HCL

HCL INFOSYSTEMS

Making IT work for you

By providing
business-aligned
IT services & solution

Making **IT**
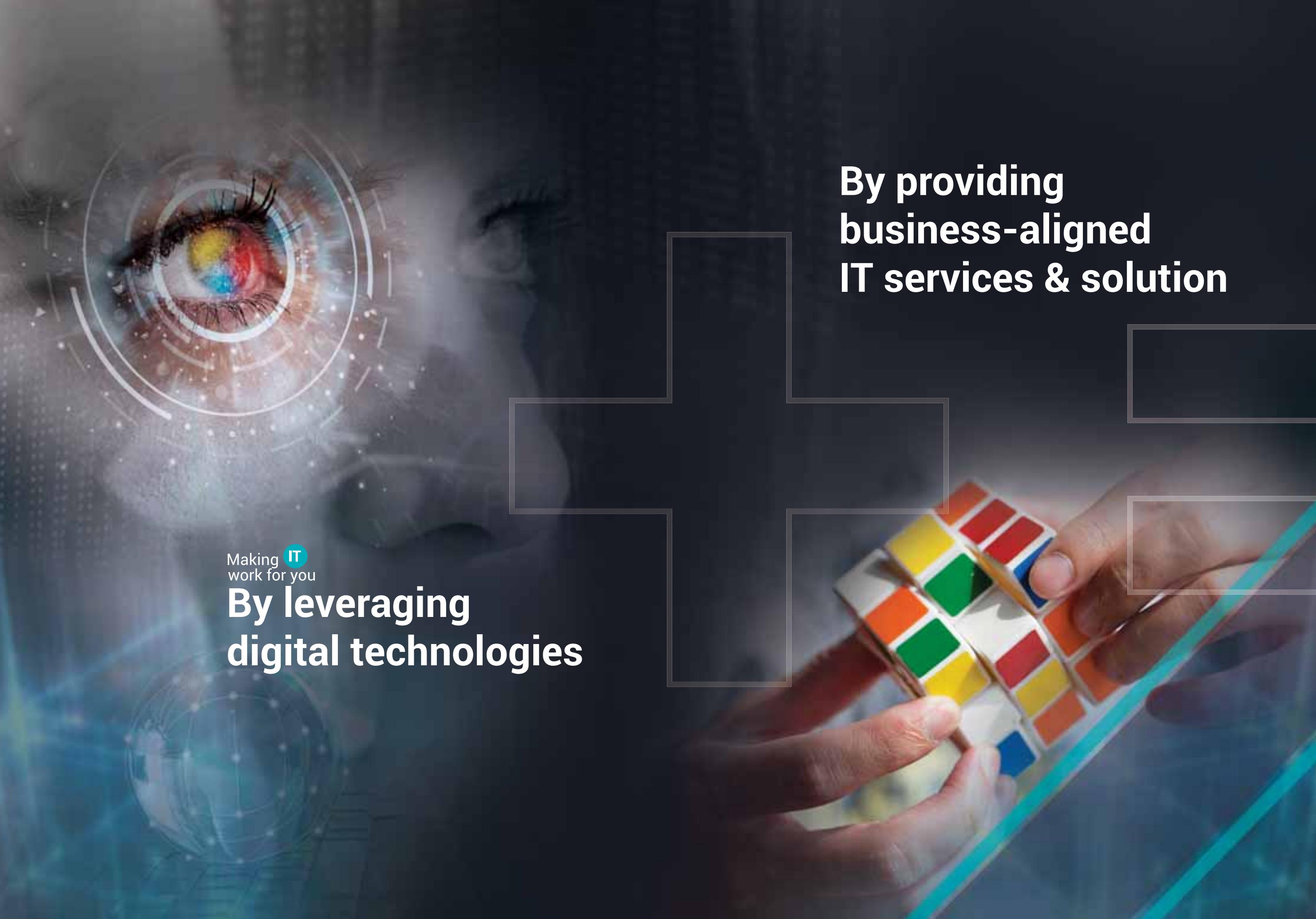work for you

By leveraging
digital technologies

To deliver superior business value

Making **IT** work for you

By leveraging digital technologies + **By providing business-aligned IT services & solution** = **To deliver superior business value**

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman
Nikhil Sinha

Executive Vice-Chairman & Managing Director
Premkumar Seshadri

Directors
Dhirendra Singh
Dilip Kumar Srivastava
Kaushik Dutta
Pawan Kumar Danwar
Ritu Arora
Sangeeta Talwar
V N Koura

CHIEF FINANCIAL OFFICER   S G Murali

COMPANY SECRETARY   Sushil Kumar Jain

AUDITORS   Price Waterhouse, Gurgaon

BANKERS
State Bank of India
Canara Bank
HDFC Bank Ltd.
ICICI Bank Ltd.
IDBI Bank Limited
Standard Chartered Bank
Axis Bank Limited
Yes Bank Limited
IDFC Bank Ltd.
Indusind Bank Ltd.

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

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

CORPORATE IDENTITY NUMBER   L72200DL1986PLC023955

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MD's Message

Premkumar Seshadri
Executive Vice Chairman & Managing Director
HCL Infosystems Ltd.

> " The transformation journey has enabled us to build a strong distribution and services business together with institutionalization of corporate governance, processes and capability building initiatives. "

Dear Shareholders,

During the Financial Year 2016-17, the growing momentum of the Enterprise Business focus combined with improved operational effeciency, enhanced productivity and thrust on digital technologies has energized our performance in the Enterprise space. Let me describe how your company performed during FY17.

Your company posted revenue of Rs. 3,738 Crore in FY17. The **Enterprise Business** as a whole grew marginally during the year. However, this should be seen in the context of the fact that during the year we proactively exited unprofitable engagements and variableized our low margin services through our ASP ecosystem. Importantly, our breadth of products, strong reseller partnerships, OEM partnerships and customer value alignment has created a unique proposition for our customers.

The **Enterprise Distribution** turned in a commendable performance with a consistent growth driven by traction with key Enterprise OEMs along with strong performance across Enterprise and Channel. We have significantly enhanced our focus on Cloud through internal investments and strong collaboration with Microsoft.

The **Enterprise Services** business clocked revenue of Rs. 949 crore in FY17. There was a decline in revenue due to ongoing contract rationalization in the domestic services business. It is worth noting that the losses of the overall Services business have declined consistently Q-o-Q during the financial year. The foundation for expansion into higher margin service contracts has been built through capability augmentation to enable us to take advantage of key market trends in the emerging technology services.

In the **Consumer Distribution** business there was a considerable decline in revenue during FY17 due to transition in the business model and a challenging business environment.

I am happy to let you know that the Consumer Distribution business during the financial year has transitioned to a multi-brand, multi-channel business model since January 2017 to expand in the high-potential segments of mobile products. And the business has already achieved an early breakthrough by acquiring the General Trade distributorship in three states for a leading global brand mobility smartphone product suite. This business is set to scale with further tie ups and launches in this financial year.

The total revenue from the **System Integration & Solutions businesses** for the FY stood at Rs. 355 crore. The bright spot in this business is that due to focus on timely completion of existing projects there was higher revenue collection and reduced bills receivables. For example there was an inflow of Rs. 200 Crore from a major Defence Project during this financial year. The risks associated with projects has been mitigated almost entirely with most of the projects achieving commercial closure or nearing completion. In our flagship UIDAI project we crossed another milestone of more than 113 crore Aadhaar card enrollments.

Disciplined working capital management enabled us to see through the financial year without any significant incremental net debt whilst managing the funding of the cash losses entirely through these initiatives.

In October 2015, the company had rolled out PULSE (Personalised Unit Level Self Evaluation), a weekly self-evaluation system for employees to identify gaps and improvement opportunities at an organizational level. Consequently, many processes within functional teams were identified for overhauling and accordingly taken up for action. During the last financial year, we introduced Gold Standards. Demand Desk, an Online Ticketing System that empowers employees to demand action from their colleagues to ensure value creation. It also led to mapping role clusters which helped define full potential for all critical roles.

The transformation journey has enabled us to build a strong distribution and services business together with institutionalization of corporate governance, processes and capability building initiatives.

With the concurrent advent of multiple disruptive digital technologies and rapidly changing business dynamics we stand at an inflection point in the Industry. We are well positioned to take these challenges in our stride and gainfully address the emerging opportunities. I am confident that our continued focus on the Enterprise Business along with multiple internal and market related initiatives will help us lead HCL Infosystems towards sustained growth and profitability.

With Warm Regards

Premkumar Seshadri

Management Discussion & Analysis

- Focus on Enterprise Business, the pillar of our transformation journey
- Building capabilities in emerging technologies for growth
- Consumer Distribution business set to re-launch under the multi-brand model
- Most SI projects having achieved commercial closure or nearing completion
- Significant investments in institutionalization of processes, operational & corporate governance and capability building

Focus on Enterprise Business

The focus on the Enterprise business is the most important pillar in our transformation journey. During the last Financial Year we configured a robust Go-to-Market (GTM) organisation branded as Enterprise 360^0 which combined our extensive product portfolio of leading global brands with our comprehensive suite of IT services and solutions.

- Enterprise 360° model results in growing traction in the private sector corporate
- Investment in emerging technologies to leverage growth in a challenging market environment
- Cloud first' strategy to deliver cost efficiencies and positively impact business operations

In FY 2016-17, the GTM journey driven by Enterprise 360° has resulted in growing traction for the company's enterprise business and is proving to be the catalyst in our mission to become the preferred Technology Lifecycle Partner for clients.

In addition, the company continues to invest and build competencies in emerging technologies to leverage for growth in a challenging market environment. Our focus on enhancing capabilities in digital technologies such as Cloud Computing, Analytics and Internet of Things (IoT) to deliver business-aligned solutions is helping our clients attain competitive advantage in a dynamic business landscape.

We have adopted a 'Cloud first' strategy to deliver cost efficiencies and positively impact business operations. We have developed multiple IoT pilot solutions for clients across diverse industries such as FMCG, Healthcare and Manufacturing. We believe that IoT applications can not only be a significant new line of business but can also enhance the value of our existing services such as Infrastructure Managed Services.

By focusing on delivering accelerated business impact through digital technologies, we have positioned ourselves as a strong player in the Enterprise space.
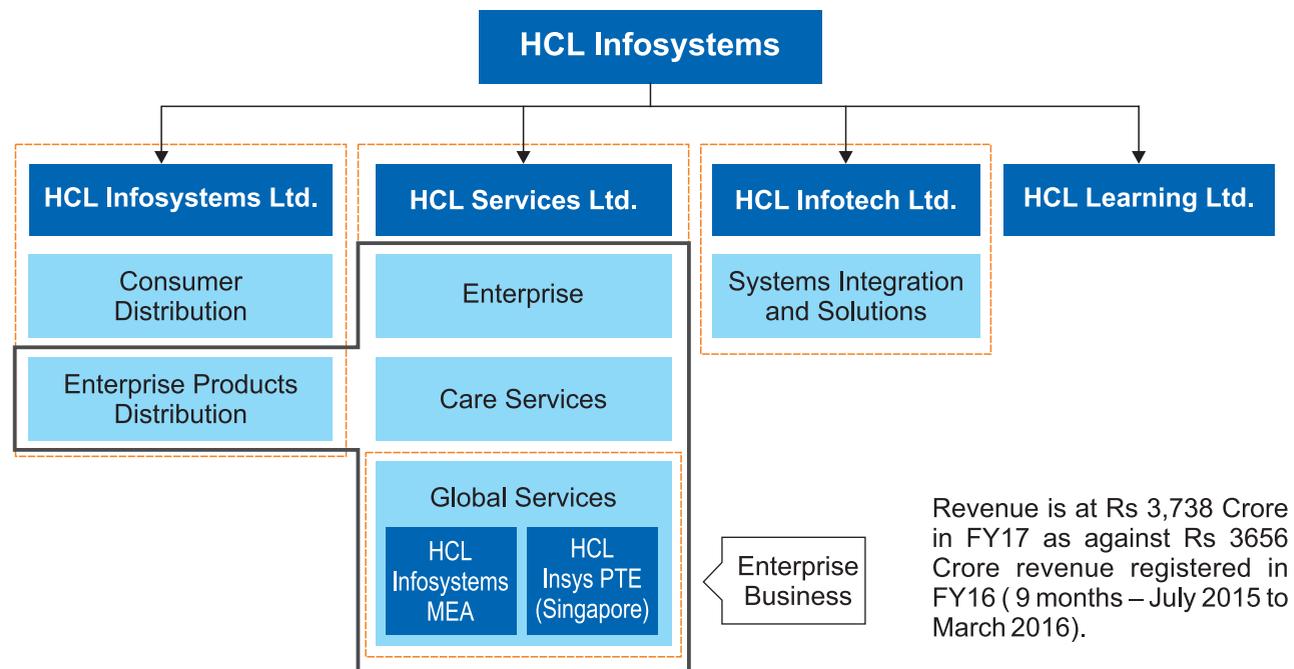
Enterprise 360^0 Portfolio

Technology Advisory & Insight Services (TAIS)

Business Aligned IT Services (BAIS)

Open Source Platform Solutions (OSPS)

DIGITAL ENTERPRISE

ENTERPRISE IT INFRASTRUCTURE

Internet of Things (IoT)

Cloud Solutions

Analytics

enterprise 360°

Workplace Solutions

Data Center Solutions

Network & Security Solutions

Businesses Performance & Highlights

For the purpose of financial reporting, the businesses have been arranged as per the following primary business categories. The numbers provide a line of business-wise view based on management accounts and are not as per reported segments. Please note that FY 17 is for 12 months (Apr'16- Mar'17) whereas FY 16 is for 9 months (Jul'15- Jun'16), hence the two numbers are not comparable:

Business Categories	Lines of Business
Consumer Business	Third-Party Consumer Products (including Telecom)
Enterprise Business	Enterprise Products & Enterprise Services [Domestic, Care and Global Services (MEA and Singapore)]
Learning	Learning content business
System Integration and Solutions	System Integration and Financial Inclusion

HCL Infosystems

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HCL Infosystems
├── HCL Infosystems Ltd.
│   ├── Consumer Distribution
│   └── Enterprise Products Distribution
├── HCL Services Ltd.
│   ├── Enterprise
│   ├── Care Services
│   └── Global Services
│       ├── HCL Infosystems MEA
│       └── HCL Insys PTE (Singapore)
├── HCL Infotech Ltd.
│   └── Systems Integration and Solutions
└── HCL Learning Ltd.
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> Enterprise Business

Revenue is at Rs 3,738 Crore in FY17 as against Rs 3656 Crore revenue registered in FY16 (9 months – July 2015 to March 2016).
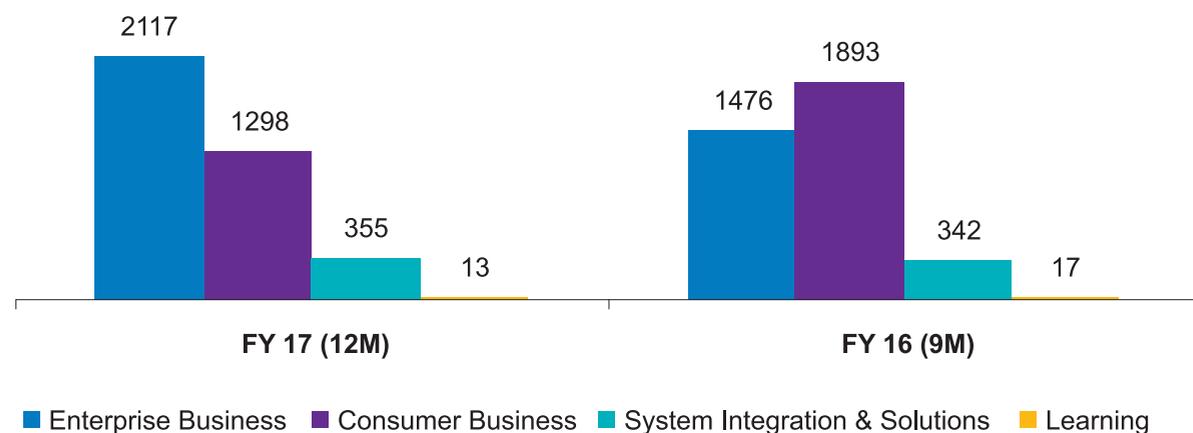
Highlights for the year FY17 were:

- Enterprise Distribution business leads the growth track with consistent increase in revenues during the year. Further, operational efficiencies and enhanced productivity enabled the business to reduce the losses quarter over quarter.

- Consumer Distribution business registered drop in revenue due to a key partner transition. The business has been reconfigured to a multi-brand, multi-channel model since January 2017, which is a comprehensive model comprising General Trade, Organized Trade, Direct-to-Retail, E-Commerce and Micro-Finance Institutions.

- While the Enterprise Services business witnessed decline in revenue due to ongoing rationalisation of unprofitable and low margin

contracts, the losses in this segment consistently came down quarter over quarter.

- In the System Integration (SI) and Solutions business, we continue our focus on timely execution of existing contracts and collection of receivables.

- HCL Learning entered into a strategic arrangement with Everest Edusys and Solutions Pvt. Ltd. through a business transfer agreement for the slump sale of its Digischool business. Subsequent to the closure of the said acquisition, M/s Everest Edusys and Solutions Pvt. Limited would become an associate company of HCL Learning Limited.

FY 17 (12M)
- Enterprise Business: 2117
- Consumer Business: 1298
- System Integration & Solutions: 355
- Learning: 13

FY 16 (9M)
- Enterprise Business: 1476
- Consumer Business: 1893
- System Integration & Solutions: 342
- Learning: 17

■ Enterprise Business ■ Consumer Business ■ System Integration & Solutions ■ Learning
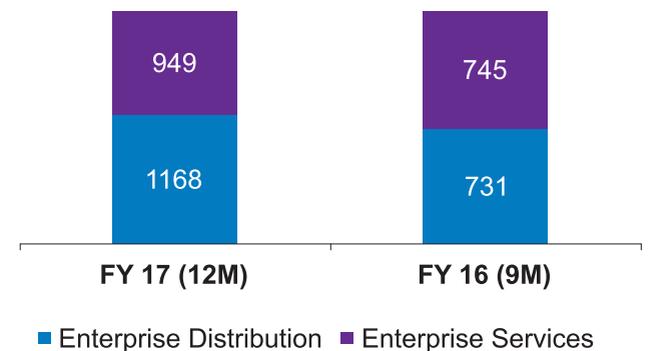

Enterprise Business – Enterprise Distribution & Enterprise Services

The sustained focus of the company on the Enterprise Business resulted in an improved performance for the business vertical, led by the Enterprise Distribution business.

- Enterprise Distribution Business on consistent growth track

- Consolidation of business with key Enterprise OEMs and strong channel performance

- Strengthening of Cloud practice with Microsoft to enable 'Cloud-first' strategy

The **Enterprise Distribution** business continued its robust performance. Consolidation of business with key Enterprise OEMs and strong channel performance resulted in growth for the Enterprise Distribution business. Enabled by Enterprise 360° there was a significant growth in traction with leading global IT OEMs. The business is strengthening its Cloud practices with Microsoft to enable our Cloud-first strategy. Product led service opportunity gathered momentum in the second half of the year thus paving way to consolidate our position for a larger offering to the customers.

FY 17 (12M)
- Enterprise Distribution: 1168
- Enterprise Services: 949

FY 16 (9M)
- Enterprise Distribution: 731
- Enterprise Services: 745

■ Enterprise Distribution ■ Enterprise Services

The business continued to grow its revenues as well as progressively reduce the Losses before interest and taxes quarter over quarter to become positive in the last quarter of the financial year.

- Revenue of **Enterprise Services** business declined due to rationalization of low margin and non- profitable contracts

- Initiatives taken to build a strong and sustainable delivery organisation

- The Global Services business in Singapore continues to grow

The revenues of the **Enterprise Services** business (comprising Domestic Services, Global Services and Care) declined due to the rationalization of low margin and non- profitable contracts whilst at the same time building a profitable new order book which will start translating into revenues going forward. The business also executed several initiatives to build a strong and sustainable delivery organisation through automation, remote service management, process improvements, manpower optimisation, infrastructure optimisation and induction of ASP's (channel partners) to move to a variabalised cost model in remote/low call volume locations. These initiatives resulted in the loss before interest and tax to progressively decline quarter over quarter.

The business is also continuing to invest in digital enterprise technologies such as Cloud, Internet of Things, Analytics to leverage for growth in a dynamic market environment.

The Global Services business in Singapore has continued to grow profitably whilst being lauded by the customer for excellence in customer satisfaction. The business is building further capability to augment its remote management capabilities to tap emerging opportunities.
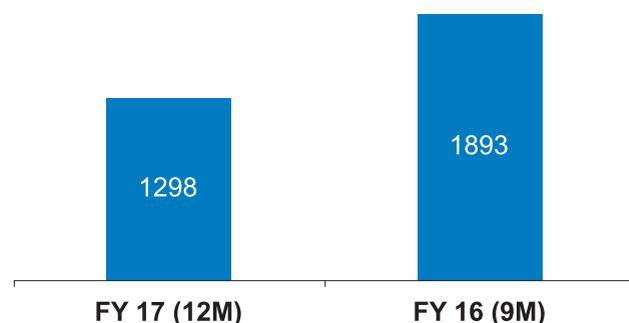
Consumer Business – Consumer Distribution

- Decline in revenue due to transition from key Principal

- Foray into multi-brand, multi-platform business model to expand into the high-potential consumer products

- Appointed distributor for a leading global mobility company's handsets in General Trade channel across three Indian states

- In advanced discussions with major Principals for strategic partnerships

During FY'17, despite the decline in revenues of a Key Principal owing to the transition, the business continued to remain profitable for most of the financial year.

The Consumer Distribution business has forayed into a multi-brand, multi-platform business model since January 2017 to expand in the high-potential consumer products. During the year, the business was appointed as the distributor in General Trade channel for a leading global mobility company's handsets in three Indian states. The long industry experience & reach, the state of the art automation & Technology platforms coupled with a strong market perception both amongst mobile brands & distributors, this business continues to attract major Principals and is in discussion with them for a strategic partnership.

FY 17 (12M): 1298
FY 16 (9M): 1893

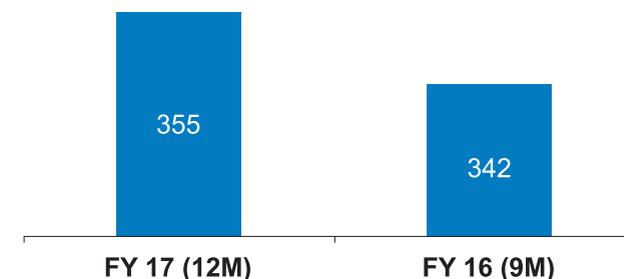## System Integration and Solutions

Continued focus on timely completion of existing projects resulted in higher collection and reduced bills receivables. The business collected Rs. 200 Crore from a major Defence Project during the year. The project

- Focus continues to be on timely completion of existing projects

- Rs. 200 Crore collected from a major Defence Project during the year

- Optimization of cost and enhanced productivity in business operations

rollout phase for most of the projects is nearing completion. Cost optimization combined with improved productivity ensured that the business operations stayed on track.

FY 17 (12M): 355
FY 16 (9M): 342

The Company also managed to fund the cash losses incurred during the year entirely out of the working capital improvement through recovery of debtors and thus managing to retain the net debt around the same last levels as last financial year. Several cost reduction initiatives implemented across business units enabled the Company to sustain its competitiveness in a challenging environment.

The Company is at the tail end of its transformation journey, with the Consumer Distribution business set to re-launch under the multi-brand model, the Enterprise Distribution business well penetrated in the Corporate segment as well as becoming profitable, the Global business consolidating on its profitable portfolio, and the Domestic Services business having shed its low margin business and entering a new phase of emerging service offerings. The project associated risks of the SI business have been significantly reduced, with most of the projects having achieved commercial closure or nearing completion. The organization has been right sized with an optimal cost structure and has either exited or divested subscale business units. Significant investments have been made both in the institutionalization of processes, operational and corporate governance and capability building to enter a new phase of growth in the coming year.

Quality Initiatives

The financial year 2016-17 was focused on Customer & Partner experience management and loyalty enhancement. HCL Infosystems appointed an external agency to conduct its first 'Net Promoter Score (NPS) Survey' for all the go-to-market verticals as well as the Enterprise & Consumer Distribution businesses.

- Focus on Customer & Partner experience management and loyalty enhancement

- Conducted NPS Survey for all go-to-market verticals and Distribution businesses

- Annual C-SAT Survey of Global Services' clients showed significant improvement, enabling improved business

The annual Customer Satisfaction (C-SAT) Survey of Global Services' clients showed significant improvement in ratings. Improved C-SAT enabled improved business.

The e-learning module of the company's foundation course on Quality - Qkonnect – was introduced. Since its launch, more than 1200 employees across India and global organization have been certified. Awareness programme on Service Management System (SMS) & Information Security Management System (ISMS) were conducted across regions as per the annual training plan.

Training and certifications - New courses were designed & launched during the year, for which few batches have already been initiated.

- Three-day training programme on 'ISO 20000-1 Standard, IQA Certification & SMS Implementation'
- Two-day training programme on Service Management System (SMS) – ISO 20K, CMMI & ITIL Way
- Customer Experience Management Through IT Service Management
- Customer Experience Management – Master Class

Integration of quality training within the overall training programme of the organisation, helped smooth rollout and administration of quality training sessions.

New initiatives:

- Six high impact process improvement projects were initiated in the areas of Sales, Services, Collections and Customer Relations, with the objective to improve Operational Efficiencies and Customer Retentions. These projects are: Lead to Order, Invoice to Cash, Vendor Payout, Consumption Optimization, ECS/PDC Bounce Reduction and LD/Penalty Control.
- An Asset Management Framework that can be reused in multiple engagements with clients was established during the year. ISO 55000 standards is being adopted by the company as a best practice.
- A framework is being established to address organizational emotional aspects, while working on Customer engagements to cater to the need of Net Promoter Score maximization.

On the System Certification front, the company achieved **CMMI-SW Level 3** during the year. Also following certifications are being successfully continued -

- Quality Management System (QMS) – ISO 9001 for HCL Infosystems, HCL Services, HCL Insys Pte Ltd & HCL Infotech Ltd.
- Services Management System (SMS) – ISO 20000-1 for HCL Services
- Information Security Management System (ISMS) – ISO 27001 for Noida Data Center, HCL Insys Pte Ltd and ITOC Pondicherry.
- CMMI-SVC 1.3 for Enterprise Services

The Quality function was felicitated with several awards, including 'Best Use of Lean Six Sigma: Field Service in IT' for Customer Experience Improvement, at World Quality Congress Conference held in Mumbai in 2016 and 'Enterprise EQ', during CXELA Customer Experience Engagement Loyalty Congress & Awards held in Mumbai. The company also contributed in 'Customer Obsession Award' led by CII (sponsored by Microsoft). HCL Insys Pte Ltd was awarded 'Golden Globe Tigers Award' for its work in customer satisfaction improvement, at a function in KL, Malyasia. The Quality Head was felicitated with an award for 'Innovative Leadership in Quality' during the same function.

- Integration of quality within the overall training programmes of the organisation
- Six high impact process improvement projects initiated across functions to improve Operational Efficiencies and Customer Retention
- ISO 55000 standards adopted by the company as a best practice
- Achieved CMMI-SW Level 3 in the SI business

HCL Business Risks & Mitigation Measures

Performance of our various businesses can get impacted by various risks posed by the changing business model of certain businesses and the external environment. Your Company continuously reviews and stregthens the Enterprise Risk Management (ERM) framework to address various business risks. ERM involves risk identification, assessment and risk mitigation planning for strategic, operational and compliance related risks across business units and functions.

Risk Measurement is operationalized through well-defined metrics linked to the outcome. Continuous monitoring of risk is done by tracking the identified metric. Based on the overall risk assessment, the mitigation action is refined and revised. The ERM framework forms an integral part of the quarterly management reviews. It also provides methods and processes to manage the risks that might hamper the business achieving key objectives and to initiate actions required to mitigate these risks.

- ERM involves risk identification, assessment and risk mitigation planning for strategic, operational and compliance related risks across business units and function
- Mitigation action is refined and revised based on the overall risk assessment
- ERM framework an integral part of the quarterly management reviews

The following table provides a glimpse of some of the key risks and their mitigation measures that the Company tracks regularly at an overall level (in addition to the individual business risks tracked at the individual business level):

S. No.	Risk Category	Risk Description	Mitigation Action Plan
1	Treasury and Funding Risk	• Hardening of interest rate increases costs, particularly for high working capital cycle businesses • Higher cost of borrowing with any downward revision in credit rating	• Daily/Weekly cash flow management to reduce need for borrowings and to ensure collections within the credit period extended to customers • Meet WC related borrowings through appropriate supplier credits • Improve business performance to ensure debt servicing
	Liquidity & Solvency risk	• Access to external financing is crucial for continuity. A liquidity risk could arise if external financing is not available	• To secure long term loan to be in line with the projected cash flows to ensure debt servicing • Enable early refinancing and a spread with different expiration dates for external loans • Consult regularly with external debt providers to discuss the ongoing business, results, and strategy.

S. No.	Risk Category	Risk Description	Mitigation Action Plan
2	Human Capital Risk	• Given the rationalization of manpower across business units, there can be a potential increase in employee attrition, increasing cost as well as operational issues specially in businesses that are people dependent (all service businesses) • Undesirable attrition	• Comprehensive employee engagement program including skill upgradation/ training • Implement a system for performance measurement and annual reviews • Ensure effective employer branding and communication to the labour market • Succession Planning
3	Regulatory Risk	• Changes in the legal and regulatory environment tend to increase the risk of non-compliance with local, national & international laws and regulations, as well as tax legislation • Failure to comply with applicable regulations could lead to fines, claims and reputational damage	• Implement risk and control systems and processes aimed at compliance with all applicable laws and regulations • Establish corporate functions to monitor local risks and challenges (e.g. tax, finance and legal) • Involve experts/consultants where necessary
4	Disruptive Technology & Changes in Consumer Preferences	• A technology business is always exposed to sudden & unanticipated technology disruptions. This exposes the Company to becoming uncompetitive in terms of product/ service offerings to the customers	• Identify emerging technology trends and continuously evaluate its business impact • Upgrade the product/service offerings to tap these opportunities (e.g. Cloud, Internet of Things, Mobility, Analytics etc.) • Continuous Learning and Development programs for the business teams including workshops with Technology Consultants/ OEM's • Review the policies governing the ordering and stocking of inventory for such items which could face the risk of obsolescence
5	Changes in Portfolio or Health of major Distribution Partners or Vendors	• High degree of dependence on a particular supplier or Business Partner exposes us to swings in the business based on performance of vendor/ partner (e.g. Microsoft in our Distribution business)	• Portfolio expansion and diversification in Distribution business • Vendor diversification to prevent dependence on a single supplier/ service provider

S. No.	Risk Category	Risk Description	Mitigation Action Plan
6	Fixed Cost pressure during transformation of business units	• Drop in sales and GM earned while fixed costs in the business remain fixed	• Constant review and optimization of fixed costs • Variabalise fixed costs to the extent possible
7	Customer Credit Risk	• Customer default in payments (including channel partners)	• Credit Insurance of Credit offered to all the channel partners • Robust credit control management through detailed evaluation, inputs from the market on credit worthiness of channel partners/ customers • Timely intervention through extensive management reviews to mitigate any potential exposure
8	Brand Positioning & Reputational Risk	• Negative reports in media – print, online and social media, damaging customer and stakeholder perception	• Pro-active engagement through positive news dissemination, increasing social media presence and resolving customer queries through social media
9	Business Continuity Plan (BCP)	• Disruption in business operation due to any natural or manmade disasters	• Separate BCP prepared for every business and reviewed on a defined timeframe • DR strategy for other business applications, interfacing with SA, formalized and periodically reviewed
10	Fraudulent and Unethical Behaviour	• Behaviour deemed to be unethical could lead to loss of business and reputation of the Brand	• Implement code of ethics and whistle-blower policy • Ensure that senior management demonstrate 'tone at the top' • Implement a zero-tolerance policy • Continuous training and awareness to team members to act with honesty, integrity and respect • Availability of appropriate forums to review, identify and address any violation including prompt consequential action