



## **HCL Infosystems Quarterly Investor Conference Call**

### **Q1 FY17-18 Earnings Conference Call**

**27<sup>th</sup> July 2017**

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

**Mr. S G Murali, Group 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 Kapoor, the moderator of this call. Welcome to HCL Infosystems Q1 FY18 Results Audio Conference Call. We will start with the presentation and then follow up with the Q&A session. During the presentation, all participants' lines will be in listen-only mode. This presentation is available in the Investor Relations section of the company's website.

We would like to begin with the mandatory disclaimer. This call may contain forward-looking information, including statements concerning our outlook for the future as well as some of our beliefs, plans and strategies which are subject to risk and uncertainties. We have on the call with us Mr. Premkumar Seshadri, Executive Vice Chairman and Managing Director, HCL Infosystems; Mr. S. G. Murali, Group Chief Financial Officer, HCL Infosystems Limited; Mr. Bimal Das, Joint President, Enterprise Distribution Business, HCL Infosystems Limited; and Mr. Sutikshan Naithani, Joint President, Consumer Distribution Business, HCL Infosystems Limited. I would like to now hand over the conference to Mr. Premkumar.

**Premkumar Seshadri:**

Good morning. Thank you very much. Thanks for being here with us. I will start with slide number 4 which basically focuses on the business highlights for the quarter. In this quarter, we recorded a revenue of Rs 685 crore which is a decline of about 17% Q-o-Q. And this decline, as you would see, had essentially been caused by the transition that we are going through in our Consumer Business. As you would be aware, we initiated a process of moving away from an exclusive arrangement which was there until a few quarters to now a multi-brand strategy. So we have as per our plan looked at this period as a period of transition. And the numbers that you see here are as per what we are tracking internally. We saw a decline of almost 58% Q-o-Q. There are some plans that are coming up as we go along in this transition period and I think this quarter would perhaps be the last of the transition quarters.

Going forward on to the Enterprise Business, we continued our growth in that business. We saw 3% Q-o-Q growth. The numbers achieved during the quarter were higher

than what we achieved during the past quarters. In the Services business, as stated earlier, we are continuing to rationalize some of our older contracts and not renewing many of them as and when they had come. So, on one hand there is a decline happening while on the other you will see that the revenue being recorded, but for the rest of the businesses is coming from better profile rather than the legacy profiles.

With regard to the System Integration Business, key projects have moved towards closure and many have been completed. An interesting point here is, from a build phase of about Rs 2000 odd crore of contracts, we have completed most of them and have reached the last phase with around Rs 700 odd crore worth projects and we are hopeful to see more progress during this quarter. It is a significant milestone for us. The loss for the quarter, before interest and tax, is Rs 24.9 crore, which is marginally better than the last quarter. Similarly, the loss including the exceptional items, shows slight improvement from the last quarter and is at Rs 66.5 crore in Q1. From a recognition point of view, I would like mention about the Quality Excellence Award for 'Best Customer Service Results' won by the Singapore Business, which we think is one of the good awards to be having in our bag.

With that I will now pass on to slide 5 and ask Murali to walk you through the next few slides around the P&L and business-wise deep-dive. Thank you.

**S. G. Murali:**

Thanks, Prem. Good morning to all of you. I'm on slide 5. The revenue for the quarter is Rs 685 crore. We had Rs 823 crore revenue in the last quarter. Prem has already explained that decline in the last quarter was caused by the Consumer Distribution business which is in the transition phase from a single brand to a multi-brand model. Hopefully in the coming quarters this is expected to build up. The loss before provision for doubtful debts / write-off and exceptional credit loss, we are at about Rs 18.2 crore compared to a loss of Rs 22.5 crore in the last quarter. With regard to provision for bad and doubtful debts / write-off and expected credit loss, we are at about Rs 11 crores; last quarter we were at Rs 9.5 crore. Other

income at Rs 4.3 crore is lower than last quarter which was at Rs. 6.5 crore. As regards loss before interest and tax, we have improved marginally from Rs 25.5 crores to Rs 24.9 crores. Net finance cost has shown some good improvement from Rs 45.4 crore in the previous quarter to Rs 41.6 crore. Loss before tax and exceptional items has also improved from Rs 70.9 crores in the last quarter to Rs 66.5 crores in this quarter. And finally, with regard to loss before interest and tax after exceptional items, we are at Rs 66.5 crores for the quarter; we were at Rs 131.9 crores in the previous quarter.

Moving on to next slide, in the Enterprise Distribution business, we recorded Rs 335 crore in revenues in the last quarter. This quarter we have achieved Rs 370 crore. This is by far the highest recorded amount in any quarter. This business has gained momentum and is on a growth path. The loss before provision for doubtful debts, write-off and expected credit loss in this quarter is about Rs 2.6 crores. The provision for bad and doubtful debts, write-off and expected credit loss is about Rs 2.0 crores. The profit before interest and tax is at Rs 0.4 crores; we were at Rs 1.6 crores in the last quarter.

As regards the Services business, the revenue declined largely due to rationalization of contracts. We are at Rs 212 crore for the quarter compared to Rs 231 crores in the last quarter. With regard to loss before provision for doubtful debts, write-off and expected credit loss, we are at Rs 10.0 crores. Provision for doubtful debts, write-off and expected credit loss has been Rs 1 crores in this quarter. Loss before interest and tax for the services business is at Rs 10.6 crores while it was Rs 5.6 crores in the last quarter. This increase from Rs 5.6 crores to Rs 10.6 crores is owing to the partial contribution from other income of Rs 3.7 crore in the last quarter. This has come down to Rs 0.4 crore in the current quarter. We are now on Slide 7, and I will request Bimal to explain what's happening in the enterprise business.

**Bimal Das:**

Good morning, everybody. In Enterprise Product Distribution, we registered a 10% Q-o-Q growth. Like Prem said earlier, we had a significant quarter. We registered 11% Y-o-Y growth, and significant business is taking place

from the channel partners. We have got a good momentum among the Enterprise SIs and this momentum is going to continue. We are also focussing on the Enterprise segment significantly. Our Enterprise Services business has declined 8% Q-o-Q and has also registered 12% decline on a year-on-year (Y-o-Y) basis. The OA Consumables business, which was part of the Services business earlier, has now moved to Products business for synergy, thereby causing a decline in Services. We have also continued to rationalize our contracts, to improve profitability and this is also impacting growth in the Enterprise business. I now pass on the call to Murali.

**S.G. Murali:**

Thank you, Bimal. With regard to Enterprise business, especially in the Enterprise Services, we are undertaking significant overhauling of the business over the last few quarters. We have rationalized those contracts where we believe that profitability is below our set threshold. And, during this quarter, we have aligned a significant part of the OA Consumables business to the enterprise product distribution business. As a result, there is a decline, partly contributed by the restructuring of Consumer Distribution into Product Distribution. The balance is largely due to contract rationalization which has happened during the quarter. It is good to note that going forward, the remaining portfolio in the Enterprise Services business will be a healthy portfolio with better margin profile.

I am on slide 8, with respect to overall Enterprise business, the revenue for the quarter is at Rs 582 crore. We were at Rs 566 crores in the last quarter. The loss before provision for doubtful debts, write-off and expected credit loss is Rs 12.6 crore. This was Rs 6.8 crore in the last quarter. And the loss before interest and tax is at Rs 10.2 crore as against Rs 4.0 crore in the last quarter.

Slide number 9 relates to Consumer business where we have seen a decline of about Rs 94 crores in the current quarter compared to the last quarter. This is largely due to the transition from the single-brand model to a multi-brand model. We are in active discussion with the new OEMs. We have already launched the billing for one OEM during the quarter and we are in the process of signing a few more. Hopefully, the coming quarter should see some

momentum in this business. A full impact of transition may take a couple of quarters to complete. Profitability also got impacted during the quarter. For the first time, this business has recorded a loss of about Rs 3.1 crore. Last quarter, we had a marginal loss of about Rs 0.7.

I am on slide number 11 which explains the SI business. About Rs 60 crore worth projects were billed during the quarter. The order book has now reduced to Rs 715 crore. The build phase, which was largely contributing to the volatility in the P&L in the past, is almost coming to an end. It is at Rs 95 crore. With regard to the Managed Services, there are about Rs 165 crore contracts to be executed. Annuity type contracts, make up about Rs 455 crore of the order book. Execution and collection has been on track. The revenues for the quarter is at Rs 40 crores which is lower than Rs 98 crore, recorded in the previous quarter.

I would like to draw your attention to slide 12 depicting the financials. The revenue for the quarter was Rs 40 crore and the loss for the quarter is at Rs 7.3 crore. Of course, this is lower than the loss of Rs 18.2 crore as recorded in the previous quarter. With this, I conclude the financial part of the presentation and hand it back to Prem for his final words.

**Premkumar Seshadri:**

Thank you, Murali. Over to you moderator, for the Q&A session.

**Moderator:**

The first question is from Sheetal from IDBI Capital.

**Sheetal Kumar Shah:**

Sir, for last several quarters we have been hearing that HCL Infosystems is in a transition phase and transformation journey with all contracts are getting rationalized. Such a strategy is not showing any meaningful impact in terms of the top-line and in terms of profitability; in fact, it has significantly affected the bottom line. We don't see our learning business. Are we heading towards the end or is it still in a transition phase for another year? I would just like to know your overall strategy going forward.

**Premkumar Seshadri:**

I think, there are multiple sides to the whole context of transition. I'll just spend a few minutes to try and explain each of those sides. The first part pertains to the SI business. The SI business had an opening balance just about 6 to 8 quarters away of close to Rs 2800 crores of contracts which were in the build phase at various levels of our involvement, for instance at the build level, the material level and so on. We had stated almost about eight quarters ago that our primary focus was to execute projects of SI business and ensure that we come out of the contracts without significantly affecting issues like inability to deliver because all the projects are complex and of national importance. Today, we have reached almost less than Rs 100 crore of the build phase; shortly this would be zero.

Second part that you must see is that as an organization we have undergone several transitions over the last three to four years from being a manufacturer and support services to an independent services business. So most of the original contracts, which were there for a period of three to five years, are now exiting. So, profitability today is not going to happen immediately. In a systematic way, we have followed a strategy to rationalize, avoiding renewals. So, over the next few quarters, this would be declining, almost exiting. Perhaps when the SI would become zero at our legacy contracts and services would also reach a zero. So, thereby if we see the organization as a whole, as something that has been building new business, all of them are running at appropriate margins and profitability

With regard to consumer distribution business we have made a transition towards becoming a multi-brand model. You know that the brand was losing its shine in terms of market space. We had to recalibrate ourselves with respect to a multi-brand strategy, and any such change which involves acquiring that particular group of customers takes its own time. We have crossed the initial hurdles and hope to see this phase as a transition quarter. As far as the peripheral smaller businesses like Learning are concerned, we continue to state that it is not the focal point of our organization. At the present moment that is not the growth business to be tracked.

- Sheetal Kumar Shah:** My only point was that we are continuously providing for doubtful debts even for that small portion of the business. So, once and for all, can we assume that in FY18 all the legacy issues and provisions for doubtful debts will be over and we would be able to see a growth trajectory?
- Premkumar Seshadri:** Let me explain this. As far as the Learning is concerned, I'm sure you are aware that the earlier model was the boot model which included collection from schools over a 60-month-period. And, much of those 60-month-period contracts are exiting over the next, maybe, 12 months. So, the provisions relating to those particular issues will continue to happen at a particular rate. I think, the present rate is significantly reduced and definitely we are in the last 12 months of the boot model camp which we had entered into in ~2012 / 2013.
- Sheetal Kumar Shah:** So, can we see that in this FY18, most of this transition at the legacy issues will get over?
- Premkumar Seshadri:** Hopefully, from the trend we see today I can say this with a little bit more confidence.
- Sheetal Kumar Shah:** Okay. Thank you, sir.
- Moderator:** Next question we have from Parimal from Credential Investment.
- Parimal:** I have been tracking the business since last 4 years. We come up with new strategies, but the numbers do not reflect changes, and borrowed amount has been more or less stable since last 4 years. What is the road ahead and at what stage are we in terms of completion with regard to the SI business?
- Premkumar Seshadri:** As for the SI business, when we began the transformation journey, which is about 3 years ago, we were sitting at about Rs 2800 crore of order book which needed to be completed in terms of build and maintain. Today the build part of it, for the first time, is some Rs 100 crores. We stated almost 3 years ago that our focus is on execution and then collection. Murali can give us the total amount of cash collected in this period; that will give you a sense of

the contracts entered in, which has a long tail of completion. As far as strategy is concerned, we were very clear; our core businesses were the two distribution businesses—building the services business and ensuring that with regard to SI business we are able to complete the build, collect the money and pay up our creditors. This has been the cycle that we've been following and what you are seeing will be the last lap. If the trend that we are seeing in the last two/three quarters continue, FY 18 would be an infliction point. Starting a new business into a distribution market, with a different strategy, takes its own time to mature and translate itself into profits. As far as Consumer Distribution is concerned, maybe it was not something that we discussed three years ago, but we definitely realized that we were in an exclusive contract with one brand and with that plunging into a negative growth at a rapid rate, we decided to actually move on to a multi-brand model.

So, moving from one to this actually has got a quarter or two, or what I would call a transition period because it involves new contracts, new sign-ups, new supply chain strategy, and so on. All of that need to be discussed and closed. But we are in good shape in terms of progress and maybe by the end of this quarter you would have that transition starting to show results.

So, you must look at this more from a three to four years' perspective from where we were to where we have come to. The older contracts are much larger in size. The sizes of the SI contracts are nowhere near what the Services and other businesses can generate out of new business. So, obviously, the loss overshadows the marginal gains that we otherwise get with respect to the newer businesses.

**Parimal:**

Sir, in one of the conference calls, you have given a timeline in terms of build as well as the maintenance and service side of the business. I want to know is the timeline still intact because you said the collection will start picking up by October 2017.

**Premkumar Seshadri:**

Could you clarify which timeline you are referring to?

- Parimal:** About the SI in you have sometime build of Rs 1250 crores of projects and the break-up was of Rs 750 crore in terms of maintenance and systems and Rs 500 crore for building and so on, three to four quarters or so. Is that timeline still intact?
- Premkumar Seshadri:** As far as the SI business is concerned, we had stated that we should be finishing the build phase in the QND 17 quarter, and I think we are on track. You'll see that we have crossed less than the Rs 100 crore mark in this quarter itself. The last mile is always tougher and we are very much on track.
- Parimal:** Can you give me the collection till date? How much money you have collected since the last three years if the number can be shared within the forum?
- Premkumar Seshadri:** From QAS'14 quarter and onwards, we have collected Rs. 1815 Crores till date in the SI business.
- Parimal:** Okay, sir. Thank you.
- Moderator:** Thanks for your question. At this time, there are no further questions from the participants. Sir, I would like to now hand over the floor back to Mr. Premkumar for the final remarks.
- Premkumar Seshadri:** Thank you, Harpreet. Thank you everyone for being here at the quarter three results discussion. For further questions, you could write to [sumeet.aluwalia@hcl.com](mailto:sumeet.aluwalia@hcl.com). We would be happy to answer the same. Thank you very much.
- Moderator:** Thank you, sir. Thank you, participants, for joining the call.