

Quarterly Earning Release

First Quarter FY 15

October 20, 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 first quarter performance of our new Financial Year is in line with the direction that has been set by the previous financial year (FY14) with both our focused businesses – Services and Distribution registering good traction. HCL Care, our Consumer Services business has emerged as a fast growing business for the company with a 178% Y-o-Y and 66% Q-o-Q growth. Today, HCL Care has become a leading organized player to offer reliable after-sales support and services for multiple products and brands under one-roof. The Enterprise Services growth story has also reflected in our overseas business with the Middle East region achieving a 85% Y-o-Y and 40% Q-o-Q growth in revenues in this business.

In Distribution the various businesses, Telecom, Consumer and Home Appliances, Enterprise and IT products distribution achieved good growth with the addition of many leading brands in this various business segments."

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BUSINESS HIGHLIGHTS

As reported earlier, in FY13-14 the company undertook a significant restructuring exercise to focus on the growth businesses of Distribution and Services, while exiting its loss making Computing Products and Hardware Solutions businesses. The Company also changed its focus in its Systems Integration business from growth to disciplined execution of existing projects, and revamped the business model of its Learning business from a hardware driven asset-heavy model to a content driven asset-light model.

This restructuring necessitated certain actions in the realignment of our businesses which have impacted the profitability of the company in the past several quarters and which also impacted profitability in the JAS FY14-15 quarter. We expect the remaining quarters of FY 14-15 to continue to be impacted.

This restructuring exercise enabled the growth engines of the company - Distribution & Services, to grow aggressively in the previous financial year. In this quarter also, these two businesses registered significant traction. In our Distribution business, Non-Telecom Distribution (i.e. Consumer Electronics and Enterprise & IT Products) continued their robust growth. The Consumer Electronics & Home Appliances division registered sequential growth in revenues through signing new partnerships for national distribution. The transition from a direct go-to-market model for Enterprise Hardware Solutions to a Distribution oriented channel sales model has now been completed and the business is expected to create significant partnerships and business traction in the coming quarters.

BUSINESS HIGHLIGHTS

In JAS 14-15, our Services business, consisting of Enterprise and Consumer Services, (both part of HCL Services Ltd., a wholly owned subsidiary of HCL Infosystems Ltd.), together achieved healthy Y-o-Y growth due to consistent business traction in India and in the overseas market. Within the business, IMS (Infrastructure Managed Services) and Care (consumer break-fix services) businesses registered healthy sequential growth of 20% and 66% respectively.

In FY13-14, the company had decided to discontinue its Computing Products business (HCL branded PCs and Tablets) due to structural disadvantages in the business. The Company planned to leverage the resources in this business to drive third party distribution. Most of the actions regarding the discontinuance of the business were completed in the last Financial Year. Presently the company has arrived at the tail-end of this exercise and it is expected that the process would be completed by the end of H1 FY15. This exercise continues to adversely impact the profitability of the company and it is expected that it will continue to do until the process is completed.

Similar to the previous Financial Year, the System Integration business in the first quarter of FY 14-15 focused on disciplined execution of the existing order book which reduced from Rs 2100 Cr. as on June 30th 2014 to Rs. 1857 Cr. as on 30th September 2014.

During the quarter, HCL Learning remained selective in pursuing new business. As per the new strategy of focusing on an asset light and content-based services and solutions, the Learning business won many noteworthy content deals from Bombay College, Aditya Academy, CARACAL Solutions and D-Square Solutions.

BUSINESS HIGHLIGHTS

Distribution Business :

- **Telecom Distribution** business witnessed growth, in volume terms, across categories..
- In **Non-Telecom Distribution**, the Enterprise Products distribution business which constitutes distribution of Microsoft products, Office Automation products and other enterprise hardware and software products, achieved good traction in the quarter with major orders from Extramarks Education, Tata Consultancy Services, Directorate of Technical Education, Gujarat, Indian Overseas Bank, State Bank of India and also an engagement with Reserve Bank of India.
- As HCLI's own branded computing products have now been discontinued, the company has leveraged its customer relationships, distribution and services capabilities to start distributing third-party products. Leveraging this strategy in this quarter the distribution business has made gains in terms of large deals with seven leading BFSI companies for distributing products of a leading PC manufacturer. It is also in the advanced stage of concluding deals with two other leading global PC manufacturers.

BUSINESS HIGHLIGHTS

Gold Standard – A new Initiative:

The company is all set to leverage its rich legacy and track record built over the last four decades to build a ‘Gold Standard’ sales and operations platform for Services and Distribution. To build this Gold Standard platform, we have set ourselves targets for growth, operational efficiency, enhanced customer experience, investment in right tools & technology, high automation and remote resolution capability. We will strive to be the best in our technology offerings and the markets we serve, and enable our customers to succeed by providing them service excellence, automation, collaboration and globally consistent, quality customer experience.

Services Business:

Enterprise Services

The Services business has created a brand agnostic market presence coupled with strong technical and support competence which is unique among Service providers in the Indian market.

- Infrastructure Managed Services (IMS) business witnessed growth of 133% Y-o-Y and 20% Q-o-Q. In the quarter, the IMS business bagged contracts from enterprise accounts like Anand Automotive Systems and Feedback Infrastructure. The overseas business also contributed to the growth story through new IMS engagements.
- In the Middle East, the services business registered robust revenue growth of 85% Y-o-Y and 40% Q-o-Q. The Middle East business rolled-out a global datacenter solution for a leading manufacturer, successfully implemented automated cloud solution for Dubai Electricity and Water Authority (DEWA), implemented CRM at one of the leading port operators and launched B2B services on Mobile for a leading aviation authority of the region.
- During the quarter, Office Automation (OA) Services witnessed a healthy growth in gross margins and won services contracts from Accenture, HCL Technologies, HCL BPO, Emcure Pharma and Great Lakes Institute. OA Services also implemented a field force automation project for all regions in India.
- The Infrastructure Services business bagged sizeable deals for IPv6 consulting from Delhi Housing Finance Ltd. (DHFL) and acquired new customers like Hetereo Labs. New service offerings such as Assessment services for enterprise datacenter, enterprise storage and enterprise networking were launched during the quarter.

Consumer Services (HCL Care)

HCL Care registered robust and consistent growth of 178% Y-o-Y and 66% Q-o-Q growth in the quarter. HCL Care also expanded the footprint of its centers under the ‘Touch’ brand to more than 300 across the country and signed up with leading OEM brands across the Mobility and Consumer Electronics space for world class repair and service centres.

BUSINESS HIGHLIGHTS

HCL Learning Business:

The learning business gained traction both in India and abroad for its flagship product DigiSchool. The business recorded a 20% Y-o-Y growth in the number of classrooms. With strong content and R&D expertise in Hardware and K-12 platform domain, HCL Learning launched DigiSchool enterprise model on android devices. DigiSchool also won a special award at IDA (World DIDAC Award) for excellence in K-12 education.

System Integration (SI) Business:

- One of our key projects, Managed Services for Unique Identification Authority of India (UIDAI) continues to progress well and has reached the milestone of generating 68 crore Aadhaar cards.

Financial Inclusion (FI) Business:

- The business won major orders from Sarva Haryana Gramin Bank, Uttar Bihar Gramin Bank and Baroda Rajasthan Kshetriya Gramin Bank. The business developed a new MicroATM prototype and also developed new products such as Kisan Credit Card and General Credit Card. The Financial Inclusion business also recorded a 100% Y-o-Y growth in enrollments and a 26% growth in smart card activations.

CONSOLIDATED RESULTS

PROFIT & LOSS ACCOUNT		Rs. crores			
		Consolidated Unaudited		Audited	
		Q1 FY 15	Q4 FY 14	Q1 FY 14	FY 14
-	Gross Sales / Income from Operations	1,682.7	1,760.3	2,184.0	7,852.4
-	Less: Excise Duty	-	0.2	3.0	4.1
1a.	Net Sales / Income from Operations	1,682.7	1,760.1	2,181.0	7,848.3
1b.	Other Operating Income	-	4.6	1.1	10.6
2.	Expenses				
a)	Cost of materials consumed	7.7	28.3	147.9	401.5
b)	Purchases of Stock-in-trade	1,271.5	1,276.8	1,828.6	6,031.0
c)	Changes in Inventories of finished goods, work-in-progress and stock-in-trade	67.1	110.7	(102.1)	53.3
d)	Employee benefits expense	136.7	145.6	138.6	571.9
e)	Exchange Differences Loss/ (Gain)	2.8	6.3	29.4	70.6
f)	Depreciation and amortisation expense	13.4	12.8	13.7	52.5
g)	Other Expenses	224.0	225.0	180.9	818.7
	Total Expenses	1,723.2	1,805.5	2,236.9	7,999.5
3.	Profit / (Loss) from Operations before Other Income, finance costs and exceptional items(1-2)	(40.5)	(40.8)	(54.8)	(140.6)
4.	Other Income	14.6	28.4	27.7	96.4
5.	Profit / (Loss) from ordinary activities before finance costs and exceptional items (3+4)	(25.9)	(12.4)	(27.1)	(44.2)
6.	Finance costs	32.3	34.0	41.4	156.0
7.	Profit / (Loss) from ordinary activities after finance costs but before exceptional items (5-6)	(58.2)	(46.5)	(68.5)	(200.2)
8.	Exceptional Items loss/ (Gain)	(19.2)	7.2	-	(14.4)
9.	Profit / (Loss) from ordinary activities before Tax (7+8)	(39.0)	(53.7)	(68.5)	(185.8)
10.	Tax Expense/ (Credit)	6.3	18.7	3.9	28.7
11.	Net Profit / (Loss) from ordinary activities after Tax (9-10)	(45.3)	(72.4)	(72.4)	(214.5)
12.	Extraordinary items (net of tax expense)	-	-	-	-
13.	Net Profit / (Loss) for the period (11+12)	(45.3)	(72.4)	(72.4)	(214.5)
	Basic EPS (Not annualised) Rs/share	(2.0)	(3.2)	(3.2)	(9.6)

CONSOLIDATED SEGMENT RESULTS

Rs. crores

	Particulars	Unaudited		Audited	
		Q1 FY 15	Q4 FY 14	Q1 FY 14	FY 14
1.	Segment Revenue				
	-Hardware Products and Solutions (Gross)	293.3	374.1	594.6	2,004.1
	Less: Excise Duty	-	0.1	3.0	4.1
	- Hardware Products and Solutions (Net)	293.3	373.9	591.6	2,000.0
	- Services	211.3	192.2	157.1	745.7
	- Distribution	1,224.8	1,224.5	1,479.9	5,333.3
	- Learning	12.6	28.0	12.5	66.6
	Total	1,742.0	1,818.6	2,241.1	8,145.6
	Less : Intersegment revenue	59.3	58.5	60.1	297.3
	Net Sales / Income from Operations	1,682.7	1,760.1	2,181.0	7,848.3
2.	Segment Results (Profit / (Loss) before Tax and Interest from each segment)				
	- Hardware Products and Solutions	(47.9)	(60.0)	(62.5)	(224.1)
	- Services	(1.2)	13.0	5.8	55.7
	- Distribution	20.5	17.5	24.5	86.3
	- Learning	(9.2)	(0.1)	(6.0)	(14.9)
	Total	(37.8)	(29.6)	(38.3)	(96.9)
	Less :				
	i) Interest Expense	32.3	34.0	41.4	156.0
	ii) Other un-allocable expenditure net off un-allocable (income)	(31.1)	(10.0)	(11.3)	(67.1)
	Total Profit / (Loss) before Tax	(39.0)	(53.7)	(68.5)	(185.8)
3.	Capital Employed (Segment Assets - Segment Liabilities)				
	- Hardware Products and Solutions	841.8	830.9	366.8	830.9
	- Services	225.8	248.4	222.0	248.4
	- Distribution	(4.3)	(79.3)	29.5	(79.3)
	- Learning	12.7	24.7	14.0	24.7
	Unallocated				
	- Liquid Assets	276.8	309.5	680.6	309.5
	- Others unallocated	1,142.2	1,220.7	1,301.6	1,220.7
	Total Capital Employed	2,495.0	2,554.9	2,614.5	2,554.9

ABOUT HCL INFOSYSTEMS

With (LTM) revenues of Rs 7,351 crore, HCL Infosystems is India's Premier Distribution and IT Services and Solutions Company. The Company has one of the largest sales & distribution networks in India and provides value added distribution for partners in Telecom, IT, Office Automation and Consumer Electronics products. The Company's distribution business has an unparalleled network that reaches more than 100,000 retail outlets, over 800 Direct and Micro Distributors and over 12,400 Channel Partners across 15,000 towns and 664 districts in the country. The Company is also a leader in IT Services and Solutions with a comprehensive portfolio of Infrastructure Managed Services, Enterprise Application 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 startups, 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.in