January 16, 2024

The General Manager
BSE Limited
Corporate Relationship Department
Phiroze Jeejeebhoy Towers
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Mumbai- 400 001

BSE Scrip Code: 532281

The Manager
National Stock Exchange of India Limited
Listing Department
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5th Floor, Plot No. C-1, Block-G
Bandra-Kurla Complex, Bandra(E)
Mumbai-400 051

NSE Scrip Code: HCLTECH

Sub: Transcript of the Conference Call held on January 12, 2024

Dear Sir/ Madam,

This is to inform you that in terms of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the transcript of the Conference Call held on January 12, 2024, post the announcement of the financial results of the Company for the quarter and nine months ended December 31, 2023, has been uploaded on our Company's website https://www.hcltech.com/call-transcripts

A copy of the transcript is also enclosed.

This is for your information and records.

Thanking you,

For **HCL Technologies Limited**

Manish Anand
Digitally signed by Manish Anand
Date: 2024.01.16 18:04:20 +05'30'

Manish Anand
Company Secretary

Encl.: a/a

“HCL Technologies Limited

Q3 FY24 Earnings Conference Call”

January 12, 2024

MANAGEMENT:	**MR. C. VIJAYAKUMAR – CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR – HCL TECHNOLOGIES LIMITED** **MR. PRATEEK AGGARWAL – CHIEF FINANCIAL OFFICER –HCL TECHNOLOGIES LIMITED** **MR. NITIN MOHTA – HEAD, INVESTOR RELATIONS - HCL TECHNOLOGIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the HCL Technologies Limited Q3 FY24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nitin Mohta, Head of Investor Relations. Thank you and over to you, sir.

Nitin Mohta: Thank you, Dorwin. Good morning and good evening, everyone. A very warm welcome to HCL Tech's Q3 FY24 Earnings Call. We have with us Mr. C. Vijayakumar, CEO and Managing Director, HCL Tech, Mr. Prateek Aggarwal, Chief Financial Officer, along with the broader leadership team to discuss the performance of the company during the quarter, followed by Q&A.

In the course of this call, certain statements will be made that are forward-looking, which involve a number of risks, uncertainties, assumptions and other factors that could cause actual results to differ materially from those in such forward-looking statements.

All forward-looking statements made herein are based on information presently available to the management and the company does not undertake to update any forward-looking statement that may be made in the course of this call. In this regard, please do review the safe harbor statement in the following investor release document and all the factors that can cause the difference. Over to you, CVK.

C. Vijayakumar: Thank you, Nitin. Good evening, everyone, and a very Happy New Year to all of you. Thank you for joining us for our Q3 FY24 Earnings Call. I'm very happy to share our results this quarter have been remarkably strong, driven by strong momentum in both services and software businesses, resulting in our revenue growing 6% sequentially and 4.3% year-on-year in constant currency. This has been our highest revenue growth since the same quarter in 2021.

Our services revenue grew 3.1% QoQ in constant currency, even in a seasonally weak quarter for the services business. Our software revenue grew 5% year-on-year in constant currency. This is attributed to an impressive improvement in our subscription and support revenue.

Our operating margins were strong at 19.8%, a 126 basis points improvement sequentially and a 16 basis points improvement year-on-year. This is after taking into account the impact of wage hikes and furloughs. I'm also happy to share that we've had the highest number of awards at the ISG Star of Excellence this quarter, again, a demonstration of significant leadership in IT services space.

Coming to our business segment, our software business delivered an outstanding performance by growing 5% year-on-year in constant currency. This is attributed to an impressive improvement in our support and subscription-related revenue, as we convert perpetual-to-term licenses and reduce our dependence on perpetual revenue. Our ARR continues to grow, and it is at $1.06 billion, a growth of 2.9% year-on-year in constant currency. The software business delivered a strong profitability, with the operating margins coming in at 32.9%.

In our software products, our data business and digital experience business continues to grow well with several multi-year deals signed last quarter. HCL's software product strategy continues to focus on creating and embedding AI, specifically Gen-AI. I sense a strategic initiative in the works to empower HCL's software clients by allowing them to leverage cloud of their choice, particularly for business applications like Commerce and UNICA, where we are seeing a lot of success.

Double-clicking on our services business, our ERS segment led the pack, growing 8.7% sequentially in constant currency. This growth includes our recent acquisition, ASAP, which was in line with our expectations. The ER&D business also delivered a healthy organic growth of 2.5% sequentially this quarter. Our IT and business services segment grew 4.3% on a year-on-year basis and 1.9% from a quarter-on-quarter basis in constant currency.

Going to verticals and geographies, 5 of our 7 verticals grew this quarter with telecom and media business delivering an outstanding 25.9% growth QoQ in constant currency, fuelled by the large deal ramp-up. This was followed by manufacturing at 7.6% QoQ in constant currency with ASAP contributing to a healthy portion of this growth.

Our financial services business declined 1.3% QoQ due to higher furloughs. It has registered a very impressive 12.9% year-on-year growth in constant currency. Retail CPG grew 2.9% on a QoQ basis, but delivered a strong 11.7% growth on a year-on-year basis, all in constant currency.

From a geographic perspective, Europe delivered 5% growth QoQ in constant currency, which included the ASAP acquisition. Europe also had a decent organic growth. America's growth 3.1% QoQ and 6.7% year-on-year in constant currency. Given the demand environment challenges, specifically in America, our growth has been very strong, as we continue to expand our reach with more G2000 and Fortune 500 companies.

Our rest-of-the-world business declined 5.3% QoQ in constant currency due to furloughs and ramp-downs. On an LTM basis, we added three $100 million clients and four $50 million clients on a year-on-year basis. Our bookings were a little lower this quarter compared to the last quarter. As you all know that we had a mega deal last quarter. The YTD bookings stood at $7.5 billion, which is a 10% growth over the same period of last year. For refreshing your memory, our bookings really are net new deals.

It does not include renewals, rate cards, and framework contracts. These are firm, signed, executable contracts, which is new business that we count as bookings. We did a good number of large deals, 18 large deals, 6 in services and 12 in software business.

Among the wins, I want to call out a few. A Fortune 50, CPG company expanded its digital transformation partnership with us, centred around modern operations, end-to-end full-stack hyper-automation and cloud-native services. As a part of this expanded five-year mega deal, HCLTech will expand its services to include Gen-AI-based modern ops solutions, powered by end-to-end hyper-automation-led platforms. This will be an addition to our industry-leading digital foundation services, which we currently provide to this client.

A Europe-based financial services provider expanded its partnership with HCLTech to launch its new service offering. HCLTech will provide digital payments, platform development services, customer service and operations, and financial crime prevention operation functions to help the client launch new services across several markets globally.

A Europe-based global retailer selected HCLTech to accelerate business transformation across its sales, finance, distribution, manufacturing, and planning domain. HCLTech will implement advanced digital technologies, leveraging SAP S/4HANA to modernize the client's legacy IT systems and business processes.

Actually, we had 30 wins in Gen-AI-related projects. I'm sharing a couple of them. We have a good report of this in our investor release. We've covered in a separate section all the Gen-AI, all the key Gen-AI wins. A US-based healthcare provider selected us to develop multiple Gen-AI-based solutions for several strategic use cases, including clinical library search, after visits notes, transcript summarization, etc.

The solutions will help the clinical staff optimize the time spent on these activities and significantly enhance clinician efficiency. A leading US-based financial services firm has engaged HCLTech to evaluate Gen-AI solutions, integrating it with the cloud platforms and technologies. These solutions are tailor-made for critical applications, featuring areas such as risk management, analytics, predictive modelling and anomaly detection.

A US-based chemical manufacturer partnered with us to enhance the sustainability efforts and develop a state-of-the-art solution for real-time ESG reporting and analytics using Gen-AI. HCLTech will deploy its Net Zero Intelligent Operations platform that aggregates complex enterprise and plant data and utilizes reinforcement learning and employs human feedback for ESG metrics validation.

On the software side of the business, a large Europe-based banking major has selected HCL Software's FinOps platform to enable end-to-end visibility across application and infrastructure monitoring. This will significantly enhance the availability and performance of business-critical applications, leading to faster time-to-market of new products as well as improved customer experience. A leading North American retailer selected HCL Commerce Cloud to fuel its digital growth and create a seamless omnichannel experience to delight customers. Here we are replacing one of the large SaaS providers with HCL Commerce Cloud.

A Middle East-based telco selected HCL UNICA and HCL BigFix to enable a robust web-based customer interaction platform. This deployment will help the client run real-time and event-driven campaigns to differentiate their marketing strategy.

Coming to pipeline, our pipeline continues to remain healthy. It's probably not the highest, but it's still a very, very strong, healthy pipeline, well distributed across large and medium-sized deals. It's still early days for Gen-AI, though we see a lot of POCs and pilot projects across the verticals and geographies.

On the people front, we are continuing to make good progress to become an employer of choice in professional services across key geographies. Our current employee count is 224,756, a 1.6% increase on a sequential basis. We are continuing to invest in growing the talent and training them with the right set of skills as we believe that tech spending would only grow in the medium term.

We are investing in entry-level fresher talent as we believe in the right pyramid and skills for the long-term success. Also, it's very notable that our attrition on an LTM basis stands at 12.8%, at QoQ decline of 1.4%, and it is the lowest since April, May, June of FY21. We recently launched our GDC in Romania, continuing our strategic priority to grow our near-shore capabilities.

As I look ahead into 2024, it continues to be an environment which presents a lot of opportunities as well as challenges. Clients are having few strategic priorities like modernizing data driven by the urge to leverage Gen-AI, modernizing SAP driven by time-bound programs, cloud engineering specially focused on FinOps, and evolving IT operating model apart from scaling Gen-AI for the future business models. While they do all this, enterprises will prioritize operational cost improvements as well as low-code capabilities that boost efficiency and improve customer experience.

While we see great potential in Generative AI, in the near term programs in this segment will be small, but we are expecting them to ramp up over the coming quarters, especially around creating the foundations to leverage Gen-AI at scale, which includes cloud migration, setting up private Gen-AI stacks, data modernization, security and privacy. All of these are significant amount of surround work which comes together to scale Gen-AI within an enterprise.

While we still don't see an uptick in the overall discretionary spend, there is still a portion of tech spend that should remain resilient, like cloud migration, SAP, data modernization, cyber security, automation, and advanced analytics. We believe once Gen-AI peaks speed, clients' eagerness to adopt Gen-AI should create a lot more opportunities as I explained earlier. While this environment looks dynamic, what gives me comfort is the strong support we get from our clients, employees, and analysts.

For example, recently an analyst from TBR visited our cloud-native and Gen-AI labs in London and made this comment. “HCLTech considers the art of possible to be what clients can deploy at scale in the near term. HCLTech's cloud-native and Gen-AI labs, the possible is grounded completely in what can be done, not what is theoretically possible.”

Given these kinds of accolades and ISG Star of Excellence awards, I strongly believe our propositions and our people would continue to provide us that extra advantage to grow strong in the medium term. Coming to Q4, we expect good growth in our services business, and we will see the seasonality impact in our software business. With respect to FY24 guidance, total revenue growth is expected to be in the range of 5% to 5.5%. We expect services business towards the higher end of this growth state. Operating margins are expected to be between 18% and 19%.

Looking ahead, we remain quite positive about our medium-term growth, enabled by our business mix, our people, and a laser-sharp focus on delivering innovation and hyper-automation to our clients. In summary, it's been a remarkable quarter with great all-around performance, great growth across services and products business, margins in our desired range, strong growth in key geographies like America's, good deal wins, healthy pipeline, lowest attrition in the last several quarters.

Credit goes to the entire team at HCLTech, and I would like to thank them all. Before I hand over to Prateek, I would again wish you all a great year ahead, and over to Prateek for greater details on the numbers.

Prateek Aggarwal: Thank you, CVK. And a very happy and prosperous new year to all of you. And as we go into the festive season, the harvest season, Happy Lodi, Happy Pongal, Makar Shankranti, Onam, Bihu, Vaisakhi, and so many festivals coming up in the next two days.

Coming to the numbers, well, there's only one way to put this across very simply. We have delivered a sixer of a quarter, with 6% constant currency growth quarter on quarter. 6% is also the net income growth in rupee terms.

It is 6% in many other respects. So, the revenue at the end of the quarters, stands at $3415 Mn - $3.4 billion, which is up 4.3% in CC terms year-on-year. And the ASAP acquisition contributed about 100 basis points of that in the QoQ growth.

And the main driver of that was HCLSoftware, which was up 5% year on year in constant currency terms, which is a healthy growth rate compared to what we have seen in the past few quarters and years. The second item which was driving the revenue growth of 6% was really the US telecom vertical. The telecom vertical overall came in at 25.9% sequential growth. The third one was ER&D, which also grew 8.7%, including the ASAP acquisition, but even on an organic basis, it grew 2.5% sequentially, which is on top of the organic growth of 1.6% it delivered last quarter.

So, two straight consecutive quarters ER&D has started to show good organic growth, as well as after integrating the ASAP acquisition. In software, I would also like to point out the last 12 months software revenue growth is now up 4.2% year on year in constant currency terms. You can contrast that to the last fiscal where we grew at 1.8%, leaving out the impact of the divested IP partnership with DXE. The ARR (annual recurring revenue) stands now at 1.06 billion, which is up 2.9% year on year in constant currency.

Coming to the services side, the service revenue crossed a significant milestone on a run rate basis of $12 billion, which also works out as INR1 lakh crores on a run rate basis, so INR 25,000 crores and $3 billion for the quarter.

So service revenue came in at 3,011, $3.01 billion, up 3.1%, which was 2% organic and 1.1% delivered by the ASAP acquisition. On a year-on-year basis, it came in at 4.2%, which is 2.5% organic and 1.7% contributed by the acquisition. ASAP acquisition had an impact of 110 bps, therefore, in the QoQ growth.

With that, just breaking it down to ITBS stood at 2,450, up 1.9% QoQ and 4.3% year-on-year. ERS, I've already talked about. So moving on to the profitability metrics. EBIT came in at 19.8%, which was an overall improvement of 126 basis points sequentially and 16 basis points on a year-on-year basis as well.

Services margin reduced sequentially by about 48 bps. But on a year-on-year basis, it did increase 15 bps. And the net income for the quarter came in at $522.7 million at 15.3% of the revenue and was up in dollar terms at 5.2% year-on-year. I would also like you to note that this is the highest ever EBIT and net income in a quarter in rupee terms, EBIT was at INR5,615 crores and profit after tax (net income) was at INR4,350 crores.

To give you some color of how the margin movement happened quarter-on-quarter. As I said, the overall margin grew by 126 basis points sequentially, driven by the extra outperformance in software, which contributed 180 basis points at a company level and services margin was thus down about 50 basis points, which is entirely due to the increment impact of about 65 basis points and exchange benefit of about 15 basis points.

Return on invested capital is a key metric that we have been driving internally as well as communicating externally. Our ROIC continued to improve in this quarter as well. Continued focus on profitability and managing our capital efficiently has been delivering this sequential and year-on-year growth.

Our LTM ROIC at the end of this quarter stands at 32.8% at a company level, which is up 3 percentage points year-on-year, and services is now at 40%, 40.1%, which is up 273 basis points year-on-year and software at 16.6% also continues to improve on ROIC as well.

The guidance is at 5% to 5.5% that is both at an HCLTech level as the services guidance as well. There have been questions about the ask rate, so let me put it out there very clearly. At a company level, the ask rate (just 1 quarter left) is a range of 0.3% to 2.1%. At the services level, 1.6% to 3.5%. Our EBIT guidance continues to be 18% to 19%.

Moving on to cash generation. Cash conversion continues to be very robust. Last 12 months, operating cash flow was $2,697 billion ($2.7 billion) and free cash flow $2.566 billion. So OCF was 142% of the net income and free cash flow at 135% of the net income.

Balance sheet continues to become stronger and stronger. Gross cash is now at $2.9 billion and net cash at $2.6 billion. There is a seasonality in the software business, which kind of leads to our seasonality in the DSO as well. The DSO including unbilled came in at 86 days for the quarter, which is an improvement of 4 days year-on-year. And given the seasonality, that is the right way to right comparison point.

Last 12 months, diluted EPS now stands at 57.87, now 58, up 8.5% on a year-on-year basis. And the Board has declared a dividend at INR12 per share for the quarter. You may remember in the last quarter, we had increased the run rate from INR10 per share per quarter to INR12, and that has been maintained for this quarter as well.

The record date for that is 20th of Jan and the payment date shall be 31st Jan. The last 12 months payout ratio with this INR12 comes in at 90%, a little higher than the 88% that we have been doing in FY '22 as well as FY '23.

With that, I'll turn it over to the moderator for questions. Thank you all very much.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Ravi Menon from Macquarie. Please go ahead.

Ravi Menon: Thank you. Good evening and congratulations on a really good quarter. It looks like your top 5, top 6 to 10, top 11 to 20 clients all grew sequentially. So it seems that you are not affected at least in the top client segments by seasonality or furloughs. Is there any impact of the ASAP integration here?

C. Vijayakumar: There is no impact of the ASAP integration in the top 20 clients.

Ravi Menon: Why is this unusually strong? Are you still expanding wallet share? Are there any new propositions that are gaining traction in this?

C. Vijayakumar: Yes. Basically, we had a very, very strong booking last quarter. Outside the mega deal also it was a strong booking. And some of them were vendor consolidation opportunities in existing clients.

If you recall, we had called out a large deal in financial services in the U.S. where we are significantly expanding due to vendor consolidation. We have been selected as the primary champion vendor, so that's definitely driving growth.

And we are also seeing growth in some of the large tech clients who also contribute to the top 20. While in smaller clients, there are some challenges. In some of the big tech, we see some increase. There have been some clients where decline also happened. But I think overall, our top category is growing slightly better than the company services growth rate.

Ravi Menon: Great, thank you. And the Software R&D spend, that seems to be pretty much the same. It's been maintained even as your revenue is growing. So should we think about this as a medium-term margin lever overall for the firm?

C. Vijayakumar: ER&D continues to grow. We had a growth previous quarter. We have growth this quarter and we expect to have decent growth in the coming quarter as well. So I think the three data points generally give us some comfort that we're seeing a growth momentum in ER&D.

Ravi Menon: Sorry, I meant the software product business. The R&D expenditure that you expense out, that is pretty much the same while your revenue is expanding?

C. Vijayakumar: The real point is while the R&D spend is the same, we have expanded the R&D capacity. So it's also about leveraging the right locations. We continue to expand the R&D capacity, which has also helped us create more bandwidth to invest in product modernization.

C. Vijayakumar: Right now, almost all the products, especially Unica and Commerce, are getting embedded with Gen-AI. And a lot of this work is getting done out of our facilities in India at this point.

Ravi Menon: Great, thank you so much. Best of luck.

C. Vijayakumar: Thank you.

Moderator: Thank you. We have the next question from the line of Vibhor Singhal from Nuvama Equities. Please go ahead.

Vibhor Singhal: Hi. Thanks for taking my question. And congrats on a great performance. I had a couple of questions. In terms of the ask rate Prateek that you mentioned, I mean, it appears to be steep on the services side. So, if I were to just take it back to the strong deal wins that we've had, is it a combination of these deals getting into a situation that makes us confident that we'll be able to do this in the fourth quarter? Or is there any pickup on the ground level activity that you are basically seeing, which could help us achieve that number?

C. Vijayakumar: I think it's basically four factors contributing to the expected growth in Q4. Of course, the large deal will have one additional month of impact. That's one contributor. The second is there is going to be reversal of furloughs. We said we had very high furloughs in December quarter. So a lot of that will get reversed, even though there will be a little bit of furloughs in January as well, especially in Asia Pac.

The third element is growth momentum in ER&D business. The fourth is the rest of the portfolio. These are the four components which will contribute to the growth in Q4. Ask rate, of course, as Prateek said it was, services is 1.6% to 3.5%. And as we indicated, we expect the services growth for the full year to be at the higher end. So we should expect something in that neighbourhood from a Q4 perspective.

Vibhor Singhal: Got it, got it. Thanks a lot CVK that was a very detailed answer to that. So taking on that momentum, how do you see the overall demand environment and the macro playing out? I think if you're going to end up, let's say, in that guided range of the services business, and as you said, maybe towards the higher end.

Does it translate into anything for FY'25? Again, not asking for guidance, but the overall environment per se that you're looking at - is it any different or incrementally more positive from where we were three months ago in terms of, clients' discussions, clients willing to start the deals, decision-making, any changes whatsoever, or is it pretty much the same as we were when we spoke last quarter?

C. Vijayakumar: So, okay, I'll divide this into two parts. From an IT services, the discretionary spend, I don't see any change. The situation is similar. It's a soft kind of discretionary spend in IT services. Engineering services, we are seeing green shoots of growth. As we said, we grew two quarters, and we are looking to grow third quarter. So I think a slight divergence between the two areas.

From FY'25 perspective, I'm not going to make any comments on that. All that I can say is, we feel confident to exit with a strong exit momentum this year. We've had a reasonable booking,

[$1.927 billion] this quarter. We have a good pipeline. We expect to do a strong booking in Q4 as well. So these are the data points that I can comfortably share. Nothing more about FY'25.

Vibhor Singhal: Got it. Okay, that's good enough for us. Thanks a lot, CVK. I wish you all the best.

C. Vijayakumar: Thank you.

Moderator: Thank you. The next question is from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah: Thanks for the opportunity. Most of my questions have been answered. Just one question in terms of margins. Prateek, I think in one of the conversations earlier, you have shown that the medium-term aspiration is being 19% to 20%. Can you throw more light in terms of timelines and how we can reach to that kind of an aspiration and which segment of margin will pull that trigger?

Prateek Aggarwal: Thanks for reminding me, Sandeep. Yes, that absolutely remains our aspiration and hopefully sooner than later, but medium-term is what we have been saying and I will continue to say that. The environment is not the most conducive to increasing margins at this point in time. Obviously, when we have a blowout quarter like what software delivered this quarter, it helps because most of that revenue percolates down to the profit line as is the nature of that business. But we continue to go through the tunnel. There is probably some light at the end of the tunnel, but it's a long tunnel.

Sandeep Shah: Okay. And the second question in terms of ARR scale in the products and platform business is going up. Is it fair to say the growth pickup could be better entering into FY'25 versus earlier years or still it's some time away and we can continue to grow at a low single digit on a YoY basis?

C. Vijayakumar: So, Sandeep, we will reserve our commentary on the future prospects of the software business. We are very happy that our strategy is playing out exactly as we planned. Our objective was to convert perpetual licenses to subscription and support model, which makes the need for the product much stronger and the clients much stickier. And that strategy is working out very well.

Obviously, the strategy can also have some dynamics from a revenue perspective, but it is absolutely the right strategy from the long-term perspective. So it's a little early days to call out a strong trend in the software, but our strategy is working. Both price realization and the whole renewal subscription model are working well.

A couple of products, Unica and Commerce, we've kind of implemented an ascent program where customers can deploy these products in a cloud of any choice, which pretty much gives them SaaS functionality with Gen-AI capabilities. So we're seeing strong traction for some of these products, and these were all the work that we did in the past, which is definitely showing some optimism here.

Sandeep Shah: Okay. And last question, bookkeeping. Prateek, what could be the wage hike charges in the fourth quarter impact on the margin?

Prateek Aggarwal: I don't remember the number, but it's about 20 basis points - 25 basis points.

Sandeep Shah: Okay. Thanks and congratulations on a good execution again. Thanks. All the best.

Moderator: Thank you. The next question is from the line of Manik Taneja from Axis Capital. Please go ahead.

Manik Taneja: Thank you for the opportunity and once again, congratulations for the great performance. First of all, the bookkeeping question, if you could help us understand what was the headcount due to the Verizon deal for the people takeover transaction over there?

And the second bit, just wanted to understand your hiring strategy. Some of your peers have continued to cut headcount over the course of last 12 months, while even we have done some corrections, but we are faring much better. If you could help us understand what's different between them and us in terms of the delivery model on that front?

Prateek Aggarwal: Yes, thanks Manik. First of all, we would not like to talk about client specific data points. So I'll kind of pass that one. I'll just draw your attention that the number of freshers that we hired is a little ahead of that 3,617 that you see. It was around 3,818 or thereabouts. So that gives you some color, but obviously we don't want to talk about client specific data.

In terms of hiring, we did have two quarters of 2,500 - 2,300 kind of decline. But like we had mentioned in the last quarter con call as well, we do expect, and we did have hiring in this quarter. That is in line with the growth that we are experiencing.

We are transparently giving out the ask rate for the next quarter as well. Headcount at best is a leading indicator and we are guided towards it. I'll leave it there. On a year-on-year basis also, we are positive headcount 224,756 compared to 222,270.

Manik Taneja: Sure. Thank you and all the best for the future.

Prateek Aggarwal: Thank you.

Moderator: Thank you. We have the next question from the line of Girish Pai from Nirmal Bang Equities Private Limited. Please go ahead.

Girish Pai: Thanks for the opportunity. I had one question on Gen-AI and a couple of questions on ER&D. CVK, you mentioned about surround services with respect to Gen-AI. So for $1 spent on Gen-AI, how much would be the downstream work on surround services like data modernization?

C. Vijayakumar: So it's a very big number, Girish. I don't know exactly, but to streamline the data estate, and to create, I think there are also clients who are looking at private Open AI stack, right? Based on NVIDIA's Tesla processor. If they go for that approach, then it's a big investment. Security and others are also there. I think it's like in 25x or something in that range if I want to estimate a very high-level guess.

The surround services are where the real opportunity is. Of course, we have to lead with the right propositions from a Gen-AI perspective. I would really encourage all of you to read the TBR report.

The way we are driving this is we have our first Gen-AI lab in London where we bring customers, we bring the business stakeholders from our client organization. They come in the morning, they can go back in the evening with five or six practical use cases. That creates a lot of excitement in the business on what is possible.

That's how the programs are starting. And we've also launched a new proposition called Co-Force, which is bringing all the support and software development lifecycle optimization. I think that's also seeing traction.

These are the two broad areas where we see this growing. The most important thing is you need to bring the Gen-AI capabilities at the tip of the iceberg, and then you can probably get a lot of surround work. What was your question on ER&D?

Girish Pai: I had two questions. One, what is your right to win in the auto ER&D side? You've done the ASAP acquisition, but why should a customer come to you compared to going to a pure play auto ER&D player like a KPIT or a Tata Tech?

And the second question on ER&D is, HCL Tech probably started off its life as a ER&D player 40 - 45 years back. But that's still just a $2.2 billion business, even after doing multiple acquisitions. So it's not come to the size of, say, the business IT services business. So what is ailing the ER&D business to why it has not grown the level of the Business IT Services side? Just those two questions.

C. Vijayakumar: Yes, I have Vijay Guntur, President of ER&D. I would request him to response.

Vijay Guntur: Thank you, Girish. So your first question is on auto segment. Our acquisition strategy of ASAP is twofold. One is to get into the e-mobility space, which is a space that most automotive and even off-highway equipment companies are investing into. So that's our first rationale, to fill that gap and get access into this market.

Second is, most of this business today we have is based out of Germany in ASAP, and the similar capabilities are required by our customers in US, Japan, and other markets. So to expand into other markets, the services that ASAP has. And of course, to our existing customers, cross-sell our other services into the business, which is going to take us some time beyond engineering services as well.

So that's your first question on automotive and ASAP rationality. The reason we are a full service provider beyond certain specific automotive capabilities is to help transform into the case services that customers require, which is around connected, autonomous, and shared capabilities. The e-mobility space is already there. So that is what is our full service capability that we are building on and that is what is attractive to customers in this space.

Your second question. I think we entered this market when it was a very nascent market, and we see significant potential in this space. ER&D spend is expected to grow in the digital space at about 10%, whereas the traditional is expected to grow at about 2% year-on-year.

Those are the numbers for growth in this market space. Overall, we see that is an attractive opportunity for us to grow. This market is maturing, so we are there early in this space and very diversified. So we will grow certainly in this space.

C. Vijayakumar: Just one more dynamic from a sourcing perspective. ER&D sourcing is not a structured sourcing as in IT services. In IT services, you have a lot of advising firms trying to help clients with a structured sourcing process.

In ER&D, it is still nascent. That also kind of mandates that it is more of a land-and-expand strategy rather than a large-scale strategy. So I think that also possibly contributed to slightly lower growth in some periods of time.

Vijay Guntur: Just to add, our long-term growth in ER&D has been at about 10.5%.

Moderator: Thank you. Ladies and gentlemen, that was our last question. I would now like to hand the conference over to Mr. C. Vijayakumar for closing comments. Over to you, sir.

C. Vijayakumar: Thank you. In summary, we had a remarkable quarter. Great growth - 6% sequential growth. Our operating margin performance has been stellar. Our attrition has been the lowest. We've grown well in North America organically, which is the biggest market.

We continue to add headcount to fuel the growth in the coming quarters. So we remain optimistic. Even though there is an uncertain demand environment, I think our balanced mix of services, our talent, and our strong industry positioning has reflected in a lot of analyst ranking, including our leading position that we are being positioned in Gen-AI.

I do feel confident we will capture some reasonable spend, and we'll continue to maintain our growth momentum. Thank you, everyone, and wishing you a good holiday season and Happy New Year again. Thank you.

Moderator: Thank you. On behalf of HCL Technologies Limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.