HCL TECHNOLOGIES | HCL

NEWS RELEASE

HCL TECHNOLOGIES NET INCOME UP 43%

- **Good growth trends continue across top line and bottom line**
- **BPO business turns PAT positive on the back of strong revenue growth**
- **Third Quarterly dividend of 100% announced**

For immediate publication

New Delhi, April 26, 2004

Third Quarter Results analysis based on unaudited financial results for the third quarter of FY 2003-04 (US GAAP consolidated)

Executive Summary

Financial Performance Review

The highlights of financial performance for the Quarter ended March 31, 2004 are:

- Revenues continue to register growth trend – up 8.9% sequentially (in USD terms), to aggregate Rs.6.47bn
- EBIDTA up by 18% QoQ; margins up by 270 bps driven primarily by forex
- Consolidated Net income at Rs.1.26 bn; up 42.9% sequentially
- BPO business turns PAT positive; EBITDA margins double QoQ
- Cash and treasury assets currently make up around 59% of HCL T's balance sheet
- Interim dividend declared at 100% (Rs.2 per share) in line with policy to declare quarterly dividends

Operational Review for Quarter ended March 31, 2004

- HCL T customer base increases to 454, with 26 new customers added during the quarter. Includes 61 Fortune 500 clients and 104 clients with a run rate in excess of $ 1 million

- Offshore centric business contributes 80% to consolidated revenues
- Top customers maintain a healthy growth rate with the Top 5, Top 10 and Top 20 clients growing by 12%, 10% and 11% respectively
- Repeat business from customers at an impressive 81%
- Well balanced geographical mix - revenues from US at 58.7%, Europe grows to 23%, up from 22% last quarter; Asia Pacific contributions at 18.3%
- Net addition of 1,718 employees during the quarter – 682 added in software services and 922 in HCL BPO – taking total manpower up to 14,783
- HCL BPO continues growth trend, recording revenue growth of 27.3% in INR (33.3% in USD terms) QoQ; EBITDA margins double
- Infrastructure Services business registers 5.4% sequential growth in revenues in INR (10.3% in USD terms) along with improved profitability metrics

Highlights for the Quarter ended March 31, 2004

- Overall HCLT revenues in the quarter grew by 8.9% in USD terms (4% in INR)
- Operating margins improved, continuing the trend of the last two quarters
- EBIDTA margins for the quarter stood at 22.5%; EBITDA up 18% sequentially

- HCL Tech's **software services business** showed good traction with a sequential growth of 6%in USD terms (1.3% in INR). EBITDA from this business increased by 10.3% primarily due to forex gains.
- Manpower addition remained strong with 682 people added in the software services business, taking the headcount in this business to 10,528
- 26 new customers added during the quarter. Significant new engagements across the company's lines of business with diverse global customers, during Q3 include:
  - HCLT won a large outsourcing contract for application development and maintenance from a leading multinational publishing and information services company, with operations in 25 countries. The company's core markets are spread across the health, tax, accounting, corporate/financial, legal/regulatory and education sectors. A new ODC has been set up for the purpose.
  - HCLT has established an onsite relationship for support of application development for a leading international provider of port terminal and logistics solutions, a subsidiary of a Fortune 500 Logistics & Transportation company.

- A new ODC has been set up for a global provider of secure electronic transaction solutions: from smart-cards and point-of-service payment terminals to network carriage and payment engines. HCLT is working on the enhancement, maintenance and support of the Internet Payment Gateway system.
- A leading business management products and services provider has tasked HCLT to develop an automation framework for CRM that validates data and automatically creates a browser based intranet application to view reports.
- A leading innovator in the international semiconductor industry that designs, develops, manufactures and markets a broad range of semiconductors and complete system solutions is using HCLT to reengineer and develop some of its applications.
- HCLT has also won an order to develop firmware for a semiconductor company developing IP cores and highly integrated ASIC solutions for storage applications.
- In another new engagement for a company that designs and manufactures electronic and electromechanical products for demanding aerospace and defense applications, HCLT will undertake PLD verification to stringent DO 254 standards.
- For a new customer in automated defect inspection systems, HCLT will develop a re-usable Wafer Map control Object, a prototype cluster controller and a scheduler interface.
- HCLT will be assisting a leading provider of broadband wireless access systems in the development of their next generation access device based on the IEEE802.16a and Wi-Max specifications. HCLT's involvement will be in BSP and Diagnostics, IXP2400 Micro-code Development and Embedded NMS.
- For a provider of airborne satellite communications and navigation systems HCLT has won the mandate for software verification and requirement based testing of the secure communication control system for the Chinook Helicopter.
- HCLT is offering CAD/CAE conversion expertise from STEP to CATIA V5 to a leading European services company in the fields of mining, industry systems, building safety, civil engineering, exploration and geo surveys.
- For a leading Australian bank, HCLT is providing test automation services for one of its banking products using the IBM-Rational tool called XDE tester.
- Apart from the above, the quarter witnessed the significant ramping up of existing engagements with clients choosing to consolidate their relationships with HCLT. Key among these is a relationship with a leading provider of information to legal, corporate, government and academic markets. The last quarter witnessed the team on this project being doubled to more than 150 consultants.
- HCLT has also taken up an assignment to design and develop a Regulatory Solution for an existing banking client in the UK. The project would support the Bank to comply with the revised requirements of IAS 39 - "Financial Instruments: Recognition and Measurement". The Solution would be implemented for retail banking and covers the Bank's mortgages and personal loans. Development of an Effective Yield Curve Engine and

enabling generation of IAS Compliance Financial Statements are the highlights of this engagement, which is to be executed onsite and offshore.

- HCLT has also commenced a project in the area of credit risk management for its existing Banking client in UK. The project involves development of a Credit Risk Engine and requisite data feeds. Once implemented, this Solution will enable the Bank to meet the emerging regulations under Basel II (Credit Risk).

– During the quarter HCLT also completed the development of its **Application Portfolio for Outsourcing**, targeted at large opportunities where customers have never outsourced before. The **APO methodology** is now an HCLT Intellectual Property.

– HCLT has also successfully deployed its project management tool **'HCL PMO'** across its 16 Offshore Development Centers and Centers of Excellence. This web- based platform will allow HCLT to collaborate effectively with customers and stake holders to ensure timely and quality deliveries. It will automate and execute best practice methodologies, enabling HCLT to compete effectively for outsourcing opportunities.

– HCLT forged **a strategic partnership with IBM Rational Software**, the leading software development platform, to further enhance its software development capabilities. IBM Rational tools will help in standardization and automation enabling HCLT's project management teams to optimize on the software development time.

– HCLT has **invested in** purchasing **a large number of floating Rational Licenses.** These licenses will be deployed over the central server that will be accessible to the entire organization for use.

- The **BPO business** continued to grow strongly recording a 27.3% (in INR) QoQ growth in revenues (33.3% in USD).
    - The healthy scale up in business resulted in a doubling of EBIDTA margins and the business turned PAT positive in Q3
    - 922 employees were added during the quarter, taking the permanent headcount in this business to 3,197
    - BPO contribution to overall revenues strengthened to 11%

- The **Infrastructure Services business** also witnessed good traction, registering a QoQ growth of 5.4% (in INR & 10.3% in USD). The business has shown a continuous improvement in profitability metrics over the last two quarters and efforts to tap into the global remote infrastructure management business, are yielding encouraging results.

  - A net addition of 105 people was made to this business during the quarter
  - Contribution to overall revenues from this business stood at 10.2%

- In the area of Human Resources, HCL T witnessed healthy growth and added 2,477 employees (Gross) during the quarter. Net employee addition stood at 1,718 during the quarter. Currently, the headcount of the company (including subsidiaries) stands at 14,783, up from 13,065 last quarter. The current annualized attrition rate is 14.6%.

- Capital expenditure of Rs.575.5mn was incurred during the quarter. A new software development center with world-class facilities and infrastructure was commissioned in Q3 at Gurgaon, with a planned seat capacity of 600. Total seat capacity for the organic software business now stands at 8,635.

- HCLT declared a third quarterly dividend of 100 % at Rs. 2 per share, during the present quarter, for the quarter ended 31st March '04. This is in line with the company's policy of considering quarterly dividends, subject to adequacy of profits and compliance with all applicable legal requirements.

Commenting on the company's performance, Mr. Shiv Nadar, Chairman and CEO, HCL Technologies, said, **"I strongly believe that HCL Technologies is today on a continuum that looks extremely promising. Our financial performance this quarter is largely in line with our expectations, with further momentum in the topline and an expansion of operating margins. We have rationalized our cost structures, propelled the JVs on a fast track and integrated operations in a way that has unleashed significant synergies, whereby our profitability is back on track. "**

KEY OPERATIONAL METRICS

ORGANIC SOFTWARE	
REVENUE BREAKUP	**($'000)**
Offshore Centric	62,551
Onsite	33,034
BILLING RATES METRICS	
Efforts billed (manmonths)	
Offshore Centric	14,348
Onsite	3,391
Subcontracted Efforts	298
Capacity Utilisation (%)	
Offshore Centric	75.3%
Onsite	93.4%
Bill Rates ($'000/Manmonth)	
Offshore Centric	4.36
Onsite	9.74
CONSOLIDATED	
REVENUE BREAK UP (%)	
Location	
Offshore Centric	80
Onsite	20
Geography	
US	58.7
Europe	23.0
Asia Pacific	18.3
Service Offerings	
Technology Development Services	24.5
Software Product Engg Services	15.7
Applications Services	38.6
Infrastructure Services	10.2
BPO Services	11.0
Repeat Business (%)	**81**
CLIENT CONCENTRATION	
No. of Million $ Clients	104
No. of 5 Million $ Clients	21
No. of Fortune 500 clients	61
% Contribution from:	
Top 5 clients	31.1
Top 10 clients	41.9
Top 20 clients	52.7

MANPOWER DETAILS

CONSOLIDATED	As on	
	Mar 31 '04	Dec 31 '03
TOTAL	14,783	13,065
Software Services	**10,528**	**9,846**
Organic	**8,512**	**8,098**
Technical	**7,648**	**7,263**
Offshore	6,477	6,226
Onsite	1,171	1,037
Support	**864**	**835**
Sales and Marketing	110	114
Others	754	721
Offshore	663	633
Onsite	201	202
Non-organic	**2,016**	**1,748**
Technical	**1,859**	**1,598**
Support	**157**	**150**
Infrastructure services	**924**	**819**
Organic	**924**	**819**
Technical	605	523
Support	319	296
BPO	**3,197**	**2,275**
Organic	**2,878**	**2,027**
Non-organic	**319**	**248**
Government	**134**	**125**
Non-organic	**134**	**125**
Technical	110	93
Support	24	32
Annualised Attrition (>1 yr.)	**14.57%**	**10.50%**

Financials

(Third Quarter analysis based on the unaudited US GAAP financial results for Q3FY 2003-04)

Consolidated Income Statement (as per US GAAP) in Rs.mn

	Quarterly details			Growth	
	JFM' 03	OND'03	JFM' 04	ΔQoQ	ΔYoY
Gross Revenues	**4658.1**	**6223.2**	**6472.4**	**4%**	**39%**
Direct Costs	2775.2	3959.8	4197.9		
Gross Profits	**1882.9**	**2263.4**	**2274.5**	**0%**	**21%**
SG & A	921.0	1042.0	981.5		
Foreign Exchange Gains/ (Loss)	10.6	12.9	163.3		
EBIDTA	**972.5**	**1234.3**	**1456.3**	**18%**	**50%**
Depreciation & Amortisation	226.1	270.0	267.8		
EBIT	**746.3**	**964.2**	**1188.5**	**23%**	**59%**
Other Income, net	150.7	158.5	266.7		
EBT	**897.0**	**1122.7**	**1455.2**	**30%**	**62%**
Provision for Tax	63.1	128.8	76.9		
EAT	**833.9**	**994.0**	**1378.3**	**39%**	**65%**
Share from equity investments	45.4	64.7	(6.8)		
Share of (income) / loss of minority shareholders	(80.8)	(148.2)	(148.5)		
Net Income	**798.5**	**910.5**	**1222.9**	**34%**	**53%**
Stock-based sales incentive (Non Cash)	(4.4)	(30.3)	35.2		
Net Income after stock-based sales incentive	**794.1**	**880.2**	**1258.1**	**43%**	**58%**
Extraordinary charge for reduction in value of investments	(190.6)	-			
Gain on divestment of stake in HPS	-	2633.2	0.0		
Consolidated Net Income	**603.5**	**3513.4**	**1258.1**	**-64%**	**108%**

Key ratios

	Quarterly details		
	JFM' 03	**OND'03**	**JFM' 04**
Gross Margin	40.4%	36.4%	35.1%
Opex/Gross revenue	19.8%	16.7%	15.2%
EBIDTA Margin	20.9%	19.8%	22.5%
Consolidated Net income/Gross revenue	13.0%	56.5%	19.4%

Consolidated Balance Sheet (as per US GAAP) in Rs.mn

	As On		
	31st Mar'03	31st Dec'03	31st Mar'04
ASSETS			
a. Cash and cash equivalents	968.0	5808.8	1335.1
b. Accounts receivable, net	3610.2	4063.3	4719.0
c. Treasury Investments	13490.4	15539.7	19880.7
d. Other current assets	2313.4	2681.8	2670.1
A. Total current assets (a+b+c+d)	**20381.9**	**28093.6**	**28604.9**
B. Property and equipment, net	2617.4	3219.0	3632.8
C. Intangible assets, net	2138.0	2167.3	2173.4
D. Investments in Venture Funds / Equity investees	2445.1	883.4	887.3
E. Other Assets	467.0	431.3	416.9
Total assets (A+B+C+D+E)	**28049.4**	**34794.6**	**35715.4**
LIABILITIES AND STOCKHOLDERS' EQUITY			
e. Total current liabilities	3430.9	5062.5	5245.3
f. Long -term debt	-	1367.7	1306.5
g. Other liabilities	147.3	194.3	204.7
E. Total liabilities (e+f+g)	**3578.3**	**6624.5**	**6756.5**
F. Minority Interest	525.0	911.6	996.9
G. Total Stockholders equity	23946.2	27258.5	27962.0
Total liabilities and Stockholders equity (E+F+G)	**28049.4**	**34794.6**	**35715.4**

Note: Unrealised gains on Treasury Investments as of March 31, 2004 stood at Rs450.3mn.

Revenue breakup between various business categories   in Rs.mn

	Software Services			BPO Services		
	OND'03	JFM'04	QoQ	OND'03	JFM'04	QoQ
Gross Revenues	**5154.1**	**5220.6**	**1%**	**556.7**	**708.7**	**27%**
Direct Costs	3195.3	3341.4		441.0	509.7	
Gross Profits	**1958.7**	**1879.2**	**-4%**	**115.7**	**199.0**	**72%**
SG & A	824.9	750.5		73.9	106.3	
Foreign Exchange Gains/ (Loss)	7.1	129.7		3.4	25.7	
EBIDTA	**1140.8**	**1258.4**	**10%**	**45.2**	**118.4**	**162%**
Depreciation & Amortisation	165.0	162.7		69.6	76.2	
EBIT	**975.8**	**1095.7**	**12%**	**(24.4)**	**42.2**	
Interest & Other Income, net	154.7	276.6		(4.4)	(5.5)	
EBT	**1130.4**	**1372.3**	**21%**	**(28.8)**	**36.7**	
Provision for Tax	123.4	65.1		2.9	6.0	
EAT	**1007.1**	**1307.2**	**30%**	**(31.6)**	**30.7**	

	Infrastructure Services			Govt. Practice		
	OND'03	JFM'04	QoQ	OND'03	JFM'04	QoQ
Gross Revenues	**629.4**	**663.1**	**5%**	**104.0**	**86.6**	**-17%**
Direct Costs	455.4	488.9		88.9	64.4	
Gross Profits	**174.0**	**174.2**	**0%**	**15.0**	**22.2**	**48%**
SG & A	115.9	116.0		27.3	8.7	
Foreign Exchange Gains/ (Loss)	2.6	8.3		(0.2)	(0.5)	
EBIDTA	**60.7**	**66.5**	**10%**	**(12.5)**	**13.0**	
Depreciation & Amortisation	29.1	23.9		6.3	4.9	
EBIT	**31.6**	**42.6**	**35%**	**(18.8)**	**8.1**	
Interest & Other Income, net	8.2	(4.5)		0.0	0.0	
EBT	**39.8**	**38.1**	**-4%**	**(18.7)**	**8.1**	
Provision for Tax	2.3	5.8		0.2	0.0	
EAT	**37.5**	**32.3**	**-14%**	**(19.0)**	**8.1**	

Inter Co Adjustment	
OND'03	JFM'04
(220.9)	**(206.6)**
(220.9)	(206.6)

Key ratios

	Software Services		BPO Services		Infrastructure Services	
	OND'03	JFM'04	OND'03	JFM'04	OND'03	JFM'04
Gross Margin	38.0%	36.0%	20.8%	28.1%	27.6%	26.3%
Opex/Gross revenue	16.0%	14.4%	13.3%	15.0%	18.4%	17.5%
EBIDTA Margin	22.1%	24.1%	8.1%	16.7%	9.6%	10.0%
Net income/Gross revenue	19.5%	25.0%	-5.7%	4.3%	6.0%	4.9%

	Govt. Practice	
	OND'03	JFM'04
Gross Margin	14.5%	25.6%
Opex/Gross revenue	26.2%	10.1%
EBIDTA Margin	-12.1%	15.1%
Net income/Gross revenue	-18.4%	9.4%

$ Assumptions

The financials are based on a convenience translation using the closing US$ rates for the last day of the quarter:

US$1 = Rs.43.55 for JFM'04
US$1 = Rs.45.59 for OND'03
US$1 = Rs.47.65 for JFM'03

About HCL Technologies

HCL Technologies is one of India's leading global IT services and product engineering companies, providing value-added, software-led IT solutions and services to large and medium-scale organisations. Founded in 1991, HCL Technologies focuses on technology as well as R&D outsourcing, with the objective of working with clients in areas at the core of their business. HCL Technologies delivers these services through an extensive offshore software development infrastructure and a vast global marketing network that enables scalable, flexible and cost-effective delivery. The company's well defined business strategy has enabled it to build domain expertise across a host of chosen verticals including among others banking, funds management, insurance, petrochemicals, pharmaceuticals, aerospace, automotives, semi-conductors and retail. As of 31 March 2004, HCL Technologies Limited, along with its subsidiaries, had 14,783 employees. The HCL Technologies team today has operations spanning 26 locations in 14 countries — covering over 80% of the world IT market. Together with its knowledge of embedded systems, core technologies and application development expertise, HCL Technologies is positioned, as a composite solutions provider equipped to cater to the entire gamut of IT needs. For more information, visit HCL Technologies at www.hcltech.com

Forward Looking Statements

For further information please contact:

Sunayna Malik	**Aseem Bhargava**
HCL Technologies Ltd.	IPAN
Tel: 95120-2520917	Tel: 91-11-2332 6200/6212
sunaynam@corp.hcltech.com	abhargava@ipan.com