

**NEWS RELEASE**

***HCL TECH ANNOUNCES 33% YoY REVENUE  
GROWTH***

- **Growth trends continue across top line and bottom line**
- **Stake in HPS divested for Rs.4.8bn**
- **Second Quarterly dividend of 100% announced**

**For immediate publication**

**New Delhi, January 29, 2004**

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

**Executive Summary**

**Financial Performance Review**

The highlights of financial performance for the **Quarter ended December 31, 2003** are:

- Revenues continue to register growth trend – up 33% YoY and 11% sequentially, to aggregate Rs. 6.22bn
- Organic software revenues grow 11% QoQ to Rs. 4.08 bn
- EBIDTA up by 19% QoQ; margins up 130bps
- Consolidated Net income at Rs.3.51bn, augmented by sale of stake in HCL Perot Systems
- Operating margins improve as a consequence of tight Opex controls and a healthy growth in revenues
- DSO at 60 days; down from 63 in the previous quarter
- Liquid assets currently make up more than 61% 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 December 31, 2003**

- Stake in HCL Perot Systems fully divested in favor of joint venture partner for a consideration of Rs.4.8 bn.
- HCL T customer base increases to 438, with 37 new customers added during the quarter. Includes 56 Fortune 500 clients and 95 clients with a run rate in excess of \$ 1 million
- Offshore centric business contributes 79% to consolidated revenues
- Top 5, Top 10 and Top 20 customer contributions at 33%, 43% and 54% respectively
- Revenues from Europe grow to 22%, up from 19% last quarter
- Net addition of 1,062 (net) employees during the quarter – 575 added in software services and 415 in HCL BPO
- HCL BPO continues growth trend, recording a 13% QoQ growth in revenues and improved margins
- Infrastructure Services business registers significant turnaround with a healthy 25% sequential revenue growth

**Highlights for the Quarter ended December 31, 2003**

- HCL Tech's **software services business** grew 10% sequentially, with EBIDTA reflecting an increase of 11%, driven by enhanced capacity utilization and tighter cost control measures
  - Headcount in software services increased to 9,846 - up 575 over the previous quarter
  - **Organic Software business** (including contributions from division acquired from HCL Infosystems) recorded an upward trend, driven by a sharp increase in volumes, growing 11% sequentially
- **37 new customers** added during the quarter. Significant new engagements across the company's lines of business with diverse global customers, during Q2 include:

**Technology-led engagements**

- Dedicated ODC set up for a world leading provider of storage networking solutions. HCLT will develop Storage Management software

and provide product sustenance & assurance for the embedded operating system of their fibre channel switches.

- A prestigious project from a specialist company in Voice over IP, to internationalize the firm's Award-winning VOIP System that runs across multiple sites on IP PBX, thus enabling the customer to gain market entry in the Asia- Pacific region.
- A development project from a multi-billion dollar software company for one of their next generation products, allowing the customer to speed up the time for product development and market launch.
- A significant technology enhancement project in embedded electronics for a US-based world leader in aerospace.
- For a leading transatlantic aerospace equipment company, HCLT will convert the existing ASIC version of the design to an FPGA version, including changes to the design (wherever applicable), Functional Verification, Synthesis and Place & Route and post route simulation.
- For one of the largest global suppliers of technologically advanced aerospace and industrial products, HCLT will re-design the Slat/Flap Control Unit, redesign and develop a Microprocessor board, develop FPGAs to FAA standards and design and develop a Board tester.

#### **Application-led engagements**

- An ODC has been set up for the world's largest Electronic Stock Market to migrate two of their applications from legacy to new technology platforms.
- HCLT has been selected technology partner by one of the largest originators and holders of student loans in the US, to offer services in the areas of application development, maintenance and application testing
- An ODC has been set up for the investment management arm of a large US-based insurance and diversified financial services company, for maintenance and production support of applications for mutual fund shareholder transaction and reporting.
- One of top 5 US healthcare companies has awarded a large maintenance contract to HCLT for support of their mainframe-based custom applications to help them reduce cost of ownership.

- For a Fortune 50 integrated oil and gas company operating in more than 40 countries, HCL T is developing a retail accounting interface software with implementations across Malaysia, Thailand, Eastern Europe, Germany and Belgium.

**Practice-led engagements**

- HCLT continues to enhance its relationship with AMD by supporting Multiple Application Development and Maintenance projects in the IT Co-Sourcing deal it won earlier in the year. Most recently it won a world-wide implementation and roll-out for SAP for this major.
  - HCLT has a strategic partnership with Kana, a leading eCRM company and has helped to develop the company's Response 8, email response management system on a J2EE platform in a timely and cost effective manner.
  - HCLT has won multiple projects in the last quarter to demonstrate a leadership position in CRM implementation, upgrade, support and hosting solutions for hi tech customers. Specific examples include Siebel 6 to 7.5.x upgrades for a leading Networking and Telecom OEM and Siebel 6 to 7.5.x upgrade and implementation of multiple modules for a world leader in industrial computers.
  - A leading aerospace company has utilized the expertise of HCLT's Center of Excellence for Peoplesoft to outsource its ERP support and enhancement needs. A multi-billion dollar enterprise in security systems has also awarded an ERP project to HCLT to enable them to reduce the total cost of ownership for their Enterprise Applications.
  - HCLT has won a significant implementation project from a leading software company on .Net Architecture for Fortune 500 customers.
  - HCLT also recently replaced one of the world's largest IT services companies to provide complete Infrastructure Support and Worldwide Help-desk to a leading Networking OEM.
- **The BPO business** continued to grow well and recorded a 13% sequential growth in revenues, along with improved EBIDTA margins. BPO contribution to overall revenues stands at 9%.

- 415 new employees added during the quarter, taking the permanent headcount in this business to 2,275.
- New engagements during the quarter include :
  - For a leading telecom major HCL BPO will provide level one (L1) voice based support for its customers. Initially entailing 350 seats the project is expected to ramp up to over 1500 seats within 18 months.
  - HCLT has also signed a BPO contract with a leading re-mortgage service provider for back office services to be catered from Chennai.
  - HCL BPO will provide support to a global microprocessor major for procurement of technical components. A high-end process, this will eventually manage the procurement of over \$1 billion worth of components per annum.
- The **Infrastructure Services business** witnessed good traction, recording a QoQ revenue growth of 25% and improved profitability. The business returned to a positive bottom line in the second quarter and contribution to overall revenues stood at 10%.
  - 95 people added to this business during the quarter
- **Government business** recorded a sequential revenue growth of 9% on the back of continued efforts in this segment. Ongoing efforts to leverage opportunities for enhanced growth in revenues and improved profitability in forthcoming quarters for this business division.
- HCL T forged a **partnership** with the Enterprise Web leader, Plumtree Software and is now a Global Solutions Provider for Plumtree Software. Plumtree's Enterprise Web solution consists of integration products for bringing resources from traditional systems together on the Web, foundation services such as collaboration, content management and search for building new Web applications, and a portal platform for delivering these Web applications to broad audiences.
- In the area of **Human Resources**, HCL T witnessed healthy growth and added 1,748 employees (Gross) during the quarter. The net employee addition stood at 1,062 during the quarter, of which 575 were added in the software services business. Currently, the headcount of the company

(including subsidiaries) stands at 13,065, up from 12,003 last quarter. The current annualized attrition rate is 10.5%.

- **Capital expenditure** of Rs.392.5mn was incurred during the quarter, to take the seat capacity for the organic software business to 7,489.
- HCLT declared an **interim dividend** of 100% at Rs. 2 per share, during the present quarter, for the quarter ended 31st December '03. 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 am delighted to report a quarter that has been one of the most satisfying in recent times, coming as it does on the back of a significant turnaround in the business. It presages the onset of a clear trend line of growth that will enable us to achieve our aim of accelerated top line growth, improved operating margins and a return to predictability.**"

**Key Operational Metrics**

<b>ORGANIC SOFTWARE</b>	
<b><u>REVENUE BREAKUP</u></b>	<b>(\$'000)</b>
O	61,319
O	28,067
<b><u>BILLING RATES METRICS</u></b>	
<b>Efforts billed (manmonths)</b>	
O	14,050
O	2,920
Subcontracted Efforts	237
<b>Capacity Utilisation (%)</b>	
O	77.1
O	91.2
<b>BillRates (\$'000/Manmonth)</b>	
O	4.36
O	9.61
<b><u>REVENUE BREAK UP (%)</u></b>	
<b>Location</b>	
O	79
O	21
<b>Service Offerings (%)</b>	
Technology Development Services	24.9
Software Product Engg Services	16.3
Applications Services	39.8
Infrastructure Services	10.1
BPO Services	8.9
<b>Geography (%)</b>	
US	59.1
Europe	22.0
Asia Pacific	18.9
<b>Repeat Business (%)</b>	81
<b><u>CLIENT CONCENTRATION</u></b>	
T	
N	95
N	18
N	56
<b>% Contribution from:</b>	
Top 5 clients	33.0
Top 10 clients	42.8
Top 20 clients	54.2

**Manpower Details**

	<b>As on Dec 31,2003</b>	<b>As on Sep 30,2003</b>
<b>TOTAL</b>	<b>13,065</b>	<b>12,003</b>
<b>Software Services</b>		
<b>Total</b>	<b>9,846</b>	<b>9,271</b>
<b>Organic</b>	<b>8,098</b>	<b>7,689</b>
<b>Technical</b>	<b>7,263</b>	<b>6,847</b>
Offshore	6,226	5,923
Onsite	1,037	924
<b>Support</b>	<b>835</b>	<b>842</b>
Sales and Marketing	114	104
Others	721	738
Offshore	633	640
Onsite	202	202
<b>Non-organic</b>	<b>1,748</b>	<b>1,582</b>
<b>Technical</b>	<b>1,598</b>	<b>1,431</b>
<b>Support</b>	<b>150</b>	<b>151</b>
<b>Organic</b>	<b>819</b>	<b>724</b>
Technical	523	451
Support	296	273
<b>BPO</b>		
<b>Total</b>	<b>2,275</b>	<b>1,860</b>
<b>Organic</b>	<b>2,027</b>	<b>1,678</b>
<b>Non-organic</b>	<b>248</b>	<b>182</b>
<b>Government</b>		
<b>Non-organic</b>	<b>125</b>	<b>148</b>
Technical	93	109
Support	32	39
<b>Annualised Attrition (&gt;1 yr.)</b>		<b>10.5%</b>

## Financials

(Second Quarter analysis based on the unaudited US GAAP financial results for Q2FY 2003-04)

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

	Quarterly details			Growth	
	OND'02	JAS'03	OND'03	ΔQoQ	ΔYoY
<b>Gross Revenues</b>	<b>4679.3</b>	<b>5607.8</b>	<b>6223.2</b>	<b>11%</b>	<b>33%</b>
Direct Costs	2622.5	3633.6	3959.8		
<b>Gross Profits</b>	<b>2056.8</b>	<b>1974.2</b>	<b>2263.4</b>	<b>15%</b>	<b>10%</b>
SG & A	1022.9	996.0	1042.0		
Foreign Exchange Gains/ (Loss)	(10.4)	60.9	12.9		
<b>EBIDTA</b>	<b>1023.5</b>	<b>1039.1</b>	<b>1234.3</b>	<b>19%</b>	<b>21%</b>
Depreciation & Amortisation	218.6	266.4	270.0		
<b>EBIT</b>	<b>804.8</b>	<b>772.7</b>	<b>964.2</b>	<b>25%</b>	<b>20%</b>
Other Income, net	99.4	432.6	158.5		
<b>EBT</b>	<b>904.2</b>	<b>1205.3</b>	<b>1122.7</b>	<b>-7%</b>	<b>24%</b>
Provision for Tax	74.9	160.0	128.8		
<b>EAT</b>	<b>829.3</b>	<b>1045.2</b>	<b>994.0</b>	<b>-5%</b>	<b>20%</b>
Share from equity investments	37.1	72.5	64.7		
Share of (income) / loss of minority shareholders	(61.4)	(162.2)	(148.2)		
<b>Net Income</b>	<b>805.0</b>	<b>955.6</b>	<b>910.5</b>	<b>-5%</b>	<b>13%</b>
Stock based sales incentive (Non Cash)	0.9	(9.6)	(30.3)		
Gain on divestment of stake in HPS			2633.2		
<b>Consolidated Net Income</b>	<b>805.9</b>	<b>946.0</b>	<b>3513.4</b>	<b>271%</b>	<b>336%</b>

## Key ratios

	Quarterly details		
	OND'02	JAS'03	OND'03
Gross Margin	44.0%	35.2%	36.4%
Opex/Gross revenue	21.9%	17.8%	16.7%
EBIDTA Margin	21.9%	18.5%	19.8%
Consolidated Net income/Gross revenue	17.2%	16.9%	56.5%

**Consolidated Balance Sheet (as per US GAAP)**

in Rs.mn

	As On		
	31 <sup>st</sup> Dec'02	30 <sup>th</sup> Sep'03	31 <sup>st</sup> Dec'03
<b>ASSETS</b>			
a. Cash and cash equivalents	1582.2	1261.3	5808.8
b. Accounts receivable, net	3450.8	3880.8	4063.3
c. Treasury Investments	11955.4	15730.2	15539.7
d. Other current assets	2057.1	2604.6	2681.8
<b>A. Total current assets (a+b+c+d)</b>	<b>19045.6</b>	<b>23477.0</b>	<b>28093.6</b>
B. Property and equipment, net	2499.4	3123.4	3219.0
C. Intangible assets, net	2164.1	2154.0	2167.3
D. Investments in Venture Funds / Equity investees	2575.2	2629.7	883.4
E. Other Assets	494.1	402.5	431.3
<b>Total assets (A+B+C+D+E)</b>	<b>26778.5</b>	<b>31786.6</b>	<b>34794.6</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
e. Total current liabilities	3364.7	4668.5	5062.5
f. Long -term debt	-	1376.1	1367.7
g. Other liabilities	147.7	176.4	194.3
<b>F. Total liabilities (e+f+g)</b>	<b>3512.4</b>	<b>6220.9</b>	<b>6624.5</b>
G. Minority Interest	446.3	766.9	911.6
H. Total Stockholders equity	22819.8	24798.8	27258.5
<b>Total liabilities and stockholders equity (F+G+H)</b>	<b>26778.5</b>	<b>31786.6</b>	<b>34794.6</b>

**Note:**

Unrealized gains on Treasury Investments as of Dec.31, 2003 stood at Rs. 364.2mn

**Revenue breakup between various business categories** in Rs.mn

	Software Services			BPO Services		
	JAS'03	OND'03	QoQ	JAS'03	OND'03	QoQ
<b>Gross Revenues</b>	<b>4699.2</b>	<b>5154.1</b>	<b>10%</b>	<b>494.2</b>	<b>556.7</b>	<b>13%</b>
Direct Costs	2933.8	3195.3		419.0	441.0	
<b>Gross Profits</b>	<b>1765.4</b>	<b>1958.7</b>	<b>11%</b>	<b>75.2</b>	<b>115.7</b>	<b>54%</b>
SG & A	789.4	824.9		75.0	73.9	
Foreign Exchange Gains/ (Loss)	51.8	7.1		9.6	3.4	
<b>EBIDTA</b>	<b>1027.9</b>	<b>1140.8</b>	<b>11%</b>	<b>9.9</b>	<b>45.2</b>	<b>359%</b>
Depreciation & Amortisation	167.1	165.0		65.0	69.6	
<b>EBIT</b>	<b>860.7</b>	<b>975.8</b>	<b>13%</b>	<b>(55.2)</b>	<b>(24.4)</b>	
Interest & Other Income, net	436.4	154.7		(3.8)	(4.4)	
<b>EBT</b>	<b>1297.1</b>	<b>1130.4</b>	<b>-13%</b>	<b>(59.0)</b>	<b>(28.8)</b>	
Provision for Tax	162.4	123.4		(3.0)	2.9	
<b>EAT</b>	<b>1134.7</b>	<b>1007.1</b>	<b>-11%</b>	<b>(56.0)</b>	<b>(31.6)</b>	

	Infrastructure Services			Govt. Practice		
	JAS'03	OND'03	QoQ	JAS'03	OND'03	QoQ
<b>Gross Revenues</b>	<b>504.9</b>	<b>629.4</b>	<b>25%</b>	<b>95.8</b>	<b>104.0</b>	<b>9%</b>
Direct Costs	384.6	455.4		82.5	88.9	
<b>Gross Profits</b>	<b>120.3</b>	<b>174.0</b>	<b>45%</b>	<b>13.3</b>	<b>15.0</b>	<b>13%</b>
SG & A	104.4	115.9		27.3	27.3	
Foreign Exchange Gains/ (Loss)	(0.1)	2.6		(0.4)	(0.2)	
<b>EBIDTA</b>	<b>15.8</b>	<b>60.7</b>	<b>285%</b>	<b>(14.5)</b>	<b>(12.5)</b>	
Depreciation & Amortisation	28.7	29.1		5.6	6.3	
<b>EBIT</b>	<b>(12.9)</b>	<b>31.6</b>		<b>(19.9)</b>	<b>(18.8)</b>	
Interest & Other Income, net	1.0	8.2		(1.0)	0.0	
<b>EBT</b>	<b>(11.9)</b>	<b>39.8</b>		<b>(21.0)</b>	<b>(18.7)</b>	
Provision for Tax	0.6	2.3		0.1	0.2	
<b>EAT</b>	<b>(12.5)</b>	<b>37.5</b>		<b>(21.1)</b>	<b>(19.0)</b>	

Inter Co Adjustment	
JAS'03	OND'03
(186.2)	(220.9)
(186.2)	(220.9)

**Key ratios**

	Software Services		BPO Services		Infrastructure Services	
	JAS'03	OND'03	JAS'03	OND'03	JAS'03	OND'03
Gross Margin	37.6%	38.0%	15.2%	20.8%	23.8%	27.6%
Opex/Gross revenue	16.8%	16.0%	15.2%	13.3%	20.7%	18.4%
EBIDTA Margin	21.9%	22.1%	2.0%	8.1%	3.1%	9.6%
Net income/Gross revenue	24.1%	19.5%	-11.3%	-5.7%	-2.5%	6.0%

	Govt. Practice	
	JAS'03	OND'03
Gross Margin	13.9%	14.5%
Opex/Gross revenue	28.5%	26.2%
EBIDTA Margin	-15.1%	-12.0%
Net income/Gross revenue	-22.0%	-18.3%

**\$ Assumptions**

The financials are based on the closing US\$ rates for the last day of the quarter:

US\$1 = Rs.45.59 for OND’03  
 US\$1 = Rs.45.87 for JAS’03  
 US\$1 = Rs.48.04 for OND’02

**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 December 2003, HCL Technologies Limited, along with its subsidiaries, had 13,065 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](http://www.hcltech.com)

**Forward Looking Statements**

Certain statements in this release are forward-looking statements, which involve a number of risks, and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. The risks and uncertainties relating to these statements include, but are not limited to, risks and uncertainties regarding fluctuations in earnings, our ability to manage growth, intense competition in IT services including those factors which may affect our cost advantage, wage increases in India, our ability to attract and retain highly skilled professionals, time and cost overruns on fixed-price, fixed-time frame contracts, client concentration, restrictions on immigration, our ability to manage our international operations, reduced demand for technology in our key focus areas, disruptions in telecommunication networks, our ability to successfully complete and integrate potential acquisitions, liability for damages on our service contracts, the success of the companies/ entities in which we have made strategic investments, withdrawal of governmental fiscal incentives, political instability, legal restrictions on raising capital or acquiring companies outside India, and unauthorized use of our intellectual property and general economic conditions affecting our industry. The company does not undertake to update any forward-looking statement that may be made from time to time by or on behalf of the company.

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