

Team against team,

man against man,

me against myself



Celebrating Competition

Annual Report 2000-2001

HCL INFOSYSTEMS LTD.
Information Enabling Company

HCL

Dear Stakeholder,

We used to think that running an Organisation was equivalent to conducting a symphony orchestra. But I don't think that's quite it; it's more like jazz. There is more improvisation. Someone once wrote that the sound of surprise is jazz, and if there's any one thing that we must try to get used to in this world, it's surprise and the unexpected. Truly, we are living in a world where the only thing that's constant is change.

The last 25 years have seen us travel through several highs and troughs. That's the strength of your company, which is today prepared for the sail. This year has been witness to such a phenomenon. While the ce-risked strategy of mixing Services and Hardware has paid off, the strategy to spread our exports to various regions of the globe have been proven right. To mark the completion of 25 years, we have also launched a limited edition slimline PC this year, aptly named - HCL August.

We continue to lead the industry in all the technology areas we are present in. This, we attribute to our people for competing over the years with the pride and passion that's so naturally us. Hence, we choose to 'celebrate competition' for constantly motivating us.

In 1976, we started off with a thought. We were later given the conviction to believe in the larger picture with solid backing of our stakeholder community. I would like to specially thank you for this strength.

Regards,

Ajai Chowdhry.

THE THREE-PRONGED STRATEGY!

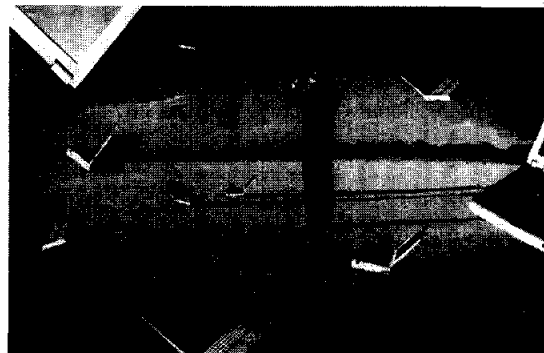
HCL Insys has emerged into a premier 'Information Enabling' company over the years. A unique space defined by its three pronged strategy of carefully blended services, products and exports. This has been the USP of the company, which has translated into a de-risked business model today.

On one leg are the Domestic services business that include AMC, facilities management, network management, network consulting, call-center consulting, help desk services and software services which also include implementation of SAP. These have been a growing segment in the domestic market.

The second leg comprises of the company's strength in the digital space with its multiple products in the domestic market. These include products like the PC, Servers, high-end storage products, networking, digital copiers, EPABX and high-end telephony equipment.



The third leg is the company's exports business. This comprises of its services exports to the USA, UK, Singapore, Malaysia and Australia. These three legs have been performing in perfect resilience over the past years to strengthen the company's growth as a formidable information enabler. Even if one leg slows down, the company would continue to synchronize its bottom-lines with the strengths in the other two areas.

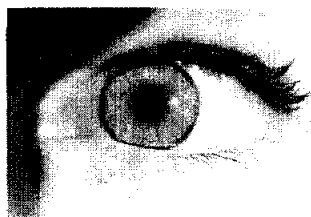


This is a space created by the company over the past 25 years. In each of these areas, the company prides in being the pioneer with

high levels of creativity. HCL Insys has the most experienced management team today, which has seen both ups and down. The team is geared more than ever before to take on challenging times and compete to maintain its leadership. HCL Insys celebrates this Silver Jubilee year with the same spirit that has put the company on the pedestal.

It 'Celebrates Competition'.

MANAGEMENT DISCUSSION AND ANALYSIS



OVERVIEW

25 years! HCL Infosystems has had many successes to be proud of over these years. In the past, HCL has succeeded through a professional approach with an enviable balance of teamwork and strong entrepreneurial culture. We have handled rapid changes in environment and technology and transformed threats into opportunities and market differentiators, to emerge as the No. 1 IT Group straddling all spheres of the IT business. The efforts are to assimilate the learning from these years, and continue to celebrate success and competition.

Today, the market scenario has changed compared to the same period last year. The economic situation is challenging both in India and abroad. Though the first three-quarters of the year gone by have been good, the last quarter was particularly challenging and the total revenues recorded were lower than planned. The services business continues to grow steadily.

Overall, we at HCL Infosystems have seen the strategy of de-risking our business model work for us in the year gone by.

SERVICES:

Consolidated services revenues of the company grew by 36% last year. The company have identified growth in services revenue as a Break Through Objective, and the results of this are beginning to show.

On export services, the company continued to capitalize on its investments in building e-business capabilities. During the year the Software Services Organisation crystallized some of its solutions as application frameworks and plans to implement these frameworks in similar solution contexts, allowing faster and more cost-effective deployment.

In the Domestic Support Services, the company took a major initiative by setting up the Info Structure Services (ISS) group offering Info Support (for Facilities Management), Info Net (for Networking Services) and Info Safe (for IT Security Services). The Network Operations Centre (NOC), Security Proof of Concept Centre (SPOCC) and e-biz Solution Centre have augmented our infrastructure. The conventional services of maintenance also showed a healthy growth.

The Company took a major stride in offering call center consultancy with the in house developed VINRAM matrix.



The Company also commissioned a state of the art 24 X 7 Technical call center with an expandable capacity of 3000 agents connecting customers from over 42 cities via leased lines over frame relay and ATM backbone. The division also initiated the AMC packs to shore up services revenues.

HCL InfiNet, the wholly owned subsidiary of HCL Infosystems Ltd was born out of HCL Infosystems' "Net.Strategy" which aimed to leverage the company's core competence in hardware, software, support and consulting services in the internet arena and to provide its customers a seamless integrated end to end solution. It provides value added internet services and solutions while leveraging its parents' solid reach, expertise, and lineage as India's leading Information Enabling Company.

In a record time of 7 months, HCL InfiNet has extended its service network to 42 cities, which comprises the bulk of corporate and consumer traffic in India. This has made HCL InfiNet, India's largest own managed Internet Services Infrastructure Company, deploying ATM/FR on its backbone and creating a convergence ready network. It has aptly been ranked the number one ISP in several parameters by Industry magazine ZDNet.

PRODUCTS:

The Company with all its product lines showed good growth rates last year for number of units sold. PCs showed an impressive growth in units however the average unit realization dipped (as in the case of all PC vendors) thereby restricting value growth. The company introduced many new products during the last year to continue to increase its revenue and profitability. Strategic alliances were entered into, with:

- EMC for Enterprise storage Solutions
- UNISYS to offer mainframes and server consolidation solutions
- AMDALE to offer unified messaging Solution

The Company launched the e-Beanstalk product to further increase its penetration in the Home market. The "ezeebie" was launched to address the growing Internet appliances market, as an access device for Internet, at a cost lower than a PC. Many new models of Toshiba notebooks, including the wireless enabled models were also launched.



Large orders for both copiers and LCD projectors were bagged. The market share of the company in the copier segment improved to the 2nd position. The Company also introduced a new product, Pitney Bowes Mass Mailing System.

Winbee 4000 introduced as thin clients or Windows based terminals ideally suitable for server based computing environment evoked good market response. These binary clients are bundled with the software specially developed to suit various target segments like Government and Public Sector, Banking & Insurance sectors, Educational Institutions, Internet Browsing Centres, Retail Organisations using point-of-sale terminals, etc.



Quality Initiatives:

The Company added more feathers to its cap by becoming the first IT Company to upgrade its manufacturing certification to the latest version of ISO 9001 - 2000, and was also certified for ISO 14001 establishing commitment towards the environment. During this year, The Company received Level II recognition from Manufacturers Association for Information Technology (MAIT) for company wide implementation of the Business Excellence System.

Financial Highlights:

Particulars	Rs. Crores	
	2000-2001	1999-2000
Sales and other income	1168.43	1135.07
Profit before interest, depreciation and tax	90.05	95.15
Finance Charges	1.93	4.06
Depreciation	12.25	12.68
Profit/(Loss) before Tax	75.87	78.41
Provision for Taxation	6.90	5.35
Net Profit	68.96	73.06
Diminution in value of advances	10.60	-
Profit Available for Appropriation	58.36	73.06

Financial Review for the year ended 30th June, 2001.

1. **Revenue :** Business Income grew to Rs. 1162.3 crores in the current financial year ended 30.06.2001, from Rs. 1124.9 crores in the previous year.

Total revenue including 'Other income' grew from Rs. 1135.1 crores in the previous year to Rs. 1168.4 crores for the year under review.

Total consolidated revenues grew to Rs. 1264.5 crores from 1170.9 crores in the previous year, an increase of 8%.

Total service revenues including exports grew by 16% to Rs. 193.4 crores, over Rs. 167.4 crores in the previous year.

Service revenue including revenues from overseas subsidiaries is Rs. 285.2 crores for current financial year, an increase of 36% over the previous year period.

Consolidated sales of subsidiaries grew from Rs. 56.3 crores in the previous year to Rs. 161.9 crores for the year under review.

'Other income' is Rs. 6.1 crores in the current financial year. This is against Rs. 10.1 crores in the previous year, which included profit of Rs. 4.8 crores from sale of office premises.



2. **Gross Margin:** Gross Margin excluding 'Other income' for the current financial year is Rs. 279.1 crores as against Rs. 278.9 crores in the previous year. Gross Margin as a percentage to sales was 24% in the current year against 25% in the previous year.
3. **Personnel Costs:** Staff cost for financial year under review stood at Rs. 94.5 crores as against Rs. 84.5 crores for the previous year, an increase of 12%. The number of employees in payroll increased from 2987 at the previous year end to 3041 at the end of the year under review.
4. **Administrative, Selling & Repairs:** Expenses for the year declined by 8%, from Rs. 109.4 crores in the previous year to Rs. 100.7 crores.

'Hire charges' including Lease Rentals for the financial year under review stood at Rs. 5.0 crores, as against Rs. 11.6 crores for the previous year. This is due to expiry and pre-closures of lease agreements.

'Advertisement, Publicity & Entertainment' for the financial year under review stood at Rs. 4.0 crores, as against Rs. 7.5 crores for the previous year.
5. **Operating Profit (EBIDT):** Operating profit excluding 'Other income' stood at Rs. 83.9 crores, as against Rs. 85.0 crores in the previous year.
6. **Finance charges:** Net finance charges for the current financial year declined by 54%, from Rs. 4.1 crores in the previous year to Rs. 1.9 crores. The program to maintain/reduce finance charges, both by substitution/ reduction of borrowing continues.
7. **Profit before tax (excluding 'Other income'):** The company has recorded an increase of 2% over the corresponding previous year period, from Rs. 68.3 crores in the previous year to Rs. 69.7 crores in the current financial year.
8. **Taxation:** The company has provided Rs. 6.9 crores for taxation during the current financial year. This has been computed by applying the Income Tax Act, 1961 to the profit for the financial year ended 30th June 2001, although the actual tax liability of the company has to be computed each year by reference to the taxable profit for each fiscal year ended 31st March. It does not take into account liabilities in respect of tax issues disputed by the company.
9. **Diminution in the Value of Advances:** The company advanced a loan of Rs.13.8 crores to 'OWNHCL TRUST' for operating an employee stock option scheme, and the Trust utilized this amount for acquiring the company's shares. As at 30th June 2001 the ability of the Trust to repay the loan has been impaired to the extent of difference between market price and purchase price of the shares held by the Trust amounting to Rs.10.6 crores, which has been reflected in the accounts.
10. **Profit After tax (including 'other income'):** Profit after tax and extra-ordinary item for the current financial year stood at Rs. 58.4 crores, as against Rs. 73.1 crores in the previous year.
11. **Dividend:** For 2000-01, the company proposes to pay a dividend of Rs. 7/- per fully paid up equity share of Rs.10/- each. This will entail an outflow of Rs. 24.6 crores (including Corporate Dividend Tax).
12. **Reserves and Surplus:** Reserves increased from Rs. 230.5 crores as on 30.06.00 to Rs. 264.3 crores as on 30.06.01.
13. **Earnings Per Share:** EPS for the current financial year is Rs.18.3 as against Rs. 22.9 last year.
14. The company has significantly improved its cash position over the past two years. Cash and liquid investments as on 30.06.01 totals Rs. 161.4 crores, being 40% of total assets.

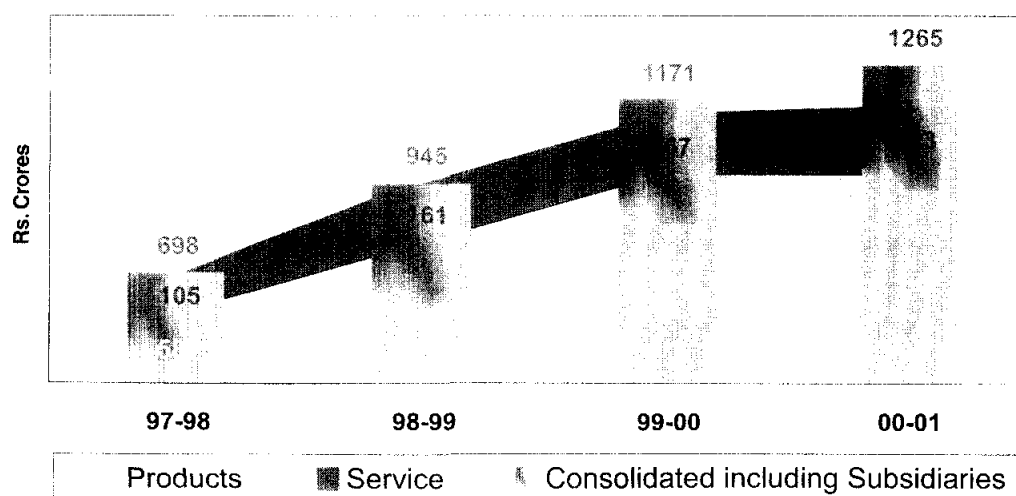


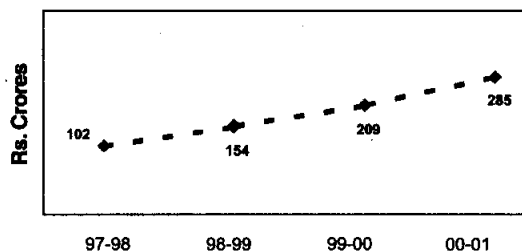
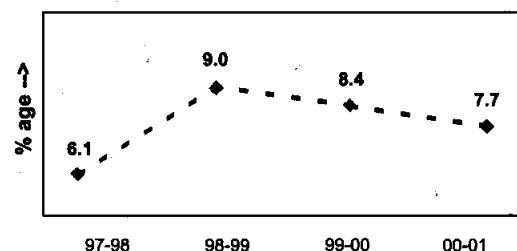
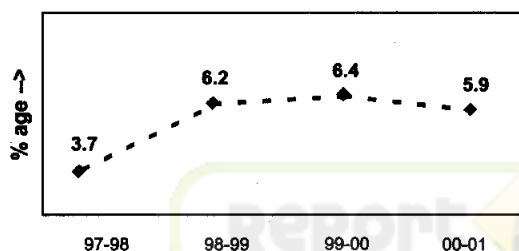
Financial Conditions

1. **Shareholders funds/Net worth:** During the current financial year there is an addition of Rs. 33.8 crores to reserves, taking the Net Worth of the company to Rs.296.2 crores as on 30.06.01. The book value per share has increased from Rs. 82.2 as on 30.06.00 to Rs. 92.8 as on 30.06.01.
2. **Borrowings:** The year end loan balances decreased from Rs 117.3 crores to Rs. 112.4 crores . During the year Public Deposits amounting to Rs. 8.4 crores have been repaid.
3. **Fixed assets:** Gross block grew from Rs. 92.5 crores as on 30.06.00 to Rs.99.8 crores as on 30.06.01. Additions are mainly in the areas of office premises, plant and improvements in infrastructure, both for domestic and export activities.
4. **Inventories:** Inventories decreased by Rs.19.3 crores during the current financial year, from Rs. 130.3 crores as on 30.06.00 to Rs. 111.0 crores as on 30.06.01. The inventory turn over on sales significantly improved from 8.6 times in the previous year to 10.5 times.
5. **Debtors:** Debtors marginally increased from Rs. 225.0 crores as on 30.06.00 to Rs. 227.1 crores as on 30.06.01. However, Debtors as number of days of sales dropped from 72 days as at previous year-end to 71 days.
6. **Cash and Bank:** Cash and bank balances grew from Rs. 48.8 crores as on 30.06.00 to Rs. 106.1 crores. Cash and Bank balances as on 30.06.01 include Rs. 64.6 crores as fixed deposits with bank, a growth of Rs. 57.3 crores over the previous year.
7. **Net current assets including cash and bank balances:** Net current assets increased by Rs. 1.5 crores during the current financial year. The current ratio stands at 2.1 as on 30.06.01.

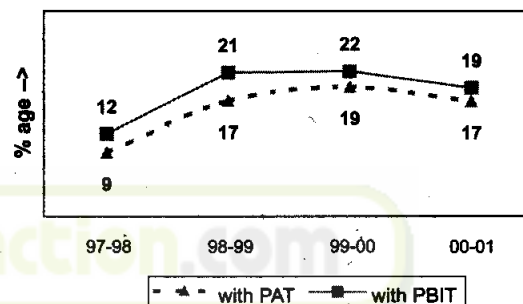


Revenues



Consolidated Services Revenue**PBIDT %****PAT %***

* Excluding extra-ordinary items

Return on Capital Employed %*

* Excluding extra-ordinary items

Outlook for 2001-2002:

Our services business continues to be our focus area for profitability. There is increased effort throughout the organization to market our services in all our existing and newer avenues. Our strategy to build solutions around the 'Box' will continue to increase our business in this segment. We also continually upgrade our product portfolio to ensure that we are able to offer end-to-end solutions.

For our services exports, we would continue to focus on increasing our reach and invest in sales/ pre-sales so that we are well positioned for growth in the future.

Taking a view of the recent industry reports on hardware and market feedback, the management's view is that the hardware business (PCs & Servers) would continue to be tight till late 2nd quarter 2001. The digital copiers and telephony business would continue to grow at a steady pace.

The company also intends to further improve the cash flow situation by maintaining necessary control measures on the assets.

We intend to further strengthen our customer focus. New customer satisfaction measures are in place to ensure high retention of the customers and for adding substantial number of new customers to our list through all the business segments.

Our strategy of hardware, domestic services and exports is working well, more so in such challenging times. We intend to keep a higher focus on increasing services growth including our subsidiary, HCL InfiNet's services.

Processes would be further streamlined by bringing more divisions under the ISO certification. We intend to utilize the full potential of the Business Excellence System to integrate the principles of excellence in our strategies, processes and people and thereby achieve higher levels of excellence in the coming years.