

HCL Technologies Limited

Quarterly Results Update

Quarter ended September 30, 2003

powering imagination

HCL TECHNOLOGIES | **HCL**

31st October 2003

Q1 FY2004 – Key Highlights

Financial Highlights

- Revenue up 19% QoQ at Rs 5.6bn.
- Organic software revenues at Rs 3.36bn, up 12% sequentially
- Revenue growth excluding that contributed by the acquired business from HCL Infosystems at 12% QoQ
- EBITDA margins up 130bps
- EBIDTA up by 28% QoQ
- Other Income for the quarter stands at Rs432.6 mn as compared to Rs564.0 mn last quarter
- Net Income down 1% QoQ at Rs 946.0 mn
- Volumes up 13.2% sequentially, effective dollar bill rates down 0.2% (for organic software business)
- Quarterly dividend policy announced
- Interim dividend at 100% declared

Business Highlights

- Total clients at 414, including 47 Fortune 500 clients. 36 new clients
- Clients having a run rate of more than \$1mn stood at 83
- Net addition of 1,962 employees of which 1,478 were added in the software services business (808 from the software business acquired from HCL Infosystems).

Performance Review

<p>Strong rebound in organic software business leads to healthy revenue growth</p>	<p>Revenues from organic software business rebounded to grow by 12% QoQ and is showing healthy signs. Overall HCLT revenues in the quarter grew by 19% (including contribution from the newly-acquired division of HCL Infosystems).</p> <table border="1" data-bbox="586 537 1453 716"> <thead> <tr> <th>Rs. Mn</th> <th>Q3FY03</th> <th>Q4FY03</th> <th>Q1FY04</th> </tr> </thead> <tbody> <tr> <td>Organic software business</td> <td>3074.4</td> <td>3008.0</td> <td>3358.4</td> </tr> <tr> <td>Δ QoQ</td> <td>-5.2%</td> <td>-2.2%</td> <td>12%</td> </tr> <tr> <td>HCLT revenues</td> <td>4658.1</td> <td>4709.8</td> <td>5607.8</td> </tr> <tr> <td>Δ QoQ</td> <td>-0.5%</td> <td>1.1%</td> <td>19%</td> </tr> </tbody> </table>	Rs. Mn	Q3FY03	Q4FY03	Q1FY04	Organic software business	3074.4	3008.0	3358.4	Δ QoQ	-5.2%	-2.2%	12%	HCLT revenues	4658.1	4709.8	5607.8	Δ QoQ	-0.5%	1.1%	19%
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<p>Sharp improvement in operating margins</p>	<p>The company's operating margins have shown an improvement with tight control on operating expenditure coupled with a healthy revenue growth. This marks a reversal in the recent trend of margin fall.</p> <table border="1" data-bbox="586 879 1453 957"> <thead> <tr> <th></th> <th>Q3FY03</th> <th>Q4FY03</th> <th>Q1FY04</th> </tr> </thead> <tbody> <tr> <td>EBITDA margin</td> <td>21%</td> <td>17%</td> <td>19%</td> </tr> </tbody> </table>		Q3FY03	Q4FY03	Q1FY04	EBITDA margin	21%	17%	19%												
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<p>Employee addition remains strong</p>	<p>Manpower addition continued to remain strong with a recruitment of 2,299 employees, including 1,533 people in the organic software business during the quarter. The net employee addition during the quarter stood at 1,962.</p> <table border="1" data-bbox="586 1108 1453 1192"> <thead> <tr> <th>Nos</th> <th>Q3FY03</th> <th>Q4FY03</th> <th>Q1FY04</th> </tr> </thead> <tbody> <tr> <td>Manpower strength</td> <td>8,748</td> <td>10,041</td> <td>12,003</td> </tr> <tr> <td>Net addition</td> <td>960</td> <td>1,293</td> <td>1,962</td> </tr> </tbody> </table>	Nos	Q3FY03	Q4FY03	Q1FY04	Manpower strength	8,748	10,041	12,003	Net addition	960	1,293	1,962								
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<p>Top clients growing at healthy rates</p>	<p>The current top 5, top 10 and top 20 clients of the company have grown by 7%, 13% and 16% respectively on a sequential basis. The revenue contribution from top clients is given below:</p> <table border="1" data-bbox="586 1304 1453 1415"> <thead> <tr> <th>% Revenue</th> <th>Q3FY03</th> <th>Q4FY03</th> <th>Q1FY04</th> </tr> </thead> <tbody> <tr> <td>Top 5</td> <td>31.9</td> <td>34.9</td> <td>31.0</td> </tr> <tr> <td>Top 10</td> <td>45.6</td> <td>47.2</td> <td>43.1</td> </tr> <tr> <td>Top 20</td> <td>56.1</td> <td>57.9</td> <td>54.1</td> </tr> </tbody> </table>	% Revenue	Q3FY03	Q4FY03	Q1FY04	Top 5	31.9	34.9	31.0	Top 10	45.6	47.2	43.1	Top 20	56.1	57.9	54.1				
% Revenue	Q3FY03	Q4FY03	Q1FY04																		
Top 5	31.9	34.9	31.0																		
Top 10	45.6	47.2	43.1																		
Top 20	56.1	57.9	54.1																		
<p>New dividend policy</p>	<p>In view of the improving strength of the balance sheet, supported by a better visibility of revenues / cash flow streams, the Board has initiated a practice of considering of quarterly dividends, subject to adequacy of profits and compliance with all applicable legal requirements. This is also in line with the growing expectations of investors world-wide for regular distribution of cash dividends.</p>																				
<p>Interim dividend declared</p>	<p>The company has declared an interim dividend of Rs.2.0 per share during the present quarter for the quarter ended Sep 30, 2003.</p>																				

Update on business categories

Software Services	<p>The revenues from software services grew 20% sequentially. EBITDA from the business increased by 23% driven by a healthy growth in revenues along with an improvement in margins. This business saw a net addition of 1,478 people during the quarter, taking the total headcount to 9,271.</p> <p>The organic software business revenues (excluding contribution of the division acquired from HCL Infosystems) increased by 12% driven by a sharp increase in volumes. There was a net addition of 438 to the headcount of the organic software business while the same figure for the non-organic entities was 1,040 (including 808 people from the acquired division of HCL Infosystems).</p> <p>The key clients added in this segment during the quarter were Akibia, Adtech, Axcelis amongst others. New projects have also been bagged from existing clients like Citi Financial and Mortgage Company (CFMC), KANA and NCR.</p>
Infrastructure Services	<p>The infrastructure services business of the company had a QoQ growth of 11% in revenues. The company is a pioneer in the remote Infrastructure Management Space and is gaining early success in the global markets and continues to aggressively invest in market access, IPR creation and service delivery infrastructure.</p> <p>In the current quarter, there was a sharp drop in the gross margins of this business and a consequent loss at the operating level. This was due two factors :a) Transition costs related to migrating Infrastructure Management from onsite to offshore. While this is charged to the customer on an amortized basis spread over the fixed period of the contract, in the company books this is charged off as expense at the time the expenditure is incurred and not proportional to the revenue. Thus, costs are front loaded. b) Ramp up of sales and marketing costs involved in getting an international clientele. c) Investment in creating unique service products like "My Dashboard" and "Smart Manage" which gives the company a competitive advantage over its global competition. Manpower in this business witnessed a net addition of 110 taking the total employee strength to 724.</p>

Update on business categories (contd)

BPO Services	<p>HCLT's BPO revenues had a QoQ growth of 19%. The business has turned EBIDTA positive in the current quarter. Total manpower witnessed a growth of 394 taking the permanent employees in this business to 1,860. The company added 2 large clients during the quarter. It has also initiated pilot projects and development of proof of concepts for a few other clients.</p> <p>The new clients added include a performance enhancement software development company, a global supplier of integrated circuits for the personal and networked computer and communications amongst others.</p>
Government Practice	<p>Helped by the continued efforts to turn around this business, there has been a good sequential revenue growth of 12% and a positive gross margin. With expectations of further ramp-ups and a tight control of costs, the forthcoming quarters should see improved profitability metrics.</p>

Other business details**New clients and projects**

During the quarter, HCLT added 36 new clients. Among these were a premier provider of voice-empowered mobile solutions; a leading provider of network technology for enterprises, carriers and service providers; a global supplier of integrated circuits; a performance enhancement software development company; Akibia; Adtech; Axcelis and others.

HCLT also made significant strategic inroads in its chosen verticals of Aerospace, Automotive, Insurance, Banking & Financial Services. The contribution and quantum of enterprise applications work, consulting and implementation services also increased during the quarter.

During the quarter, the company bagged various new projects from existing clients like Citi Financial and Mortgage Company (CFMC), KANA and NCR.

HCLT currently has 414 active clients. The distribution of revenues across the company's clients has been indicated in the table.

Revenue contribution for the quarter

From	%
Top 5	31.0
Top 10	43.1
Top 20	54.1

The details of some of the significant new engagements are:

HCLT is working for a premier provider of voice-empowered mobile solutions and is developing customer specific voice-enabled solutions.

HCLT has established the relationship of an "Offshore Development Partner" with Akibia Consulting – a well regarded planning, integration, and management services firm. As per the arrangement, Akibia will handle onsite implementation, whilst the customization & configuration, offshore, will be done by HCLT.

HCLT has also entered into a contract with a global supplier of integrated circuits for the personal and networked computer and communications market, where it is providing voice support for integrated circuits in the US and UK regions.

Marketing and Technology Initiatives

HCLT was the principal sponsor at the SAE India National Conference on Automotive Infotronics held at IIT Chennai on 22nd and 23rd August, 2003.

During the quarter HCLT developed and implemented custom built in-house and proprietary tools that complement its already sophisticated tool chest for delivery of high quality software. The use of such tools helps to lower the perceived risk from outsourcing as customers have an updated view with regard to the progress of their projects at any given time. Some of these specialised tools also help in efficient portfolio analysis prior to outsourcing, crunch delivery time and add to the robustness of the software under development. All these aspects lead to the significant enhancement of overall customer experience.

Upgrading professional domain knowledge

In pursuance of HCLT's initiative to impart and expand the business domain knowledge of its engineers, the firm is successfully implementing a certification programme. As a consequence, a number of engineers have already been certified and have achieved the Associate designation (ACS – Associate, Customer Service) from the Life Office Management Association (LOMA) and INS Certification from the American Institute of Chartered Property and Casualty Underwriters (AICPCU).

Human Resource Initiatives

During the quarter, HCLT witnessed a healthy growth in manpower and added 2,299 people (on a gross basis), including 745 people in the organic software services. The net employee addition during the quarter was 1,962 of which 1,478 were added in the software services business (438 in the organic software business) and 394 were added in the BPO business. The headcount of the company (including subsidiaries) at the end of the quarter stood at 12,003 up from 10,041 last quarter. The current annualized attrition rate is 8.1%.

Infrastructure

During the current quarter, the company spent an amount of Rs.477 mn on capital expenditure. The total seat capacity (for organic software business) at the end of the quarter stood at 7,015.

Current infrastructure

Location	Seats
Noida	1,375
Gurgaon	1,186
Chennai	4,454

Key Operational Metrics

ORGANIC SOFTWARE	
REVENUE BREAKUP	(\$'000)
Offshore Centric	52,804
Onsite	20,413
BILLING RATES METRICS	
Efforts billed (manmonths)	
Offshore Centric	11,817
Onsite	2,064
Subcontracted Efforts	216
Capacity Utilisation (%)	
Offshore Centric	74.8
Onsite	93.6
BillRates (\$'000/Manmonth)	
Offshore Centric	4.47
Onsite	9.89
CONSOLIDATED	
REVENUE BREAK UP (%)	
Location	
Offshore Centric	81
Onsite	19
Service Offerings (%)	
Technology Development Services	25.3
Software Product Engg Services	16.1
Applications Services	40.8
Infrastructure Services	9.0
BPO Services	8.8
Geography (%)	
US	60.0
Europe	19.1
Asia Pacific	20.9
Repeat Business (%)	78
CLIENT CONCENTRATION	
Total no. of clients	414
No. of Million \$ Clients	83
No. of 5 Million \$ Clients	14
No. of Fortune 500 clients	47
% Contribution from:	
Top 5 clients	31.0
Top 10 clients	43.1
Top 20 clients	54.1

Manpower Details

	As on June 30,2003	As on Sep 30,2003
TOTAL	10,041	12,003
Software Services		
Total	7,793	9,271
Organic	6,443	6,881
Technical	5,677	6,170
Offshore	5,070	5,461
Onsite	607	709
Support	766	711
Sales and Marketing	107	104
Others	659	607
Offshore	600	553
Onsite	166	158
Non-organic	1,350	2,390
Technical	1,191	2,108
Support	159	282
Infrastructure services		
Organic	614	724
Technical	383	451
Support	231	273
BPO		
Total	1,466	1,860
Organic	1,418	1,678
Non-organic	48	182
Government		
Non-organic	168	148
Technical	124	109
Support	44	39
Annualised Attrition (>1 yr.)	8.2%	8.1%

Financials

(First Quarter analysis based on the unaudited US GAAP financial results for Q1FY 2003-04)

Consolidated Income Statement (as per US GAAP) in Rs.mn

	Quarterly details			Growth	
	JAS'02	AMJ'03	JAS'03	Δ QoQ	Δ YoY
Gross Revenues	4424.4	4709.8	5607.8	19%	27%
Direct Costs	2582.0	3030.5	3633.6		
Gross Profits	1842.4	1679.3	1974.2	18%	7%
SG & A	827.4	892.4	996.0		
Foreign Exchange Gains/ (Loss)	(13.7)	24.5	60.9		
EBIDTA	1001.3	811.4	1039.1	28%	4%
Depreciation & Amortisation	204.9	233.0	266.4		
EBIT	796.4	578.4	772.7	34%	-3%
Other Income, net	80.8	564.0	432.6		
EBT	877.2	1142.4	1205.3	6%	37%
Provision for Tax	128.5	89.6	160.0		
EAT	748.7	1052.8	1045.2	-1%	40%
Share from equity investments	63.6	60.3	72.5		
Share of (income) / loss of minority shareholders	(49.5)	(144.4)	(162.2)		
Net Income	762.8	968.6	955.6	-1%	25%
Stock based sales incentive (Non Cash)	(2.2)	(11.2)	(9.6)		
Extraordinary Provision	0.0	0.0	0.0		
Net Income (after sales incentive and provisions)	760.6	957.4	946.0	-1%	24%

Key ratios

	Quarterly details		
	JAS'02	AMJ'03	JAS'03
Gross Margin	42%	36%	35%
Opex/Gross revenue	19%	19%	18%
EBIDTA Margin	23%	17%	19%
Net income/Gross revenue	17%	20%	17%

Note :

The Company has reclassified certain costs for the quarters JAS'02 and AMJ'03 between cost of revenues and selling, general & administrative expenses to conform to the requirements under US GAAP. This reclassification has no impact on the profit numbers as reported.

Consolidated Balance Sheet (as per US GAAP)

in Rs.mn

	AS ON		
	30th SEP'02	30th JUNE'03	30th SEP'03
ASSETS			
a. Cash and cash equivalents	1,663	1,153	1,261
b. Accounts receivable, net	3,975	2,790	3,881
c. Treasury Investments	11,033	14,693	15,730
d. Other current assets	2,060	2,091	2,605
A. Total current assets (a+b+c+d)	18,730	20,726	23,477
B. Property and equipment, net	2,498	2,919	3,123
C. Intangible assets, net	2,177	2,168	2,154
D. Investments in Venture Funds / Equity investees	2,506	2,466	2,630
E. Other Assets	328	486	403
Total assets (A+B+C+D+E)	26,239	28,766	31,787
LIABILITIES AND STOCKHOLDERS' EQUITY			
e. Total current liabilities	3,250	3,641	4,668
f. Long -term debt	-	464	1,376
g. Other liabilities	141	179	176
E. Total liabilities (e+f+g)	3,391	4,285	6,221
F. Minority Interest	379	627	767
G. Total Stockholders equity	22,470	23,855	24,799
Total liabilities and stockholders equity (E+F+G)	26,239	28,766	31,787

Q1 FY2004 results

Revenue breakup between various business categories in Rs.mn

	Software Services			BPO Services		
	AMJ'03	JAS'03	QoQ	AMJ'03	JAS'03	QoQ
Gross Revenues	3903.3	4699.2	20%	416.7	494.2	19%
Direct Costs	2402.0	2933.8		370.1	419.0	
Gross Profits	1501.3	1765.4	18%	46.6	75.2	62%
SG & A	677.3	789.4		97.4	75.0	
Foreign Exchange Gains/ (Loss)	9.2	51.8		15.0	9.6	
EBIDTA	833.1	1027.9	23%	(35.8)	9.9	
Depreciation & Amortisation	140.7	167.1		53.1	65.0	
EBIT	692.5	860.7	24%	(88.9)	(55.2)	
Interest & Other Income, net	552.7	436.4		2.4	(3.8)	
EBT	1245.2	1297.1	4%	(86.5)	(59.0)	
Provision for Tax	85.1	162.4		1.5	(3.0)	
EAT	1160.1	1134.7	-2%	(88.0)	(56.0)	

Note : JAS'03 software services revenues include Rs309.5 on account of business acquired from HCL Infosystems consolidated for the first time. The corresponding net income for the quarter was Rs6.5mn.

	Infrastructure Services			Govt. Practice		
	AMJ'03	JAS'03	QoQ	AMJ'03	JAS'03	QoQ
Gross Revenues	455.2	504.9	11%	85.5	95.8	12%
Direct Costs	296.6	384.6		112.7	82.5	
Gross Profits	158.7	120.3	-24%	(27.2)	13.3	
SG & A	87.8	104.4		29.9	27.3	
Foreign Exchange Gains/ (Loss)	1.4	(0.1)		(1.1)	(0.4)	
EBIDTA	72.3	15.8		(58.3)	(14.4)	
Depreciation & Amortisation	26.3	28.7		13.0	5.6	
EBIT	46.0	(12.9)		(71.2)	(19.9)	
Interest & Other Income, net	7.2	1.0		1.7	(1.0)	
EBT	53.2	(11.9)		(69.6)	(20.9)	
Provision for Tax	11.6	0.6		(8.6)	0.1	
EAT	41.6	(12.5)		(61.0)	(21.0)	

Inter Co Adjustment	
AMJ'03	JAS'03
(150.9)	(186.2)
(150.9)	(186.2)

Key ratios

	Software Services		BPO Services		Infrastructure Services	
	AMJ'03	JAS'03	AMJ'03	JAS'03	AMJ'03	JAS'03
Gross Margin	38%	38%	11%	15%	35%	24%
Opex/Gross revenue	17%	17%	23%	15%	19%	21%
EBIDTA Margin	21%	22%	-9%	2%	16%	3%
Net income/Gross revenue	30%	24%	-21%	-11%	9%	-2%

	Govt. Practice	
	AMJ'03	JAS'03
Gross Margin	-32%	14%
Opex/Gross revenue	35%	28%
EBIDTA Margin	-68%	-15%
Net income/Gross revenue	-71%	-22%

\$ Assumptions

The financials are based on the closing US\$ rates for the last day of the quarter:

US\$1 = Rs.45.87 for JAS'03

US\$1 = Rs.46.43 for AMJ'03

US\$1 = Rs.48.47 for JAS'02

About HCL Technologies

HCL Technologies is one of India's leading global IT services and product engineering companies, providing value-added, software-led IT solutions and services to large and medium-scale organisations. Founded in 1991, HCL Technologies focuses on technology as well as R&D outsourcing, with the objective of working with clients in areas at the core of their business. HCL Technologies delivers these services through an extensive offshore software development infrastructure and a vast global marketing network that enables scalable, flexible and cost-effective delivery. The company's well defined business strategy has enabled it to build domain expertise across a host of chosen verticals including among others banking, funds management, insurance, petrochemicals, pharmaceuticals, aerospace, automotives, semi-conductors and retail. As of 30 September 2003, HCL Technologies Limited, along with its subsidiaries, had 12,003 employees. The HCL Technologies team today has operations spanning 26 locations in 14 countries — covering over 80% of the world IT market. Together with its knowledge of embedded systems, core technologies and application development expertise, HCL Technologies is positioned, as a composite solutions provider equipped to cater to the entire gamut of IT needs. For more information, visit HCL Technologies at www.hcltech.com

Forward Looking Statements

Certain statements in this release are forward-looking statements, which involve a number of risks, and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. The risks and uncertainties relating to these statements include, but are not limited to, risks and uncertainties regarding fluctuations in earnings, our ability to manage growth, intense competition in IT services including those factors which may affect our cost advantage, wage increases in India, our ability to attract and retain highly skilled professionals, time and cost overruns on fixed-price, fixed-time frame contracts, client concentration, restrictions on immigration, our ability to manage our international operations, reduced demand for technology in our key focus areas, disruptions in telecommunication networks, our ability to successfully complete and integrate potential acquisitions, liability for damages on our service contracts, the success of the companies/ entities in which we have made strategic investments, withdrawal of governmental fiscal incentives, political instability, legal restrictions on raising capital or acquiring companies outside India, and unauthorized use of our intellectual property and general economic conditions affecting our industry. The company does not undertake to update any forward-looking statement that may be made from time to time by or on behalf of the company.

For any further details / clarifications please contact:

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