

HCL Technologies

Operator: Welcome to HCL Technologies Ltd.'s Q2 FY27 earnings conference call. As a reminder, all participant lines will be in listen-only mode, and 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 – Head Investor Relations: Thank you, Darwin. Good morning and good evening, everyone. A very warm welcome to HCL Technologies Ltd.'s Q2 FY27 earnings conference call. We have with us Mr. C Vijayakumar, CEO and Managing Director of HCL Technologies Ltd., Mr. Shiv Walia, Chief Financial Officer, along with the broader leadership team to discuss the performance of the company during the quarter, followed by a question-and-answer session.

During this call, certain statements that will be made are forward-looking and 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 upon information presently available to management, and the company does not undertake to update any forward-looking statement that may be made during this call. In this regard, please review the safe harbor statements in the formal investor release documents and all the factors that can cause a difference. Over to you, CVK.

C Vijayakumar – CEO & Managing Director: Thank you, Nitin. Good day, everyone. Thank you for joining us for HCL Technologies Ltd.'s Q2 FY27 earnings call. We delivered a solid quarter, and I would like to begin with the key headlines of the quarter.

First, our advanced AI services continue to scale rapidly and are becoming a key growth driver for HCL Technologies Ltd. Number two, new bookings were the second highest in our history and the strongest first half of any financial year. Number three, margins expanded significantly through disciplined execution and higher-margin advanced AI revenue.

Before I go through the numbers, please note that all growth rates that I mention are in constant currency, except for bookings and ARR. Our services business, which is more than 90% of our business, delivered a strong performance. Services grew 3% sequentially and 4% year-on-year, with organic growth of 2.3% sequentially. IT and business services grew 2.7% sequentially and 4.4% year-on-year, while engineering and R&D services grew 4.1% sequentially and 2.1% year-on-year.

Growth was broad-based across verticals and geographies, reflecting how closely our portfolio is aligned with what clients are prioritizing today, be it AI, cloud, data, cybersecurity, or application modernization. Advanced AI revenue reached \$219 million this quarter, up 28.4% sequentially and 78% year-on-year, and annualized advanced AI revenue is now \$876 million.

This quarter's performance validates our strategy and advances our ambition to become the leading AI solutions company for global enterprises. You can also see that we are able to offset AI-driven deflation by gaining market share in our core services and through our advanced AI offerings, which is helping us capture a share of the rapidly expanding AI spend across the technology ecosystem. This is the growth template we aim to consistently replicate going forward.

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Overall revenue grew 2.3% sequentially and 2.6% year-on-year. Software revenue declined 5.8% sequentially and 11.2% year-on-year, and this weighed on our overall growth. HCLSoftware's ARR stood at \$1.134 billion, up 7.6% year-on-year, which is the best measure of the health of this business, and it is growing. A little later, Shiv will share more details on the factors driving the software performance this quarter.

Our EBIT margin was 18.2%, an improvement of 131 basis points sequentially and 71 basis points year-on-year, and it came ahead of our expectations. This expansion was driven by higher margins in advanced AI and gains from AI across our operations. We achieved this while continuing to invest in AI capabilities, IP, and talent.

Let me now turn to bookings. New deal bookings reached \$3.3 billion, up 27% year-on-year and 35% sequentially. This is the second-highest bookings quarter we have ever recorded and gives us our strongest first-half booking performance. Clients are working with us on more strategic programs and are choosing us to shape their technology agenda. AI was a central theme in every large deal we won. I will discuss them when I go through the pillars of our AI strategy.

Our people count stood at 230,339 as of the end of last quarter, a net increase of 6,450 sequentially. Attrition was 12.8% on an LTM basis. Revenue per employee improved 2.4% year-on-year, a clear sign that our AI strategy is improving productivity across the business.

I would also like to touch upon another topic. Over the last many years, we have ramped up our in-country recruiting efforts to build a significant local talent base. This is part of our talent strategy, and we will continue with this. In the last couple of years, the number of PERM applications we have filed has been very small; hence, we do not expect the US Department of Labor's decision to suspend the PERM program to have any material impact on our talent plans or client engagements.

Turning to our AI strategy, we continue to execute against the five pillars of our AI strategy, and this quarter we saw them contribute as one integrated growth model.

Pillar one is proactively transforming our services, where we are systematically embedding AI across our delivery model. As AI adoption expands from targeted deployments to enterprise-wide transformation across engineering, operations, and modernization, we are seeing three clear benefits.

First, AI is improving productivity, quality, and client outcomes. For example, for a leading private bank's complex core banking migration, we built an agentic AI solution that converts functional specifications into validated, review-ready code for the target platform in about 10 minutes per routine, with engineers approving every output with average 87% accuracy for an estimated 9x productivity gain.

Second, it is deepening client relationships and driving larger engagements. Guardian Life Insurance selected us to accelerate its AI-driven technology transformation and deliver a seamless customer experience. In this multi-year partnership, Guardian will use HCL Technologies Ltd.'s AI Force, our service transformation platform, to drive innovation across the enterprise.

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The third benefit we are seeing is that AI-led transformation is now a key enabler of almost all our large wins. For example, a leading global industry technology company selected us to modernize its mobile application ecosystem. Using AI Force and through a smart migration factory, we will deliver AI-led assessment, disposition, conversion, upgrade, and testing. This platform-as-a-service, outcome-based model is expected to enable rapid and largely touchless modernization and support the transformation of more than 7,500 applications.

Pillar two is building differentiated AI IP. As AI becomes universal, we believe differentiation will come not from models and compute, but from platforms, agents, and engineering IP that lets enterprises deploy AI securely, responsibly, and at scale.

We have matured AI Force into a platform supporting software engineering, legacy and product modernization, data engineering, COTS migration, business operations, and IT operations. We released a new version this quarter, and AI Force Agent Store now offers more than 900 agents, enabling reuse of proven capabilities and greater autonomy across enterprise workflows.

Legacy and product modernization is emerging as an important growth factor. By combining AI Force with our engineering expertise, we apply AI across code analysis, documentation, remediation, testing, migration, and support, lowering the cost, risk, and time these programs have traditionally required. This opens a substantial pool of client spending, with adjacent opportunities in cloud, data, and operations.

Our IP is also gaining recognition. HCL DevOps Loop from HCLSoftware, powered by AI Force, was named a visionary in the 2026 Gartner Magic Quadrant for DevOps platforms. We built more than 20 industry AI solutions, moving us from horizontal capabilities to industry-specific processes and outcomes. In physical AI, VisionWorks 3.0 introduced a fully agentic architecture with new releases for the oil and gas and mobility industries.

Finally, in our software business, we announced our intent to acquire roboticIQ.ai, a Croatia-based enterprise RPA platform provider, to strengthen orchestration across AI agents and enterprise applications in HCLSoftware.

Pillar three is expanding our AI services. This is an important growth engine and a strong area of momentum. The opportunity spans the full enterprise AI lifecycle: defining strategy and governance, building compute foundations, leveraging our software IP, and deploying and operating agentic AI, physical AI, and industry solutions.

Our agentic AI offerings have crossed \$100 million per quarter this quarter. Clients increasingly want a partner that can integrate infrastructure, data, models, applications, and operations. Our AI factory proposition answers that need and enables HCL Technologies Ltd. to participate across the AI value chain, from compute infrastructure through the applications and business outcomes.

Working closely with NVIDIA's AI factory specialists, our AI factory specialists were among the first to build, validate, and benchmark complete rack-scale GB200 NVL72 systems end-to-end. Our AI factory proposition grew 64% quarter-on-quarter and is a meaningful growth driver.

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An AI research company based in the US selected HCL Technologies Ltd. as its strategic partner for a large AI factory program. The company is focused on radically improving AI data efficiency and making AI models mirror human cognition. HCL Technologies Ltd. will leverage its expertise in networking, cybersecurity, HPC infrastructure, and AI platform software to integrate and operationalize a production-ready AI factory. This win reflects an emerging category in which clients want a single partner to integrate, operationalize, and ultimately manage highly complex AI environments.

A US-based neocloud provider selected HCL Technologies Ltd. to build and scale its AI-native architecture and infrastructure capabilities that enable hyperscalers and enterprises to unlock the full potential of AI at scale.

A Europe-based financial services provider selected HCL Technologies Ltd. to deploy an agentic solution to provide commercial relationship managers with real-time portfolio insights and proactive covenant monitoring, increasing capacity, reducing manual effort, strengthening risk management, and unlocking new cross-sell opportunities to support up to 2 times revenue growth.

A US-based healthcare provider selected HCL Technologies Ltd. to deploy ChatGPT Enterprise and establish a governed AI operating model that enables the secure integration of AI capabilities across enterprise applications, delivering context-aware experiences that enhance employee productivity while maintaining enterprise-grade security, risk management, and compliance.

A US-based global power technology company selected HCL Technologies Ltd. to build an AI-powered digital thread that combines agentic AI and intelligent orchestration to connect engineering, manufacturing, supply chain, and service operations, enabling faster decision-making, accelerated time-to-market, and enterprise-wide AI transformation.

C Vijayakumar – CEO & Managing Director: There are several other deals in the investor release. Physical AI continues to deliver encouraging revenue growth across robotics, IoT, and edge AI, building on our engineering and operational technology heritage. We are also continuing to find strong traction with the semiconductor propositions. A global semiconductor leader selected us to run a turnkey silicon development program from design through delivery for high-performance computing workloads aimed at the AI market.

AI advisory is gaining traction. This enables us to help our clients at the start of their AI journey and then extend into helping them transform their operating model and change management for an AI-native world. For example, this is playing a key role in the large deal that we won with a global retailer, which is currently under execution.

In sovereign AI, demand is shaped by data residency, regulation, security, and national capability. In India, we announced our plans for our first AI data center in Bhubaneswar in partnership with Sarvam and the Government of Odisha. It marks a significant step in building the infrastructure layer of our full-stack AI strategy.

Our fifth pillar is scaling strategic partnerships, combining leading technology innovation with our engineering depth, industry expertise, IP, and global delivery. This quarter, we achieved OpenAI advanced partner status and joined its cyber defense initiative. We jointly developed AI factory

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deployment and validation capabilities with NVIDIA, announced a family of Gemini enterprise offerings and a joint transformation program with Google Cloud, and are scaling enterprise AI with ServiceNow. We also signed a partnership with Cohere focused on Canada and Germany.

Today, we announced a global premier partnership with Anthropic to accelerate enterprise adoption of agentic AI, with a focus on safety, cybersecurity, and governance. We will establish a dedicated Anthropic business unit and a center of excellence to accelerate deployments of Claude in enterprise environments. HCLSoftware will become an Anthropic ISV partner, embedding Claude and Claude Code into select enterprise products with frontier safety guardrails. We are utilizing all our ecosystem relationships to develop engineering capabilities and new offerings that create new sources of growth.

The fifth pillar of our strategy is developing talent at scale, specifically AI talent at scale. This pillar enables the other four. We believe leadership in AI will depend on combining AI skills with deep engineering, solutioning, and industry expertise.

We continue to enable our employees to become AI builders, AI superusers, and AI operators. We are scaling a differentiated forward-deployed engineer capability that combines deep AI engineering with customer discovery, solution architecture, and rapid prototyping, taking opportunities from use cases to production.

We are developing a centralized FDE Academy with tracks aligned to OpenAI, Anthropic, AWS, Google, and NVIDIA. We are also investing in the next wave through an applied research program with MIT focused on safety and agentic systems, and working with Microsoft to build a frontier transformation engineer program that further strengthens specialized talent aligned to strategic ecosystem platforms.

Our focus now is to leverage these five pillars to create long-term growth through deeper adoption in existing accounts, new relationships through advanced AI, and participation in large transformation programs.

Beyond these five pillars, we made several other moves this quarter that will support our future growth. We launched HCLTech Pulse, a dedicated business unit for fast-growing enterprises with annual revenue of \$500 million to \$5 billion, a segment we believe is underserved. It brings together our AI competencies to help these clients modernize and unlock value faster.

We completed the acquisition of HPE's Telco Solutions group, adding differentiated IP across OSS and 5G subscriber data management.

We also expanded our India footprint. Alongside our AI data center in Bhubaneswar, we announced a global technology center there to deliver AI solutions for global enterprises. We opened a new global technology center in GIFT City, Gujarat, focused on financial services clients, and we launched our advanced semiconductor lab in Bengaluru with an investment of 185 crores, providing post-silicon engineering, testing, validation, and failure analysis aligned with our spec-to-part business. Each of these will contribute to our future growth.

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Now, coming to the pipeline, demand environment, and outlook, our pipeline remains strong and is quite balanced across service lines, verticals, and geographies. We saw healthy demand toward the end of the quarter. However, we know the environment has been fluid and very dynamic, and demand is influenced by various factors, so we remain cautious.

As we see today, clients are prioritizing AI, data, and operating model transformation whenever there is a clear case for efficiency, innovation, and business resilience. We have strong propositions to address these needs.

As we look ahead, we are optimistic, driven by record first-half bookings, strong demand for our advanced AI propositions, improved margin performance, and our full-stack AI offerings that are being built incrementally. We will continue to invest the gains from our operational efficiency to expand our AI advantage by investing in capabilities, IP, and AI talent.

Our FY27 growth guidance is now 2.5% to 4%, and our EBIT margin guidance remains at 17.5% to 18.5%. Services revenue growth guidance is 3% to 4%. Our revenue guidance includes the impact of our acquisitions, and Shiv will provide you with more details. Our confidence in this guidance rests on our strength of bookings, our healthy pipeline, and sustained momentum in AI-led services.

With that, I would now request Shiv to take us through the detailed numbers.

Shiv Walia: Thank you, CVK. Good morning, good afternoon, and good evening to all of you. Thank you for joining our Q2 FY27 earnings call. Let me walk you through our financial performance for the quarter.

Starting with the revenue performance, please note that all growth numbers quoted are in constant currency unless noted otherwise. Total revenue for the quarter was \$3,724 million, a growth of 2.3% quarter-on-quarter and 2.6% year-on-year. Services revenue for the quarter came in at \$3,442 million, a growth of 3% quarter-on-quarter and 4% year-on-year. Our ITBS services grew by 2.7% quarter-on-quarter and 4.4% year-on-year. The ERS segment grew by 4.1% quarter-on-quarter and 2.1% year-on-year.

HCLSoftware revenue for the quarter was \$294 million, representing a decline of 5.8% quarter-on-quarter and 11.2% year-on-year. Let me provide some additional context on HCLSoftware's revenue performance this quarter.

At the beginning of FY27, we had anticipated a softer performance in the software business. I want to explain the reasons behind it. This year, and particularly in Q2, we had fewer multi-year licenses that were due for renewal compared to last year. The same is visible in the additional disclosure in the investor release this quarter. You would notice that the revenue recognized from multi-year subscription licenses has gone down from \$81 million in Q2 FY26 to \$39 million in Q2 FY27.

As you would know, revenue recognition for an on-premise term license varies based on the term of the licenses. Typically, upfront revenue recognition is around 80% for a one-year license and as much as 60% to 70% of the entire term for a two- to three-year license, with the balance recognized over the contract term.

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The reported revenue decline does not accurately reflect the underlying health of the software business. The same is evident in the healthy ARR growth that we have witnessed even in this quarter.

Now, let me break out the inorganic revenue contribution in the quarter. HPE Telco Solutions was consolidated for 2 months in Q2 and contributed approximately \$21 million in revenue, helping services sequential growth by 62 basis points. JasperSoft was consolidated for the full quarter, giving us approximately \$15 million. Total inorganic contribution in the quarter stands at \$35.6 million, which aided sequential revenue growth by 97 basis points.

In terms of geographies, during the quarter, the USA grew 3.5% year-on-year, Europe declined by 0.3%, Rest of World grew 11.4%, and India grew 21.8%.

Moving on to vertical performance, our Q2 growth was broad-based, with 5 out of 7 verticals registering year-on-year growth. Growth was led by Retail and CPG and Financial Services, which grew 14% and 7.1% year-on-year, respectively.

In terms of clients, our continued focus on deepening customer relationships has helped us expand the number of large client relationships. On a year-on-year basis, we added 1 client in the \$100 million-plus category, 8 clients in the \$50 million-plus category, 10 clients in the \$20 million-plus category, and 33 clients in the \$10 million-plus category.

Let me now share the details on profitability. Our EBIT was \$377 million, representing 18.2% of revenue. Adjusting for restructuring expenses of 84 basis points during the quarter, our Q2 EBIT margin was 19%, compared with 17.5% in the previous quarter.

Net income for the quarter was \$538 million, representing 14.4% of revenue. In terms of the EBIT margin walk, there was a sequential improvement of 134 basis points in the company margin in Q2. The margin bridge explaining this is as follows: Project Ascent, including AI-driven efficiencies, gave us 73 basis points; superior margin of services offerings under our advanced AI revenue gave us 32 basis points; operating leverage at the SG&A level due to growth acceleration gave us 50 basis points; and foreign exchange gave us 23 basis points.

On the headwinds, there was a 22-basis-point impact on account of higher restructuring costs in this quarter compared to the previous quarter, and a 25-basis-point impact due to the HPE Telco Solutions acquisition.

Moving on to return on invested capital, or ROIC, our ROIC continues to remain strong, supported by our ongoing focus on profitability and efficient capital management. The last 12 months' ROIC was 41.2% for the company, up 61 basis points year-on-year. Services ROIC was 49.4%, up 411 basis points year-on-year. HCLSoftware ROIC was 19.2%, down 264 basis points year-on-year.

In terms of cash generation, over the last 12 months, free cash flow was \$1.78 billion, while operating cash flow was \$1.96 billion. Operating cash flow to net income conversion was 95%, while free cash flow to net income conversion was 87% for the last 12 months.

Our balance sheet remains strong, with gross cash at \$2.66 billion and net cash at \$2.56 billion as of September 30, 2026. Total DSO, including unbilled receivables, was 84 days, representing a

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decrease of 2 days quarter-on-quarter.

For our shareholders, normalized diluted EPS for the last 12 months came in at 70.22, representing growth of 5% quarter-on-quarter and 12.2% year-on-year. Including the one-time impact of the new labor code, diluted EPS was—

C Vijayakumar – CEO & Managing Director: ... {? 67.56 ?}. The board has declared an interim dividend of Rs 12 per share for the quarter. The record date is October 16, 2026, and the payment date shall be October 26, 2026. This brings our last 12 months' payout to Rs 60 per share, effectively distributing 88.6% of our net income.

Now, an update on our guidance, starting with the FY27 guidance. For FY27, constant-currency revenue growth is expected to be between 3% and 4% for the services business, and at the company level, revenue growth is expected to be between 2.5% and 4%. The full-year revenue growth guidance now includes inorganic contributions of 62 basis points for services and 87 basis points for the company. This implies that the midpoint of our organic growth guidance, both at the services and company levels, is broadly unchanged.

EBIT margin is expected to be between 17.5% and 18.5% for FY27. That is all from my side for now, and I would now like to hand over this session to our moderator for a question-and-answer session. Thank you.

Operator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to please use handsets while asking a question.

Ladies and gentlemen, we will now wait for a moment while the question queue assembles. Our first question comes from the line of Abhishek Pathak with Motilal Oswal. Please go ahead.

Abhishek Pathak – Motilal Oswal: Hi, am I audible?

Operator: You are audible, sir. You may proceed.

Abhishek Pathak – Motilal Oswal: Hi, CVK. Congratulations on the Anthropic partnership. We also announced something very similar with OpenAI sometime back. My question is: are we seeing some sort of structure being formed around AI implementation, taking a form similar to cloud migration, where ecosystem partners had some benefit? How is the value being shared between frontier labs and managed services right now? In the steady state, how do you expect this value to be shared as we implement or integrate more and more of the frontier AI labs' products or services into our offerings?

That's one question. The second question is on our AI revenues, which seem to be accelerating quite handsomely. Who are we competing with here? Are these deals more consulting-led with existing clients, where we are showcasing our own proactive initiatives, or are they more contested in the market? How do you see these deals going forward, when clients will have more and more vendors coming in to gain their attention?

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Lastly, on the FCF point, Shiv, there was some weakness on an LTM basis. I understand there are a couple of one-offs in the past couple of quarters. When can we expect to get our cash conversion back to our 3- to 4-year average? Thank you so much.

C Vijayakumar – CEO & Managing Director: Thank you, Abhishek. Let me start with the first question. You mentioned the AI partnership with OpenAI, which we established almost a year ago. The early days were a little challenging as we tried to understand how enterprises could leverage OpenAI. But now we are seeing a very good pipeline and deals for enterprise implementation of Enterprise ChatGPT and a number of other solutions that OpenAI has.

I think our value here is largely in the EPD motion, the services around it, and the fact that there is always a small amount of ongoing work because most of these platforms are still in the early stages within an enterprise. There is going to be a long tail of work that will come once we are inside an enterprise with one partner trying to scale.

With Anthropic, while we achieved global premier status through the partnership, we have been working with them for some time. Here again, it is largely a services model. But I think the biggest non-linearity is coming from the fact that some of our products, such as AI Force, are being integrated, and a number of software products are having native integrations into OpenAI. We now propose to build them with Anthropic as well.

There, I think, we have pricing that includes the token costs as well. So, there, I think the equation will be a little less people-centric and will be non-linear. That is on the first question.

On the advanced AI revenue, it is scaling well. There are certain components of these advanced AI services where, in fact, 2 of the largest deals that we won were also single-sourced, primarily driven by our relationships with our partners. We have come across some competition there, particularly from boutique providers.

There are some other components of advanced AI, such as semiconductor inferencing and chip design, where we see some of the service providers in the mix. The third category is implementing and building an agentic AI solution. That is a space where we find a lot of service providers.

The fourth category is all the IP and platforms that we build. We have been continuously focusing on monetizing the IP, although there is always a permission issue for a services vendor trying to monetize IP. But I think we have crossed that hurdle. Many of the large deals that we have signed have a specific line item for the AI Force platform.

Then there is the operating model transformation involved in transforming the application landscape. Infusing AI into the application landscape is part of our regular AI business, but the change management associated with it and operating model consulting are the two elements that come under advanced AI. We are building these capabilities as well, and a couple of large engagements include them.

I will refer to Shiv for the FCF question.

Shiv Walia: Thank you, CVK. Abhishek, the LTM calculation this quarter for FCF to net income conversion has 2 one-time impacts. One is the BAPA tax payment, which relates to the bilateral

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advance pricing agreement where we participate in a government-to-government transfer pricing agreement, and linked to that, there was some tax payment.

The second is an in-house shift from an in-house gratuity arrangement to an external gratuity trust, which resulted in some money being paid to the trust. Both of these contributed to cash outflow during this period on an LTM basis.

We should be able to see FCF to net income conversion revert to perhaps a 100% or higher level as these one-offs roll over from the LTM calculation. I also want to add that we have managed our cash conversion cycle very well despite headwinds from the expiry of MAT credits last year and lower non-cash amortization in the software business, which you would have seen in the P&L as well.

Abhishek Pathak – Motilal Oswal: Thank you so much. That was very clear. Thanks.

Shiv Walia: Thank you.

Operator: Thank you. Our next question comes from the line of Ravi Menon with Axis Capital. Please go ahead.

Ravi Menon – Axis Capital: Thank you for the opportunity, and congratulations on the strong growth and good margins. Shiv, you talked about a 32-basis-point contribution to the margin improvement from advanced AI services. If I look at it, it seems like a very high margin, implying high-30s EBIT margins for that segment on an ongoing basis.

Should we think about it being that high, or is this also due to investments that you made in people, which you can think of as investments that have now been utilized, or perhaps investments in platforms where there was no corresponding revenue, but now you have the revenue and the cost is being spread over a larger revenue base? How should we think about that going forward?

C Vijayakumar – CEO & Managing Director: There are 2 components.

Shiv Walia: Please go ahead, CVK.

C Vijayakumar – CEO & Managing Director: There are 2 components to this, Ravi. One is the services component, and the second is the IP and platform component. For the IP and platform component, the margins will be very high, very similar to a software business. The gross margins will be upwards of 70%.

For the services component, I think the margins will be at least 7% to 10% higher than traditional services. That is how we are thinking of this at this point, and that is how we see this playing out as well. At least so far, in all the deals we have been able to secure, we have generally achieved better realization and margins.

Ravi Menon – Axis Capital: Thank you, CVK. Just to clarify, this IP component is not classified as part of software product revenue, correct?

C Vijayakumar – CEO & Managing Director: No, it is not.

Ravi Menon – Axis Capital: Thank you. One follow-up: you have—

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C Vijayakumar – CEO & Managing Director: Just one clarification. All our AI Force and industry AI solutions continue to be classified under services and then under advanced AI services as well.

There are a couple of products in the software business that are completely AI-native, such as HCL Uno, which is a universal orchestrator platform, and the Zeenea data intelligence platform. These 2 are software product revenues classified under advanced AI.

Ravi Menon – Axis Capital: Perfect. Thank you. CVK, just a clarification on the guidance. I understand that you wanted to maintain a narrow band, which is why the top end has been trimmed. But you are already at 4% year-on-year growth in your services business in constant-currency terms, and you have a strong pipeline. You are saying that the outlook is also good, and generally in Q3 you do not have the weakness that your peers have seasonally.

Why not raise the top end, or keep it at the earlier level of 4.5%?

C Vijayakumar – CEO & Managing Director: You are right. We had a strong quarter on multiple fronts, and obviously Q3 will be a strong quarter due to the software step-up.

However, the environment remains fluid. Last year in February, we thought we were in a normal situation, and I met a lot of investors. The day after that is when the Middle East conflict happened, and then a lot of things went in a different direction.

I think we are in a volatile world, and we do not want to increase our guidance and things like that. Things can change quickly, both on the positive and negative side. We are seeing a good environment, and we hope it will continue. We definitely feel confident that services will be slightly above the midpoint.

Ravi Menon – Axis Capital: Thank you. One last question. For some of these AI deals where you talked about how clients are trying to adopt solutions with Anthropic or OpenAI, I would assume that there is no real TCV attached to some of these because they are more exploratory and perhaps on a time-and-materials basis. Would that be right?

C Vijayakumar – CEO & Managing Director: It is a mix of both. The change management-related OMT, which is operating model transformation, includes a couple of engagements that we signed on a fixed-price basis as well. But agentic implementation on Google and other platforms largely comes on a time-and-materials basis.

Ravi Menon – Axis Capital: Perfect. Thank you very much, and best of luck.

Operator: Thank you. Our next question comes from the line of Rishi Jhunjunwala with IIFL Capital. Please go ahead.

Rishi Jhunjunwala – IIFL Capital: Thank you for the opportunity. I have a couple of questions.

First, our top client buckets across the top 5, 10, and 20 still do not seem to be growing. I know you had called out in the past that there were 3 clients where there were ramp-downs, but I am trying to understand whether those ramp-downs are behind us and when we can expect these buckets to start growing.

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C Vijayakumar – CEO & Managing Director: Rishi, I think the challenge we highlighted in 3 of our top 20 clients had already been factored into our guidance. There were 2 telco customers where discretionary spending was under pressure, and 1 manufacturing customer where there was a steep ramp-down due to its own budget reductions.

I would think that whatever we had in mind has already played out. Whatever we had assumed has played out. But you still cannot be sure because there is a lot of discretionary spending in the 2 telco clients.

What you should see is that despite these headwinds, we are very pleased with the upselling to our existing customer base, as reflected in the addition of {? 100 million, 50 million, 20, 10 ?} bucket clients on a year-on-year basis.

I think whatever assumptions we had have played out. I hope that answers your question.

Rishi Jhunjunwala – IIFL Capital: Thank you so much. The second question is on margins. I wanted to understand how we should read the margin movements across the services and software businesses.

In this quarter, and even on a year-on-year basis, we have seen fairly sharp expansion in services business margins. Software, on the other hand, has declined sequentially, although there is still an expansion. I wanted to understand how we should read the divergent performance in margins compared with how revenues are progressing.

C Vijayakumar – CEO & Managing Director: Varun, why do you not take this?

Varun: In terms of software, please give me a second. In Q1, we had a one-off restructuring cost impact that affected the margins. In the absence of that restructuring cost, along with the benefit we received from optimization in employee-related expenses and lower amortization, we saw sequential margin expansion in this quarter.

Our plan for software is to continue rationalizing costs to align them with the growth outlook we have for software. That is how you would see the margin expansion in the software business.

On the services side, as I said, Project Ascent, along with the uptick in advanced AI revenue, helped us. As I explained in the margin walk, these factors have helped us improve margins.

Rishi Jhunjunwala – IIFL Capital: Thank you very much.

Operator: Thank you. Our next question comes from the line of Surendra Goyal with Citi. Please go ahead.

Surendra Goyal – Citi: Thank you. I have a clarification on the software business first. The organic decline seems to be around 15% to 16% year-on-year. What is the outlook here? ARR would also have benefited from the JasperSoft acquisition.

C Vijayakumar – CEO & Managing Director: Excluding the impact of JasperSoft, our ARR has grown 2.6% year-on-year, despite a 15% year-on-year decline in revenue. All of this is in constant currency.

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I think ARR is the right metric. I would request KK to give you a little more insight into the outlook for the software segment. KK is the President of our software business.

KK – President, Software Business: As Shiv said earlier, the revenue decline does not accurately reflect the underlying factors of the software business. As CVK just mentioned regarding the ARR number, if you exclude JasperSoft, it is at about 2.6%, and if you include JasperSoft, it is about 7.8%.

This is the right metric on which we are trying to operate because, as Shiv previously explained, the impact of single-year and multi-year renewals is another factor that continues to affect the business. In this quarter, we did not have as many multi-year renewals available compared to the previous quarter. However, a lot of these renewals will come back in FY28 and FY29 as part of our renewal cycle.

Regarding the overall mix of the software portfolio, we do not see much impact from AI, except for a small footprint of application software products. Over the last few years, we have been pivoting toward 2 major areas in our software business.

The first is what we call Intelligent Operations, which covers products related to IT operations, cybersecurity, and business process operations. The second is revamping our modern data stack and modern data AI stack, which cover the IT and data intelligence platform.

Many of our acquisitions and inorganic initiatives, as well as capabilities we have built organically, including Zeenea, Wobot, and the recent {? Robotic ?} acquisition that CVK mentioned at the start of the call, are all contributing to the direction in which we want to grow the business.

Surendra Goyal – Citi: Thank you for that. I have a clarification. I have been looking at the data for the last 6 quarters, and ARR has been growing. I am trying to understand how long this disconnect between ARR and reported growth can continue.

C Vijayakumar – CEO & Managing Director: If you look at the revenue profile, there are 2 components that can fluctuate. One is perpetual license revenue, and the second is the impact of upfront revenue recognition of a multi-year license.

As Shiv said, almost 60% of a 3-year license gets recognized upfront. That can cause some cyclicity in this. Other than this, if you exclude the multi-year component, there should be a proper correlation between ARR and revenue.

Surendra Goyal – Citi: Understood. One more clarification: is there any seasonality in the HP CTG business? The revenue run rate seems to be lower than most expectations.

C Vijayakumar – CEO & Managing Director: It is for the 2 months. Regarding CTG, we have not called out CTG revenue. The only thing we called out is the acquisition of the Telecom Solutions Group of HP, which is a recent acquisition called Aruba ITPS.

That had a 2-month impact. You will have to extrapolate it to 3 months, and that should largely give you the right number. There could be some small seasonality, but nothing major.

Surendra Goyal – Citi: Thank you.

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Operator: Thank you. Our next question comes from the line of Gaurav Rateria with Morgan Stanley. Please go ahead.

Gaurav Rateria – Morgan Stanley: Thank you for taking my question. My first question is on the outlook. It looks like there is a sharp deceleration in revenue growth in the services business on a sequential basis in the second half compared with Q2.

If you look at Q2, organic growth has been around 2.4%. Is there any higher-than-usual seasonality that we are building in? Is there slower conversion of deals into revenue that we are building in? Or is it simply the conservatism that we have maintained in our guidance?

C Vijayakumar – CEO & Managing Director: As we called out when we announced the mega deal, it is not going to contribute any revenue in Q3 or Q4. It is going to come in Q1 of next year. That is one outlier.

Other than that, we do not see anything that is very different. Generally, we have been cautious not to create expectations of higher growth. The environment has some uncertainties, and it has been volatile over the last few quarters. So we have been cautious there.

Services will most likely be better than the midpoint.

Gaurav Rateria – Morgan Stanley: Understood. My second question is on partnerships. I think the ecosystem partners we have are a significant contributor to our revenues. Over the years, that number may have increased. Is there any sense of what that percentage of revenue looks like?

Keeping that in context, how do you think partnerships with frontier model companies such as OpenAI or Anthropic would translate into material revenue over the next 12 to 24 months?

C Vijayakumar – CEO & Managing Director: We are not tracking all the revenue that comes through the partner channel very precisely because many of the things we work on are in our client environment, and we also take them to the partners to scale different solutions and initiatives.

I know there are industry players that are calling out how much is coming from ecosystem partners, but I do not think we have a reliable mechanism to track it. A lot of it could be what we call influenced revenue rather than revenue directly coming from a partner.

For example, if we are migrating somebody from on-premise to Azure, that would be treated as influenced revenue for Azure, and that is one measure they use. However, we are obviously focused on services and the annuity revenue that comes out of it. We are not directly tracking that.

There is definitely one channel where we operate as a professional services partner for almost all the cloud hyperscalers and now for frontier companies and semiconductor GPU companies. I think that is still a small number in the overall scheme of things, but it is growing very well.

Gaurav Rateria – Morgan Stanley: Understood. My last question relates to your comment, CVK, that operating efficiency gains will be reinvested in the business. What is the broad philosophy on margins?

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A couple of years ago, we had an aspiration to reach 19% to 20%, and then we entered an investment phase, so we brought down our overall margin number to the 17.5% to 18.5% range. We also had some restructuring charges this year, which I presume may not be a sustained charge next year.

Considering the various puts and takes, the tailwinds from advanced AI being higher on the margin side, and the multiple investments that you have outlined, what range should one think about from a medium-term perspective?

C Vijayakumar – CEO & Managing Director: Our earlier aspiration was 18% to 19%. Last year, and specifically this year, we called out the restructuring charges, and then we reduced the guidance to 17.5% to 18.5%.

However, 18% to 19% is our desired band. I would not want to comment on it now because the industry is changing significantly, and we would always want to invest to gain more capability and differentiation rather than optimize margins during this phase of the industry.

Gaurav Rateria – Morgan Stanley: Thank you very much. All the very best.

Operator: Thank you. Ladies and gentlemen, we will take that as our last question for today. I would now like to hand the conference over to Mr. C. Vijayakumar, CEO and Managing Director, for closing comments. Over to you, sir.

C Vijayakumar – CEO & Managing Director: Thank you, everyone, for joining our earnings call. We have delivered a resilient quarter on multiple fronts, and we have a strong execution plan for what is expected to be our strongest quarter in any year. We are all geared up to execute well and deliver a good outcome.

Our guidance is informed by all the developments taking place both within the business and in the external environment. As I close, I wish all of you a very happy festive season ahead. Thank you, and good evening.

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

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.