

HCL TECHNOLOGIES REPORTS Q 1 RESULTS

NET INCOME UP 151% - crosses \$ 21 million

REVENUES cross \$ 69 million

For immediate release

October 20, 2000

Executive Summary

Financial Highlights

(Unaudited US GAAP – First Quarter results for FY 2000-01)

The highlights of the financial performance for **Q1 ended September 30, 2000** compared with the corresponding quarter of the previous year are:

- **Growing Income**
 - Gross revenue increases 56% to reach \$ 69 million
 - EBIT increases 151% to \$ 18 million
 - Net income increase 151% to cross \$ 21 million
 - Net income (excluding non-cash sales incentive) increase 161% to cross \$ 22 million.

- **Led by growth in High value added high margin services**
 - Offshore centric revenues up 60 % to \$ 41 million
 - Internet and e-commerce revenues up 134 % to \$ 35 million
 - Technology Development Services revenue up 105% to \$ 28 million
 - Networking Services revenue up 61 % to cross \$ 9 million

- **Led by quality business revenue mix**
 - Offshore-centric business scales up to 60% of revenues
 - Internet/E-Commerce services move up to 51% of revenues
 - Technology Development Services move up to 41% of revenues
 - Well balanced client concentration - Top 5, Top 10 and Top 20 customer contributions at 23%, 35% and 46% respectively
 - Total customers up by 17 to reach 286 as on September 30, 2000

- **Leads to enhanced Employee Contribution**
 - Employee strength grew by 494 during Q1 2000-01 to reach 4,195 – 83% based in India
 - Billable engineers up 57% over Q1 1999-00 aggregating to 3,522
 - Average revenue per employee was \$ 83,323 in Q1 2000-01 (annualised) and average gross profit per employee stood at \$ 39,874 (annualised).
 - ESOP covers over 91% of employees

HCL Tech's consistent and strategic focus on 5 key operating strategies has led to a further strengthening of its position in the IT sector.

- Emphasis on quality revenue mix
- Emphasis on earnings led growth
- Front run emerging technologies
- Emphasis on non-linear growth model
- Emphasis on creating a strong management team
- Focus on employee development and contribution

**Attached Analysis and Financial table (P&L, B/S, Key Parameters)
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Corporate Overview

HCL Technologies is one of the leading global IT services, solutions and product engineering companies. The company's mission is to leverage its technology partnerships on a global scale to deliver cost effective engineering solutions of the highest quality for the emerging network centric world. As such, the company provides value-added, software engineering led IT solutions and services in the areas of e-commerce and Internet, as well as a gamut of Enterprise solutions to large and medium scale organisations, across the world.

In order to address distinctive market needs, HCL Technologies has structured its offerings around its specialised skills and processes. Leveraging its unique technology development services, the company focuses on developing software components that are either embedded into or integral to the functioning of hardware. Its software product engineering services are targeted towards software companies and focus on designing and developing applications based on emerging technologies. HCL Technologies also offers high calibre networking services to large multinational corporations, helping them develop, create and maintain global networks. Global implementation and roll-out support for technology deployment are some of the other areas in which HCL Technologies has strengthened its suite of offerings and the company has progressively built on its core strengths to cater to emerging IT needs.

Empowered by its exclusive "Off sourcing" methodology and a dedicated, world-class offshore infrastructure comprising 12 Technology Development facilities, HCL Technologies offers its customers the salient benefits of superior quality, a distinct time-to-market advantage and scalability.

Update on Business Strategies in First Quarter of 2000-01

HCL Tech's consistent and strategic focus on 5 key operating strategies has led to a further strengthening of its position in the IT sector.

I. EMPHASIS ON QUALITY REVENUE MIX

HCL Tech has achieved an increase of 56% in gross revenues to reach \$ 69 million for the quarter and continues to move up the value chain. In addition it has achieved a higher quality revenue mix using a two-fold approach.

1. **Increased contribution from high value add, high margin services** -
 - **Offshore** centric revenues increased by 60% to cross \$ 41 million, accounting for 60% of total revenues.
 - **Internet and e-commerce** revenues rose by 134% to reach \$ 35 million, contributing to 51% of HCLT's revenues.
 - **Technology Development Services** revenue grew 105% to \$ 28 million, comprising 41% of revenues.
 - **Networking Services** revenues rose 61% to cross \$ 9 million, contributing 13.3% to total revenues.
 - Contribution from **High Value added services** (Technology Development Services, Software Product Services and Networking services) rose to 72% of total revenues.

2. De-risk business by avoiding a client concentration

- Client concentration remained well balanced with the Top 5, Top 10 and Top 20 customer contributions at 23%, 35% and 46% of revenues respectively.
- Repeat business from existing clients was 69% in Q1 of 2000-01.
- HCLT continues to be trusted by some of the most recognised names in the industry and has added 17 new customers during the quarter taking the total tally to 286 as on September 30, 2000.

II. EMPHASIS ON EARNINGS LED GROWTH

1. Quality revenue mix with emphasis on moving up the value chain has resulted in

- Bill rate increase by 6% for offshore centric and 5% for onsite services over Q1 last year.
- Average revenue per employee increases to \$ 83,323 p.a. (Q1 FY01 annualised) and gross profit per employee increases to \$ 39,874 (Q1 FY01 annualised).

2. This focused approach resulted into margin expansion

- Gross margin – 48% of net revenues up from 46% for Q1 last year.
- EBDIT margin – 29% of net revenues up from 20% for Q1 last year.
- Net Income margin – 31% of net revenues up from 19% for Q1 last year.

3. This led to growth in earnings

- EBDIT increased by 126% over Q1 last year to reach \$ 20 million
- EBIT increased by 151% over Q1 last year to reach \$ 18 million
- Net income increased by 151% over Q1 last year to reach \$ 21 million
- Net income (excluding non-cash sales incentive) increased by 161% over Q1 last year to reach \$ 22 million.

III. FOCUS ON EMPLOYEE DEVELOPMENT AND CONTRIBUTION

HCL Tech recognises Human Resources as the backbone of its long-term success and has consciously focussed on increasing the value-add per employee. Its unique approach has made it an **'Employer of choice'** both in India and abroad.

- **Total manpower** as on September 30, 2000 stood at 4,195 with the induction of 494 professionals during the quarter.
- 3,469 of these employees or **83% are based in India**.
- Of this, technical billable manpower accounted for 3,522 employees.
- Average revenue per employee continued to be high at \$ 83,323 in Q1 2000-01 (annualised), with average gross profit contribution at \$ 39,874 (annualised).
- The company's **ESOP coverage is 91%** as on September 30, 2000.
- The **attrition rate was 11.6%** (excluding employees less than 1 year).
- The average **training days stood at 13 days** (annualised) for the first quarter of 2000-01.

IV. FRONT RUN EMERGING TECHNOLOGIES

In line with the focus on emerging and high-growth technology areas, HCL Tech continued to provide high value-add solutions to its clients, in the areas of internet/e-commerce, networking and embedded systems.

Significant investments have been made in creating a vast offshore infrastructure to meet the growing demand for the offshore services - a 60% growth over Q1 of last year. This has now grown to 12 software development centres – each oriented towards specific horizontal technologies. During the quarter, the following 5 centres commenced full-scale operations:

- Internet Applications Centre at Gurgaon
- C-Centre at Chennai
- Software Engineering Solutions centre at Chennai
- Microprocessor software Centre at Noida
- E-Commerce product applications centre at Noida

HCL Technologies continues to move up the value chain by investing in R&D to provide accelerated quality growth. 9% of offshore manpower was dedicated for in-house R&D in developing “soft cores” and creating high-end technological capabilities. Some of the new cutting edge work undertaken during the quarter includes:

- **ASIC design for Telecom system** – The Company is providing ASIC design for the next generation telecom product of a leading US-based player. The job involves in-depth knowledge of networking and design, verification, FPGA and reference design work for its customers also.
- **B2B Auction Manager** - HCL Tech is engaged in design and development of an auction manager, for a leading provider of B2B web commerce solutions. This software enables enterprise-wide web-based selling, marketing and customer service through a total electronic commerce solution.
- **Billing System for Telecom industry** - The Company is involved in the development of a billing and customer care solution for a telecom solutions provider. The job entails complete understanding of the complexities of the billing architecture including security issues.
- **CRM** – HCL Tech is studying the CRM requirements and processes and providing a GAP analysis to an ASP. The company will also implement Kana’s eCRM solution for the client.
- **Protocol Stacks for Broadband Communications Market** – HCL Tech is building protocol stacks for the new generation products of a leading broadband communications equipment designer. These products enable clients the flexibility of offering voice, data and video services in a single product offering.
- **Vertical Exchanges for Life Sciences** – HCLT is designing and developing vertical exchanges for Life Sciences and MROs for a leading B2B solutions provider. The company is also providing consulting for re-architecting and enhancing the client’s core engine around which the vertical exchanges are developed.
- **Financial Forecasting System development.** – Working for an American auto manufacturer. HCL Tech is developing a financial forecasting system, which would be followed by a complete development and deployment of the system.

V. EMPHASIS ON NON LINEAR GROWTH MODEL

To give a further impetus to revenues and earnings growth, HCL Tech has fostered the concept of multiple growth windows, resulting in a non-linear growth model, wherein the company seeks to supplement its organic growth through diverse avenues.

1. Joint Ventures & Strategic Partnerships

HCLT has a successful track record of Joint Ventures and acquisitions with an international experience in management of such relationships, which is key to a successful acquisition.

The investment in HCL Perot Systems, a 50:50 Joint Venture between HCL Technologies and Perot Systems Inc., continues to add value to HCL Technologies. With manpower strength of 1,373 as on September 30, 2000, HCL Perot has emerged as a leading outsourcing and systems integration company with major clients in the banking, energy, healthcare, insurance, manufacturing and telecommunications industries. HCL Perot recorded a 64% increase in net income over the corresponding quarter of last year.

2. Equity Investments for Value Acquisition

The success of a large global IT company – depends to a large extent on its annual investments in R&D. Several small companies are engaged in developing cutting edge technologies whose commercialisation will result in value creation for its shareholders. HCL Tech is participating in developing some of these cutting edge technologies for its customers and sees an opportunity for value acquisitions, to enhance value for its own shareholders by participating in the upsides.

HCLT continues with its initiative in investing in its customers and strategic partners and the investments stood at \$ 13 million as on September 30, 2000.

3. Mergers & Acquisition

HCL Tech has also been actively evaluating M&A opportunities in US and Europe. A focused business team continues to scout for companies with strong credentials in services orientation and a quality client base.

VI. EMPHASIS ON CREATING A STRONG MANAGEMENT TEAM

HCL Technologies believes in success through creation of a strong focused management team utilising the talents available within and outside the company. Some initiatives in this direction are:

1. Distinguished international Board of Directors
2. Best of Class corporate governance initiatives
3. Global Advisory Board & Technology Advisory Board
4. Organisation structured to encourage entrepreneurship
5. Highly experienced and proactive management team

The company has continued its initiatives in the area of Corporate Governance.

- Audit committee headed by Ambassador Richard Burt – guidelines for Insider trading & best practices implemented across the company.
- Related Party Transactions Committee headed by T S R Subramanian – monitoring related party transactions, which continue to be low at 0.22% of revenues for Q1 2000-01.
- Compensation Committee headed by Robin Abrams – approves ESOP plan to cover 91% of employees

VII. CONCLUSION

Going forward, the company believes it is significantly positioned to leverage its unique strengths in the global IT market space and enhance value for its partners and shareholders.

Attached Financial table (P&L, B/S, Key Parameters. & background on Investments made)

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HCL Technologies Limited

**Consolidated Income Statement (Unaudited) under US GAAP for Quarter
ended September 30, 2000**

Comparison over corresponding period of previous year

	JAS00	JAS99	Growth Y-o-Y	AMJ 00	Growth over AMJ00 (Q-o-Q)	FY 2000
						\$ Million
Gross Revenues	69	44	56%	61	12%	207
less: Sales Incentive	1	-		2		2
Net Revenue	68	44		59		205
Direct Costs	35	24		30		107
Gross profit	33	20	61%	29	13%	98
SG&A	13	12		13		50
EBDIT	20	9	126%	16	23%	48
Depreciation & amortisation	2	2		2		7
EBIT	18	7	151%	14	25%	41
Interest & other income, net	4	1		4		12
Interest expense	0	0		(0)		1
EBT	21	8	181%	19	13%	52
Provision (benefit) for income taxes	2	0		2		6
EAT	19	7	164%	16	16%	46
Share of income (loss) from equity investment	2	1		2		6
Share of income (loss) of minority shareholders	0	0		(0)		0
Net Income (loss)	21	8	151%	18	13%	52
Key Ratios						
Gross Margin to Net Revenue	48%	46%		49%		48%
Opex to Net Revenue	20%	27%		22%		25%
EBDIT to Net Revenue	29%	20%		27%		23%
EBIT to Net Revenue	26%	16%		24%		20%
Net Income to Net Revenue	31%	19%		31%		25%
Key Ratios (Excluding Non-Cash sales incentive)						
Gross Margin to Net Revenue	49%	46%		51%		48%
Opex to Net Revenue	19%	27%		21%		24%
EBDIT to Net Revenue	30%	20%		30%		24%
EBIT to Net Revenue	27%	16%		27%		21%
Net Income to Net Revenue	32%	19%		34%		26%

HCL Technologies Limited

**Consolidated Balance Sheet (Unaudited) under US GAAP for Quarter
ended September 30, 2000**

Comparison over corresponding period of previous year

	\$ Million		
	Qtr. Ended Sept 30, 2000	Qtr. Ended Sept 30, 1999	Year Ended June 30, 2000
ASSETS			
Current assets			
Cash and Cash Equivalents	20	12	40
Accounts Receivable, net	59	35	41
Marketable Securities, available for sale	151	0	169
Other Current Assets	46	11	13
Property and Equipment, net	20	11	18
Intangible Assets, net	9	12	10
Investments	31	9	27
Other Non-current assets	3	4	3
TOTAL ASSETS	338	94	320
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities	40	37	38
Non-current Liabilities	1	2	1
Total stockholders' equity	298	54	282
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	338	94	320