



**HCL Infosystems Quarterly Investor Conference Call**  
**Q4 & FY17 Earnings Conference Call**

**31<sup>st</sup> May 2017**

**Speakers:**

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

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

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

**Moderator:**

Good Day Ladies and Gentlemen! I am Sourodip, your moderator for this call. Welcome to HCL Infosystems' Q4 & FY17 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 also available in the Investor Relations section of the company's 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 beliefs, future 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 Limited; Mr. S. G. Murali, Group Chief Financial Officer, HCL Infosystems Limited and Mr. Bimal Das, Joint President - Enterprise Distribution, HCL Infosystems Limited. I would request Mr. Premkumar Seshadri to take over the call.

**Premkumar Seshadri:**

Thank you. Good afternoon. Thanks for being here. Before looking at the specific numbers, I would like to reiterate that we did a strategic shift in our strategy in the Consumer Distribution Business in the last few quarters. So that business has been seeing some deceleration to a point to start building up on the basis of our new tie-ups. So, in the last quarter, we had about Rs 58 crores drop from the previous quarter and despite that, overall HCL revenue in Q4 FY17 is Rs 823 crores compared to Rs 765 crores of last time at a revenue growth of 8% Q-on-Q, which shows that we have continued and sustained performance in the Enterprise Products Distribution and the Enterprise Services business (refer slide 4). We started off the overall

enterprise strategy about 6 quarters ago and have been consistently looking at keeping the gap on. We were consciously taking a view on the Consumer Distribution side while being with one principle and the normalization of that product range. Given that, we had prepared ourselves to a great extent and our Product Distribution division has increased at 31% Q-on-Q and 6% Y-on-Y. The Enterprise Services have continued to look at rationalization of some older contracts, but not withstanding that it maintains its revenue run rate.

In Consumer Business, we did face a decline. We have already signed up with two key OEMs and should sign another one in this quarter. We are ready to start building the momentum over the next few quarters.

Our System Integration execution and collection has been on track. About Rs 155 crores have been collected in this quarter. We have also seen strategic arrangement with respect to divestment of our learning business. That strategic arrangement has been made with Everest Edusys, i.e. a business transfer for a slump sale of the DigiSchool, the K-12 business. Subsequent to the closure of the said acquisition, we would have Everest Edusys as an associate company and we believe that we should be able to conclude the transaction by September this year. The loss before interest, tax and exceptional items was Rs 18.5 crores in the previous quarter; in Q4 we are at Rs 25.5 crores largely on account of the SI businesses which we are now looking at completing soon.

This quarter, we have two exceptional items on the impairment of goodwill. One is pertaining to Learning which is Rs 11 crores and the other is pertaining to Services, for

Rs 50 crores. So, loss before tax and after exceptional items for Q4 is Rs 131.9 crores as against Rs 65.8 in the previous quarter. Please note that exceptional items of Rs 61 crores is a non-cash loss.

To provide us with a deeper insight into the key profits and losses and also to highlight momentum of the Services, I request Mr. Murali to take over.

**S. G. Murali:**

Our revenue for the Consumer Business was Rs 163 crores, as against Rs 221 crores in the previous quarter (refer slide 5). There is a drop of about Rs 60 crores. As you are aware we are transitioning into a multi-brand model and exiting from old exclusive arrangement with one of the OEMs. We are now in the process of tying up with new OEMs. As mentioned by Mr. Seshadri, we have completed the sign-off with two OEMs and have started billing with one of the OEMs already. We will sign a third OEM in this quarter. The billing for the third OEM is expected to start towards the end of this quarter or by early July.

While in Consumer Distribution, there was a drop of about Rs 60 crores, the overall revenue has actually grown from Rs 765 crores in the last quarter to Rs 823 crores during the quarter. This increase is attributed to the Enterprise Business where revenues have gone up from Rs 490 crores in the last quarter to Rs 566 crores. Enterprise business has three large businesses – the Enterprise Distribution business, the Domestic Services business and the Global Services business. The Primary reason for the increase in the Enterprise business is the good growth in the Enterprise Distribution business.

In System Integration Business, on account of the project execution, our revenues during the quarter has gone up from Rs 59 crores to Rs 98 crores. Loss before interest and tax, which was at Rs 18.5 crores in Q3, has increased to Rs 25.5 crores. This is primarily on account of completion of the projects in this business. As explained in the last call, we will have to do certain adjustments at the time of the final sign-off acceptance by the customers. There will be certain recoveries or certain LDs that can impact us. This has been the primary reason for losses in the SI business during the last two quarters.

Coming to Profit / (Loss) before interest and tax, during the last quarter it was Rs (11) crores in the SI business which has gone up to Rs (18.2) in this quarter. Most of the projects are at the fag-end of the completion except one large project which is inching towards completion. We are hopeful that the losses in last two quarters in the business shall get moderate going forward and it will benefit the overall entity. Going forward, the losses should largely be in line with what happens in SI. As explained in the last call, the volatility in the overall profitability of HCL was largely due to the project stage of SI projects. Now with all the projects nearing completion, we will be in a steady state of AMC / maintenance mode and we are hopeful to see less volatility in the profitability at the HCL consolidated level.

Let's now look at each business. In the Consumer Distribution business, despite the revenues coming down significantly due to rationalization, we have been able to maintain PBT neutral in the business. Our loss before interest and tax is about Rs 0.7 crores. We expect to see a similar trajectory for a quarter or two. However, when the volumes build up with the new brand tie-ups, we expect to

get onto the positive trajectory. That's the good news in the Consumer Distribution business.

In the Enterprise Business (Distribution & Services in India) significant work has happened over the last couple of quarters. As explained earlier, firstly we rationalized the portfolio of our existing customers in the Enterprise Services business, rationalised some of the non-profit making or the low margin contracts by exiting or re-negotiating them. Secondly we introduced overall cost optimization initiatives in the business, including manpower rationalization wherever required, exiting some of the loss-making lines of business within these units and also optimization of infrastructure across locations. Several such initiatives taken during the year helped us bringing down the loss in this business. From a loss of Rs 28 crores in Q1, we came down to Rs 18.5 crores in Q2 and then to Rs 11.5 crores in in the last quarter and to Rs 4 crores in this quarter. We expect this trajectory to continue and we are hopeful that this business would turnaround in the next one to two quarters. Within the Enterprise Business, the Distribution business has done very well. Its revenues have been consistently growing and the margins have been improving. The business was EBITDA neutral in the last quarter. The Global Business continues to be profitable and in the Services business the losses have been reducing Q-on-Q.

In the Learning Business, K12 - Digital School Business has entered into a tie up with Everest Edusys (QED), which was announced recently and that transaction is likely to be concluded in September this year. With that we will have a limited amount of receivables for the LRR business, which was there in the past. Those limited receivables will continue for another one and a half year, where we have to collect

those receivables, except for that there will be no other business within the Learning business, once this transaction is concluded. Hence the losses in this business during the quarter is largely on account of the completion of the necessary accounting adjustments in view of the impending transaction.

The net finance cost has come down from Rs 47.3 crores in Q3 to Rs 45.4 crores in Q4. This is largely due to the collections which happened during the last quarter. The net finance cost is expected to start improving going forward. Overall, the loss before tax is at Rs 70.9 crores; it was Rs 65.8 crores in the last quarter. This was primarily on account of the movement in the System Integration business. Otherwise, the rest of the businesses have been progressing well.

We had an exceptional item of Rs 61 crores that includes impairment of goodwill for Rs. 11 crores and Rs. 50 crores for Learning and Services businesses respectively. This is a non-cash charge and this is largely reflecting the carrying value of these businesses at this point in time.

Loss before tax and after exceptional items, we are at Rs 131.9 crores primarily because of the Rs 61 crores exceptional item during the quarter, as against the Rs 65.8 crores in the last quarter.

In the Enterprise Distribution business losses were at minus Rs 5.4 crores in Q1, which progressively reduced and we have become EBITDA positive during the last quarter (refer slide 6). In Services, as mentioned earlier the overall losses have come down from Rs 22.6 crores to Rs 5.6 crores during the quarter.

I would now request Mr. Seshadri to provide an overview of the Enterprise Products Distribution as well as Enterprise Services business.

**Premkumar Seshadri:**

Over the last 6 quarters, our emphasis has been around the growth of the enterprise space, a market place that we have re-entered and are seeing a very good amount of acceptance and traction. This has resulted in products and services integrated go-to-market which we had created 4 quarters ago. This is firing reasonably well and is able to sustain a momentum of growth. We are also trying to look at changing the margin profile of the Services business with respect to the previous contracts. We have also continuously rationalized some of the older contracts, which are coming to tail end. Our focus on the enterprise space has translated into a revenue growth of 31% Q-on-Q. We are focused on excellence in specific areas and relationships with the OEMs; also we have now become the platinum partner for Oracle as an enterprise entity.

To provide us with a deeper insight on the Enterprise business as well as other areas, I request Mr. Murali to take over.

**S. G. Murali:**

On the Enterprise business overall, the consolidated revenue went up from Rs 490 crores in Q3 to Rs 566 crores in the current quarter and loss before interest and tax is at Rs 4 crores compared to Rs 11.5 in Q3. This has seen a steady movement during the year. It's an improvement through the year from Rs 28 crores in the Q1 to about Rs 4 crores in Q4. Overall, the Enterprise business clocked about Rs 2117 crores during the year. The loss before provision for doubtful debts/ write-off and credit losses was Rs 50



crores. During the year, we had provisions for this business of Rs 17.7 crores. The provisions have also been coming down Q-on-Q, from about Rs 6-7 crores in the first two quarters, it has narrowed down to Rs 0.9 crores in Q4. Overall, the loss before interest and tax for the Enterprise business is at Rs 62 crores for FY17.

In the Consumer Distribution business, while the revenues declined from about Rs 472 crores to Rs 163 crores during the year from Q1 to Q4 (refer to slide 10), we have been continuously trying to optimize the organization and various costs to stay closer to a profitable number throughout the year. We are close to EBITDA breakeven in the business. During the last quarter we were at Rs 0.7 crores loss before interest and tax. Overall, for the year we clocked Rs 1298 crores revenue and the profit before interest and tax for the consumer distribution business is at Rs 15.6 crores.

In System Integration business, we have projects worth Rs 60 crores signed off in Quarter 4 (refer slide 11). The pending order book is about Rs 880 crores which has been steadily coming down. The build phase of this Rs 880 crores is about Rs 200 crores which is largely attributable to one project which is in the final phase of execution. For rest of the projects, only a couple of them have Rs 2 - 5 crores each yet to be executed. The managed services are roughly about Rs 175 crores and the annuity type AMC support services are about Rs 500 crores. So, except for the build phase, the other ones are routine operation and maintenance type of contracts and managed services.

The collections during the quarter is at Rs 155 crores and for the year, we collected close to about Rs 679 crores in this business. We did a revenue of Rs 98 crores for the

quarter for System Integrations and the loss before interest and tax is at Rs 18.2 crores (refer slide 12). Last quarter again, it was a negative number at about Rs 11 crores. As explained earlier, as a project enters into a final completion phase, depending on the final assessment of the performance by the customer, we may have to do some adjustments or it is on account of recoveries or any LDs that these losses have come during the quarter. Most of these projects are nearing a completion and this should start moderating going forward. Overall, for the year, the consolidated revenue for the system integration business is Rs 355 crores and the provision for doubtful debts / write-off and expected credit loss is about Rs 15.5 crores and the loss before interest and tax for the system integration business is at Rs 4.7 crores.

To sum it up, the consolidated revenue during the last year for the 9 months was Rs 3,656 crores and current year for the 12 months, the revenue is Rs 3,738 crores (refer slide 13). This roughly translates to about Rs 1200 crore reduction on a 12 months comparison.

In the Consumer Distribution business, the profit for the 9 month of last year was about Rs 33.5 crores and the profit for the current 12 months in FY17 was Rs 15.5 crores. Between last year and this year, there has been a drop of Rs 45 crores in the contribution only from the consumer distribution business. This business was generating cash in the past and we have seen the decline in revenue and the build-up, which is starting from now. Despite a drop of about Rs 45 crores in contribution between last year and this year in the Consumer Distributions business, and despite about Rs 1200 crore drop in revenue in the current year, the loss before interest and tax, is almost at a comparable level as

the last year. Despite all the challenges we faced, we have been able to manage the loss at about Rs 51.6 crores and on Q-on-Q this trend is expected to improve. The net finance cost for the current year is at about Rs 180 crores. Last year for a 9-month period, this was about Rs 111.5 crores. The finance cost has been averaging at about Rs 45 crores Q-on-Q. For almost last 5 quarters, our net debt has been consistently hovering around Rs 1010 to Rs 1020 crores. Our net debt for Q3' 16 was Rs 1012 crores, for Q1'17 it was Rs 1009 crores, Q2'17 was at Rs 1030, Q3'17 was about Rs 1035 and Q4'17 was about Rs 1020 crores. Through strict financial discipline, we have been able to cap the net debt at that level and hope to continue hovering around this number at least for the next couple of quarters.

This is a very important factor because, despite having a cash loss of about Rs 190 crores during the year, we have been able to manage the funding of the entire cash loss without any significant incremental debt during the year. This was largely done by improved net working capital by going after the debtors, completing the projects, collecting the cash, paying off the creditors and also using this cash to fund the cash loss. So, our net debt has been maintained at almost the same level. With the projects nearing completion in SI, as the projects get completed and we start realizing the cash, there is an opportunity for us to start bringing down the debt going forward. Overall, for the year, our loss before tax is Rs 231.7 crores for the 12 months period compared to Rs 151.8 crores for the 9 months period FY16. And after exceptional items, the loss is about Rs 292.7 crores compared to the 9 months period FY16 which is about Rs 219 crores.

On the whole, FY17 has been a very important year for us. Some notable highlights were - Consumer Distribution went through a significant change in terms of the business model. From an exclusive distribution arrangement, we have moved into a multi-brand model during the last year and we will see the benefits of these new tie-ups in the coming quarter. Enterprise Distribution business has scaled up and has become EBITDA positive during the quarter. In the Services business, we have been able to improve and the losses have consistently come down Q-on-Q. In the Learning business, we inducted a strategic investor who will be running the Digital School business going forward, where we will have a stake of about 33%. In System Integration business, our focus has been largely on the execution of the SI projects, where we are nearing completion. This has been a very important year for us and we have been able to fight through the year despite all the challenges. I conclude my presentation here and hand over back to Mr. Seshadri.

**Premkumar Seshadri:**

Moderator may open up the conference for questions from the investors. Thank you.

*Since there were no questions from the participants, Mr Premkumar Seshadri concluded the call.*

Thank you moderator. For further questions, you could write to [sumeet.ahluwalia@hcl.com](mailto:sumeet.ahluwalia@hcl.com). We would be happy to answer the same. Thank you very much.

**Moderator:**

Thank you very much, sir. I would like to thank all the participants who joined us today. With this we conclude the session. Thank you.