

## **HCL TECHNOLOGIES REPORTS STRONG Q3 RESULTS**

**NET INCOME UP 96% - crosses Rs. 1,290 million**

**For immediate release**

**April 19, 2001**

### **Executive Summary**

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

### **Financial Performance Review**

The highlights of the financial performance for **Q3 ended March 31, 2001** compared to the corresponding quarter of the previous year (**YoY**) are:

- Gross revenue increases 53% to reach Rs. 3,632 million.
- Operating income (EBDITA) rises 104% to reach Rs. 1,123 million.
- Net income increases 96% to reach Rs. 1,290 million.
- Net income (w/o non-cash sales incentive) increases 93% to reach Rs. 1,274 million.

The highlights of the financial performance for **Q3 ended March 31, 2001** compared to the previous quarter (**QoQ**) are:

- Operating income (EBDITA) rises 11% QoQ.
- Offshore revenues grow by 10% QoQ.
- Gross revenue increases by 6% QoQ.

The highlights of the financial performance for **Nine months ended March 31, 2001** compared to the corresponding period previous year (**YoY**) are:

- Gross revenue increases 61% to reach Rs. 10,232 million.
- Net income (w/o non-cash sales incentive) increases 139% to reach Rs. 3,515 million.
- Net income increases 134% to reach Rs. 3,435 million.

### **Operational Review**

- Offshore centric revenues constitute 65% of Q3's revenues - 85% of all HCL Tech employees based in India.
- Well balanced client concentration - Top 5, Top 10 and Top 20 customer contributions at 22%, 33% and 44% respectively.
- Total customers up by 28 to reach 332 as on March 31, 2001. Some of the new clients acquired during the quarter include ANZ Bank, EMC, Novell, Semy, Dairy Farm, and NTT Data Corporation.
- Total employees up 231 over the previous quarter aggregating to 4,625.
- Dot com clients accounted for less than 3% of revenues.

**Key Developments:**

- ⇒ **Increase in Offshore centric business,**
- ⇒ **Several New client-dedicated Offshore centres set up**

HCL Technologies continues its strategy of forging long-term alliances with its customers and announced five new offshore development centres for strategic customers, which are:

- Toshiba Information Systems
- Vitesse Semiconductor Company
- Victoria Roads
- Dairy Farm
- NTT Data Corporation

Additionally:

- The healthy trend of higher share of offshore centric revenues continues. 16 new offshore contracts signed during the quarter.
- Six new Fortune 500 clients added.

**Outlook for the Quarter and fiscal year ending June 30, 2001**

**HCL Tech revises upwards its outlook for fiscal year 2000-01.**

- Based on current feedback from customers, long term contracts in hand and the company's confidence in its strategy and people, HCL Tech has revised upwards its FY 01 net income estimates (excluding non cash sales incentive) to exceed Rs.4,800 million against Rs. 2,433 million for FY 1999-00 – a YOY growth of 97 %.
- The company also expects to see the trend of higher mix of offshore centric revenues continue and anticipates this to reach 70% of revenues for the next quarter. This is envisaged due to the shifting of some ongoing onsite projects undertaken in the past 9 months, to the offshore centres next quarter – a healthy trend.

**Outlook for fiscal year ending June 30, 2002**

HCL Tech is closely observing the developments in the US economy and has been in constant touch with its customers and partners. The current developments have a positive impact on the company's offshore centric business (65% this quarter), which remains a key focus area for the company.

HCL Tech is positioned to gain from this opportunity because of its focus on the following:

1. High upfront investments in building a strong marketing network
2. Emphasis on offshore centric revenues
3. Focussing on annuity contracts for long term visibility
4. Emphasis on moving up the value chain to become significant in the overall business plans of their customers
5. Pursue strategic alliances including Joint Ventures for long term, privileged and strategic access to diverse markets.

**Commenting on the company's performance and future outlook, Mr. Shiv Nadar, Chairman, President and CEO, HCL Technologies, said:**

"We are happy to report an excellent performance again this quarter, reflecting sustained strong growth. At HCL Technologies we have consciously built upon our core strengths in the high-end areas of technology development and networking, to create a strong, resilient organisation focussed on emerging technologies. HCL Technologies' focus on core technologies will be our key advantage in times to come".

**\$ Assumptions**

The financial numbers are based on the quarter closing \$ rates i.e. 1\$ = Rs. 46.66 for quarter ended March 31, 2001 and 1\$ = Rs. 43.78 for quarter ended March 31, 2000.

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

HCL Technologies is one of India's leading IT services companies, providing a broad range of services to clients worldwide. Services include Technology Development, Software Product Engineering, Networking and Application Services. HCL Tech focuses on technology as well as research & development outsourcing, with the objective of working with clients in areas at the core of their business. The focus on such mission critical projects and the ability to provide services throughout the lifecycle of client products, from conceptualization to ongoing development and maintenance, enables HCL Tech to build long-term relationships with customers. These include software and hardware companies as well as large and medium sized organizations, across diverse industries around the world.

HCL Tech delivers these services through an extensive offshore software development infrastructure in India and a vast global marketing and project network that enables scalable, flexible and cost-effective delivery. The company's offshore model involves delivery of outsourcing services to clients located outside India, by technical professionals located at the software development centres in India and may also include onsite work at the client site on a short-term project-by-project basis. As of March 31, 2001, HCL Tech had 3,948 billable technical professionals, of whom 3,403 were based in India across 13 technology development facilities including 30 client dedicated offshore development centres.

The company is thus able to capitalise on the advantages inherent to the Indian IT sector, including access to a large pool of skilled Indian technical professionals who deliver high-quality globally competitive services at a significantly lower cost than in the United States. The offshore model fosters strong client relationships because some clients also make substantial capital investments in the dedicated offshore development centres set up for them. HCL Tech's extensive marketing network comprises 30 marketing offices in 15 countries.

Since inception, HCL Tech has emphasised the importance of building skills in emerging technologies by focusing on research and development activities for clients. The company's R&D heritage stems partly from the early efforts of several key senior personnel who were actively involved in research and development related to the design of computer hardware and systems software products for the Indian market in the 1980s. HCL Tech continues to develop its IT services business by capitalising on the unique skills and know-how of these executives and other employees.

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

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

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

HCL Tech has achieved an increase of 53% in gross revenues over the corresponding quarter of previous year to reach Rs. 3,632 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 53% over Q3 of last year to cross Rs. 2,365 million, accounting for 65% of total revenues.
  - **Technology Development Services** revenue grew 111% over Q3 of last year to Rs. 1,721 million, comprising 47% of revenues.
  - Contribution from **High Value added services** (Technology Development Services, Software Product Engineering Services and Networking services) rose to 77% of total revenues up from 66% in Q3 of last year.
  
2. **De-risked business model**
  - Our client relationship remains broad based with the Top 5, Top 10 and Top 20 clients contributions at 22%, 33% and 44% of revenues respectively.
  - HCL Tech continues to provide services to some of the most recognised names in the world and has added 28 new customers including ANZ Bank, EMC, Semy, Novell, Dairy Farm, Vitesse Semiconductor Company, Toshiba Information Systems and NTT Data Corporation during this quarter, taking the total customer tally to 332 as on March 31, 2001.

#### **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) compared to Q3 last year:

- Gross margin – 49.2% of gross revenues up from 47.6%.
- EBDITA margin – 30.9% of gross revenues up from 23.2%.
- EBIT margin – 27.9% of gross revenues up from 20.0%.
- Share of income from equity investments – 3.6% of gross revenues up from 3.0%.
- Net Income margin – 35.1% of gross revenues up from 27.7%.
- Operating income (EBDITA) grew 11% QoQ because of a 10% QoQ growth in offshore revenues.

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

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

- **Total manpower** as on March 31, 2001 stood at 4,625 with 3,948 billable engineers. Employee strength grew by 231 during the quarter.
- 3,927 of HCL Tech's total employees i.e. **85% are based in India.**
- The company's **ESOP coverage spans 92%** of total employees as on March 31, 2001.
- The company recruited 73 graduates from premier management institutes to join as "Senior Management Trainees" next 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 53% growth over Q3 of previous year. Offshore delivery is carried out through 13 Technology Development Centres (TDC) – each oriented towards specific horizontal technologies. HCL Tech has now 30 Offshore Development Centres (ODC) dedicated to specific clients. During this quarter, the company set up ODCs for the following five clients, thus providing enhanced visibility to HCL Tech's long term revenues. Additionally, 6 new Fortune 500 clients and 16 new offshore contracts were signed during the quarter.

**Toshiba Information Systems, Japan** – HCL Tech has set up a dedicated ODC for developing embedded software in areas of mobile and wireless technologies. Besides this, a host of projects related to development of application software solutions will also be initiated. Toshiba Information Systems, a major systems integrator in Japan, is also a leading software supplier for mobile phones (PHS, GSM, W-CDMA), Internet appliances and Intelligent Transportation Systems (ITS). HCL Tech will also be engaged in these segments.

**Vitesse Semiconductor Corporation, USA** – HCL Tech will work on next generation networking technologies such as high performance FPGAs, ASIC design and verification, networking/telecom products and embedded software development. Vitesse is targeting the ODC for the execution of many advanced technology projects ranging from networking processor based high speed optical interfaces, network protocol stacks and network services software to connectivity for switching fabrics. HCL Tech will also work on reference designs for OEMs.

**Victoria Roads, Australia** – HCL Tech has been engaged by the State of Victoria in Australia to carry out application development projects in several transport related segments including registration of vehicles, issuing driving license and managing accident records.

**Dairy Farm Group, Hong Kong** - HCL Technologies has embarked on a strategic IT relationship with Dairy Farm Group and will work on the re-development of the Hong Kong merchandising system for Wellcome Chain of Supermarkets. The client is one

of the leading food and drugstore retailer in the Asia Pacific region operating over 2,100 outlets across nine countries with a group turnover of over US\$ 7 billion.

**NTT Data, Japan** - HCL Tech is carrying out several R&D projects in areas like Internet access, Intranet development and e-commerce. The company will also be engaged in providing services for systems design and integration, facilities management and maintenance in the telecommunications space.

HCL Tech continued to move up the value chain by its R&D spend to provide accelerated quality growth. Some of the new cutting edge projects undertaken during the quarter include:

- **Enhancement of operating system to support storage solutions** - HCL Tech is enhancing the functionality of the operating system, which supports storage system solutions offered by one of the world's leading information storage infrastructure company.
- **Development of high-speed processors for networking industry** - HCL Tech is partnering an industry leader to design, develop and increase the speed of its microprocessors to be used in several networking devices.
- **Testing and verification of next generation processors** – HCL Tech is engaged in testing and verification of network processors for a US based semiconductor company focused on developing chipsets for next generation Internet infrastructure.
- **Product enhancements for a telecom equipment provider** – HCL Tech is enhancing product features of a global manufacturer of telecommunications equipment using SNMP Java tools.
- **Development of routing engine for a networking leader** – HCL Tech is developing a routing engine for a global manufacturer of broadband optical networking products.
- **Development of storage solutions** – HCL Tech is developing and testing a range of high performance storage solutions for a worldwide data storage device manufacturer.
- **Wireless application development for m-commerce** – HCL Tech is developing wireless applications to interface with client's infrastructure technologies to enable m-commerce transactions.

## **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 management of Joint Ventures.

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 manpower strength of 2,030 as on March 31, 2001, 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 a 97% increase in net income in Q3 2000-01 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's initiative in investing in Technology Funds and strategic customers stood at an investment of \$ 15 million as on March 31, 2001.

## **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 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

**Formation of Employees Trust** - During the quarter, the Board of Directors approved the formation of a trust called HCL Technologies Limited Employees Trust which will purchase shares of the company from the market to provide stock options to employees. HCL Tech has earmarked an interest free loan of Rs. 1,000 million to the Trust for this purpose. This step will restrict equity dilution and enhance shareholder value.

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, were 0.47% of revenues for Q3 2000-01.
- Compensation Committee headed by Robin Abrams – approves ESOP plan to cover 92% of total employees as on March 31, 2001.

## **VII. CONCLUSION**

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



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**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**  
**March 31, 2001**  
**Comparison over corresponding period of previous year**

Rs. Million

	JFM01	JFM00	Growth Y-o-Y	OND00	Growth Q-o-Q	9M Mar-01	9M Mar-00	Growth Y-o-Y	FY 99- 00
<b>Gross Revenues</b>	<b>3,632</b>	<b>2,375</b>	<b>53%</b>	<b>3,423</b>	<b>6%</b>	<b>10,232</b>	<b>6,363</b>	<b>61%</b>	<b>9,256</b>
Direct Cost	1,844	1,245		1,732		5,192	3,356		4,772
<b>Gross Profit</b>	<b>1,789</b>	<b>1,129</b>	<b>58%</b>	<b>1,691</b>	<b>6%</b>	<b>5,040</b>	<b>3,007</b>	<b>68%</b>	<b>4,484</b>
SG&A	666	578		677		1,966	1,626		2,254
<b>EBDITA</b>	<b>1,123</b>	<b>551</b>	<b>104%</b>	<b>1,014</b>	<b>11%</b>	<b>3,074</b>	<b>1,381</b>	<b>123%</b>	<b>2,230</b>
Depreciation & amortisation	110	78		98		299	228		314
<b>EBIT</b>	<b>1,013</b>	<b>474</b>	<b>114%</b>	<b>916</b>	<b>11%</b>	<b>2,775</b>	<b>1,153</b>	<b>141%</b>	<b>1,916</b>
Interest and other income, net	220	166		264		652	300		504
EBT	1,233	640	93%	1,180	4%	3,427	1,452	136%	2,420
Provision (benefit) for income taxes	89	51		86		278	157		263
EAT	1,143	589	94%	1,094	5%	3,149	1,295	143%	2,157
Share of income (loss) from equity investment	131	71		146		367	181		276
Share of income (loss) of minority shareholders	0	1		0		0	5		-
Net Income (loss)	1,274	659	93%	1,240	3%	3,515	1,471	139%	2,433
Less: Stock based Sales Incentive (Non-cash)	(15)	-		56		81	-		101
<b>Net Income (loss) after non cash sales incentive</b>	<b>1,290</b>	<b>659</b>	<b>96%</b>	<b>1,183</b>	<b>9%</b>	<b>3,435</b>	<b>1,471</b>	<b>134%</b>	<b>2,332</b>
<b>Key Ratios</b>									
Gross Margin/Gross Revenue	49.2%	47.6%		49.4%		49.3%	47.3%		48.4%
Opex/Gross Revenue	18.3%	24.3%		19.8%		19.2%	25.6%		24.3%
EBDITA/Gross Revenue	30.9%	23.2%		29.6%		30.0%	21.7%		24.1%
EBIT/Gross Revenue	27.9%	20.0%		26.8%		27.1%	18.1%		20.7%
Net Income (w/o non cash sales incentive)/Gross Revenue	35.1%	27.7%		36.2%		34.4%	23.1%		26.3%
Net Income (incl. non cash sales incentive)/Gross Revenue	35.5%	27.7%		34.6%		33.6%	23.1%		25.2%
Share of equity investees/Gross Revenue	3.6%	3.0%		4.3%		3.6%	2.8%		3.0%
EPS (w/o non cash sales incentive) – Rs.	4.26	2.22	92%	3.97	7%	11.82	5.34	121%	8.66
EPS (including non-cash sales incentive) – Rs.	4.31	2.22	94%	4.16	4%	11.55	5.34	116%	8.30

The figures have been converted to Rs. using the March 31, 2001 exchange rate of Rs. 46.66 = \$ 1 for Q3 2000-01 and March 31, 2000 rate of Rs. 43.78 = \$ 1 for Q3 1999-00.

## HCL Technologies Limited

### Consolidated Balance Sheet (Unaudited) under US GAAP for Quarter ended March 31, 2001

#### Comparison over corresponding period of previous year

	Quarter ended Mar 31, 2001	Quarter ended Dec 31, 2000	<i>Rs. million</i> Year ended June 30, 2000
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	1,146	2,850	1,781
Accounts receivable, net	2,690	2,575	1,844
Marketable securities, available for sale	7,580	7,562	7,560
Other Current Assets	4,106	1,234	574
Property and equipment, net	1,317	1,146	791
Intangible assets, net	363	414	432
Investments	1,726	1,565	1,126
Other Non-current assets	204	116	128
<b>TOTAL ASSETS</b>	<b>19,132</b>	<b>17,463</b>	<b>14,239</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Total current liabilities	2,231	2,021	1,693
Non current liabilities	17	35	20
Total stockholders' equity	16,884	15,406	12,526
<b>TOTAL LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>	<b>19,132</b>	<b>17,463</b>	<b>14,239</b>
Exchange Rate Used ( US \$ 1 = )	46.66	46.69	44.75