



## **“HCL Infosystems’ Q3 FY18 Results Conference Call”**

**2 February 2018**

**SPEAKER:** **Mr. Premkumar Seshadri, Executive VC and MD**  
**Mr. Kapil Kapur, Deputy Chief Financial Officer**  
**Mr. Bimal Das, Joint President, Enterprise Distribution Business**  
**Mr. Sutikshan Naithani, Joint President, Consumer Distribution Business**

**Moderator:** Good morning, everyone. I am Harpreet Kapur, the moderator of this call. Welcome to HCL Infosystems’ Quarter 3 FY18 Results Audio Conference Call. We will start with the presentation and then follow up with a Q&A session. For the duration of the presentation, all participants’ lines will be in listen-only mode. This presentation is available in the investor relations section of the company website.

We would like to begin with a mandatory disclaimer. This call may contain forward-looking information including statements concerning our outlook for the future as well as some of our other statements of belief, future plans and strategies. These forward-looking statements and information are subject to risk and uncertainties that they entail.

We have on the call with us Mr. Premkumar Seshadri, Executive Vice Chairman and Managing Director, HCL Infosystems; Mr. Kapil Kapur, Deputy Chief Financial Officer, HCL Infosystems; Mr. Bimal Das, Joint President, Enterprise Distribution; Mr. Sutikshan Naithani, Joint President, Consumer Distribution Business.

I would like to now hand over the proceedings to Mr. Premkumar. Thank you and over to you, sir.

**Premkumar Seshadri:** Thank you, Harpreet. A very good afternoon to every one of you. I would like to get down to slide 3 where we will



look at it in the context of the legal entities of HCL Infosystems. The core of HCL Infosystems consists of the key distribution companies. One is in the consumer space, the other is in the enterprise space. Then we have HCL Services, which is made up of three core areas – domestic enterprise services, the care services, otherwise, known also as consumer services, and the global services consisting of the Middle East region and the Singapore region. Apart from it, HCL Infotech has another entity which has the system integration business. And then the learning business.

I will get straight to slide 4 pertaining to the highlights of Q3. As you would see, we recorded a significant growth of almost about 49% quarter-on-quarter (Q-on-Q) in the overall area, from Rs. 881 crore to Rs. 1,310 crore in the third quarter. The distribution business was the primary contributor to this growth, which grew from Rs. 615 crore to Rs. 1,055 crore in Q3, a 72% Q-on-Q. For those who have been tracking the company for a while, we had, on the distribution business, come down significantly prior to the new strategy of going multi-brand. The last time we were at a Rs. 1000 crore mark was in the July, August, September quarter of 2015. So it's good to see we are back in the Rs. 1000 crore area in the distribution business, which is a function of the 72% Q-on-Q growth.

Domestic services posted a revenue of Rs. 66 crore with a PBIT loss of Rs. 18 crore and a continuing decline of revenue of 24% year-on-year and 18% on a sequential basis. This is despite the ongoing optimization efforts. And, as stated by us in our results announcements, this performance and the overall trend as we see, in the context of this business, both have reviewed the state of the business. We are, in the context, discussing or evaluating certain strategic options including divestment of this business.

Similarly, from an entity point-of-view the Middle East business, given what we have been talking over the last few quarters, essentially looks like another area where good evaluation of options would be the right time. The SI



execution is on track and the pending order book today is Rs. 745 crore. Once we get to the appropriate section further down, you will have a view of the build phase, the maintain phase and the annuity phase. Fundamentally, as of today, I think, we have come to less than about Rs. 90 crore or almost about Rs. 85 crore, which would be in the build phase. It is a very positive development over the last three-four quarters.

Overall, we are showing a loss of Rs. 18.4 crore as against Rs. 24.3 crore in the last quarter. We also had the care business, which you would have seen as part of our result announcement, for a consideration of Rs. 30 crore. We are looking at a transaction with respect to the consumer care business. And in the last quarter, we successfully concluded the rights exercise with the promoters. The promoter subscribed to almost about 90% of the issue. Rs. 500 crore was subscribed at the price of Rs. 47. With that as the backdrop, which translated itself into debt reduction to a good extent, I now go on to the specifics in terms of the financials asking Kapil to take on the Q3 P&L and deep-dive into it.

**Kapil Kapur:**

Thank you, Prem. Good afternoon to all of you. I will run you through the P&L snapshot, which is on slide 5. If you look at the revenue numbers, we clocked a revenue of about Rs. 1,310 crore which, as Prem shared with you, is 49% Q-on-Q growth. It was largely backed by the growth in both the distribution businesses of consumer and enterprise. However, the profitability in terms of the loss was at about Rs. 16 crore as against about Rs. 12 crore in the sequentially previous quarter. This increase is largely attributable to the domestic services business.

Provisions for doubtful debts during the third quarter were at Rs. 5.7 crore; finance cost was at about Rs. 42 crore. However, I am happy to share with you that we have closed the rights issue, as Prem mentioned, and a fairly large portion of our loans has been repaid. About Rs. 400 crore out of the rights issue has been applied towards repayment of loans at the end of December. In the coming quarters we



should start seeing improvement in terms of our cost funding.

Profit and loss before tax and exceptional items is at Rs. 60 crore as against Rs. 64 crore in the second quarter of financial year 2018. In the following slide – slide number 6 – we have, besides what we have already discussed in the previous slides, given a breakup between consumer distribution and enterprise distribution. We saw both these businesses growing fairly well in the last quarter. As you would see, the revenues of consumer distribution were at Rs. 660 crore and that of enterprise distribution at Rs. 395 crore. Accordingly, the profitability for both these businesses improved during the quarter.

Now, let's take a look at each of the lines of businesses in more detail. I am on slide 7, which covers the distribution business. Again, here we achieved the milestone of coming back to Rs. 1,000 crore revenue on the entire distribution business, after about 8 quarters. Consumer distribution, backed by the multi-brand OEM strategy, showed a very strong growth of 121% Q-on-Q. Last quarter we did Rs. 299 crore. Whereas, in Q3 FY 2018, which we have reported now, we did Rs. 660 crore. It is a very decent growth in a very short span of time. We have already signed more than 200 partners in one quarter and we have started our foray into online marketplace with some initial tie-ups. We are looking forward to this market as well.

On the enterprise products distribution front, again, there was decent growth. On Q-on-Q basis it was a 25% growth; on year-on-year basis it was a 54% growth. This has nearly touched Rs. 400 crore as a quarterly run-rate revenue. Here again we are continuing to build our channel relationships. The past quarter brought us some good, large order wins, which will also help us in our future growth.

Now, coming to the results of the distribution business – which is on slide 8 – the total revenue is Rs. 1,055 crore as shown in the previous slide. The profitability improved to Rs. 10.1 crore from Rs. 4.8 crore, backed by a higher revenue growth in the distribution business. This is a focus



area for the company. We are looking forward to this piece as one of the key growth drivers going forward.

On slide 9 we have details of services business. In our enterprise services business there was a decline in revenue both Q-on-Q and Y-on-Y. As you are aware, over the past few quarters we have shared that there's been a lot of effort to bring this business to its optimum level. We have been doing a lot of rationalization and efforts are on to improve the profitability of this business. However, we are still not there in terms of performance.

And as far as our overseas business is concerned, especially Singapore services business, we continue doing well over there. It's a steady business with decent growth and it's making good profits for the company. Besides that, as Prem shared with you, we have done a definitive agreement of sale of HCL Care division to Quesst Corp Limited. The value of the transaction is Rs. 30 crore. Of course, the definitive agreement has certain conditions precedent, which have to be met before we actually close the transaction.

On slide 10 of the results of the services business where, as I shared with you, the revenue has seen a decline. If we look at point number 2, which is profit and loss before provision for doubtful debts, write-off and expected credit loss, you would see that there is nearly Rs. 3 crore decline in profitability. The loss has gone up. That's what is reflecting in the overall performance of the company as well.

Coming to the systems integration and solutions business on slide 11, we have executed about Rs. 70 crore worth of orders in Q3. Now, the pending order book is at about Rs. 745 crore, with the build phase being just about Rs. 85 crore. The balance of managed services and support & annuity services are about Rs. 220 crore & Rs. 440 crore respectively. Here again we have been working quite actively on trying to close the build phase and we have been quite successful in this so far. Almost all the orders are nearing completion of build phase and within this



quarter and next quarter we see practically all of them closing the build phase, except for one where it's taking longer time for us to close. We are working with the customer to see how we can close that particular order as well.

On slide 12, we have financials of the system integration and solutions business. Of course, here we know that the revenues, profitability, everything varies based on what milestones are achieved in a particular quarter. The revenue was Rs. 43 crore in Q3 and the loss was at Rs. 9.7 crore. With this, I close the presentation and open the session for Q&A.

**Moderator:**

Thank you, sir. With this, we will open the floor for Q&A interactive session. Participants, if you wish to ask a question, you may please press "0" and then "1" on your telephone keypad and wait for your line to be unmuted.

Sir, the first question of the day we have from Mr. Jinesh Sheth from Arete Investments. Your line is unmuted.

**Jinesh Sheth:**

Hi. This is Jinesh Sheth. Thanks for the opportunity. Sir, the first question – we have grown phenomenally on the top line, but that hasn't gone to the bottom line. How do we look at this growth? Secondly, Sir, if you can spell out our ongoing optimization exercise in a bit more detail and also our future strategies with respect to each of our verticals, that would be helpful?

**Premkumar Seshadri:**

Yeah. Could you just come again on the second point? I didn't get that.

**Jinesh Sheth:**

Yeah. Sure. The second question is if you can spell out our ongoing optimization exercise in a bit more detail and also our future strategy with respect to each of our verticals?

**Premkumar Seshadri:**

Okay. The first question first. Looking at the growth in the context of revenue and its proportional growth in the overall bottom line of the company. One has to step back a bit and take the contextual view. The contextual view is that there have been, over the last 4-5 years, a series of



businesses in system integration and services, which one would call legacy contracts and so on. These contracts, from a profitability point-of-view, are not at the level which we would ideally like it to be. Parallely, we created the whole distribution organization to start looking at rapid growth, and that's the kind of growth that you are seeing. That nature of the distribution business is essentially around the margin profiles, which even with benchmark companies we are in the ballpark of exactly where everybody else is. In fact, in some instances we are performing even better than them.

Fundamentally, in a relative term or in the absolute term, the business asset is doing what is the grain of that business and it's also relatively performing along with its peers around the same nature. You have to look at HCL Infosystems distribution as one part of business which was to some extent absent sometime back and essentially is now getting down to growth. On the one aspect of the consumer distribution area we were a single brand company, we took a little bit of time and, as I stated in the last call and the previous one, maybe a little a couple of quarters extra to migrate to this model. But otherwise we were talking about once we get completely migrated here, we could definitely start seeing some sustainable kind of revenues. That is really happening now as we become a multi-brand company.

And, as far as the enterprise distribution – over the last 8 quarters, quarter-on-quarter we are basically seeing momentum. I would basically state that from a context of a model, I mean, that's a kind of margins that that business provides.

In Services, we have significantly reduced the legacy contracts and that is where the optimization comes into picture. The optimization is essentially not renewing many of these contracts, which perhaps do not have the profit perspective that we are looking at today. Given that has been the contract optimization and I would basically have loved to see a lot more optimization, but with the nature of the contracts, back-ended guarantees and so on, this is the



best that could have been done. We will have to retain some of these for some more periods. And until that period is closed, you would still see the mark – the growth in revenue and margins will still be at the same kind of level. However, you have seen the continuing reduction in the negative associated with SI and the services business. That's the reason why we also looked at one of the services unit, which is the consumer services unit, actually being divested as an option. That's the reason why from an optimization perspective the next step is to actively pursue and consider any exciting opportunities of disinvestment so that from a context of our balance sheet we look a lot better essentially with the distribution and the core global services business alone being the focus.

**Jinesh Sheth:**

Fair enough. Sir, how long would this period last? I mean, when can we see the legacy, in fact, going away from our book?

**Premkumar Seshadri:**

There are two parts. Our objective is to try and see how fast we can look at some options in the services side. If something good happens, it could be faster, otherwise that's another year, year-and-a-half kind of situation. And, as far as the build phase of the SI is concerned, we were staring at something like Rs. 450 to Rs. 500 crore just about 8 quarters away. We are now at about Rs. 85 crore of build phase with risk having significantly come down with the build phase. And, as Kapil was talking, other than a contract here or there, there really is no major risk in rest of the contracts and which should be done in this quarter or the next quarter. However, the contracts were signed up many years ago, so there is a nature of profitability in that and the opportunity to enhance it is limited. So until the time all the build is done and much of the efficiencies that we are able to bring in the SI businesses with respect to support, this legacy will continue.

**Jinesh Sheth:**

Sir, given the kind of visibility that we now have in some of the businesses, like consumer distribution, what sort of target you would have for the next fiscal?





**Premkumar Seshadri:** No. I am not getting into the numbers. You would have seen that we ran through a phase of at least 2 to 3 quarters last year and the beginning of this year also, in terms of the consumer distribution business that you talked about coming down dramatically. Now, we've reached a phase of a certain threshold and we believe this threshold would continue, but the nature of that business, both in the context of margins and the predictability of the business, is what it is. So I would not want to take a guess. But we definitely would say that for the brands we represent, we will continue to be a dominant player of those brands. At the same time, our focus is also to try and make the business profitable.

**Jinesh Sheth:** Okay. Sir, are we pursuing or exploring tie-ups with the other fast-growing players? Like we've seen Gionee, Oppo, Vivo have added significant market share during the last few years. So any view on that?

**Premkumar Seshadri:** Yeah. Sutikshan, he is here with us. You may want to give a colour to the fact of our focus and our strategy around it. It is not about bringing everybody on board and becoming a supermarket. He will explain it in more details.

**Sutikshan Naithani:** Okay. So it's like this. If you look at the telecom market and the way it operates, our focus is more on brands who have a long-term sustainability. If you look at Android as an ecosystem, it quickly changes the market shares. And so if you look at the brands which were quite powerful in the previous year, are no longer that powerful today. So we are very clear where we have a large opportunity to look at, one. Secondly, we are clear to look at some of the emerging channels where we see that the distribution as a business will migrate eventually to and will have a larger play. That's how we are looking at brand consideration.

Now, coming to some of those channels. We are not close to any of those things, but at the same time our prime focus would always be to look at a more meaningful association.



**Premkumar Seshadri:** Yes. Great opportunities which are sustainable we will not leave, but at the same time it's not about having more items in the menu.

**Jinesh Sheth:** Okay. Sir, just to understand – how much of threat online channels can be to the business? At the same time you've mentioned in the presentation about the tie-up with Samsung for an online platform. So how does that work?

**Sutikshan Naithani:** I will tell you how it works. If you look at within the telecom space and how the industry is spread, it's about 30% in the online space and the balance is in the other channels. We are very well positioned in the online space as well. Across all channels we are participating with whatever brands we are working with and pretty strong relationship that we enjoy with each of the ecommerce players. Accordingly you will see that we will have our revenue share coming out of all the channels, which would include the online as well as the offline.

**Premkumar Seshadri:** Yeah. And to answer the broader question, I think, the core of the distribution and definitely for the consumer distribution side, our investments in many of these channel development and also the technology behind it, has been ongoing for almost a decade now. That is the level of strength that is there, so, I mean, we don't see. To us, we are agnostic as to whether more gets bought out of or nearby store or online. And anything else you want to go deeper into it, you may like to take it offline with the investor cell they could arrange a call for you.

**Jinesh Sheth:** Sure. Secondly, coming to our SI what are the receivables on book as on date?

**Premkumar Seshadri:** Yeah. I think the total receivable – Kapil, can you just give that? It's about 500.

**Kapil Kapur:** So the receivables all put together are at about Rs. 550 crore for SI and as and when we close these orders in terms of build phase, which we are expecting to happen in this



quarter and next quarter, the follow-on to that would be this money coming in.

**Jinesh Sheth:** What's the total receivables?

**Kapil Kapur:** Total receivables for company?

**Jinesh Sheth:** Company. Yeah.

**Kapil Kapur:** It's about Rs. 1,400 crore.

**Kapil Kapur:** See, the receivables have not gone up in the SI so much. I think that is under control and that follows a certain due-date in terms of milestone achievement. And it's only on milestone achievement that you are eligible for payment. It's more to do with the distribution business where we have seen a growth and that has led to increase in some level of receivables.

**Premkumar Seshadri:** The increase in receivables that you see as a whole is largely attributed to the increase in the size of the business done in this quarter and which is basically within the scope of whatever is normally collected in the payment terms, which are there with the channels. So, I mean, there is no significant change with respect to the SI business in terms of receivables other than the milestone-based additions which happened less whatever collections have taken.

**Moderator:** Next we have Umang Gandhi from Financialogy. Your line is unmuted.

**Umang Gandhi:** Yeah. Good afternoon, Mr. Seshadri.

**Premkumar Seshadri:** Good afternoon.

**Umang Gandhi:** Yeah. First of all, congratulations for posting such good results for this quarter and I think the company is on the right side right now.

**Management:** Thank you so much. Thank you for your cooperation.



**Umang Gandhi:** Yeah. And we have faith in yourself and your team. I have two quick questions for you.

**Management:** Yeah. Go ahead.

**Umang Gandhi:** Yeah. In 2016 in a leading news channel you had mentioned about the potential of the data that had been accumulated from the Aadhar project and the analytics part of it. Now, it is two years from then and, keeping in mind of the national interest also, are we working or is there a roadmap for the data analytics or not? Is the roadmap created?

**Premkumar Seshadri:** No. I, once again, would like to step back. I mean, we are not collecting any data pertaining to Aadhar. We are not collecting any data. Analytics as a business as part of services is a separate discussion. We are definitely focused on it, but that is one of the emerging areas of services where you definitely have a significant entry price to get into that. At this point of time, our focus is there on it, but it is not so high.

**Umang Gandhi:** All right. And, sir, one more question. Keeping the sales strategy in mind in the coming quarters are you looking for the restructuring of any other segment of the enterprise part?

**Premkumar Seshadri:** Yeah. So, as I stated as per the release and which is there in my presentation here, we definitely believe that the domestic services business and our Middle East business are core areas which definitely are good candidates for appropriate level of discussions around disinvestment. I think from our portfolio I would believe that these two are good candidates. Given what it takes to grow these businesses and the states we are in, I think with the whole task to actually return to profit as quickly as we can, these are some of the thoughts and ideas or strategic options that we are thinking about.

**Umang Gandhi:** All right, sir. Thank you so much for your reply.



- Premkumar Seshadri:** Thank you.
- Moderator:** Thanks for your question. Next we have Debajit Shah from Share Builds. Your line is unmuted.
- Debajit Shah:** Congratulations to Mr. Premkumar and his team for a wonderful turnaround quarter.
- Premkumar Seshadri:** Yes. Thank you very much.
- Debajit Shah:** Okay. This question is to Mr. Premkumar on the SI part. What is the build phase currently left over?
- Premkumar Seshadri:** It's about Rs. 85 crore.
- Debajit Shah:** Okay. Last quarter it was round about Rs. 100 crore. This quarter we were not able to pursue much?
- Premkumar Seshadri:** No. When we come towards the end of projects, it normally becomes more difficult to complete. We are in the last phase, as Kapil said. I think between this quarter and the next quarter we should be completing a large part of it. But for one client, I don't see much of it exceeding beyond that.
- Debajit Shah:** Okay. As we cross milestones, I would like to understand one thing. Until and unless this build phase gets over, we wouldn't be able to start with the managed service and the support service part. We wouldn't be able to start with the annuity part, which you talked about, until the build phase gets completed?
- Premkumar Seshadri:** Yes. Correct. We have to sign off on the build phase for the annuity phase to begin. So that's the reason why early closure of this opens up our annuity business.
- Debajit Shah:** Okay. And, sir, what would be the margin expected from managed service and support service segment?
- Premkumar Seshadri:** Well , we are not actually commenting specifically on the margins in terms of the relevant businesses. But at a very broad level they are aligned to what services business margins are because these are services where you are either



maintaining an infrastructure or involved in recruiting some people and so on, so these are very much similar to that business.

**Debajit Shah:** Okay. Sir, another question about the UIDAI order. Since it forms a part of system integration only. Sir, what type of services do we provide like to UIADI segment on the Aadhar card?

**Premkumar Seshadri:** See, I think, we have answered this question many times. I would be able to discuss this, and share that from the website which is available. Essentially we are helping them in terms of looking after their infrastructure making sure that the various pieces work together and manage the data centre.

**Debajit Shah:** Sir, what can we expect from HCLI on digital disruption? As I understand, for consumer business you are forecasting a turnaround. The past 2 quarters have indeed been great for the consumer business. But not to forget, it will lead to a consumption of products in the segment. I am more concerned about disruption as a part of technology. How will HCLI play a major role in it?

**Premkumar Seshadri:** I think in the context of where we are, we have to prioritize where we want to go. So from that prioritization point-of-view the role of the management team is to ensure that we quickly, as fast as we can, move into a profit zone. In that context, we are creating appropriate differentiators, which are digitally ready. The investments I spoke about sometime back around the distribution network and what Sutikshan was talking distribution as a service, are some good ideas that are there. But at this point of time I would refrain from getting down to talking too deep about it. But as we go along and as we start moving away from being in the red, you will see some of these.

**Debajit Shah:** Okay. Thank you, sir, and I am hopeful that in the coming quarters you would be able to see better numbers.

**Premkumar Seshadri:** Thank you.



- Moderator:** Thanks for your question. Next we have Ayush Khetan from Prospero Finvest. Your line is unmuted.
- Ayush Khetan:** Yeah. Thank you for the opportunity, sir. I just have one question. Yesterday in the budget there was a hike in custom duty on mobile phones. So what will be the impact on our consumer distribution business?
- Premkumar Seshadri:** I will ask Sutikshan to give you an answer on it.
- Sutikshan Naithani:** See, it's like this. These are very regular practices which happened, in fact, there was a duty increase just about 45 days before. And normally what happens is all these increases are passed on to the consumer and that's about it. I am sure even this time, though we are not clear as of now how the principle will take a call on this, but generally the practice is that it is always passed down to the consumer.
- Ayush Khetan:** Sir, basically there will be no impact on the sales or we will be sales affected due to this?
- Sutikshan Naithani:** That's very speculative. It all depends on the demand. As long as the demand stays intact, I don't think an increase of 5% would make an impact. So that's about it.
- Premkumar Seshadri:** Yeah. I think basically is it going to be a significant drain on the demand environment? In the past we have not seen that to be very significant and given the portfolio of the products that we managed, I think we believe it is a segment where, maybe, that demand environment would continue to be where it is. But, yes, I mean, there is always a perspective around the demand environment slowing for a while, if at all it does. But, as of now, we don't see it.
- Ayush Khetan:** Okay. And so what will be the margin in the consumer distribution business?
- Premkumar Seshadri:** You have seen the margins that we have overall in the distribution business where we are about Rs. 665 odd crore, I think, the margins are around Rs. 6.4 crore or so. It is there as part of the release. Okay?



- Ayush Khetan:** Okay. No problem. And, sir, lastly there is a rumour that for iPhone X. the production will be terminated or are we going to stop the production, so any effect on that or any comment on that side?
- Premkumar Seshadri:** No. I don't think we can comment on anything from the market place.
- Kapil Kapur:** It's for the principle to talk about.
- Premkumar Seshadri:** It's for the principle to communicate. We have no information that we can share with you.
- Ayush Khetan:** Okay. No problem. Thank you, sir.
- Premkumar Seshadri:** Thank you.
- Moderator:** Thanks for your question. Once again, participants, if you still have any question, you may please press "0" and "1". At this time, there are no further questions from the participants. I would like to hand over the floor back to Mr. Premkumar. Thank you and over to you, sir.
- Premkumar Seshadri:** Thank you, everyone, for being on the call and the questions and the confidence on the results. I look forward to seeing you next quarter. Have a great day.
- Kapil Kapur:** Thank you.
- Premkumar Seshadri:** Thank you.
- Moderator:** Thank you so much, speakers, for addressing the session. Thank you, participants, for joining in. That does conclude our conference call for today. You may all disconnect now. Thank you and have a pleasant day.