

HCL Technologies Limited

Quarterly Results Update

Quarter ended December 31, 2003

powering imagination

HCL TECHNOLOGIES | **HCL**

29th January 2004

Q2 FY2004 – Key Highlights

Financial Highlights

- Revenue up 11% QoQ at Rs 6.22bn.
- Organic software revenue at Rs 4.08bn, up 11% sequentially
- EBITDA margin up 130bps
- EBITDA up by 19% QoQ
- Consolidated net income at Rs 3.51bn (including gain from the sale of stake in HCL Perot Systems)
- Marked turnaround in Infrastructure Business
- BPO operating margins continue to improve
- Days of sales outstanding at the end of the quarter is 60 days, down from 63 days last quarter
- Interim dividend at 100% declared

Business Highlights

- Total clients at 438, including 56 Fortune 500 clients. 37 new clients
- Clients having a run rate of more than \$1mn stood at 95
- Net addition of 1,062 employees of which 575 were added in the software services business and 415 in BPO.
- Stake in HCL Perot Systems fully divested in favour of joint venture partner for Rs 4.8bn

Performance Review

<p>Strong growth in software services business leads to healthy revenue growth</p>	<p>Revenues from software business continued to grow at a strong clip continuing with the trend established in the previous quarter. Overall HCLT revenues in the quarter grew by 11%.</p> <table border="1" data-bbox="565 472 1432 667"> <thead> <tr> <th>Rs. Mn</th> <th>Q4FY03</th> <th>Q1FY04</th> <th>Q2FY04</th> </tr> </thead> <tbody> <tr> <td>Software Services business</td> <td>3903.3</td> <td>4699.2</td> <td>5154.1</td> </tr> <tr> <td>Δ QoQ</td> <td>3.4%</td> <td>20.4%</td> <td>9.7%</td> </tr> <tr> <td>HCLT revenues</td> <td>4709.8</td> <td>5607.8</td> <td>6223.2</td> </tr> <tr> <td>Δ QoQ</td> <td>1.1%</td> <td>19.1%</td> <td>11.0%</td> </tr> </tbody> </table>	Rs. Mn	Q4FY03	Q1FY04	Q2FY04	Software Services business	3903.3	4699.2	5154.1	Δ QoQ	3.4%	20.4%	9.7%	HCLT revenues	4709.8	5607.8	6223.2	Δ QoQ	1.1%	19.1%	11.0%
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Δ QoQ	1.1%	19.1%	11.0%																		
<p>Continued 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.</p> <table border="1" data-bbox="565 800 1432 869"> <thead> <tr> <th></th> <th>Q4FY03</th> <th>Q1FY04</th> <th>Q2FY04</th> </tr> </thead> <tbody> <tr> <td>EBITDA margin</td> <td>17.2%</td> <td>18.5%</td> <td>19.8%</td> </tr> </tbody> </table>		Q4FY03	Q1FY04	Q2FY04	EBITDA margin	17.2%	18.5%	19.8%												
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EBITDA margin	17.2%	18.5%	19.8%																		
<p>Continued scale-up on manpower</p>	<p>Manpower addition continued to remain strong with a recruitment of 1,748 employees during the quarter, including 1,054 people in software services business and 561 in BPO. The net employee addition during the quarter stood at 1,062.</p> <table border="1" data-bbox="565 1037 1432 1121"> <thead> <tr> <th>Nos</th> <th>Q4FY03</th> <th>Q1FY04</th> <th>Q2FY04</th> </tr> </thead> <tbody> <tr> <td>Manpower strength</td> <td>10,041</td> <td>12,003</td> <td>13,065</td> </tr> <tr> <td>Net addition</td> <td>1,293</td> <td>1,962</td> <td>1,062</td> </tr> </tbody> </table>	Nos	Q4FY03	Q1FY04	Q2FY04	Manpower strength	10,041	12,003	13,065	Net addition	1,293	1,962	1,062								
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Manpower strength	10,041	12,003	13,065																		
Net addition	1,293	1,962	1,062																		
<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 19%, 11% and 13% respectively on a sequential basis. The revenue contribution from top clients is given below:</p> <table border="1" data-bbox="565 1234 1432 1346"> <thead> <tr> <th>% Revenue</th> <th>Q4FY03</th> <th>Q1FY04</th> <th>Q2FY04</th> </tr> </thead> <tbody> <tr> <td>Top 5</td> <td>34.9</td> <td>31.0</td> <td>33.0</td> </tr> <tr> <td>Top 10</td> <td>47.2</td> <td>43.1</td> <td>42.8</td> </tr> <tr> <td>Top 20</td> <td>57.9</td> <td>54.1</td> <td>54.2</td> </tr> </tbody> </table>	% Revenue	Q4FY03	Q1FY04	Q2FY04	Top 5	34.9	31.0	33.0	Top 10	47.2	43.1	42.8	Top 20	57.9	54.1	54.2				
% Revenue	Q4FY03	Q1FY04	Q2FY04																		
Top 5	34.9	31.0	33.0																		
Top 10	47.2	43.1	42.8																		
Top 20	57.9	54.1	54.2																		
<p>Divested stake in HCL Perot Systems</p>	<p>During the quarter, HCLT divested its stake in HCL Perot Systems in favour of its joint venture partner for a consideration of Rs 4.8bn.</p>																				
<p>Highly liquid balance sheet</p>	<p>Liquid assets currently make up more than 61% of HCLT's balance sheet. The DSO at the end of the quarter stands at 60 days as compared to 63 at the end of the previous quarter.</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 Dec 31, 2003. This in line with the company's policy of considering quarterly dividends, subject to adequacy of profits and compliance with all applicable legal requirements.</p>																				

Update on business categories

Software Services	<p>The revenues from software services grew 10% sequentially. EBITDA from the business increased by 11% driven by some improvement in capacity utilization and overall control on costs. This business saw a net addition of 575 people during the quarter, taking the total headcount to 9,846.</p> <p>The organic software business revenues (including contribution of the division acquired from HCL Infosystems) increased by 11% driven by a sharp increase in volumes. There was a net addition of 409 to the headcount of the organic software business.</p>
BPO Services	<p>HCLT's BPO revenues had a QoQ growth of 13%. With the healthy scale-up in business, the EBITDA margins have improved.</p> <p>Total manpower witnessed a growth of 415 taking the permanent employees in this business to 2,275.</p>
Infrastructure Services	<p>The infrastructure services business of the company had a QoQ growth of 25% in revenues and a consequent improvement in profitability with the business returning to a positive bottomline.</p> <p>The business had seen a loss at the operating level in the previous quarter due to initial transition costs related to some contracts as well as investments in products / ramp up in sales and marketing infrastructure. The business saw a net addition of 95 people during the quarter (110 added in the previous quarter).</p>
Government Practice	<p>This business has seen a healthy 9% sequential revenue growth. Efforts are on to scale up revenues and, consequently, improve the profitability metrics of the business.</p>

Other business details**New clients and projects**

During the quarter, HCLT added 37 new clients, taking its total tally of active clients to 438. The distribution of revenues across the company's clients has been indicated in the table.

Revenue contribution for the quarter

From	%
Top 5	33.0
Top 10	42.8
Top 20	54.2

The details of some of the significant new engagements are:

In the technology-led service areas, HCLT won a prestigious order from a world-leading provider of storage networking solutions that includes hardware, software and services. HCLT will set up a dedicated Offshore Development Center (ODC) for the client to develop Storage Management software and provide product sustenance and product assurance for the embedded operating system for their fibre channel switches. This will provide critical time to market advantage to the client for their next generation products while optimizing the total cost of ownership in the hands of customers.

HCLT has also won a prestigious project from a specialist company in Voice over IP to internationalize the firm's Award-winning VOIP System that runs across multiple sites on IP PBX. This is to enable the customer to gain market entry in the Asia-Pacific region.

Noteworthy among the wins is a development project from a multi-billion dollar software company for one of their next generation products. The project will enable the customer to speed up the time for product development and market launch.

A US-based world leader in aerospace has awarded a substantial technology enhancement project in embedded electronics to HCLT.

HCLT has also won a contract from a leading transatlantic aerospace equipment company where it will convert the existing ASIC version of the design to an FPGA version. This includes changes to the design (wherever applicable), Functional Verification, Synthesis and Place & Route and post route simulation.

HCLT recently won a prestigious project from an existing customer which ranks amongst the largest global suppliers of technologically advanced aerospace and industrial products. HCLT will a)re-design the Slat / Flap Control Unit b)redesign and develop a Microprocessor board c)develop FPGAs to FAA standards d)design and develop a Board tester.

In the application-led service areas, HCLT has been selected by the world's largest Electronic Stock Market for the migration of two of their applications from legacy to new technology platforms. HCLT has set up an ODC for this purpose.

HCLT has been selected as the technology partner by one of US's largest originators and holders of student loans to offer services in the areas of application development, maintenance and application testing. The technologies involved range from mainframes to the MS .Net platforms. An ODC has been set up for this client.

HCLT has also set up an ODC for the investment management arm of a large US-based insurance and diversified financial services company. HCLT is involved in maintenance and production support of applications for mutual fund shareholder transaction and reporting.

One of top 5 US healthcare companies has awarded a large maintenance contract to HCLT for support of their mainframe-based custom applications to help them reduce cost of ownership.

HCLT has won a new project from a Fortune 50 integrated oil and gas company operating in more than 40 countries. The project entails development of a retail accounting interface software with implementations across Malaysia, Thailand, Eastern Europe, Germany and Belgium.

In practice-led services, the company has seen major growth during the quarter.

HCLT continues to enhance its relationship with AMD by supporting Multiple Application Development and Maintenance projects in the IT Co-Sourcing deal it won earlier in the year. Most recently it won a world-wide implementation and roll-out for SAP for this major.

HCLT has enjoyed a strategic partnership with Kana, a leading eCRM company and has helped to develop the company's Response 8, email response management system on a J2EE platform in a timely and cost effective manner.

HCLT has won multiple projects in the last quarter to demonstrate a leadership position in CRM implementation, upgrade, support and hosting solutions for Hi Tech Customers. Specific examples include Siebel 6 to 7.5.x upgrades at a leading Networking and Telecom OEM and Siebel 6 to 7.5.x upgrade and implementation of multiple modules for a world leader in Industrial computers.

Other examples include that of a leading aerospace company that has utilized the expertise of HCLT's Center of Excellence for Peoplesoft to outsource its ERP support and enhancement needs. A multi-billion dollar enterprise in security systems has also awarded an ERP project to HCLT that will help them to reduce the total cost of ownership for their Enterprise Applications.

HCLT has won a Significant Implementation Project from A Leading Software Company on .Net Architecture for Fortune 500 customers.

HCLT also recently replaced one of the world's largest IT services companies to provide complete Infrastructure Support and Worldwide Help-desk to a leading Networking OEM.

In BPO, the company has won the mandate from a leading telecom major to provide level one (L1) voice based support for its customers. Initially entailing 350 seats the project is expected to ramp up to over 1500 seats within 18 months.

HCLT has also signed a BPO contract with a leading re-mortgage service provider for back office services to be catered from Chennai. The project entails an initial pilot of over 20 people expected to ramp up to over 200 seats in the next six to nine months.

Another engagement entails HCLT providing BPO support to a global microprocessor major for procurement of technical components. A high end process, this will eventually manage the procurement of over \$ 1 billion worth of components per annum.

Partnership with Plumtree Software

HCLT has established a Partnership with the Enterprise Web leader, Plumtree Software. HCLT is now a Global Solutions Provider for Plumtree Software. Plumtree's Enterprise Web solution consists of integration products for bringing resources from traditional systems together on the Web, foundation services such as collaboration, content management and search for building new Web applications, and a portal platform for delivering these Web applications to broad audiences.

Human Resource Initiatives

HCLT continued to add to its human resource pool. During the quarter, the company added 1,748 people (on a gross basis), including 1,054 people in the software services business and 561 in BPO. The net employee addition during the quarter was 1,062 of which 575 were added in the software services business and 415 were added in the BPO business. The headcount of the company (including subsidiaries) at the end of the quarter stood at 13,065 up from 12,003 at the end of the previous quarter. The current annualized attrition rate is 10.5%.

Infrastructure

During the current quarter, the company spent an amount of Rs.392.5 mn on capital expenditure. The total seat capacity (for organic software business) at the end of the quarter stood at 7,489.

Key Operational Metrics

ORGANIC SOFTWARE	
REVENUE BREAKUP	(\$'000)
Offshore Centric	61,319
Onsite	28,067
BILLING RATES METRICS	
Efforts billed (manmonths)	
Offshore Centric	14,050
Onsite	2,920
Subcontracted Efforts	237
Capacity Utilisation (%)	
Offshore Centric	77.1
Onsite	91.2
BillRates (\$'000/Manmonth)	
Offshore Centric	4.36
Onsite	9.61
CONSOLIDATED	
REVENUE BREAK UP (%)	
Location	
Offshore Centric	79
Onsite	21
Service Offerings (%)	
Technology Development Services	24.9
Software Product Engg Services	16.3
Applications Services	39.8
Infrastructure Services	10.1
BPO Services	8.9
Geography (%)	
US	59.1
Europe	22.0
Asia Pacific	18.9
Repeat Business (%)	81
CLIENT CONCENTRATION	
Total no. of clients	
No. of Million \$ Clients	95
No. of 5 Million \$ Clients	18
No. of Fortune 500 clients	56
% Contribution from:	
Top 5 clients	33.0
Top 10 clients	42.8
Top 20 clients	54.2

Manpower Details

	As on Dec 31,2003	As on Sep 30,2003
TOTAL	13,065	12,003
Software Services		
Total	9,846	9,271
Organic	8,098	7,689
Technical	7,263	6,847
Offshore	6,226	5,923
Onsite	1,037	924
Support	835	842
Sales and Marketing	114	104
Others	721	738
Offshore	633	640
Onsite	202	202
Non-organic	1,748	1,582
Technical	1,598	1,431
Support	150	151
Infrastructure services		
Organic	819	724
Technical	523	451
Support	296	273
BPO		
Total	2,275	1,860
Organic	2,027	1,678
Non-organic	248	182
Government		
Non-organic	125	148
Technical	93	109
Support	32	39
Annualised Attrition (>1 yr.)		10.5%

Financials

(Second Quarter analysis based on the unaudited US GAAP financial results for Q2FY 2003-04)

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

	Quarterly details			Growth	
	OND'02	JAS'03	OND'03	ΔQoQ	ΔYoY
Gross Revenues	4679.3	5607.8	6223.2	11%	33%
Direct Costs	2622.5	3633.6	3959.8		
Gross Profits	2056.8	1974.2	2263.4	15%	10%
SG & A	1022.9	996.0	1042.0		
Foreign Exchange Gains/ (Loss)	(10.4)	60.9	12.9		
EBIDTA	1023.5	1039.1	1234.3	19%	21%
Depreciation & Amortisation	218.6	266.4	270.0		
EBIT	804.8	772.7	964.2	25%	20%
Other Income, net	99.4	432.6	158.5		
EBT	904.2	1205.3	1122.7	-7%	24%
Provision for Tax	74.9	160.0	128.8		
EAT	829.3	1045.2	994.0	-5%	20%
Share from equity investments	37.1	72.5	64.7		
Share of (income) / loss of minority shareholders	(61.4)	(162.2)	(148.2)		
Net Income	805.0	955.6	910.5	-5%	13%
Stock based sales incentive (Non Cash)	0.9	(9.6)	(30.3)		
Gain on divestment of stake in HPS			2633.2		
Consolidated Net Income	805.9	946.0	3513.4	271%	336%

Key ratios

	Quarterly details		
	OND'02	JAS'03	OND'03
Gross Margin	44.0%	35.2%	36.4%
Opex/Gross revenue	21.9%	17.8%	16.7%
EBIDTA Margin	21.9%	18.5%	19.8%
Consolidated Net income/Gross revenue	17.2%	16.9%	56.5%

Consolidated Balance Sheet (as per US GAAP)

in Rs.mn

	As On		
	31 st Dec'02	30 th Sep'03	31 st Dec'03
ASSETS			
a. Cash and cash equivalents	1582.2	1261.3	5808.8
b. Accounts receivable, net	3450.8	3880.8	4063.3
c. Treasury Investments	11955.4	15730.2	15539.7
d. Other current assets	2057.1	2604.6	2681.8
A. Total current assets (a+b+c+d)	19045.6	23477.0	28093.6
B. Property and equipment, net	2499.4	3123.4	3219.0
C. Intangible assets, net	2164.1	2154.0	2167.3
D. Investments in Venture Funds / Equity investees	2575.2	2629.7	883.4
E. Other Assets	494.1	402.5	431.3
Total assets (A+B+C+D+E)	26778.5	31786.6	34794.6
LIABILITIES AND STOCKHOLDERS' EQUITY			
e. Total current liabilities	3364.7	4668.5	5062.5
f. Long -term debt	-	1376.1	1367.7
g. Other liabilities	147.7	176.4	194.3
F. Total liabilities (e+f+g)	3512.4	6220.9	6624.5
G. Minority Interest	446.3	766.9	911.6
H. Total Stockholders equity	22819.8	24798.8	27258.5
Total liabilities and stockholders equity (F+G+H)	26778.5	31786.6	34794.6

Note: Unrealised gains on Treasury Investments as of Dec 31, 2003 stood at Rs364.2mn.

Q2 FY2004 results

Revenue breakup between various business categories in Rs.mn

	Software Services			BPO Services		
	JAS'03	OND'03	QoQ	JAS'03	OND'03	QoQ
Gross Revenues	4699.2	5154.1	10%	494.2	556.7	13%
Direct Costs	2933.8	3195.3		419.0	441.0	
Gross Profits	1765.4	1958.7	11%	75.2	115.7	54%
SG & A	789.4	824.9		75.0	73.9	
Foreign Exchange Gains/ (Loss)	51.8	7.1		9.6	3.4	
EBIDTA	1027.9	1140.8	11%	9.9	45.2	359%
Depreciation & Amortisation	167.1	165.0		65.0	69.6	
EBIT	860.7	975.8	13%	(55.2)	(24.4)	
Interest & Other Income, net	436.4	154.7		(3.8)	(4.4)	
EBT	1297.1	1130.4	-13%	(59.0)	(28.8)	
Provision for Tax	162.4	123.4		(3.0)	2.9	
EAT	1134.7	1007.1	-11%	(56.0)	(31.6)	

	Infrastructure Services			Govt. Practice		
	JAS'03	OND'03	QoQ	JAS'03	OND'03	QoQ
Gross Revenues	504.9	629.4	25%	95.8	104.0	9%
Direct Costs	384.6	455.4		82.5	88.9	
Gross Profits	120.3	174.0	45%	13.3	15.0	13%
SG & A	104.4	115.9		27.3	27.3	
Foreign Exchange Gains/ (Loss)	(0.1)	2.6		(0.4)	(0.2)	
EBIDTA	15.8	60.7	285%	(14.5)	(12.5)	
Depreciation & Amortisation	28.7	29.1		5.6	6.3	
EBIT	(12.9)	31.6		(19.9)	(18.8)	
Interest & Other Income, net	1.0	8.2		(1.0)	0.0	
EBT	(11.9)	39.8		(21.0)	(18.7)	
Provision for Tax	0.6	2.3		0.1	0.2	
EAT	(12.5)	37.5		(21.1)	(19.0)	

Inter Co Adjustment	
JAS'03	OND'03
(186.2)	(220.9)
(186.2)	(220.9)

Key ratios

	Software Services		BPO Services		Infrastructure Services	
	JAS'03	OND'03	JAS'03	OND'03	JAS'03	OND'03
Gross Margin	37.6%	38.0%	15.2%	20.8%	23.8%	27.6%
Opex/Gross revenue	16.8%	16.0%	15.2%	13.3%	20.7%	18.4%
EBIDTA Margin	21.9%	22.1%	2.0%	8.1%	3.1%	9.6%
Net income/Gross revenue	24.1%	19.5%	-11.3%	-5.7%	-2.5%	6.0%

	Govt. Practice	
	JAS'03	OND'03
Gross Margin	13.9%	14.5%
Opex/Gross revenue	28.5%	26.2%
EBIDTA Margin	-15.1%	-12.0%
Net income/Gross revenue	-22.0%	-18.3%

\$ Assumptions

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

US\$1 = Rs.45.59 for OND'03

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

US\$1 = Rs.48.04 for OND'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 31 December 2003, HCL Technologies Limited, along with its subsidiaries, had 13,065 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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