



**HCL Infosystems Ltd.
Q3 FY19 Results Audio Conference Call**

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SPEAKERS:

Mr. Rangaranjan Raghavan, MD

Mr. Kapil Kapoor, CFO

**Mr. Bimal Das, President - Enterprise Distribution
Business**

**Mr. Sutikshan Naithani, President - Consumer
Distribution Business**

Moderator:

Good day ladies and gentlemen. I am Harpreet Kapoor, the moderator of this call. Welcome to HCL Infossystems Q3FY19 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 relation section of the company website. We would like to begin with a mandatory disclaimer. This call may contain forward-looking information including statements concerning our outlook for the future as well as some of our other statements of belief, future plans and strategies. These forward-looking statements and information are subject to risks and uncertainties that they entail. We have on the call with us Mr. Rangarajan Raghavan, Managing Director, HCL Infossystems; Mr. Kapil Kapur, Chief Financial Officer, HCL Infossystems; Mr. Bimal Das, President-Enterprise Distribution and Mr. Sutikshan Naithani, President-Consumer Distribution. I would like to now hand over the proceedings to Mr. Rangarajan. Thank you and over to you, Sir.

Rangarajan Raghavan:

Thank you Harpreet. Let's move to Slide 3. The areas marked in orange are the three legal entities of Middle East that were sold. The transaction has been completed during the quarter. Let's move to the next slide showing the highlight of the quarter. The Q3 revenue was Rs. 1117 crore as compared to the earlier quarter of Rs. 1084 crore. The distribution revenue was Rs. 955 crore in Q3 versus Rs. 936 crore in the earlier quarter. Compared to Rs. 414 crore in the earlier quarter, revenue earned from enterprise distribution was Rs. 401 crore; with regard to consumer distribution the revenue marginally increased from Rs. 522 crore in the earlier quarter to Rs. 554 crore. The global services revenue also augmented from Rs. 110 crore in the previous quarter to Rs. 129 crore. In SI business, the pending order book was at Rs 530 crore (as on 31st December 2018). During this financial year, so far we have billed orders worth about Rs120 crore and collected Rs234 crore from SI projects. With respect to profit and loss before interest and tax, we made about Rs. 0.5 crore profit as compared to Rs. 4.3 crore loss in the previous quarter. This is from the continuing business. Based on the approval of the directors, the shareholding held by Nurture Technologies of its direct subsidiaries Gibraltar Technologies (Dubai), Gibraltar Technologies (Abu Dhabi), including its step-down subsidiary namely, Gibraltar Technologies WLL (Qatar) has been transferred to a consortium of individuals and this transaction was completed on 27th November 2018 for a consideration of about 3.4 Million Dirhams. The business operations associated with this transaction have been considered as discontinued operations in the financials that we'll be taking you through. Revenue from the discontinued operations during Q3 was around Rs.5 crore and the profit from the discontinued operations in Q3 was Rs.0.3 crore. With this now, I hand it over to Kapil to take us through the detailed financials.

Kapil Kapur:

Good afternoon to all of you. We are on Slide 5 which gives you a consolidated view of Q3 results. Revenue was Rs. 1117 crore as Ranga just shared with you.

On the profitability side, operating profitability was a positive Rs. 16.5 crore as compared to a negative Rs 9.7 crore in the immediately previous quarter. This quarter, however, saw some higher provisions especially in the SI and Solutions business to the tune of about Rs. 23 crore. As a result, the profit and loss before interest and tax was marginally positive as compared to a negative Rs. 4 crore loss in the immediately preceding quarter. The finance cost was stable at about Rs. 28 crore and accordingly the profit and loss before tax was at Rs. 27.6 crore as compared to Rs. 32.9 crore in the immediately preceding quarter, thereby showing some marginal improvement from the previous quarter. During the quarter, we also saw monetization of our content IP to the tune of about Rs. 4 crore which forms part of the learning business segment.

In Slide 6 we have given a break-up between consumer and enterprise distribution. So consumer distribution clocked revenue of Rs. 554 crore with a PBIT of Rs. 4.6 crore as compared to Rs. 2.4 crore in the immediately preceding quarter. In enterprise distribution, the revenue was Rs.401 crore and we were just about break even at PBIT level as compared to a very marginal loss in the immediately preceding quarter. I'll hand the proceedings back to Ranga for him to take you through our performance in our various business lines.

Rangarajan Raghavan:

We will move to Slide 7 where we will see some of the highlights of the consumer distribution business. The revenue has increased 6% quarter-on-quarter. There has been a good progress on multi-brand, multi-channel business model and the revenue from HMD Global for Nokia handsets contributed substantially for the business during the quarter. The partnership with both Samsung and Microsoft Surface also gained good grounds. The telecom service provider (Operator) channel gained grounds for Samsung and Nokia and the e-Brandstore also maintained a steady growth during the quarter. Our partnership with Microsoft witnessed the successful launch of new Surface Go product in the quarter.

The next slide (Slide 8) provides highlights on the enterprise distribution. The revenue remained largely flat during Q-on-Q, as well as on Y-o-Y basis. There is a small decline in revenue that can be attributed to things like the last quarter; there was a weak demand arising from the rupee devaluation and the general market condition. The channel business within enterprise distribution maintained its track record with a good performance in this quarter as well. The team also continued its focus on enhancing direct business organisation by further strengthening its emerging technology practices such as network, security, cloud, collaboration and data centre. That's a highlight on enterprise distribution. The next slide actually talks about financials, revenue of about Rs. 955 crore which was the consolidated revenue from consumer and enterprise distribution securing a profit of about Rs. 5 crore.

Moving to global services in the next slide, the overseas services business in Singapore remained on its growth path with new customers. The revenue grew about 17% Q-on-Q with Rs. 129 crore in Q3 versus Rs. 110 crore in the

previous quarter. Moving to the next slide on the global services financials, Rs. 129 crore were the top line and a PBIT of Rs. 6.8 crore. Moving to the SI slide that is Slide 12 provides an update on the SI business, showing a pending order book of Rs. 530 crore out of which Rs. 70 crore is in the build phase, managed services is Rs. 90 crore, support services and annual maintenance are at Rs. 370 crore. Last quarter, we have highlighted about the power projects and there has been some delay in completing the project though we have finished most of the work and are at the last phase, moving to the support phase. Currently, work is being done by various agencies, validating and auditing the work done so far, which will enable a logical closure. We are also working closely with the customer for taking the validation and audit work to closure and expedite the payments which are overdue from this sector.

Moving to the next slide, where the financials from the SI business for Q3 are highlighted. Revenue for the quarter was at Rs. 28 crore and we had a PBIT loss of Rs. 14.7 crore.

- Moderator:** Thank you so much Sir. With this, we will open the floor for Q&A interactive session. So participants, if you wish to ask a question, you may please press 0 and then 1 on your telephone keypad and wait for your line to be unmuted. We have a question from Jinesh Shah, individual investor. Your line is unmuted.
- Jinesh Shah:** Thank you for taking my question. I have two questions. One question is on SI. How much of debt is left on SI?
- Kapil Kapur:** We have a debt of about Rs. 450 crore which we have to recover as on 31st December 2018.
- Jinesh Shah:** Approximately when can we expect to recover this sum of Rs. 450 crore? Two–three quarters?
- Kapil Kapur:** See this Rs. 450 crore is now largely linked to how quickly we get the acceptance from the customer and they start paying up. So we are working hard to close or complete the implementation phase of the projects. Quite a few of them have already been done and have moved into services. The balance we are pursuing and we expect that in a quarter or two we should be able to close the implementation part. After that, it's more of a procedural timeline for payment. So if you would see during the year so far in nine months we have collected about Rs. 250 crore. Hence, every quarter we are collecting but I think it is still three to four quarters for us to collect the balance and, of course, we have to ensure that the power projects reach a final closure with the customer.
- Jinesh Shah:** Okay, got it. I have a question on software services. What would be the order book size of your software services?
- Kapil Kapur:** Which software services are you referring to? We are not in software services.
- Jinesh Shah:** No, no Global Services ...

- Kapil Kapur:** Global Services – yes. That's infrastructure management services which we do in our Singapore geography. So they are not software. They are infrastructure management services and we get orders from various government agencies which get renewed every two or three years depending on the pricing and the service levels. So it has been almost seven years now that we have been doing this business. The order book in this business today is about S\$ 150 to S\$ 200 million but it's not representative of the revenue that this business can generate because as I mentioned, every now and then, some contracts come up for renewal and based on our performance & pricing, they get renewed.
- Jinesh Shah:** Pardon me, but I got the figure S\$ 150 to S\$ 200 million, right?
- Kapil Kapur:** It's in Singapore dollars.
- Jinesh Shah:** Thank you.
- Moderator:** Once again participants, if you have any question, you may please press 0 and then 1. There is no response. So at this time, there are no further questions in the queue. I would like to now hand over the floor back to Mr. Rangarajan. Over to you Sir.
- Rangarajan Raghavan:** Thank you for joining for this call and if you still have any question, you can always write to us. The e-mail details are given in the slide. Sumeet is the person responsible. Do write to him for any question and thank you; we'll meet again in the next quarter's call.
- Moderator:** Thank you so much speakers for addressing this session. Thank you participants for joining in. That does conclude our conference call for today. You may all disconnect now. Thank you and have a pleasant evening.