

**HCL TECHNOLOGIES REPORTS Q2 RESULTS**

**NET INCOME UP 164% - crosses Rs. 1183 million**

**NEW LONG TERM CONTRACTS WORTH OVER Rs. 10 BILLION SIGNED**

**For immediate release**

**January 19, 2001**

**Executive Summary**

**Financial Highlights**

**(Unaudited US GAAP – Second Quarter results for FY 2000-01)**

The highlights of the financial performance for **Q2 ended December 31, 2000** compared with the corresponding quarter of the previous year are:

- Net income increased 164% to cross Rs. 1183 million.
- Net income (w/o non-cash sales incentive) increased 177% to cross Rs. 1240 million.
- Gross revenue increases 66% to reach Rs. 3423 million

The highlights of the financial performance for **Half Year (6 months) ended December 31, 2000** compared with the corresponding half year of the previous year are:

- Net income increased 164% to cross Rs. 2145 million.
- Net income (w/o non-cash sales incentive) increased 176% to cross Rs. 2241 million.
- Gross revenue increases 65% to reach Rs. 6600 million

**New Long Term Contracts**

- **HCL Technologies continues its strategy of forging long-term alliances with its customers and has announced two new long term contracts with NCR Corporation and Convergys Corporation. The company continues to add new customers and new offshore development centres for strategic customers including NEC and Agilent amongst others.**
- **NCR Corporation** (NYSE: NCR) – HCL Tech entered into a five year strategic alliance with NCR to develop new solutions in the CRM, store automation and payment system segments. HCL Tech will provide software development consultancy and engineering services to NCR over the course of the next five years from a dedicated ODC in India, besides providing onsite project expertise. The relationship is expected to generate \$ 40 million per annum over the next five years.
- **Convergys Corporation** (NYSE: CVG) - HCL Tech also signed a long-term contract with Convergys – a leading provider of outsourced information and customer management products and services. Under this relationship, HCL Tech will be engaged in developing wireless billing

solutions in mobile, IP and convergent billing. Additionally, the company will build customer relationship tools for emerging areas like wireless and IP and undertake mission critical CRM initiatives. This alliance is expected to result in a \$ 65 million revenue inflow over the next five years.

### **Operational Highlights**

- Offshore centric revenues constitute 63% of Q2's revenues - 84% of all HCL Tech's employees based in India.
- Well balanced client concentration - Top 5, Top 10 and Top 20 customer contributions at 23%, 35% and 45% respectively
- Total customers up by 18 to reach 304 as on December 31, 2000
- Billable engineers up 57% over Q2 1999-00 aggregating to 3,773 – a net addition of 251 during the quarter.
- Dot com customers account for less than 5% of revenues.

**The company continues its consistent and strategic focus on 6 key operating strategies leading to a further strengthening of its position in the IT sector.**

- Emphasis on quality revenue mix
- Emphasis on earnings led growth
- Emphasis on Front running emerging technologies
- Emphasis on non-linear growth model
- Emphasis on creating a strong management team
- Emphasis on employee development and contribution

### **\$ Assumptions**

The financial numbers are based on the quarter closing \$ rates i.e. 1\$ = Rs. 43.66 for quarter ended December 31, 1999 and 1\$ = Rs. 46.69 for quarter ended December 31, 2000

**Attached Analysis and Financial table (P&L, B/S, Key Parameters)**

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## **Corporate Overview**

HCL Technologies is one of the leading global IT services, solutions and product engineering companies. The company's mission is to leverage its technology partnerships on a global scale to deliver cost effective engineering solutions of the highest quality for the emerging network centric world. As such, the company provides value-added, software engineering led IT solutions and services in the areas of e-commerce and Internet, as well as a gamut of Enterprise solutions to large and medium scale organisations, across the world.

In order to address distinctive market needs, HCL Tech has structured its offerings around its specialised skills and processes. Leveraging its unique technology development services, the company focuses on developing software components that are either embedded into or integral to the functioning of hardware. Its software product engineering services are targeted towards software companies and focus on designing and developing applications based on emerging technologies. HCL Tech also offers high calibre networking services to large multinational corporations, helping them develop, create and maintain global networks. Global implementation and roll-out support for technology deployment are some of the other areas in which HCL Tech has strengthened its suite of offerings and the company has progressively built on its core strengths to cater to emerging IT needs.

Empowered by its exclusive "Off sourcing" methodology and a dedicated, world-class offshore infrastructure comprising 13 Technology Development facilities, HCL Tech offers its customers the salient benefits of superior quality, a distinct time-to-market advantage and scalability.

## **Update on Business Strategies in Second Quarter of 2000-01**

HCL Tech's consistent and strategic focus on 6 key operating strategies has led to a further strengthening of its position in the IT sector.

### **I. EMPHASIS ON QUALITY REVENUE MIX**

HCL Tech has achieved an increase of 66% in gross revenues over the corresponding quarter of previous year to reach Rs. 3423 million for the quarter and continues to move up the value chain. In addition it has achieved a higher quality revenue mix using a two-fold approach.

1. **Increased contribution from high value add, high margin services** -
  - **Offshore** centric revenues increased by 70% over Q2 of last year to cross Rs. 2156 million, accounting for 63% of total revenues.
  - **Internet and e-commerce** revenues rose by 123% over Q2 of last year to reach Rs. 1746 million, contributing to 51% of HCL Tech's revenues.
  - **Technology Development Services** revenue grew 127% over Q2 of last year to Rs. 1515 million, comprising 44% of revenues.
  - Contribution from **High Value added services** (Technology Development Services, Software Product Services and Networking services) rose to 77% of total revenues.

## 2. De-risked business model by avoiding a client concentration

- Client concentration remained well balanced with the Top 5, Top 10 and Top 20 customer contributions at 23%, 35% and 45% of revenues respectively.
- HCL Tech continues to partner with some of the most renowned names in the world and has added 18 new customers including Convergys and Agilent Technologies during this quarter, taking the total customer tally to 304 as on December 31, 2000.

## **II. EMPHASIS ON EARNINGS LED GROWTH**

### 1. Quality revenue mix with emphasis on moving up the value chain has resulted in margin expansion and earnings growth.

- YoY growth (w/o non cash sales incentive) grew
  1. Gross margin – 49.4% of gross revenues up from 47.7% for Q2 last year.
  2. EBDITA margin – 29.6% of gross revenues up from 21.8% for Q2 last year.
  3. EBIT margin – 26.8% of gross revenues up from 18.0% for Q2 last year.
  4. Share of income from equity investments – 4.3% of gross revenues up from 2.7% for Q2 last year.
  5. Net Income margin – 36.2% of gross revenues up from 21.8% for Q2 last year.

## **III. FOCUS ON EMPLOYEE DEVELOPMENT AND CONTRIBUTION**

HCL Tech recognises Human Resources as the backbone of its long-term success and has consciously evolved unique strategies to increase the value-add per employee. Its focused approach has made it an '**Employer of choice**' both in India and abroad.

- **Total manpower** as on December 31, 2000 stood at 4,394 with 3773 billable engineers up by 251 during the quarter.
- 3,707 of HCL Tech's employees i.e. **84% are based in India**.
- The company's **ESOP coverage spans 93.1%** of employees as on December 31, 2000.
- The company has offered jobs to 42 senior management trainees from premier management institutes this quarter.

## **IV. FRONT RUN EMERGING TECHNOLOGIES**

In line with the focus on emerging and high-growth technology areas, HCL Tech continued to provide high value-add solutions to clients, in the areas of internet/ e-commerce, networking and embedded systems.

Significant investments have been made in creating a vast offshore infrastructure to meet the growing demand for offshore services, reflecting 66% growth over Q2 of previous year. Offshore delivery is carried out through 13 Technology Development Centres (TDC) – each oriented towards specific horizontal technologies. Additionally,

HCL Tech has set up 25 Offshore Development Centres (ODC) dedicated to specific clients. During this quarter, the company set up ODCs for four additional clients, thus providing enhanced visibility to HCL Tech's long term revenues.

**NCR Corporation** (NYSE: NCR) – HCL Tech entered into a five year strategic alliance with NCR to develop new solutions in the CRM, store automation and payment system segments. HCL Tech will provide software development consultancy and engineering services to NCR over the course of the next five years from a dedicated ODC in India, besides providing onsite project expertise. The relationship is expected to generate \$ 40 million per annum over the next five years.

**Convergys Corporation** (NYSE: CVG) - HCL Tech also signed a long-term contract with Convergys – a leading provider of outsourced information and customer management products and services. Under this relationship, HCL Tech will be engaged in developing wireless billing solutions in mobile, IP and convergent billing. Additionally, the company will build customer relationship tools for emerging areas like wireless and IP and undertake mission critical CRM initiatives. This alliance is expected to result in a \$ 65 million revenue inflow over the next five years.

**NEC Corporation** (NASDAQ: NIPNY) – HCL Tech set up a dedicated ODC in Gurgaon to undertake technology development projects for NEC, Australia – one of the largest manufacturers of PCs, servers and semiconductor products. HCL Tech is engaged in building an Internet Service Router, which involves going through network protocol stacks and addressing security parameters.

**Agilent Technologies** (NYSE: A) – Agilent Technologies a global spin off of Hewlett Packard, is engaged in telecom design and manufacture of electronic products. HCL Tech is offering design services for the products produced by Agilent's Australian subsidiary through a dedicated centre located at Noida.

HCL Tech continued its progress up the value chain by investing in R&D to provide accelerated quality growth. Some of the new cutting edge work undertaken during the quarter includes:

- **SCM software development** – HCL Tech is developing and testing the new version of SCM software including order management system, auctioning system, procurement and demand collaboration for a leading vendor in US.
- **VoIP solutions on ATM** – The company is providing VoIP capabilities on the ATM access concentrator that enables branch offices to cost effectively connect their local voice, video or data networks to a public, low speed ATM WAN. This solution is being offered to a global supplier of communications equipment and systems.
- **SCSI interface driver on proprietary architecture** – HCL Tech is creating a SCSI interface driver for LINUX, based on the proprietary architecture of a leading designer and supplier of fibre channel hardware and software.
- **Software product on J2EE framework to support energy trading** – HCL Tech is developing a software product based on J2EE framework to enable a US based utility to manage its energy trading activity. The system will provide real time updates to the users on changes or modifications being made for each trade.
- **VMIPS 'soft core' for broadband wireless communications** – HCL Tech has integrated a Virtual MIPS soft core as the Scalar Processing

Unit around the functional blocks of a client's trade-marked chip for broadband wireless communications.

- **IPV4 component development for networking industry** – HCL Tech is building IPV4 components in the forwarding plane and RIP as the routing protocol in the control plane for the client's network processor reference system. This would enable the network equipment manufacturers to market highly scaleable products to the market faster.
- **EMS for optical cross connect new generation product** – The company is developing and implementing an EMS for an optical cross connect new generation product.
- **Development of next generation network processors** – HCL Tech is designing and developing the next generation network processors based on .13 micron architecture for a leading semiconductor client.
- **Development of sub components of central server** – HCL Tech is developing some of the sub components of ILSP2 central server. These sub components would be mainly related to the MVP Service Provider (MVPSP) within the central server.

## **V. EMPHASIS ON NON LINEAR GROWTH MODEL**

To give a further impetus to revenues and earnings growth, HCL Tech has fostered the concept of multiple growth windows, resulting in a non-linear growth model, wherein the company seeks to supplement its organic growth through diverse avenues.

### **1. Joint Ventures & Strategic Partnerships**

HCL Tech has a successful track record of Joint Ventures and acquisitions with significant international experience in management of such relationships, which is key to a successful acquisition.

The investment in HCL Perot Systems (HPS), a 50:50 Joint Venture between HCL Technologies and Perot Systems Inc., continues to add value to HCL Tech. With a manpower strength of 1,930 as on December 31, 2000, HCL Perot has emerged as a leading outsourcing and systems integration company with major clients in the banking, energy, healthcare, insurance, manufacturing and telecommunications industries. HPS recorded an 88% increase in net income over the corresponding quarter of last year.

### **2. Equity Investments for Value Acquisition**

The success of a large global IT company – depends to a large extent on its annual investments in R&D. Several small companies are engaged in developing cutting edge technologies whose commercialisation will result in value creation for its shareholders. HCL Tech is participating in developing some of these cutting edge technologies for its customers and sees an opportunity for value acquisitions, to enhance value for its own shareholders by participating in the upsides.

HCL Tech continues with its initiative in investing in its customers and strategic partners and the investments stood at \$ 15 million as on December 31, 2000.

## **VI. EMPHASIS ON CREATING A STRONG MANAGEMENT TEAM**

HCL Tech believes in success through creation of a strong focused management team, thus leveraging the talent available within and outside the company. Some distinctive initiatives in this direction include:

1. Distinguished international Board of Directors
2. Best of Class corporate governance initiatives
3. Global Advisory Board & Technology Advisory Council
4. Organisation structured to encourage entrepreneurship
5. Highly experienced and proactive management team

**Technology Advisory Council** – During this quarter, HCL Tech's Technology Advisory Council (TAC) had its first meeting in USA. TAC members comprising of luminaries from industry (Commerce One, Internet2, Flarion Technologies, WebTV Networks, Verity) and academia (Princeton University, Stanford University) brainstormed on the technologies which would shape the millenium and identified focus for HCL Tech's 'Technology Cradles'. The TAC is expected to guide the company on its future technology initiatives.

**Stock Split** - The management's consistent focus has been on enhancing shareholder value. HCL Tech completed one year of listing at domestic stock exchanges on January 11, 2001. The IPO at Rs. 580 per share (Rs. 4 par value) was one of the most successful in Indian corporate history. The HCL Tech management decided on a stock split, approved by the shareholders on October 20, 2000, to make the share more affordable for retail investors, including employees, resulting in increased retail interest and higher liquidity. Subsequent to the stock-split, with 283 million shares HCL Tech had one of the largest stock bases amongst listed Indian IT companies.

The company also continued its initiatives in the area of Corporate Governance.

- Audit committee headed by Ambassador Richard Burt – guidelines for Insider trading & best practices implemented across the company.
- Related Party Transactions Committee headed by T S R Subramanian – monitoring related party transactions, which continue to be low at 0.31% of revenues for Q2 2000-01.
- Compensation Committee headed by Robin Abrams – approves ESOP plan to cover 93.1% of employees

## **VII. CONCLUSION**

Going forward, the company believes it is well positioned to leverage its unique strengths in the global IT market space and enhance value for its partners and shareholders.

### **\$ Assumptions**

The financial numbers are based on the quarter closing \$ rates i.e. 1\$ = Rs. 43.66 for quarter ended December 31, 1999 and 1\$ = Rs. 46.69 for quarter ended December 31, 2000

**Attached Financial table (P&L, B/S, Key Parameters. & background on Investments made)**

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**HCL Technologies Limited**  
**Consolidated Income Statement (Unaudited) under US GAAP for Quarter ended**  
**December 31, 2000**  
**Comparison over corresponding period of previous year**

*Rs. Million*

	OND00 (3 mth)	OND99 (3 mth)	Growth (Y-o-Y)	Dec-00 (6 mth)	Dec-99 (6 mth)	Growth (Y-o-Y)	FY 99-00
<b>Gross Revenues</b>	<b>3,423</b>	<b>2,056</b>	<b>66%</b>	<b>6,600</b>	<b>3,988</b>	<b>65%</b>	<b>9,256</b>
Direct Cost	1,732	1,075	61%	3,348	2,110	59%	4,772
<b>Gross Profit</b>	<b>1,691</b>	<b>982</b>	<b>72%</b>	<b>3,251</b>	<b>1,878</b>	<b>73%</b>	<b>4,484</b>
SG&A	677	534	27%	1,301	1,049	24%	2,254
<b>EBDITA</b>	<b>1,014</b>	<b>448</b>	<b>127%</b>	<b>1,951</b>	<b>829</b>	<b>135%</b>	<b>2,230</b>
Depreciation and amortisation	98	77		188	151		314
<b>EBIT</b>	<b>916</b>	<b>370</b>	<b>147%</b>	<b>1,762</b>	<b>679</b>	<b>160%</b>	<b>1,916</b>
Interest & other income, net	264	113		432	134		538
EBT	1,180	483	144%	2,194	813	170%	2,420
Provision for income tax	86	90		189	106		263
EAT	1,094	394	178%	2,006	706	184%	2,157
Share of income (loss) from equity investment	146	55		236	110		276
Share of income (loss) of minority shareholders	0	1		0	4		-
<b>Net Income (loss)</b>	<b>1,240</b>	<b>448</b>	<b>177%</b>	<b>2,241</b>	<b>812</b>	<b>176%</b>	<b>2,433</b>
Less: Non cash Sales Incentive	56	-		96	-		101
Net Income (including non cash sales incentive)	1,183	448	164%	2,145	812	164%	2,332
<b>Key Ratios</b>							
Gross Margin/ Gross Rev.	49.4%	47.7%		49.3%	47.1%		48.4%
Opex/Gross Rev.	19.8%	26.0%		19.7%	26.3%		24.3%
EBDITA/Gross Rev.	29.6%	21.8%		29.6%	20.8%		24.1%
EBIT/Gross Rev.	26.8%	18.0%		26.7%	17.0%		20.7%
Net Income (w/o non cash sales incentive)/Gross Rev.	36.2%	21.8%		34.0%	20.4%		26.3%
Net Income (incl. non cash sales inc.)/Gross Rev.	34.6%	21.8%		32.5%	20.4%		25.2%
EPS (incl. non cash sales inc.)	3.97	1.69	135%	7.26	3.07	137%	8.30
EPS (w/o non cash sales inc.)	4.16	1.69	147%	7.59	3.07	147%	8.66

*The figures have been converted to Rs. using the December 31, 2000 exchange rates for Q2 2000-01 and December 31, 1999 rates for Q2 1999-00.*

## HCL Technologies Limited

**Consolidated Balance Sheet (Unaudited) under US GAAP for Quarter  
ended December 31, 2000**

**Comparison over corresponding period of previous year**

	As of Dec 31, 2000	As of Sept 30, 2000	Year Ended June 30, 2000
<i>Rs. million</i>			
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	2,850	904	1,781
Accounts receivable, net	2,575	2,700	1,844
Marketable securities, available for sale	7,562	6,980	7,560
Other Current Assets	1,234	2,139	574
Property and equipment, net	1,146	927	791
Intangible assets, net	414	438	456
Investments	1,565	1,413	1,195
Other Non-current assets	116	120	128
<b>TOTAL ASSETS</b>	<b>17,463</b>	<b>15,621</b>	<b>14,331</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Total current liabilities	2,021	1,851	1,693
Non current liabilities	35	33	30
Total stockholders' equity	15,406	13,737	12,608
<b>TOTAL LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>	<b>17,463</b>	<b>15,621</b>	<b>14,331</b>
Exchange Rate Used ( US \$ 1 = )	46.69	46.15	44.75