



**“HCL Infosystems Q2 FY19 Results
Conference Call”
26th October 2018**

SPEAKERS: **Mr. Rangaranjan Raghavan, MD**
 Mr. Kapil Kapoor, CFO
 Mr. Bimal Das, President - Enterprise Distribution
 Business
 Mr. Sutikshan Naithani, President - Consumer
 Distribution Business



SPEAKERS:

Management, HCL Infosystems

Moderator:

Good day, ladies and gentlemen. I am Harpreet Kapoor, the moderator of this call. Welcome to HCL Infosystems Q2 FY19 Results Audio Conference Call. We will start with the presentation and then follow up with a Q&A session. For the duration of the presentation, all participants' lines will be in listen-only mode. This presentation is available in the investor relations' section of the company'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 some of our other statements with regard to our beliefs, future plans, and strategies. These forward-looking observations and information are subject to risk and uncertainties that they entail.

We have on the call with us Mr Rangarajan Raghavan, Managing Director, HCL Infosystems; Mr Kapil Kapur, Chief Financial Officer, HCL Infosystems; Mr Bimal Das, President, Enterprise Distribution Business; Mr Sutikshan Naithani, President, Consumer Distribution Business. I would like to now hand over the conference to Mr Rangarajan. Thank you and over to you, sir.

Rangarajan Raghavan:

Let's move to Slide 3 where we are showing the organisation chart. This is to explain the announcement that we had made on 15 October on signing SPA to sell off some part of the Middle East business. The one in orange colour is the part we are actually selling off.

The next slide actually highlights Q2FY19. To start with the continuing operations, Q2 revenue has been around Rs. 1,084 crore; in comparison, the previous quarter's earnings was Rs. 1,129 crore and the Y-o-Y revenue of the same quarter last year was Rs. 754 crore. The distribution business brought us major revenue which was Rs. 936 crore in Q2 as compared to Rs. 986 crore of the previous quarter.

Enterprise distribution gave us about Rs. 414 crore while the previous quarter had earned Rs. 457 crore, and consumer distribution brought about Rs. 522 crore though it was Rs. 529 crore on the previous quarter. Global



services revenue was Rs. 110 crore in Q2, higher than the earnings of Rs. 105 crore in Q1. In SI business, the pending order book came down to Rs. 570 crore. As explained in the previous calls, the focus is more on project execution and collection of the receivable in the SI part. The loss before interest and tax was about Rs. 5.1 crore in Q2 as compared to Rs. 7.3 crores in the previous quarter.

With regard to the discontinued operations, the Board of Directors has approved the company's sale of Middle East operation which includes Dubai, Abu Dhabi & Qatar with a consideration of about 3.4 million AED/Dirhams, which has been presented in the earlier slide. The revenue from the discontinued operations in Q2 was about 9 crore. Profit before tax from the discontinued operations was around Rs. 0.6 crore. Mr Kapil Kapur would elucidate on this further.

Kapil Kapur:

Thank you, Ranga. Good afternoon, ladies and gentlemen. I will just give you a quick snapshot of the P&L for Q2. I am on slide number 5 now. We reported a revenue of Rs. 1,084 crore as against Rs. 1,129 crore in the immediately preceding quarter. As Ranga shared the numbers with you, the enterprise distribution was a little subdued in this quarter due to volatility that we have seen in the rupee and the market situation. A lot of customers were waiting on sidelines to see how the rupee stabilizes, and accordingly they have postponed the decision and we are hoping that we will do some catching up in the following quarters.

When we compare the profit and loss before interest and tax, there is a marginal improvement over the immediately preceding quarter; we have reported a loss of Rs. 5.1 which was Rs. 7.3 in the immediately preceding quarter. Finance cost has seen a downward trend in terms of improvement because of the ongoing loan repayments that we are doing as per our plan. We saw about 5 odd crore of reduction in the finance cost during the quarter as compared to the previous quarter. Overall, PBT was at a loss of Rs. 32.9 crore as against Rs. 39.5 crore in the immediately preceding quarter which is approximately about Rs. 7 crore improvement over the previous quarter. During the quarter, we also monetized a part of our learning content to the extent of about Rs. 2 crore which is part of the learning business as we have reported it.



The following slide basically presents similar data which we have just discussed in the earlier slide but gives a break-up between consumer and enterprise business. As you would have observed there was a significant improvement in our consumer distribution profits from a loss of Rs. 90 lakh in the immediately preceding quarter to a positive zone of Rs. 2.5 crore profit. But as I shared, due to some headwinds owing to rupee volatility, the enterprise distribution was somewhat subdued in the quarter. Besides, data and information is similar to the previous slide. I will hand it back now to Mr Rangarajan Raghavan to take you through each of the businesses and describe what has happened in the last quarter.

Rangarajan Raghavan:

In Consumer Distribution, revenue increased 75% Y-o-Y. Distribution partnership with HMD Global delivered a good performance. In fact, this was the major revenue contributor for the quarter. Multi-channel strategy on consumer distribution continued to gain traction from e-branded store and MFI channel. Partnership with Samsung and Microsoft also did well. During this quarter, the Apple contract ended on 30th September. So these were the details on consumer distribution, now we will move to enterprise distribution.

In Enterprise distribution, revenue increase was about 31% Y-o-Y. The dip of 9% on Q-o-Q is mostly temporary in nature. This is due to the weak demand and rupee devaluation. The channel business continued momentum and the existing OEM relationship expanded with a new Dell-EMC partnership on the storage solution. Business has re-aligned its team to enhance the capability gain traction in emerging technologies including security and cloud practice. This is a highlight on enterprise distribution.

Moving to the financial number, there has been a consolidated revenue of Rs. 936 crore for the quarter and a profit of about Rs. 1.5 crores. In global services revenue (depicted in the following slide) increased by 16% Y-o-Y and 5% Q-o-Q. In global business, more focus is on the automation in the end user and data center space to improve the margins. The consolidated amount of Rs. 110 crore on



the revenue side was the revenue received from global services, making a profit of Rs. 5.1 crore.

Moving to the SI business, as I said in the previous slide initially, the order book records about Rs. 570 crore. We are working on completing the projects and on the receivables. On the receivables side, with respect to the power project, though we have completed all the work, there are certain post-completion audits and the acceptance is being conducted by the customers.

Moving to the financial slide, we have done a revenue of about Rs. 38 crore during the quarter and there is a loss of about Rs. 10.3 crore.

Moderator:

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

Shitul Kumar Shah:

Good evening, sir. Could you please give us the outlook of this division of enterprise distribution and consumer distribution division for the next one year?

Kapil Kapur:

We don't give outlook or guidance. We are not permitted by the Board to do so. However, fortunately, we have both these business heads with us today. I can ask them to briefly explain one by one as to what they are doing in these businesses and related prospects. But, unfortunately, I will not be able to give you any number for the future as we are not permitted. So, I will first hand it over to Sutikshan who heads our consumer distribution. He will share with you briefly on what we are doing and then we will request Bimal to take you through the enterprise distribution business.

Sutikshan Naithani:

Good evening. We are currently building our business in two ways. One is on the direct to business area and the other is on the direct to consumer space. If you have seen in the slide, we have mentioned that e-Brandstore and MFI, along with HMD Global are the engines that we are driving. So, we are building a lot of directs on the



consumer side of the business as well as continuing to focus on e-commerce, as well as on large format retail. We are driving on the direct to business side and the multiple channels, which we have mentioned are building on the consumer side. This is broadly what we are focusing on, and that's how we will continue to take advantage on both sides of the market.

Bimal Das:

With regard to enterprise distribution, we follow a hybrid business model. Our channel business is a significant part of our own GTM. We also go to market directly through certain practices. As mentioned earlier by Rangarajan, as a company we are investing in the security and cloud practices and building our capabilities in and around that. That is in line with the market opportunity that we see in these practices. In the area of cloud, we are working with three large multinational cloud service providers, and similarly, in the space of security. This is our focus area for the next couple of years.

Shitul Kumar Shah:

I have seen in HCL Infosystem, there has been a lot of transition & divestment trying to clean up the balance sheet and trying to collect the receivables. But still in the core area of your enterprise distribution or consumer distribution or global business, we have not seen an uptick in terms of margin improvement and we are still struggling to reach profitability. What steps is the management exactly taking to improve upon the numbers and in showing the traction and profitability? I mean, we have done the Rights issue also to reduce the debt. So debt has come down, I fail to understand what exactly is the focus for the company on the whole to show a meaningful improvement in the topline. It's a very thin margin business. Still, why are we unable to show meaningful improvement in the margin and accrue profitability?

Rangarajan Raghavan:

Consumer distribution is more of a volume business. We have seen a Y-o-Y growth of about 75% in the volumes. Some of the things we have done had worked well while others have not. We are actually following the specific channel that Sutikshan had mentioned. We believe that there is a definite growth in that particular channel and the brands we have tied up is definitely giving us such a kind of growth.



With respect to enterprise distribution, Bimal has explained about the portfolio change, focusing on the high margin areas like cloud, security. This is to actually improve the margin. So, enterprise distribution is more in terms of focusing on the product portfolio to get a better margin. It is like we have done something in terms of cleaning up of some of the loss-making businesses. It is going to take some more time for us to actually build the volumes in the distribution. The focus is completely on the distribution business, and we believe it should actually happen.

Shitul Kumar Shah: Do we expect any further writes-off in SI or any other business?

Rangarajan Raghavan: Whatever was visible, we have done that already. If there is at all anything else, we will definitely inform the shareholders. At this stage, we are not able to comment.

Shitul Kumar Shah: And with regard to utilization of rights issue has that money been utilized for reducing the debt as well as cleaning up the balance sheet or is there some money left?

Rangarajan Raghavan: Yes, it's been utilized.

Moderator: Thank you so much for your question. At this time, there are no further questions from the participants. 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, investors, for joining this call and asking relevant questions. If there are any further questions, there are details given in the slide. Please feel free to contact us. See you next quarter with another result. Thank you. Bye.

Moderator: Thank you so much for addressing the session. Thank you, participants, for logging in. That does conclude our conference call for today. You may all disconnect now. Thank you and have a pleasant evening.