

HCL Technologies

Investor Presentation – Q2-FY10

January 25th, 2010

Agenda

Topic	Presenter
Performance Snapshot	Vineet Nayar
	Anant Gupta
	Ram Krishna
Financials Analysis	Anil Chanana
Q&A	

Performance Snapshot

Vineet Nayar

Chief Executive Officer (CEO)

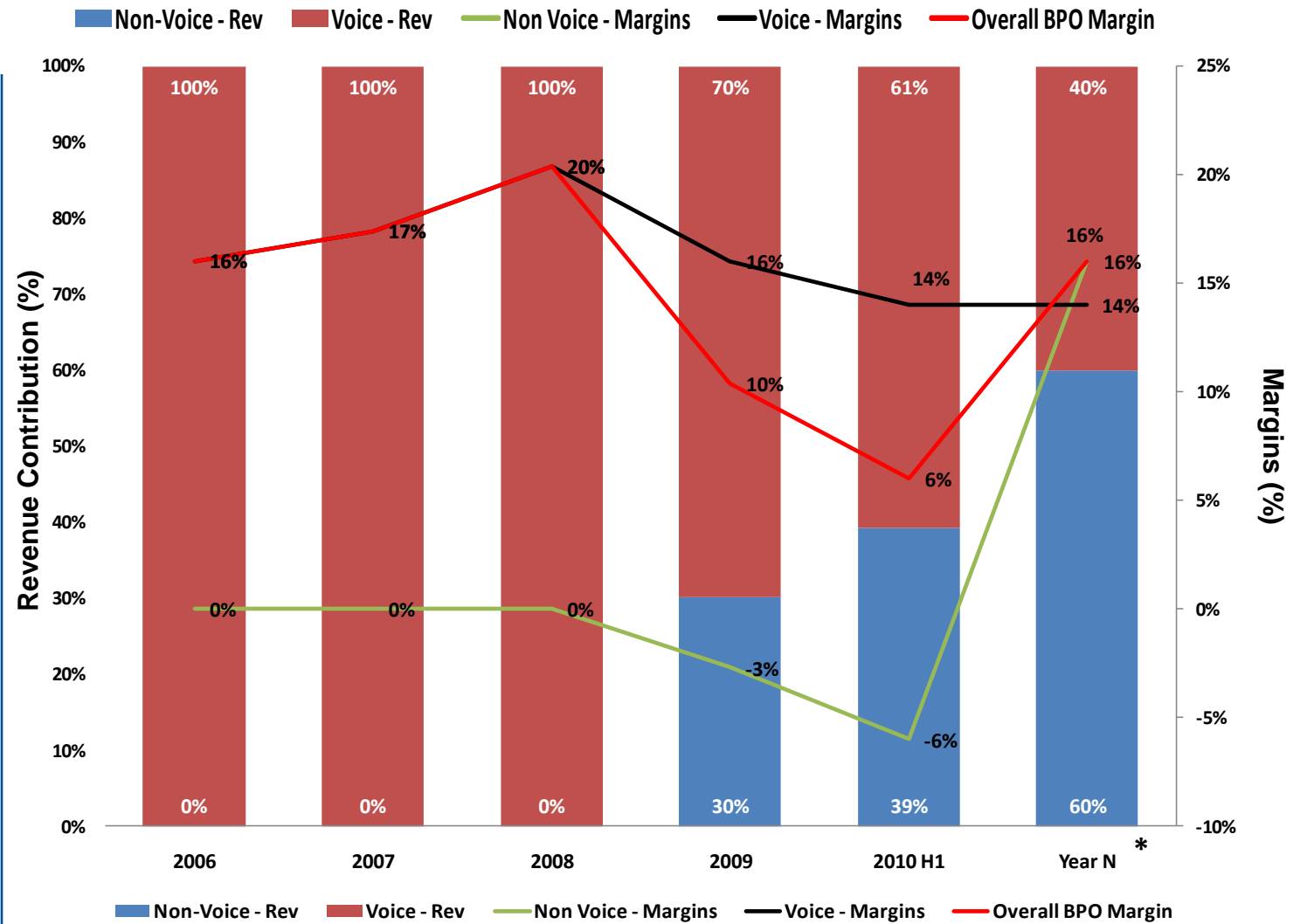
Results in Perspective –

HCL has reported 4.9% of CQGR growth in the last three quarters. In this period, HCL's broad based portfolio of businesses witnessed a well balanced CQGR across verticals & geographies

QoQ Growth	JFM'09	AMJ'09	JAS'09	OND'09	3-Qtr CQGR* from JFM'09
Revenues	11.3%	7.6%	3.8%	3.4%	4.9%
Service Lines					
Enterprise Application Services	117.9%	3.5%	- 3.7%	5.5%	1.8%
Engineering and R&D Services	- 4.5%	- 5.1%	0.0%	- 0.4%	- 1.8%
Custom Applications	- 3.5%	12.6%	7.3%	3.0%	7.5%
Infrastructure Services	1.0%	25.2%	14.4%	7.8%	15.6%
BPO Services	- 10.4%	4.5%	- 0.5%	- 1.6%	0.7%
Verticals					
Financial Services	- 5.3%	13.1%	10.0%	2.4%	8.5%
Manufacturing	12.5%	9.7%	- 8.0%	- 3.4%	- 0.9%
Telecom	-14.4%	11.1%	7.9%	- 0.7%	6.0%
Retail & CPG	- 0.4%	3.3%	10.1%	18.2%	10.5%
Media Publishing & Entertainment	0.6%	20.8%	26.0%	10.3%	18.8%
Life Sciences	19.1%	9.2%	3.8%	16.6%	9.7%
Energy Utilities Public Sector	212.0%	- 8.6%	- 7.2%	11.0%	- 2.0%
Geos					
US	14.2%	3.9%	3.4%	0.5%	2.6%
Europe	12.7%	11.0%	5.6%	5.1%	7.2%
Asia Pacific	- 4.3%	19.0%	1.3%	13.4%	11.0%

* CQGR numbers are for 3 quarters beginning from Jan – Mar'09 quarter to reflect organic growth which businesses have reported

BPO Revenue & Margin Dynamics



* Year N = +3 Yr of BPO transformation

Performance Snapshot

Anant Gupta

President – HCL Infrastructure Services

Performance Snapshot

Infrastructure Services - Highlights for the Quarter

Financial Performance

- Revenues at US\$ 132 mn, up 56.3% YoY and +7.8% QoQ (on back of a +14.4% and 25.4% sequential growth in the previous 2 quarters)
- Industry leading CQGR (4 quarters) at 12%, more than 4 times Top players average.
- EBIT grows 46.4% to US\$ 18.6 mn.
- 61 bps recouped through operational efficiency to partly offset the 200 bps wage increase guidance and 71 bps on account of Currency

Trends

- Continued interest in RTB, driven by customer's need to optimize costs and bring services to industry best practices
- Increased interest in Technology Refresh in critical Datacenter & Networking technologies
- Pipeline looks promising and we see our market leadership position being maintained
- Large Scale Systems Integration projects to fuel incremental growth in the 2nd half of the Calendar year

Growth Drivers

- Combination of our earlier TOS engagements having successfully moved to steady state in addition to ongoing transitions of new engagements
- Clients continue to look for Virtualization and Consolidation of Global Data Centers
- Early adopters in “emerging markets” and in “conservative verticals” expanding the addressable market space
- Churn in Incumbent Suppliers given the large number of contracts up for renewal (more options – both Service Providers and Cloud Computing Technologies)

Operations

- Attrition improvement by 60 bps on an LTM basis over previous quarter
- Positive Traction in renewal Markets

Performance Snapshot

Ram Krishna

Senior Corporate Vice President

Performance Snapshot

EAS - Highlights for the Quarter

Financial Performance

- EAS is now USD 584 mn in size with contribution at 22.4% in OND 09, up from 21.9% in JAS 09.
- EAS has posted +5.5% sequential growth in OND 09 and +4.6% sequential on constant currency basis.

Trends

- Overall Demand expected to improve from July 2010. This is based on the assumption that services will lag license purchase and we are yet to see a big upswing in license purchase.

Growth Drivers

- OND 09 EAS performance is mainly owing to Blue Printing led consulting revenues. Such engagements typically entail short Book/Bill cycle.
- We are seeing growth momentum in Consumer services, manufacturing and healthcare verticals

Recognitions

- AMR published a case study on SAP implementation by HCL AXON for Birmingham City Council highlighting the “huge business value” generated (£400M worth of savings over just three years) by HCL.
- Gartner showcased a case study on HCL’s SAP engagement with Queensland Rail (QR), one of Australia’s largest integrated transport providers. The case highlights how QR was able to achieve cost savings and modernize its IT environment.

Financial Analysis

Anil Chanana

Chief Financial Officer (CFO)

Profit & Loss – Overall Company

For the Quarter

1. Revenue at US\$ 652 Mn; up 28.5% YoY and up 3.4% sequentially
2. EBIT at US\$ 108 Mn; up 19.2% YoY and lower 5.0% sequentially

Income Statement (US GAAP – US\$ mn)	OND'08	JAS'09	OND'09
Revenues	507	630	652
Gross Profits	200	232	233
SG & A	89	89	95
EBITDA	111	143	137
Depreciation	18	20	21
Amortization	2	9	8
EBIT	91	114	108
FX Gains/ (loss)	(24)	(31)	(27)
Other Income, net	25	(1)	(3)
Provision for Tax	14	14	15
Net Income	77	67	64

Margins	OND'08	JAS'09	OND'09
Gross Margin	39.4%	36.8%	35.7%
EBITDA Margin	21.8%	22.7%	21.1%
EBIT Margin	17.9%	18.1%	16.6%
SG&A as % of Revenue	17.6%	14.1%	14.6%

Profit & Loss – IT Services

For the Quarter

1. Revenue at US\$ 594 Mn; up 33.8% YoY and up 4.0% sequentially
2. EBIT at US\$ 106 Mn; up 24.3% YoY and lower 1.7% sequentially

Income Statement (US GAAP – US\$ mn)	OND'08	JAS'09	OND'09
Revenues	444	571	594
Gross Profits	177	357	217
SG & A	74	79	84
EBITDA	102	135	133
Depreciation	15	18	18
Amortization	2	9	8
EBIT	86	108	106

Margins	OND'08	JAS'09	OND'09
Gross Margin	39.8%	37.4%	36.4%
EBITDA Margin	23.0%	23.6%	22.3%
EBIT Margin	19.3%	19.0%	17.9%
SG&A as % of Revenue	16.8%	13.8%	14.1%

Revenue Analysis – OND'09 QoQ

Revenue Analysis – IT Services

Particulars	Change QoQ (\$Mn)	Change in %
Overall Increase in revenue	22.8	4.0%
Increase due to:		
i. Volume	16.3	2.9%
ii. Favorable Exchange Rate	6.5	1.1%
A. Total (i + ii)	22.8	4.0%

Margin Analysis – IT Services – OND '09 QoQ

EBITDA Analysis

Particulars	BPS (QoQ)
Change in EBITDA	(124)
Contributed by:	
i. Exchange Rate Movement	(63)
ii. Wage Hikes	(121)
iii. Efficiency	+60

EBIT Analysis

Particulars	BPS (QoQ)
Change in EBIT	(98)
Contributed by:	
i. Exchange Rate Movement	(67)
ii. Wage Hikes	(121)
iii. Efficiency	+90

Bills Receivables Analysis

US\$ mn	30-Sep-09	31-Dec-09
Overall Receivables	632	592
Unbilled Receivables	125	126
Receivables (excluding Unbilled Receivables)	507	466
DSO (including Unbilled Receivables)	90	82
DSO (excluding Unbilled Receivables)	73	64

Cash Flows

Particulars (US\$ mn)	FY 2009 30-Jun-09	6 months Ended 31-Dec-09
Cash Flows from Operating Activities		
Net Income	264	130
Adjustments to Reconcile Net Income to Net Cash provided by Operating Activities		
Depreciation and Amortization	92	59
(Profit)/ Loss on Redemption of Mutual Fund Investments	(25)	(1)
Others	(8)	(18)
Changes in Assets and Liabilities, net		
Accounts Receivable	(54)	(27)
Other Assets	(127)	19
Current Liabilities	62	25
Net Cash provided by operating Activities	206	188
Cash Flows from Investing Activities		
Purchase of Property and Equipment (net)	(109)	(61)
Short term deposits with banks	(191)	125
(Purchase)/ Sale of investments	303	(127)
Payments for business acquisitions, net of cash acquired	(704)	(8)
Net Cash used in Investing Activities	(701)	(72)
Cash Flows from Financing Activities		
Proceeds from Issuance of Employees Stock Options	5	9
Proceeds from Issuance of Debenture	-	211
Loans	615	(323)
Dividend Payments	(148)	(33)
Others	-	(1)
Net Cash provided by (used in) Financing Activities	472	(137)
Effect of Exchange Rate on Cash and Cash Equivalents	3	6
Net Increase/ (Decrease) in Cash and Cash Equivalents	(24)	(15)
Cash and Cash Equivalents		
Beginning of the Year	108	88
End of the Year	88	73

Funds Position

Fund Position (in US\$ mn)

Particulars	30-Sep-09	31-Dec-09
Cash & Cash Equivalents	74	73
Fixed Deposits with Banks	290	186
Bonds	4	4
Mutual Funds Liquid Schemes	201	135
Total	569	398
Less: Loan Funds	786	534
Net Cash Position	(218)	(136)

Loan Funds (in US\$ mn)

Particulars	31-Dec-09
Dollar Loan	300
Rupee-Denominated Redeemable Secured NCDs	215
Working Capital Loans	
- Supplier Financing – Rupee denominated	16
- Others	3
Total	534

Net Treasury and Other Income (in US\$ mn)

Particulars	JAS'09	OND'09
Treasury and Other Income		
Interest, Dividend Income	8	8
Less: Interest expense	10	11
Net Treasury and other Income	(1)	(3)
Return on Funds	6.8%	6.9%
Cost of Funds	6.0%	6.3%

Hedge Details

Hedges – Overview	Sep'09	Dec'09
Total Hedges (\$mn)	725	645
Rate (INR/ USD)		
Booked Rate	40.60	40.52
MTM Rate	48.98	47.08
Mix – Instrument wise		
Forwards	725	645
Options	Nil	Nil
Mix – Currency wise		
USD/ INR	712	644

Hedge Policy

- Currently, we have USD/ INR hedges covering our inflows for next 8 months
- The currency markets are volatile. In such a situation, we would like to restrict the hedges outstanding at any one time to net inflows for the next 2 quarters with hedging tenure not exceeding 4 quarters
- We would continue to use simple instruments for hedging our exposures

OCI – Negative Balance (Qtr wise Estimates)

Quarters (US\$ Mn)	As on 31 st Dec'09
OCI Losses as on 31st Dec'09 (A + B)	70.7
Quarter wise Break-Up of the above	
Jan – Mar'10	22.1
April – June'10	25.6
(A) - FY'09-10	47.7
July – Sep'10	16.5
Oct– Dec'10	4.6
Jan – Mar'11	1.9
(B) - FY'10-11	23.0

Notes

OCI Losses have been computed based on average Marked-to-Market rate of Rs.47.08 / USD as on 31st Dec'09 (Rs.48.64/ USD as on 30th Sep'09)

Intangibles Amortization Schedule – Estimated

Intangibles – Amortization Schedule	As of 31st Dec'09 (US\$ mn)
JFM'10	4
AMJ'10	4
FY-2011	15
FY-2012	12
FY-2013	11
FY-2014	11
Thereafter	47
Total	105

Dividend Payout History

(USD Million except per share data)	Net Income	DPS (INR)	DPS (adjs for Bonus Issue)	Dividend Outlay	Dividend Outlay/ Net Income
FY 2007	314.9	12.0	8.0	120.7	38.3%
FY 2008	279.8	9.0	9.0	158.5	56.6%
FY 2009	264.6	7.0	7.0	113.2	42.8%
<i>FY 2010</i>					
JAS'09	67.3	1.0	1.0	15.5	23.0%
OND'09	63.7	1.0	1.0	15.5	24.3%

Dividend Policy

- HCL Stated Policy on Dividend – Everything remaining constant, HCL would continue to review its Dividend Policy against the backdrop of any material change in the external environment



Q & A

