



**Q4 FY14 HCL Infosystems Quarterly Investors Conference Call**

**September 1st, 2014**

**SPEAKERS: Harsh Chitale, MD & CEO, HCL Infosystems Ltd.  
Sandeep Kanwar, CFO, HCL Infosystems Ltd.**

**Moderator:**

Very good afternoon, ladies and gentlemen. Thank you for standing by and welcome to the "HCL Infosystems Quarterly Investor Conference Call." For the duration of the presentation, all participant line will be in listen-only mode and post the presentation we will have a Q&A session. Now I would like to hand over the proceedings to Mr. Harsh Chitale.

**Harsh Chitale:**

A very good afternoon to all the participants on the call today. We will talk about our last financial year and AMJ 2014 quarter performance and walk you through our key updates for each of our businesses.

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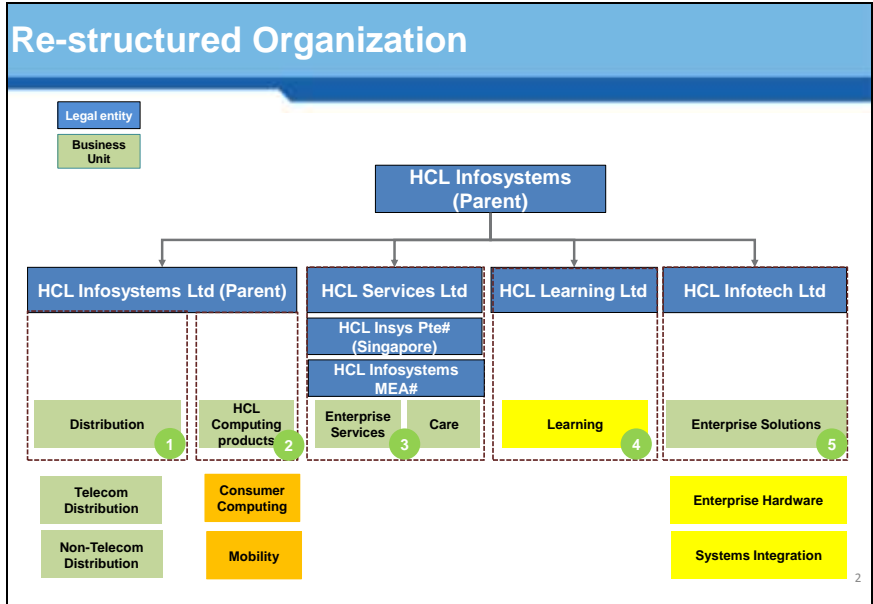
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I would like to start with our mandatory disclaimer. This call may contain forward-looking information including statements concerning HCL's outlook for the future as well as some of our other statements of belief, future plans and strategies. These forward-looking statements and information are subject to risks and uncertainties that they entail.



In FY14, HCL Infosystems underwent business restructuring and concluded its scheme of arrangement which was approved by our shareholders and court approved to carve ourselves into different companies in line with our different business models. Our distribution business and HCL computing products operates within the parent HCL Infosystems Limited. Our services businesses and its service business subsidiaries in Middle East and Singapore are part of HCL Services Ltd. HCL Learning Limited constitutes of our learning business which is our content driven Educational technology business. Our hardware solutions and system integration business is in HCL Infotech Limited. We carved ourselves into these subsidiaries to deal with each of these different businesses differently because we believe they are on their different lifecycles and have different challenges and opportunities ahead of them.

As we had announced earlier, our computing products business is on a wind down mode because we didn't have a competitive advantage and our product line had got increasingly commoditized and the low gross-margin business exposed us to very high degree of foreign exchange volatility.

Our enterprise solutions and learning business are the ones where we are reworking the business models to make them asset light and to reduce the requirement of working capital. Our two big growth platforms of distribution and services would continue to be the growth engines for future as well. We had shared this with all of you in our previous webcast and we continue to execute on this roadmap.

Let us take a quick snapshot of the last quarter (Q4) on our performance in each of these businesses.

Q4 Summary P&L snapshot											Unaudited Rs. crores		
Management accounts		Hardware Solutions											
Q4 FY14	Particulars	Distribution	Services	Learning	Solutions	Consumer Computing & Mobility	Unallocated / Eliminations	Total	Q3 FY14	Q2 FY14	Q1 FY14		
1	<b>Consolidated Revenue</b>	1,302	191	28	287	29	(107)	1,730	1976	1982	2201		
2	Profit / (Loss) before Exchange differences and Provisions, write-off and impairments	26.0	16.2	4.5	14.0	(29.7)	(24.7)	6.2	1.4	9.1	(6.1)		
3	Exchange differences Loss / (Gain)	0.2	0.1	0.4	1.0	1.0	1.7	4.3	16.2	19.1	28.2		
4	Provisions, write-off and impairments	2.6	3.2	1.7	12.6	12.7	8.8	41.6	2.2	1.8	5.6		
5	Other Income	0.2	0.2	-	0.4	-	21.1	22.0	34.5	12.0	14.5		
6	<b>Profit / (Loss) before Interest and Tax (2-3-4+5)</b>	23.4	13.1	2.4	0.8	(43.4)	(14.0)	(17.8)	17.5	0.2	(25.4)		
7	Finance Cost							36.6	39.5	41.1	43.1		
8	<b>Profit Before Tax</b>							(54.4)	(22.0)	(40.9)	(68.5)		
Q3 FY14	Profit / (Loss) before Interest and Tax (2-3-4+5)	28.2	15.0	0.1	(2.5)	(33.6)	10.3	17.5	Consolidated revenues are gross of rebates. The above numbers provide a line of business wise view based on management accounts to provide more granularity and are not as per reported segments.				
Q2 FY14	Profit / (Loss) before Interest and Tax (2-3-4+5)	23.9	16.2	(1.6)	(12.9)	(28.1)	2.7	0.2					
Q1 FY14	Profit / (Loss) before Interest and Tax (2-3-4+5)	23.8	12.1	(2.7)	(54.8)	(7.8)	4.0	(25.4)					

Note 1: Higher provisions and impairments in Q4 have been on account of our Computing Products and Hardware solutions business  
Note 2: As we wind down Computing Products and change the business model in Hardware solutions business, Exchange difference losses have come down.

Our revenues declined on quarter-on-quarter (in FY14) from Q1 to Q4 due to deliberate action of winding down of certain businesses which were asset-heavy. However our operating profit that is profit before exchange differences, provisions and impairments has improved, i.e. a profit of Rs. 6.2 crores from a loss of Rs. 6.1 crores in this period. It has been a steady improvement over the quarters.

Besides operating profit improvement, we brought down our exchange rate losses because by winding down businesses which had high exposure to foreign exchange and could not be hedged due to the business model and certain restrictions imposed by the RBI. So, our exchange rate loss which was Rs. 28 crores a year back in Q1 FY14 came down to Rs. 19 crores in Q2, in Q3 it came down to Rs. 16 crores and in Q4 was only Rs. 4 crores. The operating profit minus exchange rate loss or gain decreased from minus Rs. 34 crores in Q1 to a positive Rs. 2 crores. As we deliberately moved away from certain businesses, our exchange rate risk and losses reduced and our operating profit before provisions increased. We have been taking certain provisions of the range of Rs. 2 to 5 crores every quarter. In Q4 we took a provision for Rs. 41.6 crores. This jump has largely come on account of our hardware solutions and computing businesses wind down and as we reach the tail end of the wind down we are taking a harder look at the residual balance sheet in those businesses and taking necessary provisions and impairments on a conservative basis.

We still have about 4 months or the rest of H1 to reach the absolute tail end in our computing business, in this balance period we may see some additional charges and impairment as

we close our receivable reconciliations with our partners and we come to the end of the balance inventory.

Our PBIT, after all these provisions moved from minus Rs. 25 crore in Q1 to near breakeven in Q2, to a positive Rs. 17 crore in Q3 and minus Rs. 17 crore in Q4. Our finance cost has remained at Rs. 37 crores a quarter, has remained at this level as our net loan position has remained at the same level. We need to bring down our loan book with substantial collections that we expect going forward from our system integrations business. Until we collect our moneys due, we continue to incur a high working capital cost which is reflected in our finance cost.

Let's now look at key quarterly highlights in each of our businesses.

### Performance Overview

**Business Transformation in progress**

- Growth and profitability improvements driven by Distribution & Services businesses, the Key Focus Areas
- **Distribution Business**
  - ❖ **Non-Telecom Distribution business**
    - ❖ Manufacturer to distributor business model in transition
    - ❖ Good growth led by addition of new principals
  - ❖ **Telecom distribution business**
    - ❖ Margins improved despite sluggish volumes.
- **Services Business**
  - ❖ Double digit Y-o-Y growth continues
  - ❖ Focus on expansion of contract bank and establishing overseas base
- **Learning Business**
  - ❖ Strategic change in Business model
  - ❖ Selective approach to new deals
- **Hardware Solutions Business**
  - ❖ Phase out of hardware business dragged revenue and profitability

Distribution business recorded a revenue of Rs. 1302 crores in Q4 and an operating profit before exchange rate and impairments of Rs. 26 crores. Similarly, our services business registered a revenue of Rs. 191 crores and an operating profit before write-offs and exchange rate differences of Rs. 16.2 crores. Both businesses are healthy and on an upward trajectory QoQ.

Learning business saw a significant quarter-on-quarter improvement from a minus Rs. 2.7 crores in Q1 to Rs. 2.4 crore in Q4. This business is highly cyclical and lot of business actually happens in Q4 and hence the sharp improvement is not just due to our performance but also because of cyclicity in this business. Distribution and Services are our near term growth businesses whereas HCL Learning is a longer-term growth bet.

Our operating profit improvement before exchange rate and before provisions is largely driven by our distribution and service businesses. Our distribution and services businesses delivered pre-tax profit of Rs. 138 crores on a pro forma basis and operating profit or PBIT of close to Rs. 155 crores. These two businesses are significant profit earners and profit drivers for the company and we expect this to continue going forward.

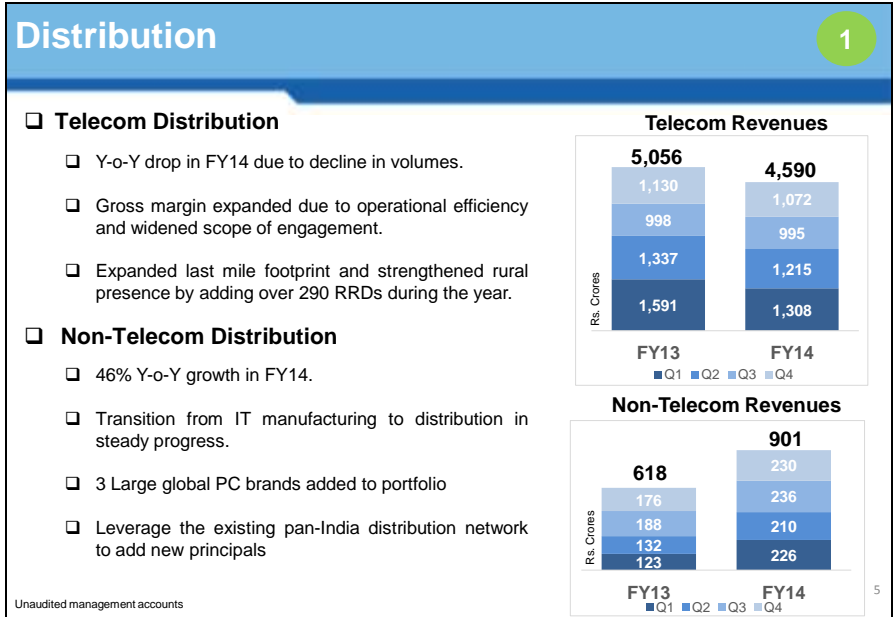
Distribution businesses saw robust growth due to number of new principal additions. And in telecom distribution business while there was a challenge on the top line, we are actually showing expansion in gross margin as we increased our scope of engagement with some of our key principals like Nokia.

The services business recorded a double-digit year-on-year growth of 19%, which consisted of 17% growth in enterprise services and 47% growth in consumer services. Enterprise services growth was driven with our good growth in our overseas business which expanded from a Rs. 26 crore revenue business in the prior year to a Rs. 112-crore revenue in FY14. We ended our year with a strong contract bank in our overseas markets of Singapore and Middle East.

In our learning business, we've been extremely selective in acquiring new customers. This industry has suffered customer delinquencies as key industry peers adopted the use of financial lease as a business model which gave rise to lot of NPAs when customer selection was not done prudently. Having learnt from these lessons of the industry, as a relatively late entrant in this sphere, we've taken a very conservative approach for selecting customers. At the same time, we've also started transition to an asset light business model where it is not a BOOT or a financial lease kind of a transaction that we enter with the customer, but a content and services play as opposed to an end-to-end offering. It was only towards the end of the year that we started transition to this business model and its impact would be seen in the year FY15.

The hardware solutions business, the SI business and the computing products is what really dragged the revenue and profitability depicted in the summary chart earlier.

Let us now go through individual businesses.



The telecom distribution business saw a year-on-year decline in revenue from Rs. 5056 crores to Rs. 4590 crores. While there was a year-on-year decline, the last two quarters, Q3 and Q4 saw an 8% growth in revenue Q-o-Q as Nokia launched new devices which led to an increase in sales in AMJ quarter. Our gross margin percentage increased due to our operational efficiency and a wider scope of engagement with Nokia. Even with lower revenues, our margins have increased. In this business, we expanded our last mile footprint and strengthened rural distribution network by adding 290 rural distributors in our distribution ecosystem.

The non-telecom distribution, which is our strategic focus to reduce concentration of one category in our portfolio, witnessed a 46% year-on-year growth in FY14. This growth was enabled by two factors – first the addition of new principals or vendors to distribute their products as we signed up with three top global PC brands and started taking their products to the market. The other factor is the transition of our direct selling model in our Systems Integration and Solutions business to a channel partner based model. As a result, our revenue in non-telecom distribution piece grew from Rs. 618 crores to Rs. 901 crores in FY14.

Distribution					
Unaudited Rs. crores					
Particulars	Q1 FY14	Q2 FY14	Q3 FY14	Q4 FY14	FY14
<b>1 Consolidated Revenue</b>	<b>1534</b>	<b>1425</b>	<b>1230</b>	<b>1302</b>	<b>5491</b>
2 Profit / (Loss) before Exchange differences and Provisions, write-off and impairments	24.5	23.3	25.5	26.0	99.3
3 Exchange differences Loss / (Gain)	1.0	(0.4)	(1.6)	0.2	(0.8)
4 Provisions, write-off and impairments	-	-	-	2.6	2.6
5 Other Income	0.3	0.2	1.1	0.2	1.8
<b>6 Profit / (Loss) before Interest and Tax (2-3-4+5)</b>	<b>23.8</b>	<b>23.9</b>	<b>28.2</b>	<b>23.4</b>	<b>99.3</b>

- Widened Scope of engagement of distribution network expanded margins
- Non-telecom distribution portfolio expanded

Unaudited management accounts

Overall the distribution business had a consolidated revenue for the year at Rs. 5491 crores and a consolidated PBIT before provisions and exchange rate impacts of Rs. 99.3 crores. We took additional charges for impairments and provisions which stood at Rs. 2.6 crores for Q4.

### Consumer Computing & Mobility

- Progress in line with plan to move to Third Party Distribution oriented business model.
- Discontinued manufacturing operations impacted Revenues and Profitability
- Liquidation slower than expected. Wind down expected to be complete by next quarter.

#### Consumer & SMB Computing Revenues

Year	Q1	Q2	Q3	Q4	Total
FY13	73	106	97	108	384
FY14	99	76	95	19	289

#### Mobility Revenues

Year	Q1	Q2	Q3	Q4	Total
FY13	59	50	75	76	260
FY14	67	46	54	10	177

Unaudited management accounts

The revenues from consumer computing business, which is being wound down, came down from Rs. 384 crores to Rs. 289 crores. After first discontinuing our manufacturing operation at one plant, we have now brought down our operations in the second plant to a minimal level in AMJ quarter. Some of our



liquidation efforts are going slower and we expect to fully close the business by December, this business has some impairments and charges and accounts for bulk of the loss in the year that we reported for FY14.

Consumer Computing & Mobility						2
						Unaudited Rs. crores
	Particulars	Q1 FY14	Q2 FY14	Q3 FY14	Q4 FY14	FY14
1	<b>Consolidated Revenue</b>	<b>166</b>	<b>122</b>	<b>149</b>	<b>29</b>	<b>466</b>
2	Profit / (Loss) before Exchange differences and Provisions, write-off and impairments	(2.2)	(22.1)	(28.9)	(29.7)	(82.9)
3	Exchange differences Loss / (Gain)	5.6	5.9	5.0	1.0	17.5
4	Provisions, write-off and impairments	-	0.1	-	12.7	12.8
5	Other Income	-	-	0.3	-	0.3
6	<b>Profit / (Loss) before Interest and Tax (2-3-4+5)</b>	<b>(7.8)</b>	<b>(28.1)</b>	<b>(33.6)</b>	<b>(43.4)</b>	<b>(112.9)</b>

- Discontinued own brand manufacturing operations
- Charges considered due to wind down
- Steady progress in transition from own brand to third party distribution business model

Unaudited management accounts

The consolidated revenue from consumer computing and mobility stood at Rs. 466 crores. We recorded a Rs. 112 crores loss in the consumer computing and mobility business. Besides Consumer computing, Rs. 385 crores of sale was recorded in GY 14 for the enterprise or B2B PC business, which had a loss of Rs. 48 crores. Enterprise PC business is reported as a part of Hardware solutions segment. Both Consumer Computing & Enterprise PC put together, generated an operating loss of Rs. 160 crores, which makes up for the majority of our total loss in FY14.

As we are moving out of this business, we are leveraging our customer connect and our channel ecosystem across the country to strengthen our distribution business.

**Services**

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- ❑ **Growth momentum continues**
  - ❖ 19% Y-o-Y
  - ❖ Rs. 470 crores ACV @ July 2014
- ❑ **Enterprise Services:**
  - ❖ **IMS**
    - Focused approach on operational efficiencies to lead margin improvements in domestic business
    - Expanded contract base in Singapore
  - ❖ **Breakfix business:** Multi-Vendor Support Services receiving encouraging response from OEMs.
  - ❖ **Launched new offerings** – Infra Consulting and Project Services for providing support and maintenance services to OEMs and customers.

**Enterprise Services Revenue**

Quarter	FY13 (Rs. Crores)	FY14 (Rs. Crores)
Q1	122	148
Q2	135	170
Q3	147	170
Q4	148	170
<b>Total</b>	<b>553</b>	<b>648</b>

Unaudited management accounts

The services business saw a 19% year-on-year growth overall, a steady 17% growth in enterprise services and 47% growth in consumer services. Our annual contract value bank on 1<sup>st</sup> July 2014 stands at Rs. 470 crores which exactly a year back was Rs. 380 crores. Substantial growth in that contract bank came on account of wins in Middle East and in Singapore.

Within the enterprise services business, our infrastructure managed services business led our expansion during the year. We also signed up many new multi-vendor technology support agreements with multiple OEMs such as Dell, Lenovo and Xerox.

The business launched many new services for infra-consulting and project services. This is an IP and know-how we built as a part of our system integration business. And just the way we are leveraging our customer connect and reach across the markets in the computing business and using it to build distribution business, our service capability and know-how that we built as a part of SI business is being leveraged to build high end services offering in our services business. So while we actually move out of our asset heavy business model in solutions and system integration, we are able to capture the goodness and build high-end services on the strength of that experience.

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## Services 3

**□ Care Services (Consumer Electronics & Appliances breakfix services)**

- ❖ Growth continues @ 47% Y-o-Y in FY14
- ❖ Key deals from many leading brands in the Mobile, Tablets, Consumer Electronics and Consumer Durables space
- ❖ Pan-India reach expanded with 300 "Touch" stores

**Care Business Revenue**

Year	Q1	Q2	Q3	Q4	Total
FY13	13	10	10	13	46
FY14	12	17	19	21	68

Unaudited management accounts 10

On consumer care, (we registered) 47% growth year-on-year. Business grew from Rs. 46 crores to Rs. 68 crores. And as you can see, growth has been uniform, quarter-after-quarter - Q1 of 12 crores, Q2 of 17, Q3 of 19 and Q4 of 21 crores, so there was quarter-after-quarter growth trajectory and this was driven by number of new sign ups with multiple brands in mobiles, tablets, consumer electronics and consumer durables.

Our pan-India presence of walk-in repair centres under the brand HCL Touch has now reached 300 stores and is growing at the rate of about 15 to 20 centres a month.

## Services 3

Unaudited Rs. crores

	Particulars	Q1 FY14	Q2 FY14	Q3 FY14	Q4 FY14	FY14
1	<b>Consolidated Revenue</b>	<b>161</b>	<b>176</b>	<b>188</b>	<b>191</b>	<b>716</b>
2	Profit / (Loss) before Exchange differences and Provisions, write-off and impairments	13.0	15.9	14.8	16.2	59.9
3	Exchange differences Loss / (Gain)	0.6	(0.7)	(0.2)	0.1	(0.2)
4	Provisions, write-off and impairments	0.3	0.3	0.2	3.2	4.0
5	Other Income	-	(0.1)	0.2	0.2	0.3
6	<b>Profit / (Loss) before Interest and Tax (2-3-4+5)</b>	<b>12.1</b>	<b>16.2</b>	<b>15.0</b>	<b>13.1</b>	<b>56.4</b>

- Healthy growth in Overseas business
- Various productivity and service delivery improvement initiatives underway

Unaudited management accounts 11

Overall services business has performed consistently from a revenue of Rs. 161 crores in Q1 to Rs. 176 crores in Q2, to Rs. 188 in Q3 and Rs. 191 in Q4. Our operating profit before provisions and exchange rate impacts has shown QoQ improvement from Rs. 13 crores in Q1 to Rs. 14.8 crores in Q3 to Rs. 16.2 crores in Q4. In Q4, we adopted a stringent provisioning norm in this business, and hence the provisions for Q4 stood at Rs. 3.2 crores, and our reported PBIT after provisions and exchange rate differences stands at Rs.13.1 crores on a sale of Rs. 191 crores in Q4. For the full year, this business generated PBIT of Rs. 56 crores and revenue of Rs. 716 crores and which corresponds to a jump of 19% year-on-year.

**HCL Learning Ltd**
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- Low market sentiment in Domestic education sector
- Strategic change in business model
- Selectively pursuing opportunities for disciplined growth
- Customised content developed for Overseas market
  - Tie up with leading educational service providers and schools in Nepal, Middle East and Africa

**Learning Revenue**

Quarter	FY13 (Rs. Crores)	FY14 (Rs. Crores)
Q1	16	13
Q2	14	11
Q3	18	15
Q4	43	28
<b>Total</b>	<b>91</b>	<b>67</b>

Unaudited management accounts
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Learning business was impacted with poor market sentiment because some of the leading players in this industry have gone through a financial struggle. So there was a sharp decline in this industry last year and the market declined by close to 30% year-on-year. The business has adopted a very conservative approach to selection of schools in which we will offer operating lease and we did see a reduction in our revenue by 26% from Rs. 91 crores to Rs. 67 crores in learning.

HCL Learning Ltd					
Unaudited Rs. crores					
Particulars	Q1 FY14	Q2 FY14	Q3 FY14	Q4 FY14	FY14
<b>1 Consolidated Revenue</b>	<b>13</b>	<b>11</b>	<b>15</b>	<b>28</b>	<b>67</b>
2 Profit / (Loss) before Exchange differences and Provisions, write-off and impairments	(1.9)	(1.6)	0.9	4.5	1.9
3 Exchange differences Loss / (Gain)	0.1	0.2	0.2	0.4	0.7
4 Provisions, write-off and impairments	1.4	0.6	1.5	1.7	5.2
5 Other Income	0.7	0.8	0.9	-	2.4
<b>6 Profit / (Loss) before Interest and Tax (2-3-4+5)</b>	<b>(2.7)</b>	<b>(1.6)</b>	<b>0.1</b>	<b>2.4</b>	<b>(1.8)</b>

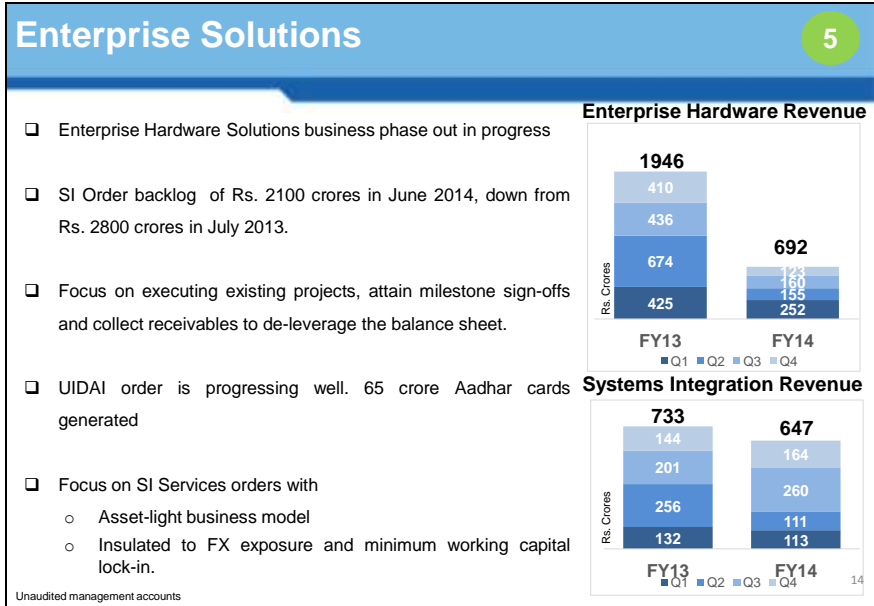
- Low market sentiment in Domestic Market
- Strategic change in Business model

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Unaudited management accounts

In AMJ'14 the revenue for HCL Learning jumped from Rs. 15 crores to Rs. 28 crores in Q4. Profit also hence showed a sharp increase from near breakeven to Rs. 2.4 crores of PBIT.

Our Learning business is ramping up its content and services offering and we were successful in making content license sales to many customers in India, to customers overseas in Africa, Middle East and Nepal. The business developed and launched its B2C (student) content offering called MyEduworld, which is a learning solution for students to be used at home. We believe Learning is a longer-term growth opportunity for the company. However, in a market where new business models that are sustainable and profitable are evolving, we are experimenting with these new business models and that does have some inherent uncertainty and we draw our investors' attention to that.



The Enterprise solutions business which consists of enterprise hardware solutions and system integrations business, has the bulk of our company's capital employed. Enterprise hardware solutions business is in a phase out mode as we move from a direct sales model of hardware solutions to a distribution type of a business model where we will enable sales through channel partners. Hence revenues declined to Rs. 692 crores from Rs. 1900 crores. This was in-line with our strategy of moving away from this business model as it exposed company to very high working capital.

During FY 14, our SI business focussed on executing current projects, completing the project milestones and collections of those projects as opposed to pursuing new opportunities of similar nature. This business started the year with Rs. 2800 crores of balance order book and ended the year with a little over Rs. 2100 crores. At this rate of execution, we expect to complete most of our existing order book in the next 30 months to 36 months. The UIDAI project that will become a backbone of many new services like healthcare, insurance, e-governance or banking, is progressing extremely well as we have enabled the delivery of 65 crores Aadhar cards. With the Digital India programme we believe that Aadhaar will become a central authentication engine behind many other services.

The solutions business is simultaneously building a portfolio of high-end project services and consulting services, leveraging know how and experience that we've gathered by executing complex projects over last many years. The SI business, as it completes the existing order book, will take these offerings to other system integrators and other geographies to build high-end services play going forward.

Enterprise Solutions						
Unaudited Rs. crores						
	Particulars	Q1 FY14	Q2 FY14	Q3 FY14	Q4 FY14	FY14
1	<b>Consolidated Revenue</b>	<b>364</b>	<b>267</b>	<b>420</b>	<b>287</b>	<b>1339</b>
2	Profit / (Loss) before Exchange differences and Provisions, write-off and impairments	(24.9)	1.6	10.5	14.0	1.2
3	Exchange differences Loss / (Gain)	26.5	14.8	13.3	1.0	55.6
4	Provisions, write-off and impairments	3.9	0.7	0.2	12.6	17.4
5	Other Income	0.5	1.0	0.5	0.4	2.4
6	<b>Profit / (Loss) before Interest and Tax (2-3-4+5)</b>	<b>(54.8)</b>	<b>(12.9)</b>	<b>(2.5)</b>	<b>0.8</b>	<b>(69.4)</b>

- Transition out of enterprise hardware business dragged profitability
- Expect to complete the Existing SI order back log in next 30 months

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Unaudited management accounts

Revenue from enterprise solutions business was progressively brought down from Rs. 364 crores in Q1 to Rs. 287 crores in Q4. Similarly, through our efforts the operating loss (before Provisions and Exchange differences) from this business which stood at Rs. 24.9 crores in Q1, improved to a marginal profit of Rs. 1.6 crores in Q2, to Rs. 10.5 crores in Q3, to Rs. 14 crores in Q4. So as we progressively get out of our old business model, we were able to drive up our operational profit in this business and also in minimizing our exchange rate impact. In Q1, our loss due to exchange rate was Rs. 26 crores which dropped to Rs. 1 crores in Q4. The PBIT loss of Rs. 55 crores in Q1 came down to Rs. 13 crores in Q2, Rs. 2.5 crores in Q3 to above breakeven in Q4.

There is a Rs. 2100 crores of balance order book that we have to work on and at the current pace of execution, it is a 30 to 36 months' action. In each of these projects, by the very nature of this business, there is some uncertainty in the timing of project completion, sign offs and collection. So while we expect this to happen over this period, we do want to draw attention to the inherent uncertainty in some of these large projects.

FY14 Summary P&L snapshot								Unaudited	Rs. crores
Unaudited management accounts								Hardware Solutions	
FY14	Particulars	Distribution	Services	Learning	Solutions*	Consumer Computing & Mobility	Unallocated/ Eliminations	Total	
1	<b>Consolidated Revenue</b>	<b>5491</b>	<b>716</b>	<b>67</b>	<b>1339</b>	<b>466</b>	<b>(190)</b>	<b>7888</b>	
2	Profit / (Loss) before Exchange differences and Provisions, write-off and impairments	99.3	59.9	1.9	1.2	(82.9)	(68.7)	10.6	
3	Exchange differences Loss / (Gain)	(0.8)	(0.2)	0.9	55.6	17.5	(5.2)	67.8	
4	Provisions, write-off and impairments	2.6	4.0	5.2	17.4	12.8	9.2	51.2	
5	Other Income	1.8	0.3	2.4	2.4	0.3	75.7	83.0	
6	<b>Profit / (Loss) before Interest and Tax (2-3-4+5)</b>	<b>99.3</b>	<b>56.4</b>	<b>(1.8)</b>	<b>(69.4)</b>	<b>(112.9)</b>	<b>3.0</b>	<b>(25.5)</b>	
7	Finance Cost							160.3	
8	<b>Profit Before Tax</b>							<b>(185.8)</b>	

\* Solutions Business included enterprise computing revenues of Rs.345 crores with a PBIT loss of Rs. 48.3 crores. Hence the Computing products related PBIT loss was Rs. 161 cr.

Consolidated revenues are gross of rebates. The above numbers provide a line of business wise view based on management accounts to provide more granularity and are not as per reported segments.

Moving to full year summary. Overall, the distribution business did Rs. 5491 crores of revenue; services did Rs. 716 crores; learning business did Rs. 67. These businesses between them generated about Rs. 155 crores of PBIT. And our hardware solutions business segment (consisting of had an operating loss of about Rs. 182 crores. There were certain other incomes and certain eliminations on account of the investments that we had and sale of some of real estate assets during the year. For FY14, a Rs. 7888-crore revenue has created a PBT loss of Rs. 185 crores.

FY14 Balance Sheet				
Statement of Assets and Liabilities				
Particulars	Consolidated		Standalone	
	Audited as at 30.06.2014	30.06.2013	Audited as at 30.06.2014	30.06.2013
<b>A EQUITY AND LIABILITIES</b>				
<b>Shareholders' funds</b>				
Share capital	45	45	45	45
Reserves and surplus	1,389	1,750	1,463	1,791
<b>Sub-Total - Shareholders' funds</b>	<b>1,434</b>	<b>1,795</b>	<b>1,508</b>	<b>1,836</b>
<b>Non Current Liabilities</b>				
Long term Borrowings	388	507	268	506
Other Long term Liabilities	32	79	1	79
Long term Provisions	13	19	2	16
<b>Sub-Total - Non Current Liabilities</b>	<b>434</b>	<b>603</b>	<b>271</b>	<b>599</b>
<b>Current Liabilities</b>				
Short-term borrowings	294	453	196	450
Trade payables	1,436	2,221	769	2,039
Other current liabilities	874	514	365	479
Short-term provisions	30	22	12	21
<b>Sub-Total - Current Liabilities</b>	<b>2,634</b>	<b>3,210</b>	<b>1,343</b>	<b>2,989</b>
<b>Total - EQUITY AND LIABILITIES</b>	<b>4,511</b>	<b>5,678</b>	<b>3,122</b>	<b>5,424</b>
<b>B ASSETS</b>				
<b>Non-current assets</b>				
Fixed Assets	344	376	89	299
Goodwill on consolidation	577	35	-	-
Non-current investments	-	-	839	140
Deferred tax assets (net)	5	73	-	68
Long-term loans and advances	54	70	31	76
Trade receivables	-	-	8	9
Other non-current assets	242	346	-	346
<b>Sub-Total - Non Current assets</b>	<b>1,222</b>	<b>908</b>	<b>959</b>	<b>938</b>
<b>Current Assets</b>				
Current investments	175	919	175	919
Inventories	436	568	201	504
Trade receivables	865	3,298	429	1,170
Cash and bank balances	347	313	207	225
Short-term loans and advances	284	277	1,148	267
Other current assets	1,162	1,356	3	1,356
<b>Sub-Total - Current assets</b>	<b>3,289</b>	<b>4,771</b>	<b>2,163</b>	<b>4,487</b>
<b>Total Assets</b>	<b>4,511</b>	<b>5,678</b>	<b>3,122</b>	<b>5,424</b>

As we started moving away from an asset-heavy business model, size of the balance sheet has shrunk on account of certain reductions in receivables, certain reductions in



inventories and that release of working capital was largely used to pay back trade payables. Trade Payables dropped by almost Rs. 800 crores. The release of our gross working capital, i.e. release of inventory and receivables and some of our investments on the book were used to repay trade payables and bring that down by almost Rs. 800 crores as we were getting out of some of the businesses. Our balance sheet is shrinking, making it asset light.

Q&A interactive session

Questions from Mr. Abhishek Shah from Corporate Database

- Abhishek Shah:** I wanted to know the net worth of HCL Infotech which is the hardware solutions business.
- Sandeep Kanwar:** Net worth of Infotech would be about Rs. 220 Crores
- Abhishek Shah:** So is this after the impairment of Rs. 210 Crores?
- Sandeep Kanwar:** Yes.
- Abhishek Shah:** Ok. Another question that I have is - I understand that systems integration is an asset heavy business, but is it currently making losses or are we profitable there?
- Harsh Chitale:** At the EBIT level it is just above breakeven, but a challenge here is our significant working capital and hence the cost of interest. So at the EBIT level, it is just above breakeven, but when you account for the working capital it is making losses.
- Abhishek Shah:** Ok. Well, that's all from my side. Thank you so much.

Questions from Meeta from Ventura Securities

- Meeta:** Good evening, sir. I wanted to know the status of the Rs. 1000 Crores of receivables.
- Sandeep Kanwar:** Yes. So, as Harsh mentioned, the debt which is sitting on the balance sheet in terms of the SI business is largely on the project business and we are working on executing the milestones to finish the implementation phases in the next two and a half years, which will then liquidate the receivables as and when the milestones are met.
- Meeta:** Ok.

**Harsh Chitale:**

As we had mentioned in our last webcast there are certain projects in which we have also taken the route of dispute resolution mechanism with some of the customers. The receivables were stuck on account of two types of situations – where the project themselves were not moving and secondly where we believe the projects were moving and we had done our work, but we were not being paid.

In the first category situation in the last 60 to 90 days we have observed that there have been movements across projects. So once these projects now reach a specific milestone for sign-offs, the receivables will become collectable. So in these cases the receivables has not yet come, but I would say we have started moving closer to the collection milestone.

In the second category situation we had completed work in our opinion, but we have not received payments. In such cases we had started arbitrations and different dispute resolution mechanisms on many projects. And I am happy to report that in some of them we have started receiving awards in our favour. In fact on the date of the announcement of our quarterly and annual results, we got an award relate to one large MTNL project. We received an award from the arbitrators who ruled in our favour. The ruling stated that we have to be paid the entire due amount and in case of failure to do so, the customer should pay us 8% interest from the date of the award and also release 100% of our bank guarantees on that the project. This is an award for receivables of almost Rs. 80 Crores. So there are many situations like this where we have initiated such dispute resolution mechanisms and we have now received three such awards so far. Having said that, the receipt of an award does not mean that the receivables are realized immediately, because the customer does have a choice to contest the award. But we have now moved closer to receiving our due monies than without having such award in our favour.

**Meeta:**

Ok. That's great. And, sir, on the asset sale part that the company is doing as a part of its liquidation process, has the entire tangible assets being sold or there is some amount still left?

**Sandeep Kanwar:**

No, we have Rs. 344 Crores of fixed assets on the balance sheet, so the asset sale that we have done is only a small amount.

**Meeta:**

Ok. And, sir, how many classrooms have been added in Q4 in the e-learning segment?

**Harsh Chitale:**

Our full year addition was 2700 classrooms out of which the last quarter additions were about 1250 classrooms.

**Meeta:**

1250. Ok. And, sir, could you throw some light on the major orders in the pipeline?

**Harsh Chitale:**

Our transition to a new business model by its very nature is less dependent on big orders. So in our distribution and service

businesses we are now talking of thousands of transactions creating business (for us) as opposed to doing five large projects of Rs. 500 Crores or Rs. 1000 Crores each. So, now lot of our communication going forward would be about our engagement sign ups and vendor sign ups as opposed to just some big wins. Some of the engagements that we had signed up in the last quarter for our Services business are for customers such as Asian Paints, Escorts, DHFL, K. K. Modi Group, Ireo etc. We have also signed a very large multi-year infrastructure managed services engagement in Qatar. We have added a number of additional agencies and departments under our managed services contract in Singapore. We have begun a service engagement with Lenovo as their national services partner. We have also started a service engagement with Xerox for one of their product line. We have also added, as I mentioned earlier, three of the top global PC manufacturers as our distribution partners. We have given more details of these engagements in the investor release that we had shared last Friday along with our results. I would request our investor relations team to reach out to you and share the release in case you have not received the same.

**Meeta:** Ok, sir. Thank you.

Questions from Mr. Srinivasan from Spa Capital

**Srinivasan:** Hi, Harsh. In your distribution business we are actually witnessing good growth this year in terms of new brand sign ups. I wanted to know the growth point of view in FY15. I do know that you do not give guidance, but it would be helpful if you can let us know how you expect the non-telecom business to play out in the next 12 to 18 months.

**Harsh Chitale:** Sure. I would like to start with by saying that there is headroom for growth. In non-telecom distribution, there are broadly three categories. One category is that of consumer appliances and consumer durables which consists of products like flat panel TVs, kitchen appliances, personal care products and so on. This entire category is close to Rs. 45,000 Crores a year. This is the kind of spend that is happening in the country and this is growing in early double-digits year-on-year.

The second category consists of the entire enterprise and IT products category. The market for distribution of Enterprise products such as server, storage, networking is in the range of Rs. 8000 Crores to Rs. 10,000 Crores.

The third category is that of PCs which are distributed by multiple distributors and which is a Rs. 30,000 Crores per year market. So these are the three big buckets.

In the past, we did not have a presence in the consumer appliances category. But now we have a presence in this

distribution category and some of our sign-ups such as Panasonic, Delonghi, Hamilton Beach, Brown, etc. are our early foothold in this category. We have been leveraging our current capabilities such as supply chain, relationships with the modern and online retail and our existing logistics to enter this huge segment.

In the past we did not have a presence in enterprise products and PC distribution segments because we were ourselves a large system integrator and a provider of branded computing PCs or branded PCs. As we are moving away from these spaces, big segments of Enterprise Products and PC Distribution have become an opportunity for us. It is almost a Rs. 40,000 Crores market. We have made an early beginning and headroom for growth is significant.

**Srinivasan:** Sure. On the computing and mobility piece, you have taken a big write-off this quarter. Would you be able to quantify the extent of the write-offs? Please elaborate on the write-off that was taken in this quarter and if you expect a final round of a smaller write-off as a wind down of the computing and mobility business?

**Sandeep Kanwar:** I think we cannot give guidance on the numbers going forward. As Harsh had indicated we are in the process of winding down and liquidating. And we will have to watch how this process unfolds and accordingly report to you again in the next quarter.

**Srinivasan:** Sure. Could you also share comments on the other current liabilities. Would a large part of it be actually be debt as a very large number especially on the consolidated balance sheet? Also wanted to know what is the nature of the other current liabilities that are sitting in the balance sheet?

**Sandeep Kanwar:** The classification of other current liabilities includes long-term debt which is of short maturity that is the reason part of it comes in other current liabilities. There is a Rs. 430 Crores of debt maturing in less than one year as part of the Rs. 874. Crores

**Srinivasan:** Ok. And similarly on the consolidated balance sheet there is another current asset on those Rs. 1182 Crores? Would it predominantly be unbilled revenues?

**Sandeep Kanwar:** Yes. Unbilled revenues would be the predominant part plus contracts in progress.

**Srinivasan:** Ok. On the hardware business you did mention a balance sheet side of some asset monetization. Any indications of what could be the potential inflow from some of the asset monetizations that are part of?

**Harsh Chitale:** Our total fixed assets, as Sandeep mentioned, were Rs. 344 crores as on June 30, 2014. Assets that we monetized this year were assets that we did not need as we transitioned our businesses. So assets will be monetized as per the requirement of our new residual focused businesses. As of now, we don't have a specific number that we can share.

**Srinivasan:** Sure. And on the balance sheet front there has been a substantial increase in goodwill, is it mainly because when you move some of your assets to your subsidiaries you took a revaluation kind of an adjustment?

**Sandeep Kanwar:** Yes, that is correct.

**Srinivasan:** Ok. Thank you.

Questions from Mr. Gaurav Maheshwari from Unilazer Ventures

**Gaurav Maheshwari:** Hi, I have a couple of questions. One is pertaining to the SI business - you have mentioned that we are above the water and we are generating profits in that business so do we assume that going ahead the one-off items wouldn't be there in that part of the business?

And, secondly, if you can provide the capital employed over there which I would presume is mostly towards debtor receivables?

**Harsh:** As I mentioned earlier, we are above the mark on PBIT, but there is still a significant interest cost in this business and hence on a pro forma PBT basis it is still not profitable, but purely on an operating profit without financing cost the business is now in profitable territory. Coming to provisions, as an when we realized that some of the working capital is not collectable, we have provided for. We have taken significant impairment on this business already. However, in this business there are inherent uncertainties. Hence, to make a statement that there would never be another one timer in this business would be a difficult statement to make, however, we've taken significant (impairment) already.

**Sandeep Kanwar:** The net working capital as per your query is Rs. 577 Crores for SI business.

**Gaurav Maheshwari:** Out of the Rs. 577 Crores which is due what is the disputed amount which I am presuming is mostly towards the receivables?

**Sandeep Kanwar:** Rs.577 Crores is net of current liabilities. Some these are receivables in dispute. One case itself is of Rs. 80 Crores which is the MTNL case and there are other cases of between Rs. 10 to Rs. 20 Crores, which would be totaling to (disputed receivable of) about little over Rs. 150 to Rs.160 Crores

**Gaurav Maheshwari:** 150 crores?

**Harsh Chitale:** That is not the part of this net working capital number. Most of that stands already provided. Bulk of our disputed amounts stand provided.

**Gaurav Maheshwari:** Ok. And can you share the gross number, gross receivables?

**Sandeep Kanwar:** I do not have it right now, but we can share with you on a separate call.

**Gaurav Maheshwari:** Ok. Secondly, my question pertains to this other part of the business - Hardware computing which will be wound up in the next one quarter. Do we assume that most of the write-offs is done or maximum whatever will come in will come in at one quarter which would be a smaller number?

**Harsh Chitale:** It is difficult to say whether there is any specific number, but substantial part of the wind down of the business has been achieved. We are at the tail end of this process and by December 2014 we are hopeful of completing the entire wind down. It is difficult to give a specific number without completing the process of the final receivable reconciliation with dealers and channel partners and realizing the value on the last inventories.

**Gaurav Maheshwari:** What would be the sense on the growth of the distribution business - if you can share indicative growth post on the distribution side other than non-distribution side separately?

**Harsh Chitale:** In our distribution business the headroom for growth is tremendous. We declared 46% growth on our non-telecom distribution business and even as we add more principals we are targeting the three big opportunities of consumer products, enterprise products and PC distribution. Last year we have achieved good vendor sign-ups. Basis these partnerships, we are hopeful of generating very good growth in distribution. We do not give any specific forward-looking guidance, but it would suffice to say that there is headroom for growth and so far we have had a good start.

**Gaurav Maheshwari:** Do you expect the margins to remain at the same level or could the margins go up beyond 2%?

**Harsh Chitale:** In the distribution business, the margin would remain in this ballpark, even if you look at across the industry. In fact, we have had some margin expansion in the last year already and that puts us into one of the better performing distribution companies when you look at the margin profile.

**Gaurav Maheshwari:** Thank You. That is all from my side. All the best.

**Harsh Chitale:** Thank you.

Questions from Mr. Parimal, individual investor

**Parimal:** Good evening, sir.

**Harsh Chitale:** Hi, Parimal.

**Parimal:** I just wanted to know how would you benefit from the Digital India initiatives and can you throw more light on your system integration business?

**Harsh Chitale:** From Digital India initiative there are actually two to three impacts that we observe. Firstly it will expedite progress on our existing projects – Rs. 2100 Crores of projects. Most of these are in the public sector or in the government sector. In the earlier regime for last few years, these projects were moving at a slow pace. With this Digital India programme, we do expect momentum in most of these projects, which would mean faster sign-offs and faster collection of our receivables.

Secondly, some of the projects in our order book such as UIDAI are foundational projects for the entire Digital India programme because it becomes the backbone on which many other programmes of Digital India would be implemented. We expect the scope of UIDAI and the engagement to expand.

Thirdly, another potential benefit that we hear from public sources is a significant flow of money that is likely to be driven into BSNL and MTNL under the Digital India programme. In fact, just today there was a news item of crores worth of work being given to MTNL and BSNL for the Digital India programme. With that, the financial health of these two entities may improve. As lot of our receivables and disputed receivables are with these organizations we can benefit in terms of (collection of) our receivables. So the Digital India programme will help us in an indirect manner and not necessarily in a direct manner in terms of new SI business opportunities.

**Parimal:** Ok. And, sir, you said the UIDAI is the foundation for Digital India. Is the company trying to monetize this?

**Harsh Chitale:** UIDAI provides the backend authentication engine. As most of the government services move into a digital platform such as birth certificates, death certificates, pensions, scholarships, financial inclusion, government insurance, all of these services will need a backend engine for authentication. Hence our engagement with UIDAI is likely to expand due to the increase in such requirements.

**Parimal:** So if I am correct, do you own the 65-crore database? Or how will you monetize UIDAI and how will it benefit HCL Infosystems?

**Harsh Chitale:** Our scope in UIDAI is to create a repository of biometric signatures and manage the repository. Whenever there is a requirement of matching against the repository and doing authentication then the authentication service is provided. So as the need for authentication service increases, scope of our work in maintaining the repository and managing the authentication engine will also increase. Our contract with UIDAI has a per unit or per unit rates defined for various types of services.



Questions from Mr. Srivatsan from Spa Capital

**Srivatsan:** Just wanted to get some sense of capital employed. Excluding cash you would have Rs. 4200 crores of capital employed. At the end of FY14. Can you share which businesses would have how much of capital?

**Harsh Chitale:** The total capital employed in the company is Rs. 2554 Crores and 91 lacs as reported in our financial results and the bulk of the capital employed is in the hardware solutions and SI business. The Rs. 4200 Crores number that you spoke about is the gross capital and you will have to net-off the payables from this figure to arrive at the total capital employed.

Capital employed for the distribution and services businesses put together is Rs. 170 Crores. In these two businesses EBIT of Rs. 155 Crores or profit of Rs. 155 Crores has been generated. The rest of the capital employed is on other businesses of Learning and Hardware solutions.

**Moderator:** Sir, as there are no more questions in the queue, so I would like to hand over the floor back to you for the final remarks. Thank you and over to you.

**Harsh Chitale:** Thank you for taking time and joining us on this call today. We hope we have been able to address all questions that you had about our numbers this year. This was the first year where we have started giving a granular view to many of our sub-segments as the company is now restructured. In the first year of such granular reporting and it is possible that there are more followup questions. We would welcome all such followup questions to our investor relations team and we would be happy to get back to you on each of them. Thank you and look forward to speaking with you again few months from now. Thank you.