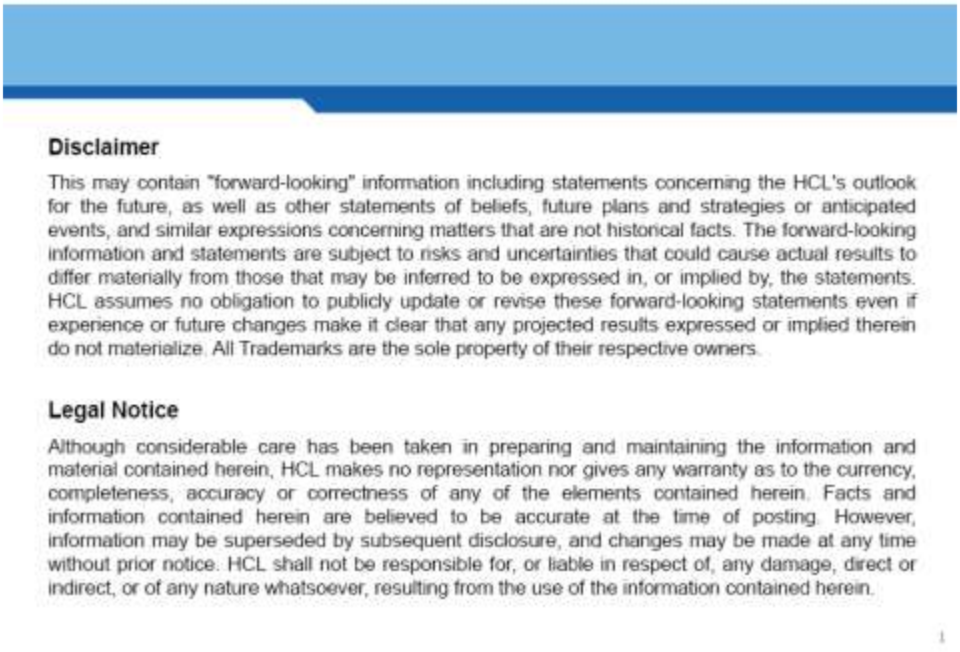
“HCL Infosystems Quarterly Investor Conference Call Q1 FY 15”

October 28, 2014

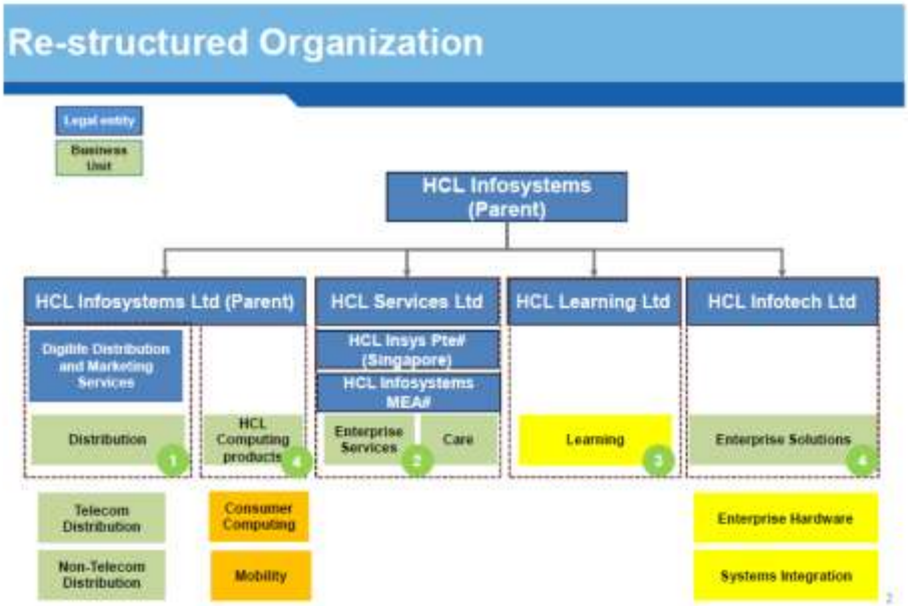
Moderator: Good day ladies and gentlemen. Thank you for standing by and welcome to the "HCL Infosystems Quarterly Investor Conference Call." For the duration of the presentation all participant line will be on listen-only mode, and post the presentation there will be a Q&A session. And now I would like to hand over the proceedings to Mr. Harsh Chitale.

Harsh Chitale: A very good afternoon to all the participants on the call today. We will talk about our last financial quarter that is the JAS 2014 quarter performance and walk you through our key updates for each of our businesses.



We will start with our mandatory disclaimer. This call may contain forward-looking information including statements concerning our future outlook. Some of the statements expressed here are subject to risk and uncertainty that could cause actual results to differ materially from those that are finally reported.

This entire material would also be shared on our website in the investor relations section for future reference.



For our first-time listeners, HCL Infosystems had reorganized itself into four different legal entities few quarters back. HCL Infosystems, the parent company will hold the Distribution business and this will be the only business in the long term. HCL computing products, which is HCL branded product business which is on its way of getting phased out and within the next few months this part of the business will no longer exist.. Some of the products are distributed through a subsidiary called Digilife Distribution & Marketing Services (DDMS) to handle some conflicts of interests between vendors. The parent entity and DDMS put together will be responsible for the distribution for both consumer and enterprise products

HCL Services Limited, the second entity is for our services business. It has subsidiaries - in Singapore and in the Middle East. HCL Services Limited also consists of a consumer services business which is called HCL Care.

The third entity of HCL Infosystems is HCL Learning which comprises of training and content solutions for K-12.

The fourth entity is HCL Infotech Limited which holds our systems integration and hardware solutions business.

Distribution and Services, in the past few quarters have been the key focus areas for growth and are the pillars for growth and profitability going forward too.

The consumer products distribution business registered a drop in revenue largely because of drop in mobile phone distribution. The key brand distributed in the consumer product distribution underwent a portfolio revamp as a part of its integration with Microsoft. In the beginning of July the transitioning out of some of the smart phones which were on platforms other than Windows Phones, led to a sharp drop in sale of these specific products. However HCL brought in more operational efficiencies in this business and took over some additional scope of responsibility. Hence despite drop in volume, profitability and gross margin have improved in the consumer product distribution.

In the consumer electronic and home appliances range, our organization has added a number of new partners comprising of LED TVs of Panasonic(towards the end of September), Hamilton Beach, America's number one brand for kitchen appliances and Braun and Delonghi. In the enterprise and IT distribution business too, the company signed up a number of new partnerships. While the company continues to sign new partnerships and build value-added reseller ecosystem, this expansion of partnerships has not yet translated into revenue.

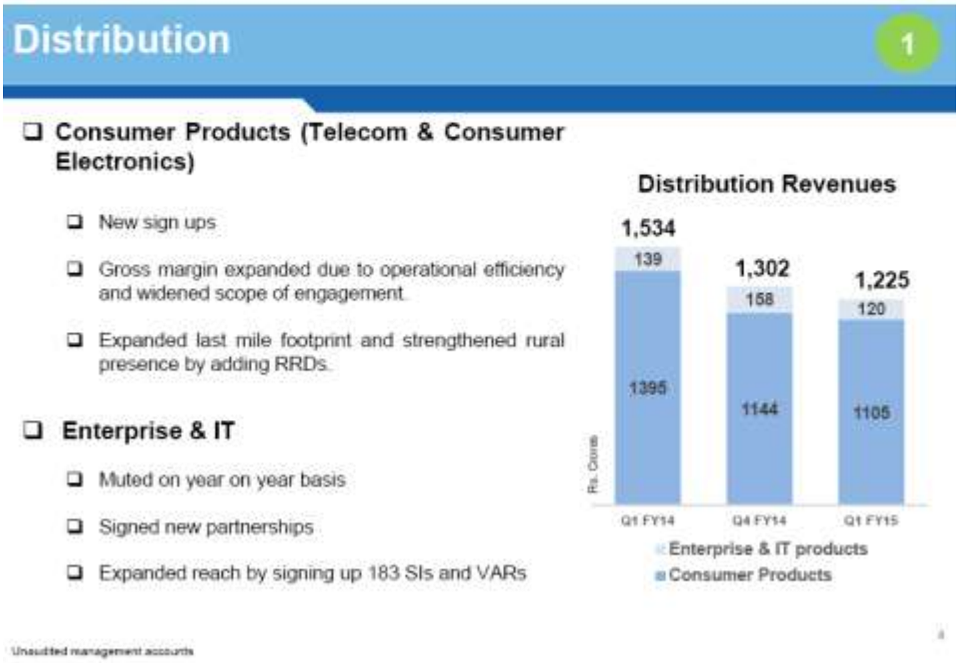
In the services business, the company registered another quarter of a healthy double digit growth both on quarter-on-quarter basis as well as year-on-year basis. In the Services business, Enterprise services especially in the overseas markets and the domestic Care business, which is consumer services business, registered robust growth. How ever, the domestic enterprise services business faced challenges which will be outlined subsequently.

In the Learning business, our organization is transitioning the business model from asset heavy model comprising of hardware, software and service to an asset-light - content and services-oriented business model. This transition was initiated last quarter and is almost complete in this quarter. Also, the company is glad to announce the booking of over 500 new classrooms where content of HCL learning will be used by different schools.

Hardware products and solutions business has faced significant challenges in the past. As mentioned in prior calls, HCL-branded PCs and tablets are being phased out and the company aims to complete this exercise by OND 2014 quarter. The other part of the hardware solutions business consists of system integration (SI) projects, where our focus is on execution of the existing SI order backlog. In the future, this organization plans to move and leverage all the expertise built through SI projects, in the services business.

The SI order backlog execution continues as per plan. The company continues to execute SI orders at the rate of about Rs. 200 crores per quarter. SI order backlog of around Rs. 1850 crores is expected to be executed over next seven to eight quarters. After the execution of the SI order backlog, future HCL Infosystems would consist of asset-light distribution, services and learning content businesses.

I will now speak about each of our businesses –



In the Distribution business, the consumer products part of the business registered a total revenue of Rs. 1105 crores in Q1 of FY15 and in the enterprise and IT products the organization did a revenue of Rs. 120 crores. Both these sub-segments showed a year-on-year as well as quarter-on-quarter decline. The decline as aforementioned was largely due to telecom product category where our partner for whom we distribute these products had a complete portfolio revamp beginning July. This revamp impacted almost 30% of phone portfolio for the partner. How ever, our partner has already announced that it would introduce newer Windows phones across various price points and hence, we hope to see a recovery in the mid to long term. But till the new portfolio is introduced, we expect this decline in revenue to persist as observed in the last quarter.

During the quarter, Consumer products, Enterprise and IT products distribution business logged significant new partnerships . In enterprise and IT products, the company signed up with Symantec, a security software company as a new partner; furthermore Dell was signed for enterprise products distribution as a new partner. HCL Infosystems expects these two big partnerships to contribute to the growth of the enterprise products distribution. Our company expanded its reach by adding 183 new system integrators and value-added resellers as go-to-market partners for enterprise and IT product distribution. Signing vendor and building go-to-market partnerships was the key focus area for the quarter, for this newly built-up Enterprise and IT product distribution business, As HCL Infosystems, continues to transition out of the HCL Branded Hardware (PCC/Tablet) business, the company is simultaneously building enterprise and IT product distribution as a focused LOB (Line of Business) and this part of the business has reached Rs. 120 crores in JAS’14-15 quarter.

Distribution

1

Unaudited Rs. crores

	Particulars	Q1 FY14	Q4 FY14	Q1 FY15
1	**Consolidated Revenue**	**1534**	**1302**	**1225**
2	Profit / (Loss) before Exchange differences and Provisions for doubtful debts / write-off and impairments	24.5	26.0	27.5
3	Exchange differences Loss / (Gain)	1.0	0.2	1.1
4	Provisions for doubtful debts / write-off and impairments	-	2.6	0.8
5	Other Income	0.3	0.2	-
6	**Profit / (Loss) before Interest and Tax (2-3-4+5)**	**23.8**	**23.4**	**25.6**

- Widened Scope of engagement of distribution network expanded margins
- Distribution business portfolio expanded

The above numbers provide a line of business wise view based on management accounts to provide more granularity and are not as per reported segments
Unaudited management accounts

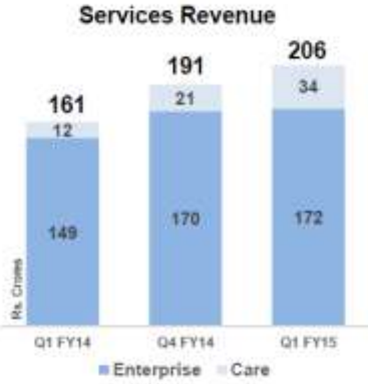
5

For the Distribution business as a whole, while revenue showed a decline from Rs. 1302 crores in quarter Q4 FY14 to Rs. 1225 crores in the first quarter this year (i.e., a decline of about 6%), profit continued to expand. In Q1 FY15, EBIT has expanded to Rs. 25.6 crores from EBIT of Rs 23.8 crores in Q1 of FY14. This profitability improvement was achieved due to operational efficiencies and also due to some additional services that were added as a part of the distribution relationship with some of the partners.

Services

2

- **Growth momentum continues**
  - 28% Y-o-Y ; 8% Q-o-Q
  - Rs. 500 crores ACV @ Sept 2014
    - Enterprise ACV @ 445 cr and Consumer ACV@ 55 cr
- **Care Services (Consumer Electronics & Appliances breakfix services)**
  - Consistent growth continues @ 63% Q-o-Q and 178% Y-o-Y
  - Signed up leading OEM brands across Mobility and Consumer Electronics space for world class repair and service centres

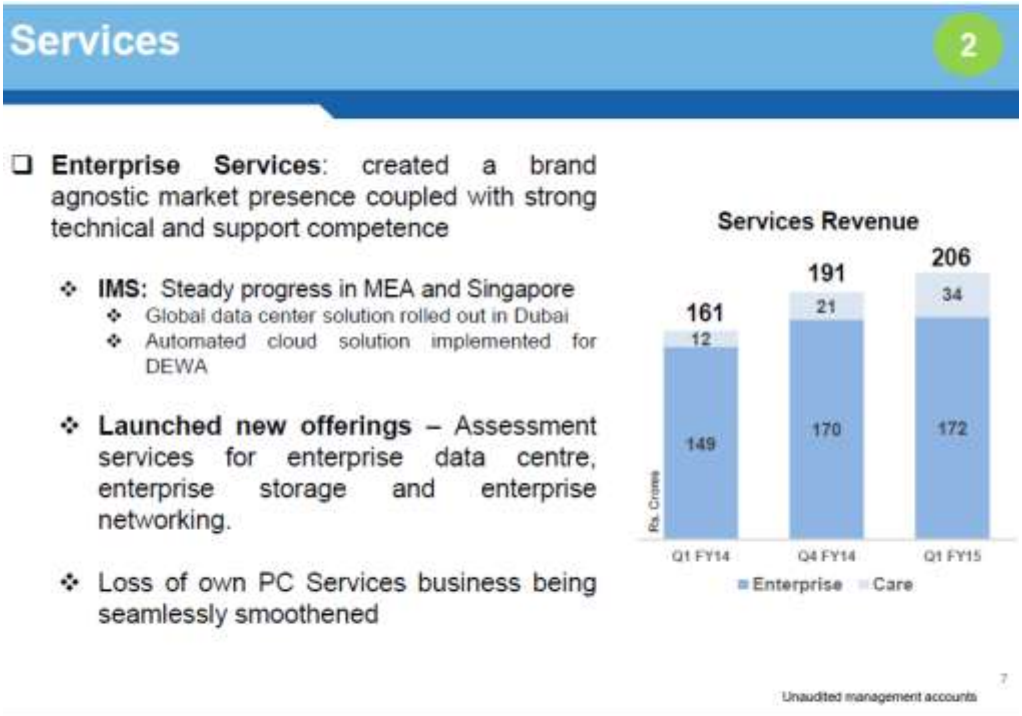


Unaudited management accounts

6

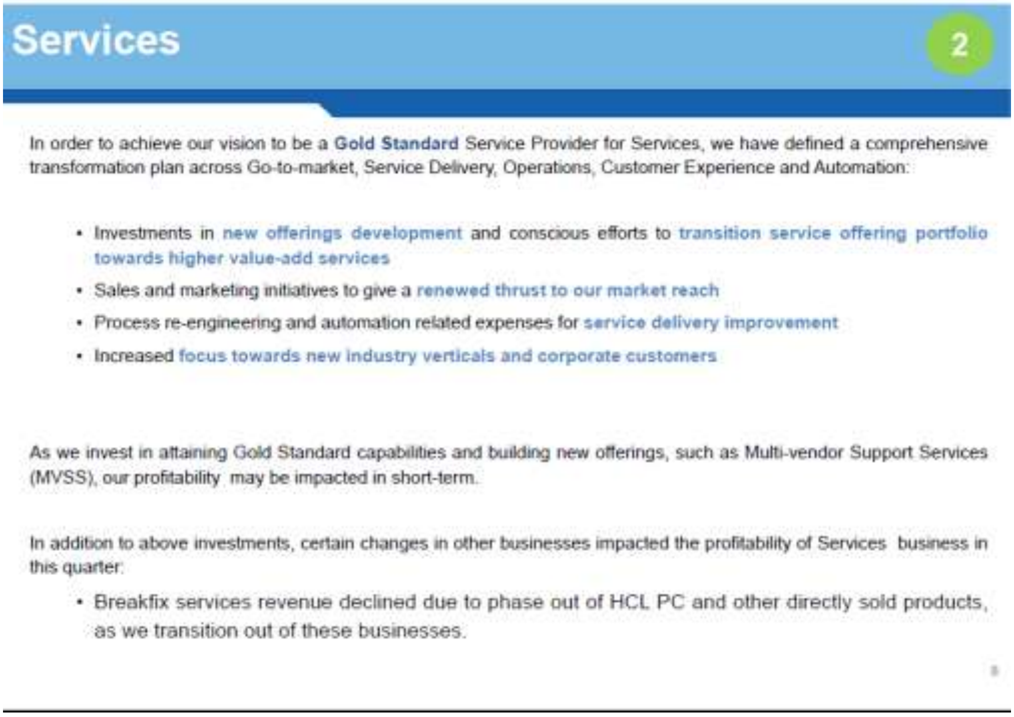
The services business witnessed 28% growth year-on-year in revenue and 8% growth quarter-on-quarter. HCL Infosystems had started the quarter with about Rs. 500 crores of ACV of which Rs. 470 crores ACV was for enterprise services and the rest for the consumer care. The contract bank of the company declined marginally in enterprise services from Rs. 470 crores to Rs. 445 crores, as execution on some contract progressed. In consumer care business, the contract bank expanded by a similar amount and compensated for the decline in enterprise services.

The consumer care part of the business, which was Rs. 12 crores a year back, grew to Rs. 21 crores in Q4 of FY14. The same trend continued in the Q1 FY15 quarter where it registered a revenue of Rs. 34 crores. The growth registered was almost 178% year-on-year. This business has signed up with many of the new brands that have been launched in the Indian market in the last quarter.

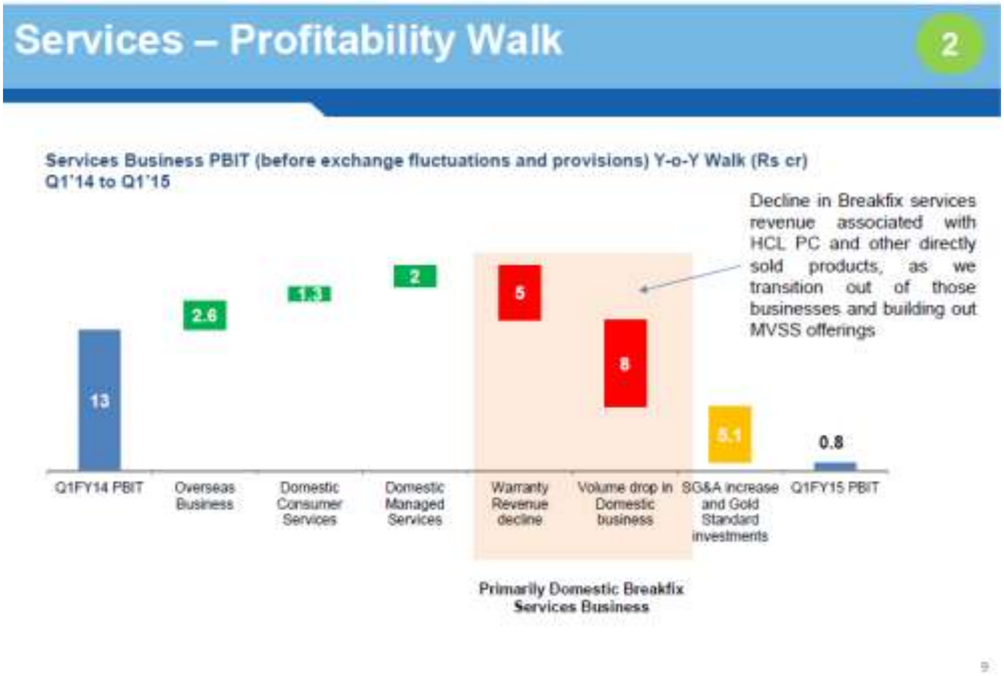


Enterprise services business growth was flat at Rs 172 crores (Rs. 170 crores in the prior quarter). Within this, overseas services expanded significantly and domestic enterprise services registered some drop. The overseas services business witnessed good growth both in Middle East and Singapore as the company undertook some new roll outs of services in Dubai and also continued to expand our engagement in Singapore with various government agencies.

Domestic enterprise services registered a decline because there was a decline in warranty services associated with HCL branded products. This is one of the core reason for the decline in the services profitability because amongst all services in our services portfolio, warranty services on the company's proprietary products had the highest gross margin.



In order to arrest the decline in margin there are two main things that are being initiated by the company- the first is to build a Gold Standard for the break-fix services to be best in class in terms of their service performance, productivity, and customer experience. Towards this objective, significant investments have been made in terms of people processes and tools to raise the service standard to a gold standard. Secondly the company is also expanding new offerings to counter the decline in warranty services. The company launched several new offerings in the enterprise services business such as enterprise data center, enterprise storage and enterprise networking, consulting and audit services. We are expanding infrastructure managed services into overseas markets and also expanding HCL Care.



Our overseas services business grew significantly compared to last year and Rs. 2.6 crores of incremental profit came from the overseas business compared to the corresponding quarter last year. The consumer care business has expanded and delivered an additional profit Rs. 1.3 crore compared to the corresponding quarter of the last year. Similarly, the domestic managed services business added additional Rs. 2 crore profit. So all these three lines of businesses have grown year-on-year and have contributed to profit improvement. However, this expansion has still not reached a scale where it could counter the sharp drop in break-fix services associated with our HCL Branded products.

Services

2

Unaudited Rs. crores

	Particulars	Q1 FY14	Q4 FY14	Q1 FY15
1	**Consolidated Revenue**	**161**	**191**	**206**
2	Profit / (Loss) before Exchange differences and Provision for doubtful debts / write-off and impairments	13.0	16.2	0.8
3	Exchange differences Loss / (Gain)	0.6	0.1	(0.1)
4	Provision for doubtful debts / write-off and impairments	0.3	3.2	2.2
5	Other Income	-	0.2	0.1
6	**Profit / (Loss) before Interest and Tax (2-3-4+5)**	**12.1**	**13.1**	**(1.2)**

- Healthy growth in Overseas business
- Positive investments in building a growth platform
- Various productivity and service delivery improvement initiatives underway
- Care business on steady growth track

Unaudited management accounts

The above numbers provide a line of business wise view based on management accounts to provide more granularity and are not as per reported segments.

10

We are likely to witness such muted profitability in the services business for the next few quarters. We hope that over a period of time, the growth areas will more than compensate for the decline that the company has seen in the proprietary break-fix services business,

HCL Learning

3

- Low market sentiment in Domestic education sector continues
- Strategic change in business model adopted last quarter
- Selectively pursuing opportunities for disciplined growth
  - Added 526 classroom during the quarter, a 20% Y-o-Y growth.
- Won a special award at IDA (World DIDAC Award) for excellence in K-12 education

Unaudited management accounts

11

HCL Learning is a very cyclical business. Almost 60 to 70% of the business volumes get generated in the AMJ quarter, when schools do bulk of their buying. The JAS and OND are normally lean quarters in this business. The company continues to see this trend. In Q1 FY14, this business had registered Rs. 13 crores of revenue and the business has remained flat at Rs. 13 crores in Q1 FY15. However, the complexion of the business has undergone a complete change as we have moved to an asset light content and services centric business model.

HCL Learning has added 526 new classrooms in this quarter, which is a 20% year-on-year growth in addition of classrooms. During the quarter, the HCL Learning business also received a special award at World DIDAC Conference for the quality of content and the value it delivers to K-12 students which is a special recognition of our content quality for DigiSchool.

HCL Learning

3

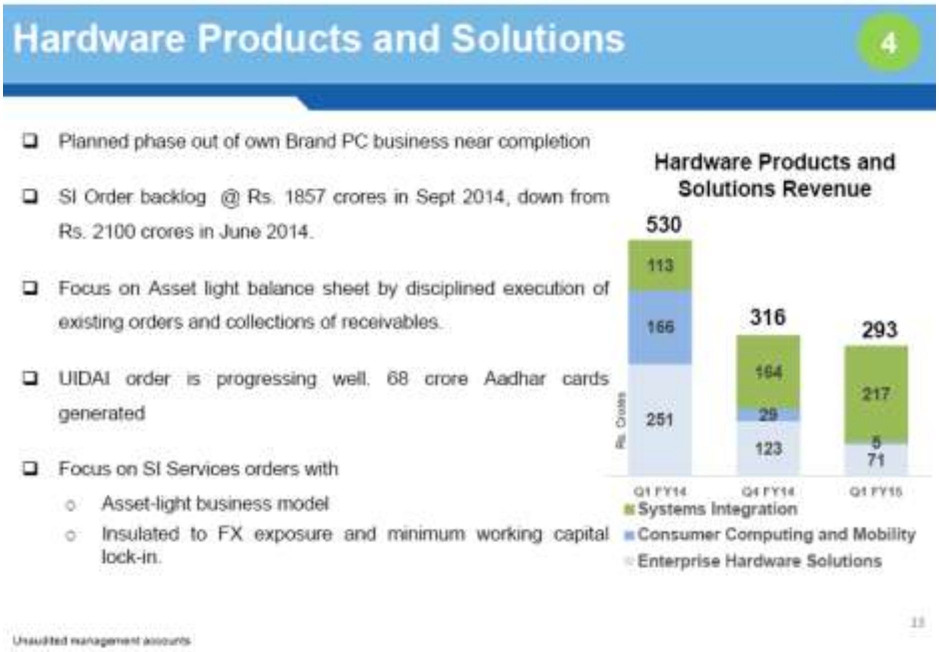
Unaudited Rs. crores

	Particulars	Q1 FY14	Q4 FY14	Q1 FY15
1	**Consolidated Revenue**	**13**	**28**	**13**
2	Profit / (Loss) before Exchange differences and Provision for doubtful debts / write-off and impairments	(1.9)	4.5	-
3	Exchange differences Loss / (Gain)	0.1	0.4	0.1
4	Provision for doubtful debts / write-off and impairments	1.4	1.7	5.8
5	Other Income	0.7	-	-
6	**Profit / (Loss) before Interest and Tax (2-3-4+5)**	**(2.7)**	**2.4**	**(5.9)**

- Low market sentiment in Domestic Market
- Strategic change in Business model

The above numbers provide a line of business wise view based on management accounts to provide more granularity and are not as per reported segments. 13
Unaudited management accounts

In terms of profitability, in Q1FY14, HCL learning had reported EBIT loss of Rs. 1.9 crore before provision. That loss of Rs. 1.9 crore is now breakeven. So it's a much better gross margin performance. However, as you can see on the row # 4, Rs 5.8 crores of provision was considered for doubtful debt in the quarter due to a new conservative policy that we have now adopted for accounting of bad debts in the leased assets of our Learning business. As per this revised policy, if a lease rental receivable is overdue by a certain age, not only would the company provide for the overdue rental receivable, but we would henceforth also provide for the balance asset value that is in the books for the remaining quarters of the lease period. To explain, if an asset is offered on lease of 20 quarters and if four quarters of lease rentals are overdue, then as per our new framework, we would not only make a provision for the overdue receivable of the four quarters of lease rentals, but we would also make a bad debts provision for the entire asset value including the balance lease rental receivable of subsequent four years. It is a conservative way of looking into this business. However, as we have transitioned this business to an asset-light business model, we have decided to take this conservative approach and hence took a significant impairment of Rs. 5.8 crores in Q1 of FY15.



Hardware products and solution business consists of HCL branded PCs/ tablets, which are being phased out and SI business where focus is on executing to completion the balance order book of SI projects.

At the bottom of the above chart are Enterprise hardware solutions and HCL branded consumer computing & mobility products businesses, which have reached the last stage of phase out. The quarter on quarter planned phase out of these LOB's has led to revenue decline from Rs. 417 crores in JAS 13 to Rs. 76 crores in JAS 14. While the phase out is expected to be completed by end of OND quarter, there may be some spill over to January 2015. There may be some charges due to the planned phase out that may impact the profits of the OND quarter as well.

The green portion at the top of this bar chart is System Integration business. This was earlier marred by sign-off delays thus delaying the collection process and resulting in problems in working capital management. The pace of order execution has accelerated in last couple of quarters. SI revenues has increased from Rs. 113 crores in JAS 13 to Rs. 164 crores in AMJ14 and in last quarter it further increased to Rs. 217 crores. With accelerated execution in SI orders, the Sept end SI order back log has come down to Rs. 1850 crores from Rs 2100 crores as at June end. Continuing with the current execution run rate, the SI order back logs would be completely executed in next 2 to 2 ½ years .

Within the SI order book there is the UIDAI MSP deal, which is the project for rolling out Aadhar program of the entire country. The UIDAI project is moving extremely well and is emerging as a platform for many other new services that are likely to be delivered using the same platform. Till date, 68 crores of Aadhar cards have been issued. Uncertainty that was there around UIDAI due to change in the government has now been put to rest.

With the transition from hardware products and solutions businesses we are going to achieve a shift to a business model which would be extremely asset-light because even in the system integration business once the backlog orders are completed, we would shift to providing only Systems Integration services. IP and know-how that we had gathered through all the system integration projects would be leveraged by us in offering services to other system integrators and customers and this will also insulate us from the lock-in of the working capital that we have seen in the past. The current intended decline in hardware products and solution business revenue is as planned as we are transitioning out these businesses.

Hardware Products and Solutions 4

Unaudited Rs. crores

	Particulars	Q1 FY14	Q4 FY14	Q1 FY15
1	**Consolidated Revenue**	**530**	**316**	**293**
2	Profit / (Loss) before Exchange differences and Provision for doubtful debts / write-off and impairments	(27.1)	(15.7)	(20.0)
3	Exchange differences Loss / (Gain)	32.1	2.0	1.7
4	Provision for doubtful debts / write-off and impairments	3.9	25.3	25.8
5	Other Income	0.5	0.4	0.5
6	**Profit / (Loss) before Interest and Tax (2-3-4+5)**	**(62.6)**	**(42.6)**	**(47.1)**

- Transition out of enterprise hardware business continued to drag profitability
- Near completion of the planned phase out of loss making businesses
- Existing SI order back log under steady execution over next 30 months

The above numbers provide a line of business wise view based on management accounts to provide more granularity and are not as per reported segments.
Unaudited management accounts 14

Therefore, the revenue of this business declined from Rs. 530 crores in Q1 FY14 to Rs. 293 crores in Q1 FY15 quarter. However, as a part of this phase out, we continue to take certain charges. In Q1 FY 15 quarter we took a provision of Rs. 25.8 crores on account of certain BR write-offs and on account of reduction in value of inventory being carried forward. Both of these put together lead to a negative EBIT of Rs 47 crore for the business.

The next chart gives us a snapshot view of all our businesses.

Q1 FY15 Summary P&L snapshot

Unaudited **Rs. crores**

Unaudited management accounts

Q1 FY15	Particulars	Distribution	Services	Learning	Hardware Products and Solutions	Unallocated / Eliminations	Total
1	**Consolidated Revenue**	**1225**	**206**	**13**	**293**	**(53)**	**1683**
2	Profit / (Loss) before Exchange differences and Provision for doubt debts / write-off and impairments	27.5	0.8	-	(20.0)	(6.8)	1.5
3	Exchange differences Loss / (Gain)	1.1	(0.1)	0.1	1.7	-	2.8
4	Provision for doubtful debts / write-off and impairments	0.8	2.2	5.8	25.8	-	34.6
5	Other Income (including exceptional items)	-	0.1	-	0.5	28.6	29.2
6	**Profit / (Loss) before Interest and Tax (2-3-4+5)**	**25.6**	**(1.2)**	**(5.9)**	**(47.0)**	**21.8**	**(6.6)**
7	Finance Cost						32.3
8	**Profit Before Tax**						**(39.0)**

The above numbers provide a line of business wise view based on management accounts to provide more granularity and are not as per reported segments.

15

The Distribution business recorded revenue of Rs. 1225 crores and had an EBIT of Rs. 25.6 crores. Services business recorded revenue of Rs. 206 crores and had a meager EBIT which came on account of a sharp drop in HCL Products related break-fix services. The other parts of the services business registered profitable growth. The Learning business recorded revenue of Rs. 13 crores; same number as what it was a year back and reported EBIT loss of Rs. 5.9 crores. Here, all of that loss came on account of provision for lease of rental receivables on certain bad assets. The hardware products and solutions business recorded revenue of Rs. 293 crores and had a loss of Rs. 47 crores.

On a consolidated basis the finance cost was Rs. 32 crores for JAS 14. Most of the finance cost is attributable to working capital that is locked in the hardware products and solution business. As we transition out of these businesses, we would see a decline in the finance cost for the entire company. On a year-on-year basis finance cost has declined from Rs. 40 crores from the Q1 last year to Rs. 32 crores in the last quarter. With the transition to an asset-light business model, the LC acceptance liability is also showing a reduction quarter after quarter.

The company recorded revenue of Rs. 1683 crores for the quarter, EBIT before exchange rate loss and provisions for doubtful debt at positive Rs. 1.5 crores, and had an exchange rate impact of Rs. 2.8 crore (which is a much smaller number than what it was when the company had a significant exposure in the computing products business).

The company recorded revenue from other income of Rs. 29 crores with provision for doubtful debt of Rs. 34.6 crores. Hence, with the consolidated EBIT loss of Rs. 6.6 crores, and finance cost of Rs. 32 crores giving us a consolidated loss before taxes at Rs. 39 crores.

Q&A Interactive session

Question from Mr. Shrivathsan from Spark Capital

Shrivathsan: I wanted to know your comments on the Microsoft/Nokia business. We do believe that it's coming up for a renewal. Can you give a broad outline on the terms of negotiation with Microsoft. Is there a scope for expanding the relationship beyond telecom products?

Harsh Chitale: The relationship with Microsoft is very important for us and it's on a very solid footing. The agreement with Microsoft Mobile Devices (erstwhile Nokia Phone business) is up for renewal on December 31st. This is a periodic renewal and that's how it has happened for the last 15 odd years. As of now the discussions are moving in the right direction and we do hope to have renewal in place before December 31st, 2014. Right now we do not see any adverse impact out of the renewal on our business. There are discussions around potential expansion in our relationship but those discussions are still work in progress and as and when they conclude we will inform all of you. We are also in discussion with Microsoft for additional product lines. We have already started the distribution of Microsoft software products as a part of our distribution business. There are other hardware products such as surface tablet or Xbox which in terms of volumes are not very big in India but we do have a dialogue open on those as well.

Shrivathsan: Okay. On the services business I wanted to understand how large is the own break-fix business? Can you give an indication on how it's going to run down for some more quarters?

Harsh Chitale: Every PC that we sold went along with warranty. The annual warranty revenue was about Rs. 35 to Rs. 40 crores i.e. about Rs. 9 to Rs. 10 crores a quarter and as the HCL branded hardware products business is phased out, that line of business will go away.

This line of business won't go away all of a sudden. However, after certain quarters that entire line will go away when all the HCL PCs that were sold would come out of warranty period and impact of that on services business is loss of warranty revenue of about 40 crores a year or 10 crores a quarter.

Shrivathsan: Okay. In the Care business we've seen excellent growth in the last five to six quarters. I wanted to understand the roadmap for the next 2-3 years. Do you think Care business is a kind of a business where you hit steady state profitability in the first two, three quarters or do you think the actual profitability of this businesses can be substantially different in comparison to the what it is now.

Harsh Chitale: Care is a very fragmented market of break-fix support to consumer electronics and home appliances. It's basically the support for consumer electronics that individuals have with them as opposed to break-fix support purchased by organizations. Certain secondary sources have put market size of this space to somewhere between Rs. 7000 to Rs. 8000 crores. It's a fragmented space and hence there is no consolidated industry report. But if one were to look at various sources of information it's is around Rs. 7000 to Rs. 8000 crores of market size. This market largely consists of small service franchises who are offering this service. At a run rate of 34 crores a quarter i.e. about 135 crores annualized business, we are already the largest organized Care provider in the country.. How ever, there is a significant head room for growth here. We do expect to see this continued trajectory of growth for some more time. This business does have a significant initial fixed cost wherein you build your call center, repair factory and certain own service centers and hence it does need a minimum critical mass. Two quarters back we achieved the breakeven scale and hence in April, May, June quarter this business reported profit and now in July, August, September profit margins have expanded. So now it's in a profitable territory and as the volume keeps expanding, we do expect profit margin to expand in Care.

Shrivathsan: If you have to compare store profitability, how different would be the profitability of a store that you may have opened a couple of years back to the one that you are opening two quarters down the line. Is it dramatically different after a couple of years?

Harsh Chitale: The business model that we have adopted is not of us owning and running the stores. We own very few stores as our flagship stores. In our 324 HCL touch-stores, there are very few flagship stores which are HCL-owned and operated. These flagship stores are showcases for our capabilities, of what we can do. All the other service stores are actually franchisee-owned and operated and we do the job of orchestration of service through these stores. Hence, at a store level, our entire cost structure is variable. We get paid by the call by the brand owner like a Lenovo, Micromax, Samsung etc. We get paid per call and part of that per call revenue we share with the store owner and hence in this franchisee-owned and operated model the store is profitable from early days because it works fundamentally on a revenue share business model.

Shrivathsan: Okay. My next question is on the systems integration and hardware business. We have been seeing substantial improvement in the execution in the system integration business. I wanted to get your thoughts on the collection. Would it be fair to say that we are collecting a similar amount every quarter? This was a major issue a couple of quarters back before the restructuring?. Do you think you can operate at 90-100 days debtor cycle or it will continue to be a year long debtor cycle?

Harsh Chitale: As we had shared last time, our rate of collection is keeping pace with our rate of revenue recognition. For example if we are recording a revenue of Rs. 200 to Rs. 250 crores in a quarter we are also collecting similar amount in a quarter. Hence the good news is that the projects are moving from the implementation stage to collection stage. Hence the projects are not pilling up additional receivables. We are not only generating revenue but are also collecting at the same pace. How ever, as of now, our pace of collections is not substantially higher than the pace of the revenue recognition and hence absolute value of receivables is yet to come down. As a result, our debtor days for this business continue to be high.

Question from Mr. Ankit Pandey from Quant Capital

Ankit Pandey: A very good evening to the management. My first question would be on the initiatives that have been taken in the services business. The growth in the services business has been quite creditable. Could you share some of the key initiatives, investments in new platforms and new accounts.

Harsh Chitale: There are broadly three kinds of investments. First, the investments into new offerings in enterprise services such as audit services, optimisation services, helping customer migrate to cloud, server consolidation services and virtualisation services. Hence there is a full menu card of services that is being developed. Over a period of time, these new offerings will counter the decline coming out of the warranty services.

Second, is the investment in our go-to-market. We have expanded our go-to-market capability in the Middle East and in Singapore. This has resulted in growth of our services business in the Middle East and Singapore. Similarly the go-to-market improvements we are doing in India would increase focus on certain verticals and key corporate customers.

Third part of investment is in our process discipline. We are building processes and tools that are best in class. For example, we are examining our remote resolution rate i.e. the rate at which we are able to resolve number of calls remotely as opposed to waiting for a service engineer to call on a customer. We are redefining the service SLA, and the average duration of closing the call. We have invested in field force automation so that we can dynamically route our service technician in resolving more break-fix calls in a day than any of our competitors'.. We are able to track the technicians and can analyse their performance centrally. This technology and solution that we have rolled out has been awarded by the CIO club as one of the most innovative implementation of mobility-based applications in the country. We got this award in the last quarter.

Ankit Pandey: Thank you so much. Could I get an overview on the couple of data points? First is on the headcount. Could you share the number? Could you also share the metrics for overseas revenue in services and hardware & system integration business?

Harsh Chitale: We have two kinds of resources – On-roll resources and Associates on contract to keep our flex in our manpower. Our Onroll headcount in services is 3953 as on 30th September and the temporary business associates headcount is 6245.

Ankit Pandey: Could you just tell me what was the number last quarter?

Harsh Chitale: There has been a decline of about 900 people.

Ankit Pandey: Okay. Could you highlight why the domestic enterprise services was soft this quarter and what would be the trend over the next couple of quarters and years?

Harsh Chitale: The Domestic Enterprise Services business actually consists of three broad buckets. One is our Infrastructure Managed Services business where we are selling handling data centre and end user computing infrastructure of enterprises. That continues to grow and continues to also show positive trajectory of margins. Second is the multi-vendor support service that means we are giving break-fix service to non-HCL products. There also it's growing, but it's growing from a very small base. Lastly, our enterprise services business includes warranty services to HCL branded PCs or office automation products that were directly sold by us in the past. As mentioned earlier, these warranty services are now going away because we are stopping that product line and we are instead moving that entire business to third party products distribution business model. Now, that business line with warranty income of almost 40 crores a year (or 10 crores a quarter), is the one which is going away and that was the highest margin part of the services business because it was on our own products.That drop in warranty income along with some investments made in SG&A associated with new services growth initiatives resulted in fall in services business profitability

Ankit Pandey: All right. Thank you so much. And the data point I was looking for was the overseas revenue breakup, please?

Harsh Chitale: Last quarter it was Rs. 50 crores in enterprise services, so it has now already reached a run rate of Rs. 200 crores annualised and mostly all of these contracts are in the bank. Last year the company did an annual revenue of Rs. 126 crores in overseas services.

Ankit Pandey: All right. That is a sharp pick up. Thank you so much, sir.

Moderator: Thank you so much, Ankit, for your questions. The next question we have from Mr. Srivathsan from Spark Capital.

Srivathsan: I just wanted to understand the nature of the large other income in this quarter. Was it due to some sale?

Sandeep Kanwar: The line on other income is Rs. 29.2 crores, basically this is under the exceptional items. If you look at the quarterly report, we have the exceptional items given there which is gain on sale of the subsidiaries and the profit in sale of property. This comes to Rs. 23.8 crores plus there is some other income which is in the nature of interest income which makes up the difference to Rs. 29 crores.

Srivathsan: Okay. So about 25 crores is basically sale of the assets?

Sandeep: Yes. That’s right.

Srivathsan: Okay. My next question will be till last quarter you had given us a breakup of the distribution business between telecom and non-telecom. Would it be possible to give the same for this quarter also?

Harsh Chitale: This time the segments that we have shown are consumer and enterprise to signal the pipe that we have created for our telecom channel is to be used to distribute over a period of time, many other allied products such as consumer electronics and home appliances. As of now in the consumer segment most of it is presently telecom business, which means that most of the revenue of Rs. 1105 crore is from the telecom business. Recently we signed up new distribution partnerships with Panasonic, Hamilton Beach, Braun and DeLonghi and these products would leverage the same capability and channel. How ever, their contribution to revenue in the quarter was very small,

Srivathsan: Wanted to understand what is the revenue model for your Aadhaar card engagement? Is it linked to usage of services?

Harsh Chitale: This project has three types of revenue recognition. Firstly it is a project-type revenue where you build and hand over and then payment is received for the capital asset. This is largely in the build phase. Secondly payments are done for the managed services programme on a per month basis for people that have been deployed for the operations and maintenance of the entire infrastructure. The third type of revenue is payment for certain types of transactions - Aadhaar generation and authentication against Aadhaar. So there is a one-time kind of a payment, then there is a periodic payment, and then there is a transaction linked payment. For the programme, half of the revenue recognition is for CapEx creation and the other half is for Periodic Services and Transaction linked services

Srivathsan: And would it be fair to say that the CapEx has been more or less been done with since almost 60% Card Issuances have been done? The infrastructure that is required has been more or less been built?

Harsh Chitale: About 75-80% has been done. 68 crores Aadhaar out of 100 crores has been done. There would be some additional compute and storage that will get added. So that is the additional CapEx that UIDAI will procure from us. And then the OpEx portion will continue over 6 to 7 years.

Srivathsan: And technically there could be upside to the OpEx portion because if we have more and more services linked to Aadhaar, then the upside can be very high.

Harsh Chitale: Potentially, yes.

Srivathsan: From taxation point of view just wanted to understand what is the roadmap for the subsidiaries. Once the wind down is completed in the subsidiaries would you absorb back the subsidiaries into the parent to take benefit of some of the losses. So from a taxation perspective what is the plan for the next 12 to 18 months time period?

Sandeep Kanwar: I think we have adequate unabsorbed brought forward losses to offset the profits in the distribution business. Currently, there is nothing on the table to re-merge the subsidiaries back into the parent. So the taxation you see typically is on MAT and that is what you see in the current quarter as well. Apart from any reversal of the deferred tax assets, so MAT would be the only tax expense.

Srivathsan: Okay. Also wanted to understand in terms of the non-telecom business where more brands are being added to distribution portfolio, what would be the working capital terms?

Harsh Chitale: We have different terms with different principles, but you could say around 30 to 45 days of net working capital.

Srivathsan: Thank you.

Moderator: Thank you so much, Mr. Srivathsan, for your question. The next question we have from Mr. Kunal Javeri from **......**Security Private Limited. Your line is open. You can go ahead and ask your question.

Kunal Javeri: Good Evening. What kind of a growth are you looking at or targeting in the coming quarters in the distribution business?

Harsh Chitale: Kunal, we do not give any forward-looking guidance.

Kunal Javeri: Can you please provide us with an outline?

Harsh Chitale: There is a head-room for growth in each of the businesses. Our distribution business operates in telecom, consumer electronics, home appliances and enterprise and IT products. The total market size of products that get distributed in these categories is in access of Rs. 1,40,000 crores. While we are today at around Rs. 5000 crores to Rs. 6000 crores of annualised revenue which in itself is big, but still there is significant headroom available. It is a question of how quickly are we able to get more and more product categories signed up to pushed through our channel partner pipes. This is one part of the action, hence the importance of new sign ups. The second actionable is how quickly we can get entire channel partner ecosystem created to sell these products. But the headroom is quite big, and even with our significant size of this business, we are at less than 5% of the total available market.

Kunal Javeri: In services, are you looking at any other geographical areas besides being present in Singapore and Middle East?

Harsh Chitale: In the phase 1, we continue to focus on India, Singapore and Middle East. But as our service matures and as we get Gold Standard service, some of the elements of that service we may be able to take to other geographies as well. We will keep you posted about any such developments. As of now in the near term, there are two good challenges ahead of us. Number one is we have a significant contract booking in these nearby geographies. Almost the entire overseas revenue for the year is already in the bank and that itself is a significant growth in overseas revenue year-on-year. Presently we are focussing on proving good delivery with Gold Service Standard on this revenue.

In Phase 2, we will take our entire know-how and capability to other geographies. This aspect, we will share with you in due course.

Kunal Javeri: Thank you.

Moderator: Thank you, Mr. Javeri, for your question. The next question we have from Mr. Ankit Pandey from Quant Capital.

Ankit Pandey: My first question is on consumer durables. That was the line that we have wanted to separate out earlier in our distribution or non-telecom distribution, but just to understand because you had given us this flavour that last year we were more or less breakeven and this year would be a little bit of profit expansion, working capital is used and investments are paying off, so is that still on track? Are you still set for good growth, are all these things intact?

Harsh Chitale: Yes. Ankit, this is completely on track. These categories do offer significantly higher gross margins albeit on a lower volume, but they do offer a double-digit gross margins because, as we had shared last time, our growth intent has been to sign up those categories where there are challenger brands. With these brands we can do the role of a value added distributor involved with market creation as opposed to moving boxes for an established dominant player. Hence, we have taken an approach of partnering with new entrants who are challengers and also seek higher gross margins from them.

And, Ankit, to your earlier question I have the numbers for your question on overseas business. Our Q1 FY14 overseas revenue was Rs. 21 crores. In Q4 FY14 it moved to Rs. 38 crores and in Q1 FY15 it is Rs. 50 crores.

Ankit Pandey: Thank you. And the main question from me around the new projects for which details are available with the investors is on the migration to Cloud projects. These projects I suppose are very new and an upcoming area, fast-growing area, so do you see many more engagements lined up in this area and how is the pipeline?

Harsh Chitale: To be frank while it is an upcoming trend in India. However in the geography in which we are largely operating today i.e. India, Middle East and Singapore we have not seen that becoming a rage. There is a lot of talk about Cloud, but it is still not a big needle mover. In anticipation of it becoming a trend we are building capabilities. There are few early wins and successes for us, but it is still not a big needle mover.

Ankit Pandey: Ok. In the Aadhaar project are we moving into the more services dominated phase or are we still in the heavy asset, heavy kind of phase?

Harsh Chitale: As I had mentioned to Srivathsan, the CapEx portion is presently almost 75% to 80% complete and the balance 20% to 25% of CapEx will get incurred as some additional compute and storage will be taken as the Aadhaar number moves towards 100 crores. And parallelly to maintain what has been built, the operations and maintenance phase has already started and once the CapEx phase gets over in the next one to one-and-a-half-years, the operations and maintenance services phase will still continue for years thereafter.

Ankit Pandey: Okay. How much of the total order book of Rs. 1800 Crores would be UIDAI and how much would be total for the public sector?

Harsh Chitale: Out of Rs. 1800 crores of the total order book, UIDAI balance will be Rs. 700 crores and balance Rs. 1100 crores is all other projects put together.

Ankit Pandey: Okay. would you like to highlight how much of that is from Public sector

Harsh Chitale: Most of the system integration projects are public sector.

Ankit Pandey: All right. could you give me the hardware component of SI order book, I mean, earlier it was close to 75% or so, so would that still be in the same ballpark?

Harsh Chitale: Yes.

Ankit Pandey: All right. I also wanted to understand the current working capital situation now given that cash is coming at a rapidly higher pace than earlier, do you see your working capital situation easing over the next couple of quarters from where it is now?

Harsh Chitale: Yeah. I will request our CFO, Sandeep, to answer that.

Sandeep: In the SI business, there are large projects under execution, like WCDMA and DCN. These are currently in the building up phase. As WCDMA and DCN would be finishing in this quarter or early next quarter, the working capital is going to go up slightly. In the next couple of quarters the implementation of WCDMA would be complete and working capital would convert to cash and would ease the working capital pressure as you rightly said.

Harsh Chitale: There are two significant milestones coming up for sign off, like WCDMA milestone is worth Rs. 200 crores of cash . As of now, they are on track and expected to convert to cash in the next two quarters.

Ankit Pandey: All right., Harsh, you just also mentioned in the opening remarks that we are losing out on margin but we can still make it up in terms of absolute numbers for the full year, the absolute number for services in the full year last year was close to Rs. 50 crores of profitability. So are we suggesting we can still hit that mark in this year?

Harsh Chitale: Not exactly. What we wanted to point out was that the break-fix services profitability will remain suppressed for next few quarters. Till we build up new offerings and launch a gold standard of service, those investments will continue to impact services profitability for the next few quarters.

Ankit Pandey: Okay. Thank you so much, Harsh, and all the best to all of you. Thank you.

Moderator: Thank you so much, Mr. Pandey, The next question we have from Mr. Srinivasan from Spark Capital. Sir, your line is open. You can go ahead and ask your question.

Srinivasan: Given that we are winding down the hardware business, just wanted to understand would there be any more potential for asset monetization that we could anticipate in the next two to six quarters?

Harsh Chitale: We continue to look at monetizing our assets, and there were a few quarters where we had other income coming out of capital gain. As and when we uncover those opportunities, we've been taking those actions. So we will continue to optimise our asset base. However, there is no one definite timeline associated with such monetization.

This is also because, for some of our assets, even as we wind down our manufacturing operations, there are statutory requirements because of which we have to operate some portions of those assets.

Srinivasan: Okay. Thank you.

Moderator: Thank you so much, Mr. Srinivasan,. Sir, as there are no more questions in the queue, I would like to hand over the floor back to the management for the final remarks. Thank you and over to you, sir.

Harsh Chitale: Thank you for joining us today, our transformation story is work-in-progress and on track. Distribution and services, our growth platforms, continue to grow. In services, we are going through a phase where we need to replenish declining warranty services business with newer offerings, newer productivity initiatives and we've shared with you what we are doing on that. While entire transformation happens, there will be some impact on profitability in services for the next few quarters. And in hardware products and solutions we are moving out of our computing products. That wind down is at its fag end. We hope to conclude most of it by December. During this wind down phase, we may see certain additional impact on the consolidated profitability of the company. However, we continue to be on track with our timelines with these wind downs. We continue to be on track with our SI projects execution. So thank you for joining us today and we will again touch-base with all of you next quarter. Thank you.

Sandeep: Thank you.

Moderator: Thank you so much, sir. Thank you all for your participation. With this, we conclude the conference call for today. You may all can disconnect your line and have a great evening ahead. Thank you so much.