

You are keen to orient your hardware and distribution-based business towards systems integration and related services. What prompted you to undertake this change?

Ajai Chowdhry (AC): If you consider our situation three years ago, we were basically into manufacturing, selling and supporting hardware. We were also involved in the distribution of mobile phones. These two markets served us well in the past in terms of growth and profitability.

But we felt that as we go ahead, we need to make our operations more resilient and stronger in terms of growth prospects, profitability and also returns to shareholders.

With this objective, we decided to locate new areas of operation. The first area we chose was solutions. This is because as the economy matures, users shift gradually from hardware to solutions. We thought systems integration to be the right area of solutions space where we bring all the technology know-how within HCL together and provide a single window solution to the client. Systems integration is a very large and important area for us to grow, since this will lead to services as we go forward.

So, are you gradually moving away from the consumer-specific business model, including sale of phones, laptops and PCs towards enterprise services?

AC: Growth is still continuing in the consumer side of the business, but the rest of the business is growing faster. So, the objective is to grow systems integration and related areas faster due to higher client demand. For instance, we have decided to invest in our network outsourcing business. Users want to shift away from point-to-point connectivity to virtual private networks, so the opportunity is big. Further, many of our clients want an on-demand last-mile connectivity, unlike the current fixed nature of such connectivity. On-demand last-mile connectivity necessitates use of technologies like fixed WiMax. We have decided to implement this in eight cities.

What has been your strategy behind the selection of verticals in the solutions space?

AC: We started off with telecom and e-governance and gradually moved into the BFSI (banking, financial services and insurance) space. Today, we have a presence in 14 verticals. Each of these has been chosen carefully in order to maintain the company's growth momentum. The idea is that even if the economy slows down, some of these verticals will provide resilience to the company. For instance, though the economy may not be growing at 9-10% currently, the telecom sector is doing very well. Thus, systems integration opportunities in this sector make a lot of sense and that is a large area for us. Also, in case of e-governance, the

Digitally Speaking

From being a computer hardware manufacturer to distributor and marketer of all kind of digital products, and emerging as one of the largest multi-vertical systems integrators in the domestic market, HCL INFOSYSTEMS has travelled a long way in its 30-year history. **RANJIT SHINDE** met the company's chairman & chief executive officer, **AJAI CHOWDHRY**, and chief financial officer, **SANDEEP KANWAR**, over coffee to know what lies ahead for HCL Infosystems in its new avatar...

government has earmarked funds, which are not affected by the economic slowdown. The expenditure is budgeted for and this will continue to happen.

Another sector on our radar is infrastructure, where we are targeting emerging opportunities in the power segment. The government has allocated Rs 10,000 crore under the APDPR (accelerated power development programme) scheme to provide funding to reduce transmission and distribution losses in the industry. The money will be spent on IT and adjacent technologies and services. This includes IT, mass metering and energy auditing. We are present in all three areas. This helps us give a single window solution to power companies.

The infrastructure story is taking shape in India. So, are there any other infrastructure verticals on your radar?

AC: Apart from power, we provide solutions to railways, seaports and airports. We participated in providing IT automation solutions to the three private airport projects in some manner or the other. As we go forward, we feel that one very important service area we must look at is physical security. We have been addressing the issue of IT security for a while now. Given the increasing threat from various forms of terrorism, it's time that the country gears itself to look at what Americans call homeland security. I think technology plays a very important role there. So, we have started to look at that area in terms of surveillance, video analytics and screening. Our objective is to provide any solution that a government or a corporate or a critical institution requires (to secure itself).

When you look at your new businesses, are you keen on growing organically or inorganically?

AC: Systems integration is all about partnering. That is an important tool. We have partnered with all the leading technology providers. For instance, in the insurance vertical, we have partnered with CSC and integrated its life insurance package into a

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particular solution for insurance companies. Similarly, in the telecom area, we have partnered with 8-10 companies to bring their billing and mediation technologies into India. Apart from partnering, the second important factor of the systems integration business is acquiring right domain



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— Ajai Chowdhry

"Look at the kind of cash we have given out to investors in terms of dividend — almost Rs 600 crore in the past 20 quarters."

— Sandeep Kanwar



knowledge. We hire people with specific domain knowledge to provide solutions to clients by understanding their needs. And the last part is acquisition. Hence, when we wanted to grow our co-operative vertical (co-operative banks, societies and rural outfits), customised multilingual products were the need of the hour. So, we acquired a domestic company to get the required edge in this vertical. It was a small acquisition (less than Rs 10 crore).

Do you feel the market has ignored your growth potential?

AC: Our strategy throughout has been to generate wealth for our shareholders. Our share prices are unfortunately very low today, but our shares are the best investment instrument, given that we have been delivering 100% dividend every quarter. **Sandeep Kanwar (SK):** If you look at the dividend yield, it is nearly 8% now at

the current stock price.

AC: That's a fantastic yield, which is again tax-free. It will be difficult to find a better situation than this for investors. Typically, for a single product or a single solution company, the market tends to give much higher valuations. But in case of a company like ours, the valuations are lower.

SK: We are more like a conglomerate with various business verticals.

AC: 10-15 years ago, corporates used to focus on one area, but that is no longer true. Now, the focus is on creating a resilient organisation. Each of our verticals has its own growth trajectory, and that is what makes a company more secure in terms of growth and profitability.

Currently your business is running on thin margins. Do you see any improvement in future?

AC: In a way, the current margins are a part of the nature of our business. However, this is expected to change once

the services portion of the business increases, as services are sticky in nature. If the growth in services continues at the current rate of 35%, then we may see better margins.

SK: If you look around, you will find many businesses running at low margins. So,

don't just look at the profit margins in terms of percentage, but also in terms of amount. Also, look at the kind of cash we have given out to investors in terms of dividend — almost Rs 600 crore in the past 20 quarters. Currently, we are holding Rs 300 crore in cash.

Given your focus on new verticals, do you see any significant change in the return on capital employed (RoCE)?

SK: Our RoCE has consistently been 35-40%. Post our new model, there will be some negative impact due to higher capital employed in the systems integration business initially. So, RoCE has currently come down from 40% to 34%. It will remain in that range going ahead.

AC: Once the systems integration business matures, the RoCE will probably come back to earlier levels.

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