. As you are aware that until a few years ago we were a manufacturer of PCs and these products were also in the marketplace. So the good part of those contracts which were there all pertained to those equipments which were either under warranty or under service contracts. Because of the nature of that engagement the amount of money which was related to

the services was significantly lower as compared to the amount that was taken off which was related to the product. So given that in the present context these contracts were unviable, but we will have to reach a threshold before we can start building a base around some of these contracts, especially not taking it up for renewal and definitely wherever possible if there is a longer liability in terms of support, we had to exit. So there will be a little bit of up and down which relates to some of these contracts being eliminated. Alongside with that there would be some appropriate provisions because when you eliminate some contracts, there would be residual two months payment and other similar issues. Therefore, we will prefer to take a charge on that rather than while we will keep on testing it. So the enterprise business as a whole and the way we are positioning ourselves as a technology lifecycle partner, we are ensuring that most of the organizations that we are getting in today, they see us as an entire service landscape provider which includes the traditional landscape of services and the newer areas like digitalization of services which could be in either of the following areas of portals, Mobility, Cloud and IOT implementations and so on. We have done some very successful IOT pilots with large multi-national organizations, which means that this not only would benefit businesses in India, but would also provide an opportunity to get some of their global rollouts. Hence, now the enterprise services business would consist of integrated GTM of about 500 to 700 accounts in the country which are essentially being tracked across verticals and specific lines of business. These would be at the core technology services level which is traditional and would be migrating over the next two to three years. This would eclipse and reinvent itself to some extent as many of the equipments which are on-premises today will go off-premises in the cloud domain. Even though there is contraction of that business it will by and large be relevant for the next two to three years. So we have essentially worked on that business to innovate the model which you will get to see over the next two-three quarters. Today we are not the least cost provider but we would definitely get to be the least cost provider in that business. So some investments in the tools have been made and some

elements of how we look at the cost has also been changed.

Further we look at it in the context of emerging technology services and then in the context of enterprise automation. We have done good job in the context of putting together complete print and documentation services, content management services. We are also looking at telecom infrastructure in a different way in the setting up of call centres or Cloud-based call centres. These are areas where we see very good traction and for which we have done appropriate OEM partnerships.

Ashok Damani: Sure. Thank you.

Moderator: Thank you very much, Mr. Damani. We have the next question from Mr. Viraj from Jupiter Financial.

Hello.

Premkumar Seshadri: Yes, Viraj.

Viraj: Yeah. Good afternoon, sir.

Premkumar Seshadri: Good afternoon, Viraj.

Viraj: Sir, I wanted to understand are we doing anything regarding the service as a product in NPCI or UIDAI space? Are we building around those areas?

Premkumar Seshadri: In terms of these spaces we definitely are involved from an infrastructure point of view because many of these implementations, the payment banks and others even for a Unified Payment Area definitely require a good amount of core infrastructure that needs to be put together. We are definitely playing in that space.

Viraj: So can you give me some overview on that what are we doing in this space?

Premkumar Seshadri: There is a need to build appropriate data centres for these people. It should be seen as rollout across multiple locations, with appropriate level of security and other areas that we really need to have it as some of them are

doing it through mobile phones and so on. So the mobility-related interfaces and to link up with APIs. These are some types of work that we are meeting for.

Viraj: Okay. And, sir, how many more write-offs and provisions are pending?

Premkumar Seshadri: This should be seen as a percentage of revenue of businesses that we are doing. We will be in and around this range, and there is no exceptional perspectives that you will get to see. We are getting down to a focused enterprise portfolio. In the past we had a large government portfolio, there are some LDs there; which have been contested by the company.

S.G. Murali: As mentioned in the previous call, when you look at the total provisions, the provision is about a percentage of the total revenue. If you see last couple of quarters it's largely something which we can actually expect in the long run when you are dealing with multiple customers and especially when we have a services business. In the services business there are SLA commitment, there are LD requirement as well. At the end of the day having 1%, 1.5% provision in a business of this scale and size, is not a significant amount. We are showing it as a separate line item just to bring in transparency.

Viraj: Sir, my point was funding this cash out of borrowed fund can be dangerous, right?

S.G. Murali: There is a business plan and during this phase we are trying to get to a cash neutral situation in each of the businesses as fast as possible. Separately we will work on certain other initiatives to see how we can actually bring down the debt. The debt is largely because of the system integration business where the projects are in the build phase. In these projects you have to incur the cash first, and unless you reach the milestone, you can't bill it. Now we are coming to a stage of billing as the projects are coming to closure. They are all at 95% to 99% completion in most of the projects. As we come to the closure and finish the milestone, we will be raising the bills. Once you get the cash realization for the SI project, a large part of net debt will come down. This is long working capital

which is required for SI project which is largely the issue and the reason why we are incurring finance costs. The EBITDA loss is quite insignificant when compared to the total loss. Out of Rs 159 crores for the period, about Rs 88 crores are from interest cost and the interest cost will come down, as the SI collection move into realization phase.

Premkumar Seshadri: The total build amount was about Rs. 450 crores to Rs. 500 crores and all of this is definitely coming to a close in the next three quarters. A large portion of it would come to close earlier as well. Given that, in the last 18 to 24 months it has come down significantly from around Rs. 1700 Crores to Rs. 500 Crores. There is adequate amount of collections which are pending which would cover the debt in some form or the other.

Viraj: Are we coming here at the end of the cycle. That's what your sense is, correct? I mean this is...

Premkumar Seshadri: Almost 100% from the build side by end of this fiscal. And when I say build, I'm not talking about B-I-L-L-E-D which is of course there. I'm also talking about B-U-I-L-D, the build side.

Viraj: And how about the service of this SI projects? Will it be revenue accretive?

Premkumar Seshadri: When you see both of them together, there is quite a bit of investment in resources. Also some parts have been completed which are in support mode and some parts are continuing to be built with the same client which is essentially in the build mode, so you may look at it in that context just to ensure that we do not slip on the build side. I think we are over-invested in this segment. Just imagine when you're on 97% of the projects completed, for 3% of the time we don't really want to take any chances. So even if it means that you're putting 20-30 resources extra, you don't mind doing it because your overall benefit is much more. So, once a build is over, you will see the productivity starting to support the services business and I think they would definitely be value accretive.

Viraj: Okay, sir. Why are we losing money in the services business?

Premkumar Seshadri: As mentioned earlier, we did not have capabilities in IoT, mobility and portals. All of this had to be built. We built the Network Operations Center (NOC) in Pondicherry which is the IT Operations Center. All of this was done with internal operations and internal accruals only. Therefore, there was an extra investment in capacity as we had to bring people and re-train them. Apart from the build-in SI projects, the rest of the support business was largely a field operation business. And the field operation business, if you follow technology, it will be over two to three-year period a diminishing business.

So, we had to reinvent ourselves. We couldn't be just in that business. We have done a phenomenal job of building up that capability, and won more than \$15-20 million contracts. There are contracts in the last quarter. So, I think that's coming out.

Viraj: And so it will be profit in the service business, right? Should we try to assume that?

Premkumar Seshadri: No. it will take some more time. After which, you will see that most of the investments are being recovered through good engagements.

Viraj: Thank you, sir.

Premkumar Seshadri: We have the next question from Mr. Parimal from Credential Investors.

Parimal: Good afternoon, sir. This is regarding the build phase of SI projects, worth close to Rs 500-odd crores. Is this sales which will get over between July and September 2016?

Premkumar Seshadri: I would take it as December. See, one project could flip into March 17. All types of projects should get completed by March. Out of the 500, you will see that almost 70% will be done between October and December.

Parimal: So, does it mean that the Rs 500 crore will be even the long term debt on the balance sheet will come down with it by December 2016?

Premkumar Seshadri: No. One is to complete the build. After you complete the build, there is a process of payment collection because these are all Government of India or defense projects. This could range anywhere between 60 to 120 days.

S G Murali: Once you've completed the project we have a detailed documentation phase, there is a customer acceptance phase. After the customer has done the acceptance, then we'll have to go for the collection process. So, normally it takes at least one to two quarters by the time you start realizing the cash.

Parimal: Sir, when will the build side project would get over worth Rs 500-odd crores. Can you share the date of completion?

Premkumar Seshadri: It is not a single project. There are multiple projects and within the projects there are multiple deliverables. So, I would not be able to give you a date around this because there are deliverables starting from next week. So, I would say the bulk of it, almost 70%, should close between the October-December phase and approximately from the date of closure you could start looking at it in terms of that translating itself into cash.

Parimal: Okay. Sir, my second question is that in terms of your financial inclusion initiatives, what is the update? We had discussed this two con calls back in terms of Aadhaar and mobility? What is the main update? How are we positioned in terms of benefitting from 1 billion landmark in Aadhaar card?

Premkumar Seshadri: These are unconnected areas. I think that is the enrolment milestone which we have completed. One billion Indians today have Aadhaar cards, and as the Managed Service Provider, we have been involved in ensuring that happens. That's a separate discussion.

As far as the financial inclusion business is concerned, that's an independent business. At this point of time, the size of that business is too small and too immaterial for us

to look at. However, there are some interesting digital options that are coming up in that business and the company is looking at those strategic options very closely. And in terms of business today, it is too small.

Parimal: Okay. Sir, my third question is related to the Enterprise business. You had mentioned in a couple of con-calls back that we have leading edge technology. Can you elaborate in terms of what these technologies are which we have in our enterprise business and how are these going to help in terms of revenue generation five years down the line?

Premkumar Seshadri: Four or five years down the line is too long for any technology. I will say you should compress this for a year or two.

Farimal: Okay.

Premkumar Seshadri: Whenever we talk of technology, beyond two years is in any case not predictable. So, we'll have to keep reinventing in this domain. Coming back to what we have internally, we have our own intellectual property inside the company in terms of Enterprise Management system, which is a very large space. We have reinvented that space over the last six months by putting a lot of resources behind it.

Today, the typical Enterprise Management software that you will find in the market place, essentially looks at IDSS which is managed remotely. Today we have built the appropriate level of capability and ruggedness inside the system. This EMS becomes a very clear platform for IoT, which means that any non-information technology asset as well as any intelligent asset can also be managed. That is a very core element in terms of remote management, remote diagnosis and analytical use of data, all of which is very well captured in this. This is one core technology that we are driving within the Enterprise space. The second part is that in all of our large projects of national importance, such as the UIDAI project, defense projects, the telecom or power projects, we have created very strong capabilities in areas such as biometric and robust data centers. It is a very strong capability and there are very interesting

components that are actually being seen by our customers as very different from what is available in the market.

As far as modernization is concerned, it is a very important aspect of many of our projects, for example our power projects. We are looking at the entire billing cycle, the metering related modernization, intelligent modems, SIM-based data transfer etc. We have noticed that there are many companies with products in the consumer domain or in the enterprise manufacturing domain which need to be modernized, through IoT and other concepts.

This capability of ours is working in a very seamless manner because we have positioned ourselves as experts in modernizing. So, when we look at carving out the Enterprise space completely differently from what is available in the market, we have to look at some of these very core technologies to work on.

I can talk about other capabilities such as in the telecom sector and in heavy, highly secure encrypted networks. We have built the largest network with respect to the Air Force, which are in extremely encrypted and highly secure environment. This capability is required today, for example, in the banking sector which is going into more and more mobile devices for easy access.

Parimal:

And sir, if I may ask, who are the competitors globally or in India?

Premkumar Seshadri:

I would look at every one of the larger System Integration companies in India who participate in India, as our competitors. This even includes some key players in the telecom equipment space.

Parimal:

Okay, one last question. This is regarding your technical communication system which you did for the Government of India's defense project along with Tata Power. I would like to know the update on that project. How are we progressing on that front?

Premkumar Seshadri:

We are progressing well in the context of trying to build the appropriate prototyping. It is in initial stage, you will have to watch this space for a bit more time.

- Parimal:** Okay. Thank you, sir.
- Moderator:** We have the next question from Srivathsan from Spark Capital.
- Srivathsan:** Hi. I want to get your thoughts on the services piece of the SI business that you had mentioned. What kind of tenure is this Rs 700 crores of AMC service business flow through?
- Premkumar Seshadri:** This could be anywhere between six to eight years.
- Srivathsan:** Okay. How are you going to manage people post the build phase, because I am sure you have a large team which is taking care of the build phase which might get over in three to four quarters? Post that is the same team going to manage annuity or are you going to face some HR issues?
- Premkumar Seshadri:** No. I think fundamentally the build phase in enterprise and the enterprise organizations are quite different. You have the AGM & ASM side in the typical IT/ITES services business. We are basically looking at the maintain and support side largely to be the ASM organization. So, you would definitely have good quality of domain and other areas which these people will take care of.
- Our investment into some of the productivity areas today are building database, what would be the issues, all of this are being transferred. So, the objective is to build a team for our projects in the Enterprise business.
- For example, we are now building the entire data center for a very large multinational insurer in the Middle East and looking at modernization. This is a very large contract worth about AED 17-18 million. We are into these kinds of consulting assignments. So people coming out of earlier projects will get into these projects.
- Srivathsan:** Okay. Continuing on the earlier question asked, I understand there's a lot of cost that's being incurred in capacity building. But at some level, of the revenues that you have, what would be the gross margin? Just say if you had to put the cost of only of the people who are working on projects on which you're making revenues alone.

Premkumar Seshadri: No. I think we should look at revenue into two cuts - revenue of the traditional legacy businesses is one part, and then there is the emerging businesses that are coming up today. Our average profile of gross margins in legacy space is in the range of 16-20%, but in the emerging areas, it will move to about 30-40%.

Srivatsan: Okay. And at what scale do you think the revenues for Services business should make breakeven and maybe go into late single digit or mid-double digits margins. Is it at maybe over Rs 750 crores, Rs 1000 crores or Rs 2000 crores a year scale, or do you think an even larger scale is needed for you to go to mid-double digit or early teen that are margin profile?

Premkumar Seshadri: No. I think it does not require any further scale than where it is if you ask me. Fundamentally, we are at Rs 600 crore level today, and it is possible. But there is a backlog of some legacy businesses, a good part of which we rationalised over the last two quarters. The faster we are able to rationalise this and change the mix of the total portfolio, so that is more relevant, not so much the need for this to organically get to Rs 2000 crores before we breakeven. I don't think it is linked to that number. It is linked with the context of what the proportion of the portfolio mix is legacy versus emerging.

Srivatsan: Sure. On the enterprise distribution piece, I do understand, again, because it's a relatively newer business and there'll be a number of brands that are contributing to the enterprise distribution business again, the question is pretty similar. At some point of time, you would see scale to benefit as and when lead us into profitability, where we should be about three, four quarters away from our breakeven in the business?

Premkumar Seshadri: I think we are approaching that point already. Actually, if you see the last four quarters, the losses in the Enterprise distribution business has been consistently coming down. I think the trend is still looking very good and I think we should make it work soon.

Srivathsan: Okay. And on the enterprise distribution vis-a-vis consumer distribution, how would we characterize the working capital cycles in both the businesses?

Premkumar Seshadri: See, on the consumer distribution business, we are largely on a cash-and-carry model. That's the way we have operated over the last so many years, and that is the way we will continue to operate in the consumer distribution business.

Enterprise distribution business, we have had a net working capital of close to about 60 days about two years back, which is coming down to close to about two weeks. That is the trend which is emerging. Hopefully, we should try and get to a reasonable, I would say, either a five-days, six-day type of a net working capital with enterprise distribution business very soon.

Srivathsan: Five, six days will be extremely impressive

S G Murali: Yes, that is where we are heading. Given the low margins at the PBT level in this business, if you have to really make money in this, you have to try it and bring your net working capital as low as possible. That's the ultimate way to make money. When we will achieve that, I think it will take some time.

Premkumar Seshadri: From 60 days plus, almost a year back, we are now at about 15 to 25 days.

Srivathsan: And from a PBT margin point of view you mentioned, for the enterprise distribution, the steady state PBT should be similar to consumer PBT?

Premkumar Seshadri: Yeah, we have enough benchmark available in the industry, for enterprise distribution business. I don't think we'll be very different from them. Given their scale of size, they will be slightly more profitable.

Srivathsan: More profitable. Fair enough.

Premkumar Seshadri: You must also see that you're talking about enterprise distribution business separately here. And some of the benchmarks you have and the few others are mixed.

- Srivathsan:** Totally
- Premkumar Seshadri:** Just factor that, and I don't think there will be much deviation from that.
- Srivatsan:** Okay. My last question is - just wanted to get a sense of the state of the balance sheet as things stand out, if you can give us what would gross debt be and what would be, especially on the SI business, what is sitting in receivables and sitting as payables, on a net basis what would be gross debt as things stand out to be?
- S G Murali:** Yeah, I will start from data point actually. The gross debt we are for about Rs 1303 crores and net debt we have about Rs 1034 crores as of March 31st.
SI is Rs 820 crores contract in progress and we have, due BRs of around Rs 350 crores. So, on the payable side I don't have the data readily, but I would say that the payables would also be significant. But after the payables we have significant opportunity to bring down the debt hopefully as and when the collection materializes.
- Srivatsan:** Okay. Thanks a lot. That's it from my end.
- S G Murali:** Thank you.
- Moderator:** Thank you very much. We have a question here from Mr. Parimal.
- Parimal:** Sir, this is with regard to your balance sheet section. In terms of your current investment, there's sharp decrease from Rs 235 crores to almost Rs 50 crores, can you explain what the nature is, have we come out of investment or what is it, sir?
- S G Murali:** See, it's like this. At the end of the day we have to fund the cash losses, during the year, we had cash losses of about Rs 170 crores. We have tried to maintain the debt very close to where we were about a year back. Our gross debt was about Rs 1253 crores, March of 2015. After a year my gross debt is about Rs 1300 crores. The balance has to come out of my cash balance. We have to liquidate the cash balance which is there to service the cash losses.

- Parimal:** Okay. Sir, example to look at?
- S G Murali:** I'll just add one more data point for you. We have been able to actually convert some of the short term debt which we have because some of these were short term debts which were taken over a period of time. Now, we have a long term loan facility of about Rs 500 crores which is actually repayable over a period of four years and which has a one year moratorium. And in addition to that, we have a working capital arrangement which we are just concluding, which will be about Rs 300 crores. In addition to the Rs 500 crores of long term debt we have about Rs 325 crores of unsecured medium term debt which is for about two-and-a-half to three years. So, I'll say the large part of the balance sheet which is the debt has now been converted into a long term loan over a period. So, to that extent, that gives us enough time for us to realize our collections from the SI receivables and to retire our debt.
- Parimal:** Sir, is it safe to assume that we have reached the peak of our debt cycle?
- S G Murali:** I would say that the debt will not materially go up from here because on an average we are burning about Rs 50-60 crores of cash in a quarter. This you will see start coming down as the SI collection starts materializing. So, I would say that the debt will be in this region plus-minus about Rs 200 crores over the current debt over a period. I don't see the debt going up significantly.
- Parimal:** Okay. Then sir, this is regarding your exceptional gain for this, this is close to Rs. 70 crores
- Premkumar Seshadri:** No, it's a loss actually. We have taken a non cash charge here.
- Parimal:** Sir, This is towards which business?
- Premkumar Seshadri:** This is for the learning business.
- Parimal:** And in future, are we going to see these exceptional items moving ahead?

Premkumar Seshadri: See, periodically we keep testing your goodwill for the underlying carrying value for each of these businesses. You have seen that in the Learning business. There have been significant changes in the market place in the recent times, technologies changes and multiple competitors emerging in this space. You have to take cognizance of this and reevaluate at the end of every period.

Parimal: Okay. And sir, have you tied up with any players in terms of the financial inclusion in terms of payment banks or in terms of, something to do with Government's digital India campaign?

Premkumar Seshadri: If you look at the entire stack of the digital India and smart cities, there are core technologies and there are core capabilities available. Within the organization today on all those towers that are required, we have the right kind of capability and assets. However, we are not bidding for any of these directly. And are looking to work with some large SIs to be involved in them. So we'll participate in it but not with any direct exposure. As far as the payment banks and payment systems are concerned, distinctly yes, we are working with them as I told you before in their entire infrastructure stack, be it in setting up their cloud servers, looking at it in the context of roll-outs and mobility areas.

Parimal: Okay. Thank you, sir. Thank you very much.

Moderator: Thank you very much. So we have one last question here in the queue from Mr. Srivathsan from Spark Capital.

Srivatsan: One quick follow up. On the annuity business of SI, what kind of profitability we can expect and what would be working capital on the annuity piece of the business? Will that be more quarterly payments kind of cycle?

Premkumar Seshadri: It is basically quarterly payments cycle. Once you get into the AMC phase, roughly it is every quarter billing. And it is very asset-lite. I mean it is basically your manpower cost over a quarter.

Srivatsan: And relatively higher margins also I presume.

Premkumar Seshadri: We have to make it higher margins. I will leave that there. Because as I told you, today if you look at a mix of build and service, it may not be that margin, then maybe what we do on the services business on standalone basis, but we will try to get to the services business definitely, that level of margin.

Srivathsan: Okay. Sure, thank you.

Premkumar Seshadri: Thank you very much for being here. I guess, you may have questions subsequent to this conference, and if you have any, Sumeet from our team would be very happy to take it forward. Thank you very much.