



**“HCL Infosystems’ Q4 FY18 Results Conference Call”
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Speakers:

Mr. Rangarajan Raghavan, Managing Director
Mr. Kapil Kapur, Chief Financial Officer
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 Infosystems Q4 FY18 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 outlooks 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 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:

Thank you, Harpreet. Good afternoon all. I would like to straight away move to slide three. The financial year 2018 has been slightly different for us. We have had to take certain strategic calls on specific businesses. We have taken a call to divest the businesses of our care services and



domestic enterprise services. We have already started work on this and are in the advanced stage of completing these transactions. We can now focus on the businesses that we are moving ahead with.

Let's move to the next slide. I am happy to announce that we have done well in Q4FY18 on revenue front. As compared to the Rs.705 crore that we did in the fourth quarter of the previous financial year, in current quarter the revenue from continuing businesses is Rs.1067 crore. That is a Y-o-Y growth of 51%.

In the distribution business, we have managed to increase the revenue from Rs.504 crore of Q4 FY17 to Rs.908 crore in Q4 FY18, achieving a Y-o-Y growth of 80%. Enterprise distribution has grown by 31% and consumer distribution business has grown by about 179%. In SI business, we are focusing more on the execution of the projects and collections. We have executed around Rs.55 crore in Q4 FY18.

In the learning business, we had to write off a goodwill amount of Rs.31.4 crore along with intangible assets worth Rs.10.8 crore, due to the termination of agreement with M/s Everest Edusys & Solutions Pvt Ltd. In terms of profit and loss before interest, tax and exceptional item, we had a loss of Rs.17.1 crore in Q4 FY18 as compared to the Rs.8.6 crore loss in the fourth quarter of the previous financial year. The Loss before tax and after exceptional items was Rs.80.1 crore in Q4 FY18 as compared to the Rs.59.2 crore loss of Q4 FY17. The Rs.31.4 crore that we wrote off as a goodwill amount of learning business was a part of this exceptional item.

The discontinued businesses, as I mentioned in the previous slide, include the domestic enterprise services and care services details. I would now ask Kapil to take over from me and deep-dive into the financial details.

Kapil Kapur:

Thank you, Ranga. Good afternoon to all of you. What you see in the following slide, is a snapshot of the financials of Q4. As you may observe, the revenue reported for the



quarter is 1067 crore. The provisions have been higher at about Rs.9.8 crore in Q4. However, the finance cost of Rs.31.6 crore was lower than that of the previous quarter. So, the overall loss before tax & exceptional items is Rs.48.7 crore. We will discuss each of these businesses and take a detailed look at their financials in the following slides.

Let's move on to the next slide which is slide number 6. What you see here is no doubt similar to what you saw in the previous slide. Nevertheless, this slide includes a breakup of consumer distribution and enterprise distribution and throws light on how each of these businesses have fared during Q4. We will be discussing the details of these businesses when we go through their respective slides.

We now move on to the next slide which is the 7th one, on consumer distribution. As we all are aware, we have successfully transitioned from a single-brand to a multi-brand model in the financial year 2018. The company has already signed up with a couple of brands and is in the process of talking to other brands. We have taken a couple of initiatives in the consumer distribution business last year, one of which is Direct to consumer. In this context we are co-ordinating with Nokia (www.nokia.com) for the fulfilment of phone distribution.

Talking about the online marketplace and financial inclusion, microfinance institutions have now started gaining some traction. We have aligned with Samsung to go ahead with this business. The revenue that was reported in Q4 was Rs.464 crore as compared to the Rs. 166 crore of last year. This clearly shows that this business has started picking up in spite of having reached the deep bottom. The multi-brand strategy and the other initiatives taken up in this business have had a major role to play. However, in Q4 we did notice a few supply mismatches as well as some demand issues around the newer models. Barring that, things are tracking fine on this business.



Now I will move on to the enterprise distribution business, which you can see on slide number 8. Enterprise distribution business continues its journey on the growth path. The revenues on a sequential basis grew 12% and are a 30% higher than that of the same quarter last year. This is quite a decent growth. Our focus here is on the emerging technology businesses, such as Cloud, Security, Hybrid Infra and Collaboration. We believe these businesses will help us grow and gain better margins, going forward. To engage with our partner community in a better way, we launched a premier partner programme, which has been quite a success.

Next slide, that is slide number 9, gives us a snapshot of the results of the entire distribution business. So, the revenue of both the distribution businesses put together was Rs.908 crore in Q4 as against the Rs.1055 crore of Q3. This drop in revenue, as I mentioned earlier, was largely because of the supply mismatches in the quarter and certain new models not finding the expected level of interest with the consumers.

Moving on to the global services business, we are happy to note that the Singapore based business continues to be a steady performer for HCLI. It witnessed 18% growth in revenue when compared to the same quarter last year. If we take the whole year of financial year 2018, we have seen a growth of about 16%, which is a steady growth in this business. So, it continues to be steady in terms of both revenue growth and profitability, as we see in the financials of global services on slide number 11. Achieving a steady growth of revenues, we have closed the year with revenue of Rs.423 crore with profit before interest and tax at Rs.23.6 crore.

Let us now move on to slide number 12 which covers our system integration and solutions business. As you are aware and as we have already been mentioning in our previous calls, our focus in SI projects is on completing the execution of Build phase in our projects and collecting the receivables from our customers subject to the acceptance of our project. During Q4 we executed orders of about 55 crore. And as of end of March, we have a pending order book of Rs.690 crore, out of which Rs.85 crore belongs to



the Build phase. So, as you would observe, there is a very small portion of Build phase left now. Besides, it's largely about managed services and support services and annuity. Managed services are at Rs.185 crore while support services & annuity are at around Rs.420 crore. As I mentioned earlier, one of our key focus areas in SI is collection, which we are tracking very closely. Our total collections in Q4 FY18 come up to about Rs.85 crore, making it Rs.360 crore for the year.

On slide 13 you can see the financials for System Integration and Solutions business. This business, as you are aware, is more of milestone and project mix base. Hence, the revenue and profitability in this business are normally volatile from quarter to quarter. In Q4 FY18 we had a revenue of Rs.182 crore and a loss of Rs.47 crore. As we come closer to the end of the projects, there are certain cost overruns and warranty costs that we need to take into account. Fortunately for us, most of the Build phase is over except for one or two orders that are taking longer.

The following slide throws light on the discontinued operations. As Ranga shared with you, we have taken a strategic decision to do away with Domestic services and Care services. In our financials, these businesses have been categorized as 'discontinued operations.' The transaction with care services has been completed whereas the one with Karvy for our domestic services business is very close to conclusion. We had already announced a binding MoU in February with Karvy. We will get back to you once we conclude the transaction with Karvy. The revenue and profits or losses from the discontinued operations have been separately disclosed in our financials for the year as well as for the quarter.

In the following slides, we have the FY18 P&L snapshot for continuing operations. So far we have been seeing the quarterly numbers. This gives us the annual numbers. So, as Ranga was mentioning to you, last year was a year of changes with certain strategic decisions around divestment and closure of certain businesses. Of course, these strategic decisions have led to certain write-offs, one-time



exceptional non-cash write-offs like goodwill, deferred tax asset and other intangible assets in our leaning business. One has to bear them in mind while reading the financials for the year. So, the revenue for the financial year 2018 is Rs.3611 crore from continuing operations as compared to the Rs.3225 crore of the financial year 2017. There is a loss of Rs.170.2 crore for the year as a whole, before taking into account, the interest, tax and exceptional items. We incurred a finance cost of Rs.135 crore during the year as compared to the Rs.150 crore of the previous year. We are working on generating more cash out of SI and other businesses and also on repaying the loan. Last year also saw money flowing in from the rights issue. There is an exceptional item of Rs.31.4 crore, which is related to the goodwill write-off of our learning business. So, after taking these exceptional items and finance cost into account, the PBT comes to a loss of Rs.201.6 crore.

With this, I conclude my part of the presentation. We would now like to open the house for any questions that you may have.

Moderator:

Thank you very much, sir. With this, we will open the floor for a 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.

The first question of the day is from Mr. Gautam Rao, an individual investor. Your line is unmuted.

Gautam Rao:

Thank you for the presentation. I have a couple of questions. The first one is regarding the consumer business. I think the overall margin seems to be very low. So, I wanted to know what direction we are going to take in the consumer business. Also now that we have divested two businesses, how is the company going to move forward. That’s one.

What are the kinds of receivables we are expecting from SI in the upcoming financial year? Also about the additional Rs.100 crore that we have raised from the rights issue –



what is it going to be used for? Could you please answer these for me?

Management:

We will start with your question on consumer distribution. I have with me Sutikshan, who is our head of business for Consumer Distribution. I will request him to give you a perspective as to how we are looking at this business and what are its prospects, going forward.

Sutikshan Naithani:

As we mentioned during the call, the last year has been a very critical year for us since we migrated from a single brand to a multi-brand distribution model. To a large extent, we have now moved into a multi-brand distribution model across the various quarters of the year.

As you know, in the business of distribution the margins are around a similar level. However, this quarter was a little abnormal with things like mismatch of inventories and slow demand for new models that got launched in this quarter. Way forward, as we have mentioned, we will be looking at a lot of new channels with focus on the market movement.

We have already started an initiative called the direct-to-consumer business which will definitely give us a possibility of better margin. Apart from that, there are a lot of other areas we are going to focus on.

The first task we have on hand is to get the multi-brand going on board. We will be launching some more initiatives in this quarter which should help us build our momentum and also the scale that is required to sustain these low margin businesses on a long-term basis. So, there will be a lot of channel play which will come as we move forward. Also, we will be looking at more and more interactions with our consumers.

With the market evolving through ecommerce initiatives, and also through other initiatives like direct-to-consumer, we are expecting to see a huge change in the consumer distribution business. So, that's on the consumer side.



Kapil Kapur:

Your next question was on SI. See, all these contracts are government contracts. And so it is a little difficult to precisely predict the month or the date of collection. However, our internal estimates suggest that we currently have a BR of about Rs.500 crore. There is also the Rs.100 crore of the Build phase as we saw. That's Rs.600 crore. That said, in the next 12 to 18 months, we should be able to close all the acceptances and collect more, if everything goes as per our timelines.

Actually we had raised the entire rights issue with the objective of repaying the loans. 20% of it, which is Rs.100 crore, was to go for general purpose. Hence, we raised a total of about Rs.500 crore. That's Rs.100 crore for general purpose and Rs.400 crore for the repayment of loans. We actually did repay about Rs.400 crore of loans around that time. However, after that, we had to raise a little more because of our consumer distribution requirement. That's why it's not reflecting as a net reduction in the loan.

Gautam Rao:

Okay. Coming back to the Rs.100 crore capital that you raised, to which business would it be allocated to?

Kapil Kapur:

No, we did not raise Rs.100 crore. We raised Rs.499 crore through rights issue last year out of which Rs.100 crore was for working capital requirement and Rs.400 crore was for repayment of loan.

Gautam Rao:

Okay. And most importantly, what would be our direction, going forward?

Kapil Kapur:

Now that we have divested two businesses over the last year, we are looking at focusing on certain select businesses. So, now if you look at the offerings, we have consumer distribution and the enterprise distribution. So, that pretty much covers the IT and telecom spectrum in the country in terms of products distribution. And then we have our services in Singapore which are growing steadily in a profitable way. We would like to focus on these businesses and see them grow before we think of going to any new area. In fact there is a lot to be done within these businesses. So far we have had our hands full; but now that



we have divested some of our businesses, we are focusing on three strong businesses that have a good potential to grow. In the coming year we want to see how best we can leverage our capabilities and relationships to grow these businesses and make them more and more profitable.

Gautam Rao: Sure. I have a couple of other questions. Maybe I will come back in the queue.

Moderator: Thanks for your questions, Mr. Rao. Once again, participants, to ask your question, you may please press "0" and then "1". We have a question from Maruti from HP. Your line is unmuted. Please go ahead.

Maruti: Thanks for the presentation, sir. I have one question. I could see in the presentation there is a business regarding the Cloud, Security and Hybrid. Do we have any further plan of public Cloud services like what Amazon is providing? Any plans of business expansion in that area?

Management: We have Bimal here who is the head of Enterprise Distribution. I would request him to explain you what we are offering and what are our plans around Cloud.

Bimal Das: Good afternoon. Just to take you through, in our GTM we work with AWS, Microsoft, as well as Alibaba for Cloud offerings in the market place. Our current focus is on infrastructure as a service. We will slowly get into SAS; but we are not going to have our own Cloud offering. However, we will provide the solution, although a lot of them are coming up from AWS, Google, Microsoft and Alibaba. So, that is what we are doing and that is what we will continue to do. We are not going to have our own Cloud services any time in the near future.

Maruti: Okay. Thanks for the answer.

Moderator: Sir, we have a question from Mr. Gautam Rao again. Your line is unmuted.

Gautam Rao: Thank you. Could you please update me on the debt on the books that we have?



Management: We have a net debt of about Rs.900 crore, net of cash liquid assets that we have. Otherwise, the gross debt is about Rs.1200 crore.

Gautam Rao: Okay. So according to the management, when would we reach a breakeven point? Do you expect something in the upcoming financial year?

Management: Gautam, I am afraid we are not permitted by our Board to give forward looking statements and guidance. So, I will not be able to give a straight answer to that. But yes, we are very actively working towards achieving breakeven. So, I guess you will have to see how it pans out as we go along.

Gautam Rao: Okay. Thank you. That helps.

Moderator: So, at this time, there are no further questions from the participants. So, I would like to now hand over the floor back to Mr. Rangarajan. Thank you, and over to you, sir.

Rangarajan Raghavan: Thank you all for joining me in this conference call. Thank you.

Moderator: Thank you so much, speakers, for addressing the session. Thank you, participants, for joining in. With that we conclude our conference call for today. You may all disconnect now. Thank you and have a pleasant day.