

HCL to focus on volumes to drive margins, says Vineet Nayar

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For Vineet Nayar, chief executive of HCL Technologies, chasing aggressive growth by expanding market share ranks higher on priority than seeking to maintain profit margins in excess of 25% — a strategy adopted by larger rivals such as Infosys. Nayar, who took over as the company's chief executive in 2007, is now preparing to restructure HCL by exploring newer leaders. In an interview, he talks about how HCL managed to add nearly \$466 million in incremental revenues during calendar year 2009 — at a time when TCS, Infosys, Wipro and IBM Services witnessed negative revenue growth because of a worsening economic crisis. Excerpts

Many would argue that HCL is chasing high volume growth and more market share at the expense of profitability. How do you approach growth versus profit dilemma?

We are not necessarily in any 'margin trap.' For us, volume will drive margins too. HCL's market share story last year, when we had \$466 million in incremental revenues, was driven primarily by new customers. In fact, all \$2 billion worth of deals we signed in 2008, and which started coming as revenues in 2009, were from new customers. Existing customers started cutting budgets, and unlike rivals, we keep our focus on the new customers. So, last year, we gained because almost all our existing customers were new ones.

Is there any management restructuring on the anvil?

In 2000, almost all Indian IT companies were in the range of \$100-150 million, and nobody could have said that HCL was going to make it this big. Now everybody is talking about the next set of companies which will grow at 30% or more for the next 5-10 years. Is that going to be an Amazon, Google, or an Indian services company, only time will tell.

What is important is that my business cannot be based on '2000' model, and we will have to reorient. We are in for the 'mother of all' restructurings and are trying to understand the contours around which we need to restructure. This process is not yet over. This restructuring will be aimed at 2010 to 2015 and beyond, the next five years in the medium to short term. Over next 6-9 months we will be working on this.

Meanwhile, at the mid management level, restructuring is an ongoing process. As new ideas come up and new opportunities emerge we keep on moving people, including senior managers towards newer opportunities.

What are your views about the workforce of tomorrow? You seem to have adopted just-in-time hiring, will it have any impact on your workforce mix in terms of freshers and lateral hires?

We do not give guidance, however, in the past freshers with one year experience have been less than 40%. Freshers will continue to play a role but laterals will jump start us getting into transformation projects.

On workforce of tomorrow, it will be skill, competence and capability based and not experience (or lack of it) and location based. It will demand respect and trust and cannot be taken for granted. It will be the most important difference between success and failure in coming years.

Is this recovery for real, and sustainable?

Demand is linked to economy recovery and as per the latest government's forecast, recovery will be robust from the middle of the next financial year. Also, it is purely based on S&P 500 analysis of projected

growth. As per S&P 500 data, 80% of the companies in April-June quarter will show positive growth. Moreover, IT budgets are being finalised and are likely to be on a higher side. But, none of these factors will have a large impact on the market share.

HCL's market share will be driven by development of new services in the engineering and enterprise application space. Even amidst slowdown and low IT budgets, HCL demonstrated 23% y-o-y growth because it reconfigured services as per customers' demand.