



**HCL Infosystems Ltd.**

**Q3 and FY20 Results Audio Conference Call**

**January 28th, 2020**



**SPEAKERS:**

**Management, HCL Infosystems Ltd.**

**Moderator:**

Good day ladies and gentlemen. I am Harpreet Kapoor, the moderator of this call. Welcome to HCL Infosystems' Q3 FY20 results audio Conference Call. We will start with the presentation and then follow up with a Q&A session. For the duration of the presentation, all participant 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 risks and uncertainties that they entail. We have on the call with us Mr. Rangarajan Raghavan, Managing Director; Mr. Kapil Kapur, Chief Financial Officer and Mr. Sutikshan Naithani, President-Consumer Distribution Business. I would like to now hand over the proceedings to Mr. Rangarajan. Thank you and over to you, sir.

**Rangarajan Raghavan:**

Yeah, thank you Harpreet. Good evening to all. We will go to the slide where our organization chart is depicted. Here we have shown in blue color the legal entities and the green ones are the continuing business entities. Moving to the next slide Business Highlights, Q3FY20 revenue was at INR 429 crore as compared to the previous quarter INR 582 crore. Out of this, distribution business contributed about INR 386 crore vs. the previous quarter where the distribution business had contributed INR 545 crore. Enterprise distribution out

of the total Distribution business contributed about INR 259 crore as compared to the previous quarter revenue of INR 310 crore and Consumer Distribution contributed about INR 127 crore as compared to the previous quarter of INR 235 crore. Loss before interest, tax and exceptional item for continuing operation was at INR 57.1 crore as compared to the previous quarter which was at INR 26.1 crore. The profit before tax and after exceptional item from continuing and discontinued operations was at INR 75.3 crore as compared to the previous quarter, which was a loss of INR 39.6 crores. In the discontinued operation on 6th August the HCLI board has approved the sale of shares of HCL Insys Pte. Limited (Singapore) to PCCW Solutions Limited (Hong Kong). Pursuant to this, on 15th November, the company concluded the sale of the entire share holdings of HCL Insys Pte. to PCCW for a consideration of Singapore Dollar 57.6 million, which is now INR 303.4 crore Indian rupees. That transaction was inline with company's strategy to focus, rationalize and monetize its business and assets to reduce its debt and as a result of this, the particular business has been actually termed as discontinued operation. Now, I will hand it over to Kapil to take us through the financial snapshots.

**Kapil Kapur:**

Good evening to all of you. Thank you Ranga. I'll take you through the Q3 results snapshot. I am on Slide 4. Consolidated revenue for the quarter was INR 429 crores as compared to INR 582 crores in the immediately preceding quarter. The decline in revenue was largely due to the decline in revenues of the distribution businesses. During the quarter, we have taken a net provision of about INR 35 crore, which can be largely attributed to our systems integration business, where we have been facing difficulties in collections, especially in the power sector. So, after taking this provision, the loss before tax interest is at INR 57.1 crore in the quarter as compared to a loss of INR 26.1 crore in the immediately preceding quarter. The gap is mainly and largely due to the provisions that we have taken for system integration projects. The finance cost was lower at INR 19.4 crores as a portion of debt was retired with the proceeds that came in from the sale of the Singapore entity. During the quarter, we have an exceptional item that is related to the sale of Singapore entity where we sold the entire shareholding of our Singapore entity to PCCW Solutions and the gain on the account of this sale which has been considered in the quarter is at about INR 150 crore and as a result the profit after exceptional items before tax is a positive of INR 75 crore as against a loss of INR 39.6 crore in the immediately preceding quarter. We'll move to Slide 5 which gives a more granular view of our distribution business which includes the Consumer Distribution and Enterprise Distribution. The revenue of Consumer Distribution was INR 127 crore in the quarter and there was a marginal loss of about INR 50 lakh. In Enterprise Distribution, the revenue was INR 259 crore with a loss of about INR 11 crore. So, that's as far as snapshot of results is concerned. I'll hand over back to Ranga so that he can take you through details of each of the businesses.

**Rangarajan Raghavan:**

Thank You Kapil. I'm moving to Slide 6. Consumer Distribution revenue was INR 127 crore as compared to the previous quarter revenue of INR 235 crore. The decline was mainly due to decrease in online channel sales of the principal.

For Enterprise Distribution, the revenue was INR 259 crore as compared to the previous quarter revenue of INR 310 crore. The decline in revenue can be attributed to weak market demand and competitive business environment. Due to the current financial strain in the company and decline in the sale and increase in losses of the distribution business, the board in its meeting on 27<sup>th</sup> January, 2020 has looked into the situation and directed us to reduce the focus on low margin business and ensure that we limit future financial losses. So, the direction was to gradually scale down the Distribution Business over the next few quarters.

Moving to the next slide on the distribution business financials. Kapil has already given the detailed view on the financials. The consolidated revenue for Q3 was INR 386 crore with a loss of about INR 11.4 crore. Moving to the highlights of system integration and solutions business which is on Slide 8, the focus continues to be on contract execution, the pending order book is about INR 470 crore including the UIDAI project extension. The Build phase was at INR 35 crore and Managed Services at INR 80 crore and Support Services and Annuity was at INR 355 crore. We continued to focus on project execution and collections and last quarter this business has collected about INR 40 crore. As we stated in the earlier communication, we do have delays and in customer acceptance and payments, specifically from the power sector. We have been constantly engaging with our customers to resolve this issue but the progress has been very slow. During the quarter in Q3, we have provided for about INR 37 crores on account of SI receivables.

Moving to the next slide, this is a financial snapshot again and Kapil had given us the details. The consolidate revenue was about INR 39 crore with a loss of about INR 44.4 during the quarter and provisions made on account of receivables is one of the major contributor for the loss. The last slide is the “Others” slide. This slide talks about our focus areas. We are actually focusing on scaling down the loss making business and sale of non-core properties and reduction of outstanding debt.

The details are given in this slide. You could read it and once you are through, we could actually switch to the Q&A session and then take the questions from the investors please.

**Moderator:**

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

**Goutham:**

Thank you. Couple of bookkeeping questions. The last time when I checked on the gross debt, it was at around INR 950 crores in Q1. So what is the latest number?

- Kapil Kapur:** So as of December 2019, which is the quarter which we have closed, our loans are at INR 465 crores and there is a cash on balance sheet of about INR 127 crores which takes our net debt to INR 338 crores.
- Goutham:** Okay and what is our short-term working capital loan that we usually take?
- Kapil Kapur:** Regards to short-term working capital loan, we had taken loan in past for our systems integration projects where the money has been kind of coming in but at a very, very slow pace. Besides that, there was a limited need in our distribution business. So, CD business operated on a negative working capital but the Enterprise Distribution had a capital deployment of some six-eight days at any point of time. So, about INR 100-125 crores is what was deployed in the Enterprises Distribution business.
- Goutham:** Okay. So, on the System Integration Business...
- Kapil Kapur:** Yes.
- Goutham:** I think there is a provision of around INR 35 crore this quarter and then INR 18 crore last quarter. So, would you be able to give me the total provisions made for system integration in the past three years.
- Kapil Kapur:** I can ask my investor relations person to separately connect with you and give you that data. That data is not handy with me but the net debtors after all the provisions in system integration business is at about INR 200 crores.
- Goutham:** So can I say that around INR 200 crore is amount that we are looking from the project that it has to come back to us?
- Kapil Kapur:** Yes.
- Goutham:** Okay. So now I understand that we are able to get around INR 100 crore previous quarter and INR 40 crore this quarter and what is the management confidence in terms of getting INR 200 crore? I understand that it is power projects which are getting delayed.
- Kapil Kapur:** Yes, so we are constantly engaging with the government to see how quickly we can get in this money. Giving a timeline to it would be a little difficult because given how the government works. We have been chasing and it's not that we have not received anything. We have been getting money out and we do have constant monitoring and connect with the customers, government customers to collect this money. Our intention would be to get it in next two-three quarters, but it depends entirely on how the customer handles it and how promptly do they agree to pay? Because before they pay, they will have to accept the solution, which is where they are holding the money.
- Goutham:** Yes. I think management has made it clear in the previous interaction as well.
- Kapil Kapur:** Yes.

**Goutham:** Coming to the next question, which is like in build phase we have around INR 35 crore, managed service around INR 80 crores and then the support is around INR 355 crores. So, knowing that it's so hard to work with them, does the management look forward to work on these lines or are we looking to write-off? Is that a possibility?

**Kapil Kapur:** No, see, I wouldn't close any option. We would want to work on whichever option works better for us as an organization at any given point of time. Now, as for service phase is concerned, there the situation is a little different, because there you enter into a phase of the project where you start providing service and start getting paid periodically. So you have a better handle on the customer because if the customer doesn't pay, you can stop the services or you can deprive the customer of services. Whereas in build phase, the problem was that you buy the hardware, you invest your money, you deploy it at customer site and you are at the mercy of the customer to pay, accept it first and then pay you. So, there is some difference between being in build phase and being in services phase. So, fortunately, barring a couple of contracts in power, we have been able to kind of largely come out of build phase and get into the support phase. Now, whether we will retain it, of course, it's a commitment of HCL and we will have to meet our commitment. Now whether we give it off, we keep it would depend on what direction does the board take on this business from time to time.

**Goutham:** Okay and coming to the next set, which is like our distribution business. When I checked like couple of quarters back, why is it that we're giving off all the businesses that were good and retaining the distribution business, I think the management attributed in that they foresee that there is a good possibility where you can turn around the business. So now, after a couple of quarters, after the analysis that has happened I think in the PPT it is mentioned that both consumer distribution and enterprise distribution with low margins are kind of hard to continue. So, is the understanding right?

**Kapil Kapur:** See, what has happened is that over last few quarters the market environment has changed. You must be reading in papers that the market has become a lot tougher because of the economic slowdown creeping in.

**Goutham:** Yes.

**Kapil Kapur:** Besides that distribution business is always a low margin business which requires a very, very large scale. Unfortunately, the margins are very thin and they are getting thinner because of the tough market condition and competitive environment. There are a lot of practices which are creeping into the marketplace which we possibly cannot participate in because we don't have deep pockets currently. So, basically, the point is that what we have been observing as a trend is that consistently this business has been coming down and is beginning to generate losses which of course, in today's financial position, the company does not have the capability and strength to withstand. So, it's important that we take a decision, hence the board had appointed an external consultant, reputed consultant firm to review the market conditions, the business, our USP, etc. and

basis their submission to the board and basis the input from management on the prospects of these businesses and what it takes to kind of sustain them, they have given this direction in yesterday's board meeting. The company will not be able to bear losses, in the current financial position. We don't have the bandwidth to stay put with a business if it is consistently going down and making losses and hence the Enterprise and Consumer Distribution Business will be gradually scaled down over the next few quarters.

**Goutham:** Yes, I think it makes sense. So now, had we not sold out our couple of business to Singapore? What was the earning per share, is it possible to give?

**Kapil Kapur:** We sold that entire business. It was a 100% subsidiary of an Indian subsidiary of ours. So we sold it for the about INR 300 crores in an all cash deal and basically the profit in books on account of this transaction net is INR 135 crores.

**Goutham:** Okay, that comes to around 4. So, so we have around INR 303 crore that came from the sale of this business and another INR 150 crore from the sale of property. So I'm assuming that out of INR 450 crores we --

**Kapil Kapur:** No. If I may correct you, regarding property, we have intentions to sell but we have not sold properties worth INR 150 crores. We have only sold so far three small properties and the reason being that current market situation for real estate is not very conducive and as a result, we are finding it difficult to get the right buyers and the right price. So, what we have sold in property is very miniscule as compared to the entire gamut of properties we have. There's still a scope of about another INR 200 crores worth of property to be sold, which we are working and we are trying to liquidate. So, that as far as property is concerned. As regards Singapore you are right that we have got an inflow of INR 300 crores.

**Goutham:** Okay. Thank you for correcting me. So out of that INR 300 crores plus INR 200 crores which the management plans to sell, I think entire thing would be going to reduce our debt which we have at around INR 338 crores. Is my understanding right?

**Kapil Kapur:** No, because we have already repaid the debt with that money. That money came in sometime in November. So, the position that I gave you is end of December. So, when you quoted the initial figure of about INR 900 crores, from there the debt has already come down by about INR 400-500 crores. Now, one major factor towards that reduction of debt is the Singapore money which came in and has been applied to repay these loans.

**Goutham:** Got it. Yes. So, if I look at the entire snapshot now, SI business we are like kind of stuck with the receivables of around INR 200 crores which is pending from the government after which the support services could start even though the build phase is still continuing. And then there is consumer in total distribution business where the things are going down and the management plans to get it down and then as per consultant insights, we plan to wrap it down in the coming period of time. Also in one of the slides that there is the mention that the HCL

Corporation can give us around INR 1500 crore out of which you have made use of INR 250 crores, right? So now with all these things –

- Kapil Kapur:** Yes that's –
- Goutham:** Sorry.
- Kapil Kapur:** Yes go ahead.
- Goutham:** With all these things in mind, where are we headed? What is our next step?
- Kapil Kapur:** Definitely the company is working towards of finishing off the loan it has on its books and definitely that would entail sale of properties, the monetization of properties as well as going after the money which is lined with the customers in SI. So, currently the company will focus on these two-three things, get the money in and repay the loans. Of course, the enablement which you mentioned from HCL Corporation is more to give comfort to the lenders and to other stakeholders that they are there in case of any problem, but we as a company would like to chase these two areas and get our money in and at the same time focus on servicing the contracts, the SI contracts which have gone into service phase and sorting out the build phase contracts which are largely two power contracts. So that is our immediate charter right now.
- Goutham:** Okay. So like the properties would keep us and these are all operational efficiency part which is coming in, but as a business where are we looking next, SI for sure I think you have clearly mentioned?
- Kapil Kapur:** No, as of now, considering the financial position of the company, I think for some time our charter is going to be this only. Beyond that, we'll have to take direction from the board. So currently our visibility is to go after these elements which I have just described to you and that's the priority of the company.
- Goutham:** Okay and the last question from my end is what's the book value, latest book value ?
- Kapil Kapur:** I will have that also. My Investor Relations fellow will get back to you.
- Goutham:** Okay, great.
- Kapil Kapur:** All right. Thank you.
- Moderator:** Thanks so much for your questions. At this time, there are no further questions from the participants. So I would like to hand over the floor back to Mr. Rangarajan for the final remarks. Thank you and over to you, sir.
- Rangarajan Raghavan:** Thank you for joining this call. So we'll meet next quarter. Thank you all. Bye.
- Moderator:** Thank you so much speakers for addressing the session. Thank you participants for joining in. That does conclude our Q3FY20 results audio conference call. You may all disconnect now. Thank you and have a pleasant evening.