

# Quarterly Earning Release

## Second Quarter FY 14

February 11, 2014

# HCL Infosystems Ltd

## Table of Contents

CEO's Comments	2
Business Highlights	3
Standalone Results	5
Consolidated Results	7

## CEO's COMMENTS

Mr. Harsh Chitale, Chief Executive Officer and Managing Director, HCL Infosystems Limited, commenting on the results said, "Since our Restructuring in November 2013, we are well on course in our planned transformation journey. Our focus businesses – Distribution and Services, continued to drive growth and profitability in this quarter. Our non-telecom distribution business registered 60% Y-o-Y growth and signed many new partnerships in the quarter. However, after two consecutive quarters of growth the telecom distribution business did witness a decline in this quarter. The other pillar of our growth story, Services business, continued its momentum with a Y-o-Y growth of 14% in this quarter too. Our Break-Fix Services business is emerging as a preferred provider of Multi-Vendor Technology Support Services for OEMs and customers alike. In addition, our Infra Managed Services and Application Services business witnessed positive traction in overseas markets such as Singapore and the Middle-East.

Both growth engines, Distribution and Services, have been generating healthy EBIT margins for the Company. The Company also witnessed increasing interest from OEMs in the combined value proposition of our Distribution and Services capabilities to appoint us as the master franchise for distribution and after-sales support services for their products.

As we reduce focus on hardware solutions business, in the short term we would have to take charges on account of the wind-down of old business model. The transition of traditional hardware-oriented System Integration to asset-light SI Services remains on course though the collections of receivables in the old projects continue to remain sluggish thereby impacting our profitability in this quarter."

## BUSINESS HIGHLIGHTS

### Distribution Business

- **Telecom distribution business** business witnessed 7% Q-o-Q decline in this quarter after consecutive growth in the previous two quarters due to subdued demand since the festive season ended. Despite this, in October 2013 the business achieved the highest value performance in any single month in the last two years. The Telecom Distribution business also expanded its last-mile footprint and strengthened its rural presence by adding 137 RRDs (Regional Rural Dealers) across the country.
- **Non-Telecom Distribution business** signed many important partnerships in this quarter such as Canon (printers), DeLonghi (home appliances), Lenovo (tablet), Huawei (video conferencing) and Datacard (ID card printers). Backed by successful addition of many new Principals in the last one year and successful transition of our traditional Office Automation and Software Products Direct Sales business to a Distribution oriented go-to-market model, the non-Telecom Distribution business has registered a 60% Y-o-Y growth in this quarter.

# BUSINESS HIGHLIGHTS

## Enterprise Services Business

**Services** business, which is now part of HCL Services Ltd. (a wholly owned subsidiary of HCL Infosystems Ltd.), registered 14% Y-o-Y growth and won contracts from various leading corporate and government customers in the Indian and overseas market.

- The **Infrastructure Management Services (IMS) business** continued to build its order book both in India as well as in overseas markets. In India, the business won orders from Huawei, Indian Travel House, Jharkhand Police, Tata Automotive Components, Syndicate Bank, etc. In Singapore, the business won a large engagement from Infocom Development Authority (IDA) of Singapore involving around 35 government agencies with an estimated ACV of US\$ 13 million. We were further shortlisted by IDA amongst the top three vendors for another multi-million dollar engagement. The IMS business successfully launched Service and Asset Management Modules of Tefilla, HCL owned Service Desk and Asset Management Tool.
- The **IT and Office Automation Break Fix Support business** strengthened its position as a preferred provider of Multi-Vendor Technology Support Services in the market. Huawei and Xerox appointed HCL Services as authorized service provider for hardware support services for few of their product categories in this quarter. Further, many contracts were won to provide AMC / Hardware Support Services from customers such as Reliance Life Sciences, TATA Global Beverages, Delta Power Solutions, Ranbaxy Labs, MAX Life Insurance Company, Western Naval Command, Syndicate Bank, Department of Space, etc. We are making investments in technology enablers such as Field Force Automation in addition to human capital development for providing a better customer experience.
- As part of its efforts to capture a larger share of IT hardware support services market, the company has aggressively expanded its service offerings and capability besides end-user computing to other IT Infrastructure components such as Storage, Server, Security and Network. Large and complex projects in Data Center Implementation, Network Security Standardization, etc. were successfully delivered for leading players in auto, financial services and infrastructure industries in this quarter. Four new offerings – VAPT (Vulnerability Assessment and Penetration Testing), IPv6, Architecture Services and Data Center Services were also launched. This business segment also launched RTSG (Remote Technical Support Group) Service, a remote 24x7 customer support center for enterprise products and niche technology support.
- The **Enterprise Application Services (EAS) business** acquired prestigious customers like KPMG, Royal Bank of Scotland and Indian Oil Corporation Ltd. in India. In the Middle East, large deals were won from Emirates Airlines, National Center for Documentation & Research (NCDR) UAE, Dubai Silicon Oasis Authority (DSOA), Western Region Development Council and acquired new customers like Mashreq Bank and Abu Dhabi Commercial Bank (ADBC). New Business Intelligence (BI) deals were also signed with ENOC (Emirates National Oil Company) and Sanipex. In Singapore, the business won a deal from Banking Computer Services Pvt. Ltd.

# BUSINESS HIGHLIGHTS

## Enterprise Services Business

- The **Consumer Electronics & Appliances support services business, HCL Care**, registered a robust growth in this quarter with a Q-o-Q revenue growth of 40%. HCL Care expanded the 'Touch' brand of Walk-in-Centers service network to 250+ locations across India. Expanding the scope of engagement with OEMs, HCL Care renewed Nokia Repair Factory contract for North India with additional scope, launched Samsung White Goods Service Center in Dehradun and started service operations for Bajaj Electricals in multiple regions of Delhi.

## Learning Business

- Low market sentiments are persisting in this segment resulting in fall in customer spends. HCL Learning has adopted a cautious and selective approach in its class-room additions to ensure a profitable business model.
- Despite the low market sentiments, **DigiSchool**, HCL Learning's highly intuitive classroom learning solution, did make an important breakthrough in a highly prestigious school with a student base of 16,000 students and 130 classrooms in this quarter. HCL Learning extended its reach and presence with the addition of new channel partners in Chandigarh, Kolkata & Kerala.
- HCL Learning launched two new products 'My IIT Tutor' and 'MyEduWorld-Drive' to target the growing B2C and B2B2C market for quality educational content. Both My IIT Tutor and MyEduWorld-Drive are self-learning plug and play devices that are pre-loaded with content for IIT aspirants and Class 1-10 students respectively. The Company aims to create new market categories with these two products. The products have already generated substantial interest among its target audience since its launch in November 2013 and there is a healthy pipeline of sizeable deals with schools which form the B2B2C channel.

## Hardware and Solutions Business

- **Enterprise Solutions business**, now part of HCL Infotech Ltd. (a wholly owned subsidiary of HCL Infosystems Ltd.), our System Integration business continued its efforts to transition to a new business model of SI Services whereby the focus is on providing our SI services expertise to a lead partner. Our Infrastructure Solutions business has similarly transitioned to the new business model of selective pursuit of opportunities with limited exposure to forex risk and working capital.
- Enterprise Solutions business is encouraged by major wins such as from NEC and Andaman PDS (Public Distribution System) under the new business model. In MEA, the business bagged a large Security & Surveillance deal from Dubai Electricity & Water Authority (DEWA).
- As we transition to new business model, concurrently we are focusing on milestones completion and receivables collection for our old ongoing projects.
- The flagship project of Enterprise Solutions business, Unique Identification Authority of India (UIDAI) Managed Services, successfully launched e-KYC (Know-your-Customer) service and has presently stabilized its operations for generating 2.5 Cr AADHAR cards per month.

# STANDALONE RESULTS

## Quarterly Results

The company reported Standalone revenue of **Rs. 1,438 crores** for the quarter ended December 31, 2013.

Particulars	Unaudited	
	Q2 FY 14	Q1 FY 14
Revenue	1,438	1,596
Profit / (Loss) from ordinary activities before Other Income, Exchange differences and Finance Cost	18	23
Other Income	11	15
Profit / (Loss) from ordinary activities before Exchange differences & Finance Cost	28	37
Exchange Differences Loss / (Gain)	7	14
Finance Cost	18	17
PBT	4	7
Tax Expense / (Credit)	1	6
PAT	2	1

The company reported Standalone profit before tax of **Rs. 4 crores** for the quarter ended December 31, 2013.

The Hon'ble High Court of Delhi has sanctioned the Composite Scheme of Arrangement (the "Scheme") under the provisions of section 391 to 394 of the Companies Act, 1956, vide its order dated September 18, 2013 received on October 30, 2013. The Scheme has become effective from November 1, 2013 on filing a certified copy of the High Court order with the office of the Registrar of the Companies, NCT of Delhi & Haryana and is applicable from January 1, 2013 (the "Appointed date"). According to the Scheme, the Hardware Solutions Business, Services Business and Learning Business (collectively the "Transferred Undertakings") of the Company stand transferred to HCL Infotech Limited (formerly known as HCL System Integration Limited), HCL Services Limited (formerly known as HCL Care Limited) and HCL Learning Limited (collectively the "Transferee Companies") respectively, the wholly owned subsidiaries. According to the Scheme, HCL Infocom Limited (HCL I), the wholly owned subsidiary of the Company, stands merged with the Company.

In accordance with the Scheme, the Company continued to carry on the business and activities in relation to the Transferred Undertakings on account of and in trust for the respective Transferee Companies from January 1, 2013 (the "Appointed date") till November 1, 2013 (the "Effective date"). Subsequent to the effective date, the Company is in the process of entering into novation agreements with the relevant third parties, including customers and vendors, pertaining to the Transferee Companies.

The standalone financial results of the Company for the quarter ended September 30, 2013 and quarter/half year ended December 31, 2013 have been prepared after considering the accounting treatment specified under the Scheme.

## STANDALONE RESULTS

PROFIT & LOSS ACCOUNT		Rs crores	
		Standalone Unaudited	
		Q2 FY 14	Q1 FY 14
-	<b>Gross Sales / Income from Operations</b>	<b>1,438.1</b>	<b>1,596.5</b>
-	Less: Excise Duty	0.5	3.0
1a.	Net Sales / Income from Operations	1,437.6	1,593.5
1b.	Other Operating Income	0.1	0.1
2.	Expenses		
a)	Cost of materials consumed	84.8	147.9
b)	Purchases of Stock-in-trade	1,309.2	1,403.9
c)	Changes in Inventories of finished goods, work-in-progress and stock-in-trade	(38.4)	(45.8)
d)	Employee benefits expense	20.6	17.5
e)	Exchange Differences Loss	7.3	13.7
f)	Depreciation and amortisation expense	2.1	2.4
g)	Other Expenses	41.7	45.0
	Total Expenses	1,427.1	1,584.5
3.	<b>Profit / (Loss) from Operations before Other Income &amp; finance costs (1-2)</b>	<b>10.6</b>	<b>9.1</b>
4.	Other Income	10.7	14.7
5.	<b>Profit / (Loss) from ordinary activities before finance costs (3+4)</b>	<b>21.2</b>	<b>23.8</b>
6.	Finance costs	17.6	16.5
7.	<b>Profit / (Loss) from ordinary activities before Tax (5-6)</b>	<b>3.6</b>	<b>7.3</b>
8.	Tax Expense / (Credit)	1.3	5.8
9.	<b>Net Profit / (Loss) from ordinary activities after Tax (7-8)</b>	<b>2.3</b>	<b>1.5</b>
10.	Extraordinary items (net of tax expense)	-	-
11.	<b>Net Profit / (Loss) for the period (9-10)</b>	<b>2.3</b>	<b>1.5</b>
	Basic EPS (Not annualised) Rs/share	0.10	0.07



# CONSOLIDATED BUSINESS RESULTS

## BUSINESS RESULTS

Unaudited Management Accounts

Rs. crores

	Particulars	Q2 FY 14	Q1 FY 14	Q2 FY 13
	Distribution	1425	1534	1468
	- Telecom	1215	1308	1337
	- Non Telecom	210	226	131
	Services	165	155	145
	Learning	11	13	14
	Enterprise Solutions	277	371	931
	Consumer Computing & Mobility	122	166	156
	Intersegment / Elimination	(19)	(37)	(108)
<b>1</b>	<b>Consolidated Revenue</b>	<b>1982</b>	<b>2201</b>	<b>2606</b>
2	Profit / (Loss) from ordinary activities before Exchange differences and Provision for doubtful debts	9	(7)	20
3	Exchange differences Loss / (Gain)	19	28	34
4	Provision for Doubtful Debts	2	6	21
5	Profit / (Loss) from ordinary activities before Other Income & Finance costs (2-3-4)	(12)	(41)	(36)
6	Other Income	12	15	18
7	Finance Cost	41	43	34
<b>8</b>	<b>Profit / (Loss) from ordinary activities before Tax (5+6-7)</b>	<b>(41)</b>	<b>(69)</b>	<b>(52)</b>

- Telecom distribution business declined 7% sequentially after registering a consecutive revenue growth in past two quarters. Non Telecom Distribution business registered a 60% Y-o-Y growth in this quarter backed by addition of many new Principals and successful transition of traditional Office Automation and Software Products Direct Sales business to a Distribution oriented go-to-market model.
- Services business continued its growth momentum with 14% Y-o-Y growth in this quarter, winning many clients in India and overseas markets such as Singapore and Middle East
- Learning business declined for the quarter due to drop in customer spends, which is reflective of the low sentiments about the industry.
- Operational improvements have resulted in increased profit from ordinary activities before exchange differences, finance cost and provision for doubtful debts compared to Q1FY14.
- Volatile fluctuations in exchange rate and finance cost had an adverse impact of as much as Rs. 60 crores in this quarter. However this impact is expected to gradually subside in future on account of
  - Hedging all forex denominated liabilities and amortizing the cost over the hedging period.
  - Reduction in Forex exposure with gradual tapering of Import depended Hardware and Solution business
  - Focus on Asset light businesses of Distribution and Services

## ABOUT HCL INFOSYSTEMS

HCL Infosystems Ltd. with revenue (LTM) of Rs. 8,416 crores is India's Premier Distribution and IT Services and Solutions Company. HCL Infosystems' has one of the largest sales & distribution network in the country and provides value added distribution for partners including last mile connect and support in marketing and promotions for Telecom, IT, Office Automation and Consumer Electronics products covering more than 15000 towns across 664 districts in India. Our distribution business has an unparalleled network that reaches more than 100,000 retail outlets, over 800 Direct and Micro Distributors and over 12400 Channel Partners across India. In the services space the Company has robust services offerings such as a comprehensive portfolio of Infrastructure Managed Services, Enterprise Application Services, System Integration Services, Office Automation Services, Managed Print Services, Life Cycle Services and After-Sales Support Services. HCL Learning, the Company's learning solutions business, serves the entire spectrum of education and training requirements across schools colleges, individuals and enterprises and offers Digital Content & Learning Solutions.

For more information please visit us at [www.hclinfosystems.in](http://www.hclinfosystems.in)

## ABOUT HCL ENTERPRISE

HCL is a leading global Technology and IT Enterprise with annual revenues of US\$ 6.4 billion. The HCL Enterprise comprises two companies listed in India, HCL Technologies ([www.hcltech.com](http://www.hcltech.com)) and HCL Infosystems ([www.hclinfosystems.in](http://www.hclinfosystems.in)).

The 37 year old Enterprise, founded in 1976, is one of India's original IT garage start ups. Its range of offerings span R&D and Technology Services, Enterprise and Applications Consulting, Remote Infrastructure Management, BPO services, IT Hardware, Systems Integration and Distribution of Technology and Telecom products in India. The HCL team comprises 90,000 professionals from diverse nationalities, operating across 31 countries including 505 points of presence in India. HCL has global partnerships with several leading Fortune 1000 firms, including several IT and Technology majors.

For more information, please visit [www.hcl.com](http://www.hcl.com)