

Quarterly Earning Release

Fourth Quarter & Annual Results FY 14

August 29, 2014

HCL Infosystems Ltd

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CEO's COMMENTS

Mr. Harsh Chitale, Chief Executive Officer and Managing Director, HCL Infosystems Limited, commenting on the results said, "The last fiscal was a year of transformation and change for HCL Infosystems as we completed the restructuring of the company which we had begun in 2013. The restructuring exercise has enabled an alignment of synergies and capabilities within HCLI to drive focus on our profitable and high ROI businesses of Distribution and Services.

The focus on Distribution and Services has borne early results. We added a number of new brands in our distribution portfolio during the year and our Non-Telecom Distribution business registered a growth of 31% Y-o-Y in the last quarter and 46% Y-o-Y in this financial year.

Our Services Business continued to grow in both enterprise and consumer segments. Enterprise services grew 17% Y-o-Y in FY14 and emerged as a preferred provider of Multi-Vendor Technology Support Services with many IT and Office Automation OEMs signing us for their after-sales service. Overseas services business registered robust growth and Consumer Care business grew 47% Y-o-Y in the financial year.

The restructuring journey also involved the decision to exit our loss-making HCL branded computing products business. The business has been under pressure for last few years due to high commoditisation, intense competition from global players with much larger economies of scale in manufacturing, and a volatile exchange rate. This phase out is expected to be completed in H1 FY15. As we reach the tail end of the wind down of computing products, we incur some additional charges as indicated in our earlier investor communications.

We have made progress on transition of business model to an asset light, IP & services centric business model in our Hardware solutions and Learning businesses.

While, we are confident that this transformation to this new business model will help us create better value for our customers, partners and shareholders, we would like to remind that transformations such as these do have some inherent uncertainty in timing and in results.

BUSINESS HIGHLIGHTS

Distribution Business :

- **Telecom Distribution** revenues registered a growth of 8% Q-o-Q, but declined 9% on a full year basis in FY14. However gross margin expanded due to operational efficiencies and widened scope of engagement. In the AMJ 2014 quarter, Telecom Distribution business witnessed healthy growth both in the value & volume across categories. Business expanded its last mile footprint and strengthened its rural presence by adding 290 RRDs (Regional Rural Distributors) in the year.
- **Non-Telecom Distribution (i.e. Consumer Electronics and Enterprise & IT Products)** grew by 46% Y-o-Y in FY14. In the AMJ 2014 quarter the business achieved robust growth in Enterprise Products distribution with major orders from Punjab National Bank, Mahindra & Mahindra, Tata Technologies & Micro Inks. A new alliance with Lenovo and Acer to distribute and support their range of IT products was inked during the quarter. Consumer products distribution business has been focusing on the large and growing Consumer Electronics and Home Appliances distribution space by serving niche global brands entering India. A few large global marquee names such as DeLonghi, Braun and Hamilton Beach in consumer electronics and lifestyle products were signed during FY14.

BUSINESS HIGHLIGHTS

Services Business:

In FY14, Services business, consisting of Enterprise and Consumer Services, both part of HCL Services Ltd. (a wholly owned subsidiary of HCL Infosystems Ltd.), achieved 19% Y-o-Y growth in FY14 on the back of strong business traction in the Indian and overseas markets. Our Services contract bank across India and Overseas geographies continues to expand and showed growth in ACV from Rs. 380 Crore as on July 1st, 2013 to Rs. 470 Crore as on June 30th, 2014.

Enterprise Services

Enterprise Services business revenues grew to Rs 647 Cr. in FY14 in comparison to Rs. 553 Cr. in FY13, registering a growth of 17% Y-o-Y.

- Infrastructure Managed Services (IMS) business focused on operational efficiencies to lead margin improvements in domestic business. This business significantly increased its annuity contract bank backed by multiple deals in BFSI, Manufacturing, Hospitality, & Utilities verticals in India and additional wins from the Government Nodal Authority for IT in Singapore to deliver services across 50+ government agencies. In the quarter the IMS business bagged contracts from Escorts, Asian Paints, Daimler, DHFL, KK Modi Group and IREO. In Qatar, the IMS business won a Multi-million dollar contract by displacing a leading MNC vendor.
- The MVTS (Multi Vendor Technology Services) business won substantial AMC contracts from customers like Indian Oil Corporation Ltd. Our MVTS business was also selected by Dell & Lenovo to offer services to its customers. Due to reduced focus on the Company's own branded computing products business in FY14, the MVTS business witnessed a sharp decline in warranty service revenue. New vendor sign-ups and mining of installed base helped offset this decline in warranty service revenue and hence the MVTS Services business remained largely flat in FY14 compared to FY13.
- During the quarter Office Automation (OA) services contracts were won from Hero BPO, GMR and Indira Gandhi Centre for Atomic Research. The OA services business was selected by Infocus for pan-India support of projectors.
- In the AMJ2014 quarter, the Infrastructure Services business bagged large deals for IPv6 consulting from New India Assurance Ltd., datacentre migration deal from Ranbaxy and network & security services deal from Dalmia Cements. Infrastructure services business launched RTSG (Remote Technical Support Group) services for Fortinet security products.

Consumer Services (HCL Care)

In FY14 our consumer electronics break fix services business (HCL Care), revenues grew from Rs 46 Cr. in FY13 to Rs 69 Cr. in FY14, registering a growth of 47%. HCL Care also expanded the footprint of its centers under the 'Touch' brand to more than 300 across the country. During the quarter, HCL Care won key deals from many leading brands in the Mobile, Tablets, Consumer Electronics and Consumer Durables space. HCL Care also formed an alliance with NxtGen for implementing a cloud-based solution for all its service touch points; achieved a high customer satisfaction (CSAT) score of 81.25% from OEM customers

BUSINESS HIGHLIGHTS

HCL Learning Business:

With 1.4 million schools and over 36,000 colleges in India, with growing shortage good teachers, opportunity for technology solutions and services for schools and colleges remains high. However, due to reliance on asset heavy BOOT model of offering solutions to schools with high incidence of NPAs, financial health of many leading players in this space deteriorated. As a result, in FY14 we did see a slowdown in deployment of technology solutions in schools. During the year FY 14, we were selective in our pursuits and in new customer additions and as a result the business showed a decline during the year

This business is currently focussing on an asset light business model which relies on sale of state of the art educational content and services to schools. During the year FY 14, we launched an educational content offering for Students (MyEduWorld & MyIIT-Tutor) and were also successful in selling content licenses to schools in Africa, Middle East and Nepal.

BUSINESS HIGHLIGHTS

Hardware Solutions & System Integration Businesses

- During the quarter we made substantial progress in moving our enterprise hardware solutions business from a direct sales model to a indirect channel driven sales model . While transition to this business model for sale of Office automation products was substantially completed during FY 14, transition of other Enterprise products to this business model is expected to be completed in FY15.
- System Integration business focused on disciplined execution of the existing order book which reduced from Rs 2800 Cr on July 1st 2013 to Rs 2100 Cr on June 30th 2014. In FY 14, this business focussed on completing ongoing projects and collecting due payments to de-leverage the balance sheet. Going forward, leveraging our domain expertise and technical know-how we plan to pursue only asset-light 'SI Services' business.
- Our project for Unique Identification Authority of India (UIDAI) for Managed Services, has been progressing well and has contributed immensely to UIDAI's achievement of generation of 65 Crore Aadhar cards for residents of India.
- While execution on most projects is progressing well and we expect to complete the existing order book of projects within next 30 months, as experience has shown, this business does have some uncertainty in completion of milestones and release of payments.

HCL Computing Products Business

- Restructuring of the Company in this year also involved a decision to wind down the loss-making HCL computing products business. We have made substantial progress in the wind down of this business, which would be completed by end of H1 FY15. We have incurred some costs during the wind down of this business (which are already reflected in the loss of this business). As we come to the tail end of the wind down process, we may incur some additional charges in the next few quarters.
- As we rapidly moved out of HCL Branded Computing products, we have been leveraging our existing distribution network and go to market capabilities to distribute other Enterprise and IT products and to grow our distribution portfolio.

CONSOLIDATED BUSINESS RESULTS

MANAGEMENT ACCOUNTS

Particulars	Unaudited			Rs. crores	
	Q4 FY 14	Q3 FY 14	Q4 FY 13	FY14	FY13
Distribution					
- Telecom	1072	995	1130	4590	5056
- Non Telecom	230	236	176	901	618
Services	178	178	161	716	599
Learning	28	15	43	67	91
Enterprise Solutions	300	430	554	1,339	2,678
Consumer Computing & Mobility	28	149	184	466	644
Intersegment / Elimination	(107)	(28)	(110)	(190)	(390)
Consolidated Revenue (gross of rebates)	1730	1976	2138	7889	9297
Profit / (Loss) from ordinary activities before Exchange differences and Provisions, write-off and impairments	6	1	(4)	10	57
Exchange differences Loss / (Gain)	4	16	20	68	46
Provisions, write-off and impairments	42	2	15	51	66
Profit / (Loss) from ordinary activities before Other Income & Finance costs (2-3-4)	(40)	(17)	(39)	(109)	(54)
Other Income (including Exceptional Items)	22	34	22	83	66
Finance Cost	37	40	39	160	137
Profit / (Loss) from ordinary activities before Tax (5+6-7)	(54)	(22)	(56)	(186)	(126)

(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.)

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.

CONSOLIDATED RESULTS

PROFIT & LOSS ACCOUNT		Rs. crores	
		Consolidated Audited	
		FY 14	FY 13
-	Gross Sales / Income from Operations	7,852.4	9,297.3
-	Less: Excise Duty	4.1	50.8
1a.	Net Sales / Income from Operations	7,848.3	9,246.6
1b.	Other Operating Income	10.6	11.3
2.	Expenses		
a)	Cost of materials consumed	401.5	782.2
b)	Purchases of Stock-in-trade	6,031.0	6,956.1
c)	Changes in Inventories of finished goods, work-in-progress and stock-in-trade	53.3	65.3
d)	Employee benefits expense	571.9	548.2
e)	Exchange Differences Loss/ (Gain)	70.6	45.5
f)	Depreciation and amortisation expense	52.5	51.9
g)	Other Expenses	818.7	904.0
	Total Expenses	7,999.5	9,353.2
3.	Profit / (Loss) from Operations before Other Income & finance costs and exceptional items (1-2)	(140.6)	(95.3)
4.	Other Income	96.4	102.4
5.	Profit / (Loss) from ordinary activities before finance costs and exceptional items (3+4)	(44.2)	7.1
6.	Finance costs	156.0	137.1
7.	Profit / (Loss) from ordinary activities after finance costs but before exceptional items (5-6)	(200.2)	(130.0)
8.	Exceptional Items	(14.4)	(4.4)
9.	Profit / (Loss) from ordinary activities before Tax (7+8)	(185.8)	(125.6)
10.	Tax Expense / (Credit)	28.7	(45.6)
11.	Net Profit / (Loss) from ordinary activities after Tax (9-10)	(214.5)	(80.0)
	Basic EPS (Not annualised) Rs/share	-9.6	-3.6

STANDALONE RESULTS

Rs. crores

PROFIT & LOSS ACCOUNT		Standalone Unaudited				
		Q4 FY 14	Q3 FY 14	Q4 FY 13	FY 14	FY 13
-	Gross Sales / Income from Operations	1,377.8	1,317.0	1,979.5	5,729.5	8,692.3
-	Less: Excise Duty	0.2	0.5	8.3	4.1	50.8
1a.	Net Sales / Income from Operations	1,377.7	1,316.6	1,971.2	5,725.4	8,641.5
1b.	Other Operating Income	1.1	4.2	0.2	5.3	11.2
2.	Expenses					
a)	Cost of materials consumed	28.3	131.7	269.6	401.5	1,200.1
b)	Purchases of Stock-in-trade	1,197.7	1,093.1	1,139.2	4,995.0	6,002.3
c)	Changes in Inventories of finished goods, work-in-progress and stock-in-trade	83.8	7.7	252.8	7.3	101.8
d)	Employee benefits expense	21.4	22.7	120.8	82.1	494.8
e)	Exchange Differences Loss/ (Gain)	4.2	10.3	18.6	35.5	44.4
f)	Depreciation and amortisation expense	1.9	2.1	12.9	8.4	49.0
g)	Other Expenses	47.7	56.2	217.6	190.6	857.0
	Total Expenses	1,385.1	1,323.8	2,031.5	5,720.4	8,749.2
3.	Profit / (Loss) from Operations before Other Income & finance costs and exceptional items (1-2)	(6.3)	(3.0)	(60.0)	10.4	(96.5)
4.	Other Income	34.6	6.4	33.8	66.3	100.2
5.	Profit / (Loss) from ordinary activities before finance costs and exceptional items (3+4)	28.3	3.4	(26.3)	76.6	3.7
6.	Finance costs	21.8	19.1	37.8	75.0	135.0
7.	Profit / (Loss) from ordinary activities after finance costs but before exceptional items (5-6)	6.5	(15.7)	(64.0)	1.7	(131.3)
8.	Exceptional Items	200.3	(21.6)	0.0	178.8	(4.4)
9.	Profit / (Loss) from ordinary activities before Tax (7+8)	(193.8)	5.8	(64.0)	(177.1)	(126.9)
10.	Tax Expense / (Credit)	4.2	3.3	(23.8)	14.6	(45.5)
11.	Net Profit / (Loss) from ordinary activities after Tax (9-10)	(198.0)	2.6	(40.3)	(191.7)	(81.3)
	Basic EPS (Not annualised) Rs/share	-8.9	0.1	-1.8	-8.6	-3.6

Exceptional items in Stand alone books include Rs. 210 crores of provision for diminution in the value of investments in HCL Infotech Ltd. This has no impact on the Consolidated results of the company as above mentioned diminution is due reduction in net worth because of net loss incurred by HCL Infotech Ltd, which was already reflected in the consolidated results.

This is a non cash charge and therefore does not have any impact on cash flows of the company

BALANCE SHEET

Statement of Assets and Liabilities			Rs. crores	
Particulars	Consolidated		Standalone	
	Audited as at		Audited as at	
	30.06.2014	30.06.2013	30.06.2014	30.06.2013
A EQUITY AND LIABILITIES				
Shareholders' funds				
Share capital	45	45	45	45
Reserves and surplus	1,398	1,790	1,463	1,791
Sub-Total - Shareholders' funds	1,443	1,835	1,508	1,836
Non Current Liabilities				
Long term Borrowings	388	507	268	506
Other Long term Liabilities	32	78	1	78
Long term Provisions	13	19	2	16
Sub-Total - Non Current Liabilities	434	603	271	599
Current Liabilities				
Short-term borrowings	294	483	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
Sub-Total - Current Liabilities	2,634	3,241	1,343	2,989
Total - EQUITY AND LIABILITIES	4,511	5,678	3,122	5,424
B ASSETS				
Non-current assets				
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	-	8
Other non-current assets	242	346	-	346
Sub-Total - Non Current assets	1,222	908	959	938
Current Assets				
Current investments	175	919	175	919
Inventories	436	568	201	504
Trade receivables	865	1,298	429	1,176
Cash and bank balances	347	313	207	225
Short-term loans and advances	284	277	1,148	267
Other current assets	1,182	1,396	3	1,395
Sub-Total - Current assets	3,289	4,771	2,163	4,487
Total Assets	4,511	5,678	3,122	5,424

ABOUT HCL INFOSYSTEMS

HCL Infosystems Ltd. with revenue (LTM) of Rs. 7,852 crores (USD\$ 1.3 Bn) 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, 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

ABOUT HCL ENTERPRISE

HCL is a business enterprise with presence in the fields of Technology and Healthcare. Founded in 1976 as one of India's original IT garage start-ups, the HCL enterprise currently comprises three companies in India - HCL Technologies, HCL Infosystems and HCL Healthcare with annual revenues of US\$ 6.5 billion and over 95,000 professionals from diverse nationalities operating across 31 countries including over 500 points of presence in India. In the technology space, HCL's offerings span a wide range of software and hardware services and solutions including R&D, Technology Services, Enterprise and Applications Consulting, Remote Infrastructure Management, IT Hardware, Systems Integration, Distribution of Technology and Telecom Products. A new entrant in Healthcare, HCL aims to provide innovative medical services, products and training to meet the growing demand for quality healthcare in India. For further information, visit www.hcl.com

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