
ANNUAL REPORT 2001-2002
HCL

Dear Stakeholder,

"These are best of the times, these are worst of the times."

In the above statement, whichever way we look at, there lies a great opportunity. With great opportunities come great challenges, and it is these challenges that we have been thriving on.

We have seen so much changing in last one-year. The global economic equations have changed, the political situation has changed, the technology has changed, and most important of all attitudes have changed. If last year was about something it was about radical change in attitude across nations, societies and businesses. Today we can not afford to take anything for granted.

In the year that went by, we brought home some path breaking technologies for our customers, and maintained our position of leading-edge technology provider. We pried open new segments and new markets. Today if we are able to align ourselves with ever-changing technology it is because of our focus on excellent quality of people that we have.

We are maintaining our leadership position in business area that we are present in. We have forged new alliances for better market addressal and would continue our endeavor of being the best among equals.

Finally I would like to thank you for supporting our grit and determination in all these years.

Thank you,

Ajai Chowdhry
Chairman and Chief Executive Officer

Technology and Us

Today HCL Infosystems Ltd. straddles the IT-space quiet uniquely.

The range on offer include a Rs. 250 priced product (Internet access pack - retail) to large projects valued at a few million rupees. And the spectrum of our offerings is continuous, starting from Retail Internet Access packs to PCs, Multifunctional devices, Storage & Networking products, Laptops, Servers to developing customised IT solutions for a variety of our customer needs.

Tomorrow's world would see a host of new technologies that will collapse the physical barriers and the power of computing will change our lives significantly - from crop price checking to application for passport, land records, driving licenses, consumer banking, distance learning to closing a business deal.

Intensive computerisation is not only inevitable but also imperative. To give an impetus, the task at hand is to make access to computing more affordable to the common man. Simultaneously with the power of computing comes the challenge of demystifying the technology, to make accessibility easier for the masses.

Emerging technologies like speech recognition and handwriting recognition will also act as key differentiators in generating appeals for end-user.

Demand and penetration will also be accelerated with the development of multi-lingual softwares and citizen-centric applications, taking PC-type products closer to user and enhancing productivity in daily life of a common man.

Tomorrow Information would be available anywhere, anytime.

HCL Infosystems Ltd, with more than 25 years of expereince in Information Enabling is poised to make most of this oppurtunity, be it at home in an enterprise or at a global level. With a management team that has seen all the action in IT from close quarters, with a sales & service network that is unparalleled in reach, with the ability to adapt to ever changing technology, with the habit of bringing leading edge technology to our customers fastest, HCL Infosystems Ltd. is geared to maintain its leadership position in times to come.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

During the year under review the IT industry witnessed turbulence in both domestic and international markets affecting revenues, margins, growth rates across the entire industry. At HCL Infosystems, our endeavour has been to generate opportunities from the challenges posed by the economic slowdown. Our ability to foresee and plan has enabled us to provide a fair degree of stability to our businesses during this phase.

PRODUCTS

Revenue from product sales grew by 9.9%. We continued to lead the PC desktop market with IDC declaring us as the No. 1 PC manufacturer in India. The Company forged an alliance with Sun Microsystems India Pvt. Ltd., to distribute the complete line of Sun Enterprise products. With the Company's strong system integration capabilities, the partnership offers customers a complete range of Sun products and solutions.

The Company maintained its lead in the insurance and financial sector and garnered several prestigious projects in hardware, networking and facilities management.

For Toshiba notebooks large orders were bagged from customers such as Indian School of Business. A range of new models were introduced which would help open up the SME and education markets for notebooks.

One of the major initiatives taken by the Company was to increase inroads into B & C class towns.

Several new initiatives have been introduced recently like the India Remote Support Centre, the first of its kind in the Country, which has been set up for telecommunication products and services to integrate support services, and provide uniform services to all the customers.

The Company also tied-up with Pitney Bowes, a Fortune 500 company and global provider of integrated mail messaging and document management solutions. This will enable the Company to provide world class mass mailing solutions.

Sales of Nokia cellular phones have more than doubled to Rs. 150.7 crores during the year.

SERVICES

During the year the Company kept intensive focus on the software and system integration export business. The times were challenging but the Company was resilient due to its multi skill expertise and geographic spread.

In the overseas market the Company saw success coming from new projects as well as repeat business from existing customers. A trend observed was the growing shift towards managed projects.

On the domestic services front the Company bagged consistent business from various segments. The Company's thorough understanding of customer requirements and its ability to provide a wide range of services has given it a steady stream of service revenues from domestic customers.

In its subsidiary, HCL InfiNet, the Company has set up a technical help desk which has shown promising response from overseas as well as domestic customers. The technical help desk facility is operational 24*7 and has 125 seats scalable based on requirements.

The Company gained significant business on the integrated networking front for execution of multilocation virtual private network solutions.

Recent changes in Government's telecom policy about VoIP is an encouraging step and would help HCL InfiNet in offering new services to its customers. In order to facilitate movement of long distance traffic, HCL InfiNet has tied-up with Net2Phone, the market leader in net telephony solutions.

FINANCIAL REVIEW FOR THE FINANCIAL YEAR ENDED 30TH JUNE, 2002

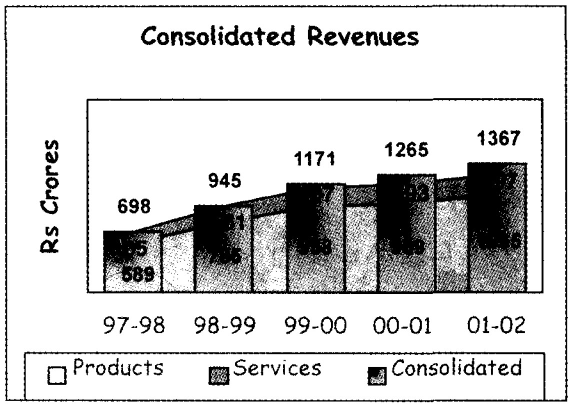
1. **Revenue :**

Business Income grew to Rs. 1261.3 crores in the current financial year ended 30.06.2002, from Rs. 1162.3 crores in the previous year.

Total revenue including 'other income' grew from Rs. 1168.4 crores in the previous year to Rs. 1270.0 crores for the year under review.

Consolidated revenues including subsidiaries grew to Rs. 1367.1 crores from Rs. 1264.5 crores in the previous year, an increase of 8%.

Service revenues including exports were Rs. 196.5 crores, as against Rs. 193.5 crores in the previous year. Consolidated Service revenues stood at Rs. 278.6 crores for current financial year, against Rs. 285.2 crores in the previous year.



As indicated by the management in the beginning of the year, business environment continued to remain challenging. However, the company recorded an improvement in revenue performance in the second half of the year with revenues growing by 48% to Rs. 754.0 crores over Rs. 507.3 crores in the first half.

'Other income' is Rs. 8.7 crores in the current financial year as against Rs. 6.1 crores in the previous year. The income from investments in growth funds, forming part of other income, is recognized at the time of realisation.

2. **Gross Margins:**

Gross Margins (excluding 'Other income') for the current financial year are at Rs. 248.1 crores as against Rs. 279.2 crores in the previous year. Gross margin as a percentage to sales dropped from 24% in the previous year to 20% in the current year. Nokia sales, where margins are relatively lower, grew from Rs. 71.5 crores in the previous year to Rs. 150.7 crores in the current year.

3. **Personnel Costs:**

Due to cost cutting measures undertaken during the year, staff cost reduced by 2%, from Rs. 94.5 crores in the previous year to Rs. 92.8 crores in the current year. The number of employees on the payroll of the company increased from 3041 at the previous year end to 3142 at the end of the year under review.

4. **Administrative, Selling & Repairs :**

The company has continued with it's austerity drive during the current year, as a result, the Administration & Selling costs decreased by 5%, from Rs. 100.7 crores in the previous year to Rs. 96.2 crores.

Major reductions were in Printing & Stationery and Communication expenses by Rs. 0.8 crores, Training & Conference by Rs. 0.4 crores, Travel & conveyance by Rs. 5.4 crores due to reduction in project related travel.

Hire charges reduced by Rs. 1.9 crores due to expiry of lease agreements for Plant & Machinery.

5. **Operating Profit (EBIDT):**

Operating profit excluding 'Other income' stands at Rs. 59.1 crores, as against Rs. 83.9 crores in the previous year.

6. **Finance Charges:**

Net finance cost for the current financial year under review is Rs. 3.7 crores as against Rs. 1.9 crores in the previous year. Due to restructuring of the investment portfolio, fixed deposits with banks have decreased and investments in Mutual funds have increased. This has resulted in increases both in Finance charges and "Other income".

7. **Profit Before Tax:**

PBT stood at Rs 51.5 crores in the current year as against Rs. 75.9 crores in the previous year.

8. **Taxation:**

The Company has provided for Rs. 2.8 crores for current taxation, and Rs. 2.5 crores for deferred tax during the current financial year.

9. **Profit After Tax :**

The Profit after tax and extra-ordinary items for the current financial year ending 30.06.02 stood at Rs. 46.1 crores, as against Rs. 58.4 crores in the previous year. The previous year figure is after a write off for Rs. 10.6 crores on account of diminution in the value of advances.

10. Dividend:

For FY 2001-02, the company proposes to pay a dividend of Rs. 2.50 per fully paid up equity share of Rs.10/- each. This will entail an outflow of Rs. 7.98 crores.

11. Earnings Per Share:

EPS for the current financial year is Rs. 14.5 as against Rs. 18.3 last year.

12. Segment Wise Revenue, Results & Capital Employed:

The company recognises "Products and related services" and "Software services" as it's two primary segments.

Products and related services segment: Revenue for the year is Rs. 1189.9 crores, being 94% of the total turnover of the company. The Profit before interest, tax and unallocable expenses is Rs. 49.8 crores and capital employed as at the year end is Rs. 182.1 crores.

Software services segment: Revenue for the year is Rs. 71.4 crores and profit before interest, tax and unallocable expenses is Rs. 13.1 crores. Capital employed as at the year end is Rs. 44.3 crores.

FINANCIAL CONDITIONS

1. **Shareholders funds/Net Worth:** During the current financial year there is an addition of Rs. 38.6 crores to the reserves, taking the total Reserves of the Company to Rs. 294.9 crores and Net Worth to Rs. 326.8 crores as on 30.06.2002.

   The book value per share increased from Rs. 92.83 as on 30.06.01 to Rs. 102.43 as on 30.06.02.

2. **Borrowings:** The year end loan balances marginally increased from Rs. 112.4 crores as on 30.06.2001 to Rs. 127.9 crores as on 30.06.2002.

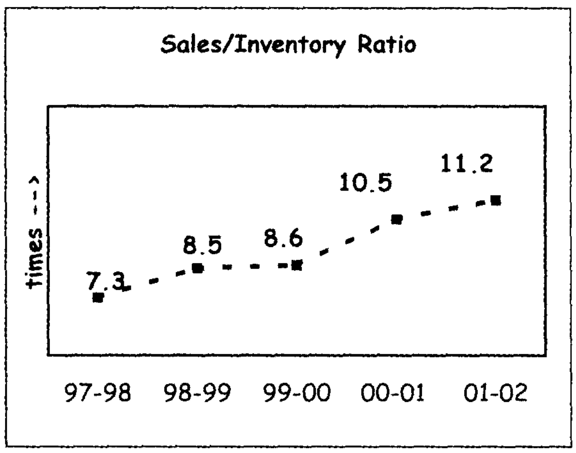
3. **Fixed assets:** Gross block increased from Rs. 99.8 crores as on 30.06.01 to Rs. 113.0 crores as on 30.06.02. Additions are mainly in the areas of premises, plant, equipment and software.

4. **Investments:** Investments in Mutual funds increased by Rs 47.1 crores to Rs. 102.3 crores. During the year the Company invested Rs. 3.1 crores in Newage Industries Pvt. Ltd., and made further investments of Rs. 1.5 crores in it's existing overseas subsidiaries.

5. **Inventories:** Inventories marginally increased during the current financial year from Rs. 111.0 crores as on 30.06.01 to Rs. 112.3 crores as on 30.06.02. With efficient inventory management, the inventory turn over on sales grew from 10.5 times in the previous year to 11.2 times.

6. **Debtors:** Debtors increased from Rs. 227.1 crores as on 30.06.01 to Rs. 253.6 crores as on 30.06.02. Debtors as number of days of sales increased marginally from 71 days as on the previous year end to 73 days as on 30.06.02.

7. **Cash and Bank balances:** Cash & Bank balances dropped from Rs. 106.1 crores as on 30.06.01 to Rs. 80.2 crores as on 30.06.02. It includes Rs. 40.6 crores as fixed deposits with banks, a drop of Rs. 24.4 crores over the previous year. This is primarily due to restructuring of investment portfolio from FDR/TDRs to investment in Mutual Funds.



8. **Other current assets including loans and advances:** Other current assets increased from Rs. 69.8 crores as at previous year end to Rs. 113.8 crores as at current year end. This was primarily due to booking of insurance claim for loss on fire Rs. 9.5 crores, tax paid Rs. 11.4 crores, deferred lease asset accounted for Rs. 14.4 crores and increase in loans and advances to subsidiaries Rs. 16.3 crores.

9. **Net Working Capital :** The Net working capital of the Company increased from Rs. 271.9 crores as at previous year end to Rs. 272.6 crores as at current year end.

   The current ratio stands at 1.9 as at 30.06.02 as against 2.1 as on 30.06.01.

10. **Deferred Tax Liability :** The accumulated net deferred tax liability arising on account of timing differences as on 1st July, 2001 amounting to Rs. 7.5 crores has been reduced from General Reserve. Liability for the current year being Rs. 2.5 crores, total liability as on 30.06.02 is Rs. 10.0 crores.

11. **Cash flow :** Despite drop in profits, due to effective working capital management, the net cash from operating activities increased from Rs. 65.1 crores in the previous year to Rs. 68.0 crores in the current year.

Financial Report

BOARD OF DIRECTORS

Chairman & Chief Executive Officer
Ajai Chowdhry

Whole-time Directors
Ravi Thumboochetty
T.S. Purushothaman

Directors
R.P. Khosla
S. Bhattacharya
D.S. Puri
E.A. Kshirsagar
Anita Ramachandran

COMPANY SECRETARY K.R. Radhakrishnan

AUDITORS Price Waterhouse, New Delhi

BANKERS
State Bank of India
Canara Bank
HDFC Bank Ltd.
ICICI Bank Ltd.
Societe Generale
Standard Chartered Bank
State Bank of Patiala
State Bank of Saurashtra

REGISTERED OFFICE 806-808, Siddharth, 96, Nehru Place, New Delhi - 110 019.

CORPORATE OFFICE E - 4, 5 & 6, Sector XI, Noida - 201 301 (U.P.)

WORKS
- RS No: 34/4 to 34/7 and Part of RS No:34/1, Sedarpet,Pondicherry-605 111.
- RS No: 105/4-5, Sedarpet, Pondicherry-605 111.
- RS No: 107/5,6,7, RS No: 108/10A, RS No: 110/3,5,11,12 and RS No: 108/9 & 13 Sedarpet, Pondicherry-605 111.
- 299 (Old No:158), Arcot Road, Vadapalani, Chennai-600 026.
- Shed S5 & S6, Tiru-vi-Ka, Industrial Estate, Guindy, Chennai-600 032.
- Spl – A2, Industrial Estate, Thattanchavadi, Pondicherry-605 009.

CONTENTS

FIVE YEAR FINANCIAL OVERVIEW

Revenue and Profitability

YEAR ENDED JUNE 30	2002	2001	2000	1999	1998
					Rs/ Lacs
Total Revenue	127003	116843	113507	95005	69914
Operating Profit (EBIDT)	6784	9005	9515	8561	4281
Interest	371	193	517	957	854
Depreciation	1268	1225	1268	1153	797
Profit before Tax	5145	7587	7841	6451	2630
Provision for Tax	532	690	535	599	17
Profit after Tax (PAT)	4613	6897	7306	5852	2613
Diminution in value of advances	0	1060	0	0	0
One time adjustment of Services	0	0	0	(2361)	0
Profit available for Appropriation	4613	5836	7306	3491	2613
Equity Dividend	798	2234	798	798	479
Earning Per Share (Rs.)*	14.5	18.3	22.9	18.3#	8.2
Operating Margin (%)	5%	8%	9%	9%	6%
Profit before Tax/ Revenue (%)	4%	7%	7%	7%	4%
Return on Net Worth (%)	14%	23%	28%	29%#	15%
Return on Capital Employed (%)	10%	17%	19%	17%	9%
Equity Dividend (%)	25%**	70%	25%	25%	15%

* (Based on equity as on Balance Sheet date)

** (Proposed)

Calculated on "PAT"

Assets and Liabilities

AS AT JUNE 30	2002	2001	2000	1999	1998
					Rs/ Lacs
Sources of Funds					
Equity Funds	3191	3191	3191	3191	3190
Reserves and Surplus	29493	26431	23052	16719	14112
Loan Funds	12792	11241	11728	14551	12284
Total	45476	40863	37971	34461	29586
Application of Funds					
Net Block	5552	5171	5412	5513	5912
Investments	13668	8501	5519	4664	4368
Current Assets	55985	51401	51588	42062	32891
Current Liabilities	28726	24210	24548	17778	13584
Net Current Assets	27260	27191	27040	24284	19306
Deferred Tax Liabilities	(1004)	0	0	0	0
Total	45476	40863	37971	34461	29586

DIRECTORS' REPORT

To the Members,

Your Directors have pleasure in presenting their Sixteenth Annual Report together with the Audited Accounts for the financial year ended 30th June,2002.

Financial Highlights | Rs./Lacs

	2001-2002	2000-2001
Sales and other income	127003.10	116843.50
Profit before Interest, Depreciation and Tax	6784.22	9004.80
Finance Charges	371.01	193.30
Depreciation	1267.75	1224.79
Profit/(Loss) before Tax	5145.46	7586.71
Provision for Taxation:		
-Current	280.95	690.00
-Deferred	251.05	-
Net Profit after Tax	4613.46	6896.71
Diminution in value of advances	-	1060.37
Profit available for appropriation	4613.46	5836.34
Appropriations		
Proposed Dividend (previous year includes tax on dividend)	797.74	2461.49
Transfer to General Reserve	461.35	583.63
Balance of Profit carried forward to next year	3354.37	2791.22

Performance

The turnover of the company was Rs. 1270 crores as against Rs. 1168 crores in the previous year. The profit after tax and extra ordinary items was Rs. 46 crores as against Rs. 58 crores in the previous year.

Consolidated revenue for the year was Rs. 1367 crores as against Rs.1264 crores in the previous year.

During the year under review your company's focus was on increasing the revenues and market share. Although good progress was achieved the margins had come under pressure due to the prevailing challenging conditions.

In the current environment, the company's de-risked model of products, domestic services and exports is enabling steady business.

Your Directors are pleased to recommend Dividend @ 25% on the fully paid-up equity shares for the financial year ended on 30th June, 2002. Dividend, if approved, will be paid to those Members whose names appear in the Register of Members on the date of the ensuing Annual General Meeting.

In FY 2001-2002, HCL Infosystems Ltd., India's premier information enabling company, continued its growth and maintained its leadership position in the Desktop PC market. The company was declared the number one PC vendor in the country by IDC, for the year 2001, garnering a share of 8.6% of the Total Desktop PC market.

Leveraging its strength to address consumer markets through channels, the company strengthened its position in the segment. The specific focus on B and C class towns, faster product delivery and affordability through the consumer finance resulted in market share consolidation across the country.

The imaging and telecom business got a further boost this year. The respective teams ramped up the business and also bagged several awards instituted by the principals.

The year, 2001-2002 also saw us setting up the India Remote Support Center to support our telecom customers on a real time basis. The Center was conceived to provide greater service levels to our customers.

The company has a proven capability in providing complete end-to-end call center consulting. This year a majority of it's projects went live and the remaining are expected to go live shortly.

Enterprise, Government and Finance sector saw some major wins by the company in the areas of System Integration, Network Integration, Solution & Services and VPN. Some of the larger orders came from Bank of India, Andhra Pradesh Police, Punjab National Bank, NIC, UIIC, Bank of Maharashtra, Canara Bank, BHEL, LIC, ITC, Bharti Cellular Ltd., Tata Teleservices, Asian Paints, Andhra Pradesh Technology Services and the Ministry of IT.

The alliance with SUN Microsystems forged this year enhances the spectrum of our offerings to the customer. It will leverage upon the strong SI capability of HCL Infosystems Ltd. and the technology leadership of SUN.

The Software Services business in this year saw large System Integration projects from the overseas markets with sizeable service component. The company executed projects for clients in various areas like SAP implementation and maintenance, e-business and custom development, data warehousing, ERP implementation and post implementation, services and projects around GIS and SEEC tools.

We also won the MAIT award for Excellence in exports-Technical Services for the year 2001-2002. The award instituted by MAIT in 1995, recognises the efforts and initiatives by Indian IT companies in exports and in developing a truly global IT industry.

Corporate Networking Services

With a clear vision to evolve as an xSP providing IP (Internet Protocol) based networking and remote support services to domestic & international customers, the year saw the Company's subsidiary HCL InfiNet consolidate its position among Corporate ISPs in India. It is now poised to address the growth in networking space in coming years.

With the encouraging government policy decisions like VoIP, HCL InfiNet is expected to serve an even wider set of customers with a range of services. HCL InfiNet has forged an alliance with Net2Phone, a world leader in VoIP segment, which would enable it to provide world-class service to its customers.

In IT-enabled services, the Technical Help Desk received encouraging response and is already servicing several domestic and international clients.

Quality Initiatives

Quality has been a continuous journey at HCL Infosystems. Last year we achieved another milestone by getting MAIT Level II recognition for Companywide implementation of EFQM Business Excellence Model. Our software development facilities at Chennai and Kolkata received the prestigious ISO 9001-2000 certification.

Every year we conduct a survey for measuring our Customers' satisfaction on various parameters such as Marketing, Delivery, Product Quality, Support etc. During the year, the overall satisfaction index increased from 7.10 to 7.88 points on a 10 point scale. The results in all areas have shown consistent improvement. Based on the analysis of the results, various initiatives have been taken up to improve the satisfaction level further. A board level committee monitors the progress of various actions that are being taken to improve Customer Satisfaction.

Credit Ratings

The credit rating by ICRA continued at 'A1+' rating indicating highest safety to the Company's Commercial Paper program, which was enhanced from Rs. 50 crores to Rs. 75 crores.

Fixed Deposits

As on 30th June, 2002, 221 number of persons, whose deposits amounting to Rs.25,49,000/- had become due for repayment, did not claim their deposits. During the year net fixed deposits repaid amounted to Rs. 2,66,50,000/-.

There has been no delay in making the payment of Fixed Deposits on maturity and in fulfilment of the terms and conditions of the Company's scheme.

Directors

In accordance with the Articles of Association of the Company, Mr.T.S. Purushothaman, Mr. R.P. Khosla and Mr. Ravi Thumboochetty, Directors will retire by rotation at the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment.

Directors' Responsibility Statement

Pursuant to Section 217(2AA) of the Companies Act, 1956, the Directors confirm:

a. that in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures, if any;

b. that appropriate accounting policies have been selected and applied consistently and that the judgements and estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at June 30, 2002 and of the profit of the Company for the said period;

c. that proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and

d. that the annual accounts have been prepared on a going concern basis.

Personnel

Industrial Relations during the period under review continued to be peaceful and harmonious.

Information in accordance with sub-section (2A) of Section 217 of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, forms part of this report. However, as per the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the report and the Accounts are being sent to all the Members excluding the statements of Particulars under Section 217(2A). Any member interested in obtaining a copy of the statement may write to the Company.

Additional information relating to Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo.

The additional information required in accordance with sub-section (1)(e) of Section 217 of the Companies Act, 1956, read with the Company (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, is appended to and forms part of this report.

Acknowledgement

Your Directors wish to place on record their appreciation for the continued co-operation the Company received from various departments of the Central and State Government, Bankers, Financial Institutions, Dealers and Suppliers and also acknowledge the contribution made by the employees.

The Board also wishes to place on record its gratitude to valued Customers, Members, Investing public and Depositors for their continued support and confidence in the Company.

On behalf of the Board of Directors

AJAI CHOWDHRY
Chairman and Chief Executive Officer.

30th August, 2002