

“OUR PROPOSITION TO CUSTOMERS WILL BE THAT YOU WILL BE DEALING WITH THE WORLD’S MOST SOCIALLY RESPONSIBLE ORGANISATION.”

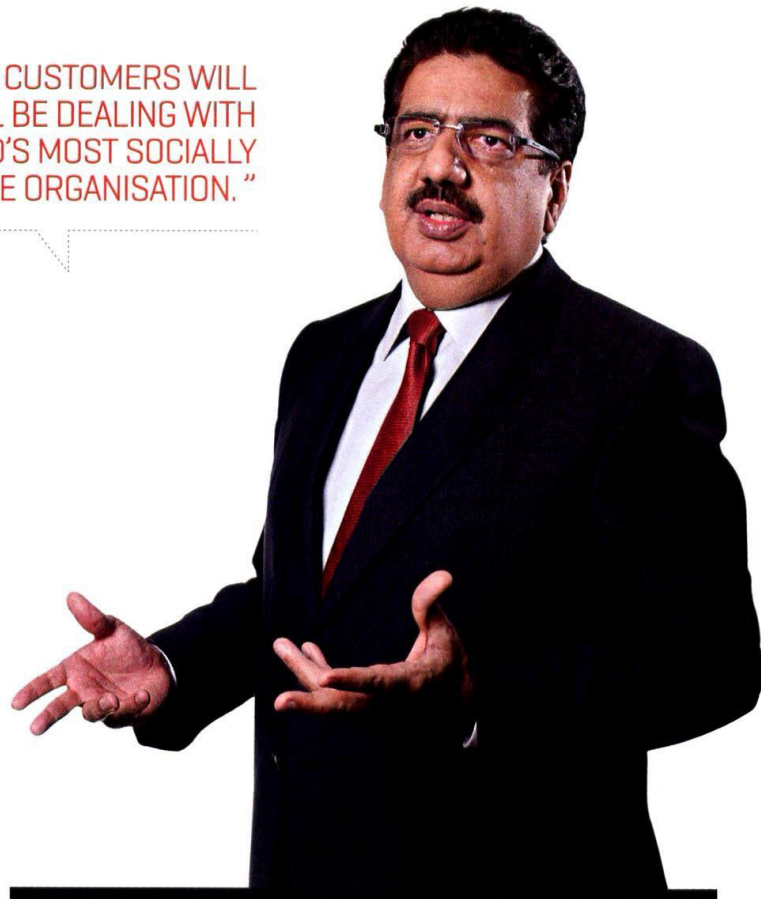
the accelerator and brakes simultaneously. But companies are not used to this model of simultaneous acceleration and braking. Some see it as a threat, we see it as a great opportunity.

How has the recession affected the IT industry?

The top 10 global and Indian players have bagged IT orders worth \$24 billion in the past two years—the top five Indian players have 45% of this. This means there’s a massive shift towards Indian service providers. Second, when a multinational contract is renewed, 30% of the contracts goes to a new vendor, in comparison to 5% earlier. This is because of dissatisfaction with the existing vendor. Third, the number of vendors per customer is coming down drastically. Fourth, customers are looking at partnerships based on risk sharing, rather than best performance. Add another trend of digitisation of the organisation to drive transformation.

How is HCL responding to these changes?

HCL is watching the global five [IT companies] and their market space. Focus on their contracts which are coming up for renewal. Invest in tools, technology, and processes that deliver an outcome—in other words, a business benefit to your customer. Create a governance structure with customers based on trust, transparency, and flexibility. These are missing among the global majors, causing dissatisfaction among customers.



Be exactly the opposite, then invest significantly in transformation and run the business for the customer to save cost. The money saved can be used by the customer to transform too. A customer wants cost reduction to fund innovation, without which he is obsolete. We are already doing this in our partnerships with Merck, Deutsche Bank, and Cisco, among others. If you follow this model, you can end up being the customer’s revenue partner, not a cost partner.

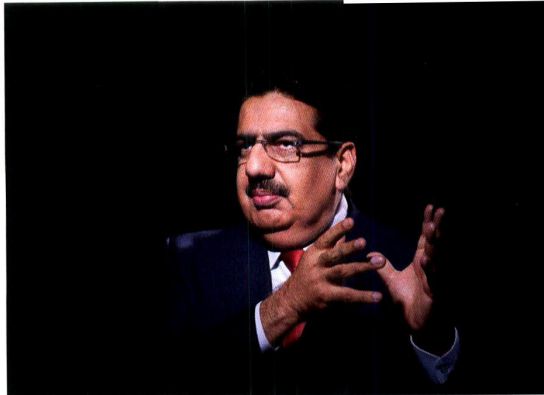
But won’t the churn also hit HCL?

Our outsourcing business picked

up post-recession and the renewals will come 2013-14 onwards. The pre-recession contracts of most IT players were written with an assumption of revenue growth and during the recession customers became unhappy. Our contracts were based on the assumption of a slowdown. So when they come up for renewal, I assume they will follow the 5% pattern [of opting for a new vendor], and not 30%.

Will your competitors allow you to walk away with the spoils?

Our margins leave us well-placed. We



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are a 14% margin company, not 30%. We believe in high-growth, medium-margin. Shareholders are happy with this, though analysts may have different views. We are mavericks, not what analysts want us to be. The investor is concerned about higher earnings per share [EPS], not margins. We have consistently delivered high EPS.

In the new environment, will the profit vs. growth debate get muted? HCL will not increase margins. Given all the data, our margins will remain the same unless something drastic happens. And we will be reinvested in new businesses and ideas, such as creating onsite jobs.

With IT spends flat across the world, where will growth come from? When the IT budget is flat, we have to eat someone else's lunch to keep growing. We see an avenue of growth

in the customer churn. Second, our industry has not been able to reduce costs and increase efficiency rapidly.

If a service industry like airlines can reduce costs, why can't we? Between 2000 and 2010, the Indian IT industry surprised the world by introducing a different cost level. The same innovations may not survive in the next decade, but cost reduction of IT service is an area of huge investment at HCL. It will subsidise our onsite job creation.

Has Axon [a British firm HCL bought] taken a hit because of the eurozone trouble? Axon's area of operation is managing the transformation agenda of customers, in which few are continuing now. HCL has been able to mitigate the slowdown in Axon through accelerated growth in the infrastructure and

application outsourcing business. Once the customer churn is over, the transformation budgets will be back and contribute to HCL's growth.

Axon was charging a premium for its services. Has that changed? Customers are paying Axon exactly what they used to as it is seen as a separate brand.

HCL seems to be slow in India and the Southeast Asian market. Why? In India and Southeast Asia, customers want fully integrated solutions at a fixed price. It is called system integration. To develop this capability we need to participate in a few verticals aggressively. We are doing it in financial and public services. Unlike some firms, HCL does not see India as a market, but as an opportunity to build new capabilities—as the launching pad for the future of

world IT. When we implement a solution here, it's for a large number of people. The West is seeing cost benefits never seen before. This is where reverse innovation starts. Airlines, real estate, utilities, and public services are some areas of emphasis for us, not just revenue growth. In India and Southeast Asia, we have a sharp focus on mass consumer-based deployment of IT solutions.

What's the outlook for China? We have been in China for five years but we don't understand how to do business there. I think it will take the next five years and \$1 billion of business in China to learn. We have to establish relationships, understand the culture, and do business the Chinese way, not the Indian way. Countries such as India and China will never behave like the U.S. or Europe.

Why has HCL been neglecting its BPO business?

In the next three to four years, BPO will become very important for HCL. In hardware, we cannot beat IBM or HP, and in product development, there already are many companies. That leaves the services component, and if it is only about implementation and support, it is a very small percentage. But a complete business process stack creates something of higher complexity. The big five may not think on these lines as they look for more standardisation, but we think customisation and, therefore, we have higher chances of survival.

Is HCL biting off more than it can chew on the bigger deals?

When we bagged our first deal in 2005, AMD's total IT outsourcing, some analysts wrote us off and said litigation would kill us. We

are still alive. In 2006, when we did Dicksons, followed by Reader's Digest and Nokia, they said HCL was very aggressive and taking a lot of risks. There is no litigation, we have not lost a single customer. We defined our playground in 2005 and our marketshare grew 14.9% now from 11.9%.

How do you plan to use HCL's \$500 million reserves?

Given the success of the Axon acquisition, we are looking for more such deals. They are going to be based on capabilities such as mobility, data analytics, cloud computing, multi-channel commerce, and other mega trends. We are not going by scale, size or customer access. We have not decided on the size of the acquisition. Anyway, size does not scare HCL. ■

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