HCL INFOSYSTEMS

Annual Report 2017-18

CORPORATE INFORMATION

BOARD OF DIRECTORS	**Chairman** Nikhil Sinha **Managing Director** Rangarajan Raghavan **Directors** Dhirendra Singh Dilip Kumar Srivastava Kaushik Dutta Pawan Kumar Danwar Ritu Arora Sangeeta Talwar V N Koura
CHIEF FINANCIAL OFFICER	Kapil Kapur
COMPANY SECRETARY	Sushil Kumar Jain
AUDITORS	BSR & Associates LLP, Gurugram
BANKERS	State Bank of India 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 - 110019
CORPORATE OFFICE	E – 4, Sector – XI, Noida – 201301 (U.P.)
CORPORATE IDENTITY NUMBER	L72200DL1986PLC023955

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MD MESSAGE

Dear Shareholders,

The Financial Year 2017-18 was an eventful period for the Company. Our focus on the overall Distribution and Singapore Services Business has borne results with good growth in both the Consumer and Enterprise Divisions.

Another highlight in FY18 was the successful conclusion of a capital raising exercise for ₹ 499 Crore by way of a rights issue to the existing shareholders in December 2017.

During the year, the Company treaded a path of consolidation and took definite steps to build a lean organisation. These steps included decisions to divest the Domestic Services business as well as the Care business to strategic buyers.

The strong performance of our distribution business enabled the Company to post revenue of ₹ 3612 Crore with a growth of 12% Y-o-Y in this Financial Year. In fact in Q4FY18 with revenue of ₹ 1067 Crore, a 51% Y-o-Y growth was achieved. We intend to continue focusing on our distribution business as the core of our growth engine. Another growth engine for us would be our Overseas Business in Singapore, which registered steady growth along with profitability.

Our consumer distribution partnership that began in 1995 with Nokia brand of mobile phones is still going strong. However, today this business has evolved into a technology led distribution ecosystem across multiple channels in both urban and rural areas in the country. FY18 was an important milestone for consumer distribution as it successfully transformed from a single-brand to multi-brand multi-channel distribution entity. The business is set to further scale up by driving traditional as well as emerging channels in online and offline segments.

FY18 was a great year for our Enterprise Distribution business as its annual revenue grew by 30% Y-o-Y. We started this business around three years back and it has now become profitable and EBITA positive and presently is a resilient operation. Also the business has shown consistent performances with revenues of ₹ 300 Crore plus in each of the past four quarters. The next step for this business is to create a strong value organization with a high margin portfolio by focusing on emerging practices like Cloud, Hybrid Infrastructure and Device as Service.

From a market opportunity perspective in the country, the consumer technology product market led by mobility products has been on an upward swing. In this space there are more opportunities like online channel or direct to consumer or even the mostly untapped rural mobile market. Demand will sustain and grow further as smart phone makers focus on affordability and user friendly features in handsets. The Enterprise IT market again is robust and emergence of new enterprise technology such as cloud and mobility are adding to demand. Hence the growth potential for both our Enterprise and Consumer Businesses remains strong and steady.

In the Financial Year, our Systems Integration and Solutions business continued to focus on efficient execution and completion of current projects as well as drive collection of receivables from our customers.

Going forward, Enterprise Distribution, Consumer Distribution and our Singapore Services business are the three growth engines that we are going to focus on.

I would like to thank our shareholders for the support and faith that they have reposed in the Company. We look forward to a leaner and profitable organization in the year ahead!

With Warm Regards,

Rangarajan Raghavan

Management Discussion & Analysis

Organizational Changes and Focus on Distribution & Overseas Business

For the Company, Financial Year 2018 was a period of recalibration accompanied with business growth and sharp focus on the overall distribution and overseas business.

In this Financial Year, the Company focused on consolidation of its various businesses. Certain strategic steps were undertaken in line with its future road map aimed at building a lean organisation and towards profitable growth. These decisions included divestment of the Domestic Services business and the Care business to strategic buyers.

A highlight of the Financial Year for the Company was the successful conclusion of a capital raising exercise for ₹ 499 Crore by way of a rights issue to its existing shareholders at a price of ₹ 47 in December 2017. The promoters subscribed to 89% of the issue.

The good performance of our Distribution business with annual revenue of ₹ 3,016 Crore and a healthy growth rate was another highlight of the year. The Distribution business consists of Enterprise Distribution and Consumer Distribution and both these businesses posted good growth in the Financial Year.

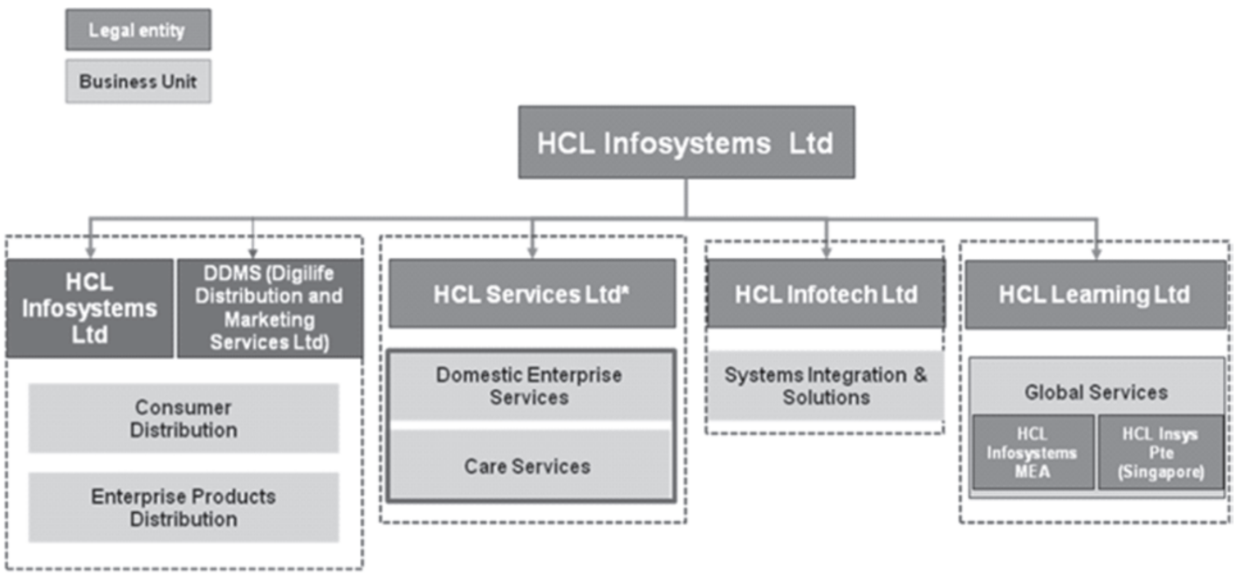
The overseas IT Services business in Singapore grew in a steady manner with good profitability. New customer engagements underpinned by technology partnerships and automation initiatives enabled the business to sustain its growth and register revenue growth of 16% Y-o-Y in FY18.

The Distribution Business along with our overseas business will be the areas of focus in our journey ahead.

Businesses Performance & Highlights

For the purpose of financial reporting, the businesses have been arranged as per the following primary business categories.

Business Categories	Lines of Business
Enterprise Distribution	Third-Party Enterprise Products
Consumer Distribution	Third-Party Consumer Products (including Telecom)
Global Services	Enterprise Services – Singapore and MEA
Systems Integration and Solutions	Systems Integration projects



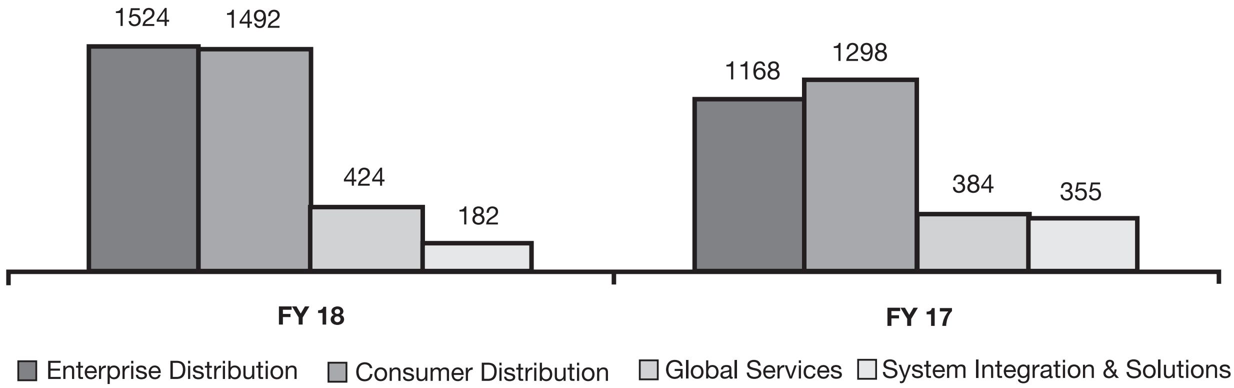
*The Domestic Services business is being divested & the Care business has been divested to strategic buyers. These are consolidated as part of discontinued operations.

The numbers provide a line of business-wise view based on management accounts and are not as per reported segments. Revenue from continuing operations is at ₹ 3,612 Crore in FY18 as against ₹ 3225 Crore revenue registered in FY17.

Highlights for the year FY18 were:

- The Company registered revenue increase of 12% Y-o-Y in FY18 from continuing operations. Distribution business led the top-line growth with revenue of ₹ 3016 Crore, a 22% increase Y-o-Y.

- As part of the Distribution business, Enterprise Distribution posted a consistent performance throughout the Financial Year and has become a resilient business. Enterprise Distribution has become profitable and EBITA positive.
- The other part of the Company's Distribution business, Consumer Distribution successfully transitioned from a single brand to a multi-brand and multi channel business with engagements with leading brands.
- The Systems Integration business of the Company continued on its defined path of focusing on execution of existing projects in a timely manner and collection of receivables.
- The overseas business in Singapore witnessed steady growth and profitability during the Financial Year.

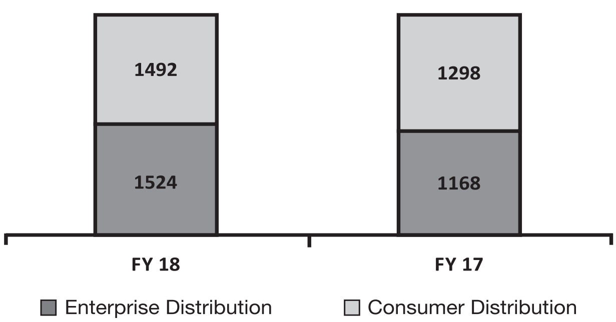


Figures in Rupee Crore

Distribution Business – Enterprise and Consumer Distribution

The Company's strategy in FY18 to focus on the Distribution business resulted in building of good operations in both Enterprise and Consumer Distribution.

For Enterprise Distribution, incubated three years back, FY18 was a good year with both revenue growth and profitability achievement. Annual revenue in FY18 stood at ₹ 1524 Crore in comparison to ₹ 1168 Crore in FY17 and showed an impressive growth of 30% Y-o-Y. Throughout the year Enterprise Distribution displayed consistent performance with revenues of over ₹ 300 Crore in each of the quarters. On the back of an expanding base of 900 plus partners, the channel led business has been the star performer of Enterprise Distribution. The business has built strong relationships with global technology companies which would augur well in the future. Multiple initiatives have been underway to create a strong value organization with a high margin portfolio. There is a strong emphasis and focus on select emerging businesses like Cloud, Security Hybrid IT and Device as a Service and they are expected to be the future growth drivers.



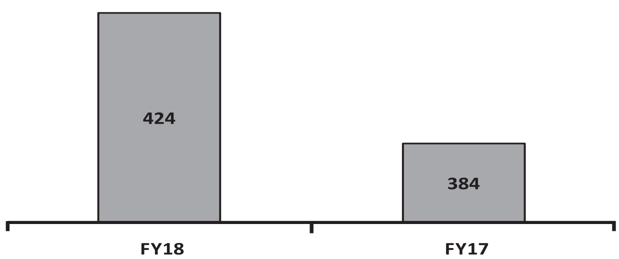
Figures in Rupee Crore

In FY18, the Consumer Business successfully transitioned from a single brand to a multi-brand multi-channel business, which is a comprehensive model comprising General Trade, Organized Trade, E-Commerce, Enterprise and D2R (Direct to Retail) and D2C (Direct to Consumer). The business in the Financial Year built relationships with leading consumer technology brands. The partnership with HMD Global continued for Nokia in emerging channels and contributed to overall revenues. In the Financial Year, new and flagship mobile phone models were launched by the Principals which led to increased business traction. In FY18, Consumer Distribution achieved revenue of ₹ 1492 Crore versus ₹ 1298 Crore in FY17, an increase of 15% Y-o-Y.

Global Services

The Overseas Services business in Singapore registered steady growth in the Financial Year with good profitability. The business posted revenue of ₹ 424 Crore in FY18 versus ₹ 384 Crore in FY17, a 16% Y-o-Y growth. Apart from achieving a steady growth in revenues, the business also was profitable with a PBIT of ₹ 23.6 Crore in the year.

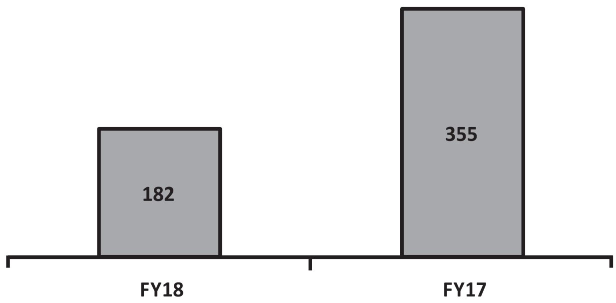
Along with the entire Distribution business the overseas business in Singapore would remain as a focus growth area wherein the organisation would continue to invest and grow.



Figures in Rupee Crore

Systems Integration & Solutions

In FY18, the Systems Integration business continued to focus on efficient execution of the current order book, including mission critical projects of the government. The current order book has Services, Annuity and Build components. Another key focus area was the collection of receivables as projects reached milestones and attained customers' acceptance. The team tracked the collection process very closely realizing a total of ₹ 360 Crore in the Financial Year. The business also continued to focus on cost optimization and improved productivity to ensure that business operations remained on track.



Figures in Rupee Crore

Other Updates

As part of the Company's future roadmap of creating a consolidated and lean organisation, in the Financial Year, the Company's Board of Directors approved the sale of its Care business, a division of HCL Services Limited to QDigi Services Limited (Earlier known as HCL Computing Products Limited –HCPL) and the subsequent transfer of entire shareholding of QDigi Services Limited to Quess Corp Limited for a consideration of ₹ 30 Crore.

In continuation with this strategy, the Board also approved sale of HCL Services Limited (consisting of Domestic Enterprise Services Business) to Karvy Data Management Services Limited for a consideration of approximately ₹ 108 Crore (including tax refunds payable to the extent received).

In FY18, the Company through its various strategic actions and focus on certain businesses took concrete steps to create an agile, fast growing and profitable organization. As a way forward in the new Financial Year the Company will focus on growth of Enterprise Distribution, Consumer Distribution and Global Services as well as successfully manage the Systems Integration Business. Consumer Distribution has successfully undergone its journey from a single brand operation to a multi-brand and multi channel business. This business will carry forward the momentum that it has created so far. Enterprise Distribution has been a success in the Financial Year and it has performed consistently and profitably. The focus going forward will be on growth of the business as well as addressing high margin opportunities by leveraging latest technology products through partnerships with global technology companies. Again, the overseas business in Singapore has been growing steadily and it is geared up for the future with increasing customer traction and building appropriate partnerships and offerings.

Overall the organization has been underpinned by an optimal cost structure and is geared to move into a next phase of profitable growth powered by a productive workforce.

Quality Initiatives

During the Financial Year 2017-18 there was a renewed focus to enhance the customer & partner experience journey to a next level. This journey has shown a tremendous improvement in NPS (Net Promoter Score) rating and Customer and Partner loyalty, as validated by an independent third party agency, AC Nielsen.

Based on this validation of improvement in the NPS rating and Customer and Partner loyalty, a case study was created. This case study was showcased in ASQ (American Society for Quality) South Asia Conference on Quality and Improvement for SATEA Award (South Asia Team Excellence Award), October 2017, New Delhi and received an appreciation award from ASQ.

HCL Insys PTE Ltd. (Singapore Entity) has won the prestigious Golden Globe Tigers Award 2017 in the category of 'Quality Excellence Award for Best Customer Service Result'. The award recognizes HCL's initiative towards continuous Y-o-Y improvement in customer satisfaction and business growth.

Again in the Singapore market there was Y-o-Y improvement in customer satisfaction as was evident from the CSAT (Customer Satisfaction) overall satisfaction score. On an Y-o-Y basis scores improved in these categories like in Service Desk (from 4.6 to 4.8 on a scale of 0 to 6) and onsite support (from 4.9 to 5.1 on a scale of 0 to 6). These satisfaction scores were gained from a survey conducted in an independent manner.

Training and certifications

- All the ISO (International Organization for standardization) & CMMI (Capability Maturity Model Integration) certifications were successfully sustained and confirmed through 3rd party certification and assessment.
- An external training on new ISO 9001:2015 standard was conducted towards improvement in the skills and knowledge of relevant key resources in the organization.
- Partner Experience (PX) Management Training / Workshop was conducted for Enterprise Distribution.
- Six Sigma Yellow Belt & QKONNECT (an in house developed Quality Certification Programme) training was delivered to build a quality culture in the organization.
- In our Singapore Services business, ISO 9001 & ISO 27001 certifications were successfully sustained and confirmed through third party certification & assessment.
- Again, HCL Insys Pte Ltd, Singapore has successfully completed Yearly 'Service Wide Security Assessment (SWSA)', 'Service Management Audit (SMA)' & 'Annual Security Audit (ASA)' for IT Infrastructure & Services built for our esteemed customers. These audits were based on International Standards like ISO 27001:2013, ISO20000, CIS (Center for Internet Security), ISACA (Information Systems Audit and Central Association), NIST (National Institute of Standards and Technology) and Singapore based Regulatory, Governance and Compliance Standards.

Business Risks & Mitigation Measures

Performance of our businesses can get affected by various risks posed by the external environment. Your Company continuously revisits the Enterprise Risk Management (ERM) framework and strengthens it to address various risks to our businesses. The risk management programme (ERM) involves risk identification, assessment and risk mitigation planning for strategic, operational and compliance related risks across business units and functions.

Periodic monitoring of risk is done and based on overall risk performance, mitigation action is refined and re-planned.

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

Sl. No	Category	Risk item	Risk Description	Mitigation Plan
1	Strategic Risk	Changing trend on Consumer Distribution Business	Disruptions in business growth due to external / internal factors	1. Rationalization of Line of Business portfolio as per strategy 2. Continuously explore OEM vendor diversification. 3. Investing and building further growth channels 4. Building back end to take care of O2O shift (online to offline) 5. Focus on growing Direct to Consumer business
2	Operational Risk	Liquidity / Cash Flow Risk	Delay in mile stone sign offs and collection in public sector projects. Access to external financing is crucial for continuity. A liquidity risk could arise if external financing is not available	1. Follow up and obtain refunds from Income Tax, etc. 2. Focused task groups to work on the receivables and improve collection efficiency 3. Effective contract management discipline 4. Improve business performance 5. Consult regularly with external debt providers to discuss the ongoing business, results and Strategy 6. Secure long term loans to be in line with projected cash flow to ensure debt servicing
3	Treasury Risk	Financing Risk - High Financing cost	High cost of borrowing with hardening of interest rates and downward revision in credit rating Inability to raise money	1. Support in the form of HCL corporate guarantee, for further financing 2. Improve the collection efficiency 3. Daily/Weekly cash flow management to reduce need for borrowings 4. Improve business performance 5. Monetize identified assets
4	Treasury Risk	Breach of Loan covenants	Inability to pay loans could result in breach of loan covenants Recall of loan amount	1. Waiver of covenants by banks 2. Monetization of identified assets 3. Monitor asset-liabilities mismatch and ensure that long term assets are funded through long term liabilities 4. Continuous monitoring & adherence to loan payment terms
5	Financial Risk - Treasury	Effective Management of sanctioned Banking Limits	All our business does need a lot of non fund based limits for LCs, BGs.	1. Collect old BGs 2. Seek credits w/o LC / BGs
6	Operational Risk	Profitability & Operational Excellence	Drop in revenue and GM earned while fixed costs in the business remain fixed Business / project viability & growth Cost over runs	1. Divestments and rationalization of Line of Business portfolio in line with the strategy 2. Constant review of fixed costs, cost saving / cost reduction initiatives 3. Optimize or variabilize fixed costs to the extent possible 4. Improve business performance 5. Continuous monitoring of business units / projects viability & profitability 6. Contingency planning in estimation; effective project management to reduce risks

Sl. No	Category	Risk item	Risk Description	Mitigation Plan
7	Operational Risk	Human Capital Risk	Undesirable attrition Not able to attract and retain good people	1. Comprehensive employee engagement program 2. Succession planning 3. Retention plans
8	Operational Risk	Litigation with Govt. customers	Poor contract management; contracts with long term issues Litigation with the Govt. customers Inability to handle Govt. ccontracts Inability to secure Company's interest while executing Govt. contracts Inability to take timely decisions	1. Improve compliance to contractual terms and conditions 2. Improve efficiency of project management / contract management 3. Closely monitor performance of projects and take timely decisions
9	Operational Risk	Effective use of Management Bandwidth – Org. Time & Resources	Deviation / dilution of management focus from core growth areas	1. Divestments and rationalization of Line of Business portfolio in line with the strategy, to free up management bandwidth 2. Focused implementation of Business Strategy / Goals approved by Board
10	Compliance Risk	Oversight over Foreign Entities	Non-Compliance of overseas regulatory requirements	A checklist of regulatory compliances for each key manager and monthly/quarterly compliance certification by each relevant manager
11	Operational Risk	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
12	Financial Risk	Customer Credit Risk	Customer default in payments (specially channel partners, private schools, Government / PSUs in failing financial health) Increase in customer credit risk, consequent to the movement of multi-brand business model in Consumer Distribution	1. Credit insurance of credit offered to channel partners 2. Good credit control management through detailed evaluation, inputs from the market on credit worthiness of channel partners / customers 3. Timely intervention through extensive management reviews to mitigate any potential exposure
13	Operational Risk	Demand Planning / Inventory Management	In the new business model of Consumer Distribution with multi-vendor situation, the risk of improper demand planning and inventory management issue are key points of focus, from working capital management Blockage of funds impacting cash flow Adverse impact on P&L in order to liquidate inventory at discounted price	Continuous monitoring of adherence to inventory norms
14	Operational Risk	Lack of oversight of Fixed Asset, Off Balance Sheet items & IPR	Economic benefits & ROI Misappropriation of assets Financial exposure & adverse brand image	1. Continuous assessment of ROI 2. Periodic self-assessment & audit 3. Periodic physical verification
15	Operational Risk	Disaster Recovery & Business Continuity Plan	Disruption in business operation due to any natural or man-made disasters	Data replication for SAP with RPO of 4 Hrs. at BCP Site
16	Operational Risk	Information Security	Leakage of sensitive business & client information Inadequate back up restoration procedures, usage of out dated technology	Company-wide initiative on review and implementation of IT security policies, including access control