HCL INFOSYSTEMS

Annual Report 2018-19

CORPORATE INFORMATION

BOARD OF DIRECTORS	**Chairman** Nikhil Sinha **Managing Director** Rangarajan Raghavan **Directors** Dilip Kumar Srivastava Kaushik Dutta Pawan Kumar Danwar Ritu Arora Sangeeta Talwar
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,

In FY18, we had made progress on our defined strategy to consolidate the company. Our plan for FY19 was to move on the path that we had strategised in the previous year. Accordingly, in the year we focussed on Enterprise Distribution, Consumer Distribution, Singapore Services and System Integration businesses.

This strategy has resulted in some success for us as our revenues from continuing operations increased from ₹ 3565 Crore in FY18 to ₹ 4340 Crore in FY19, an Y-o-Y growth of 22%. This growth has been significantly powered by performances in our Enterprise and Consumer Distribution businesses. In these focussed businesses there was revenue increase as well as profitability was maintained.

Our Enterprise Distribution business has been performing on a consistent basis. It's Channel business in the financial year was the main revenue earner. The business has also been working towards enhancing its digital offerings in line with the dynamics and demands of the market. Accordingly, we have seen capabilities being created for future growth in this space.

In Consumer Distribution, there has been a 35% Y-o-Y revenue increase. The chief revenue contributor has been our partnership with HMD Global for Nokia handsets. Other partnerships with global manufacturers like Samsung and Microsoft Surface also gained ground. The multi-brand multi-channel strategy of Consumer Distribution continued to gain traction. Both e-Brandstore and Telecom Service Provider (Operator) Channel under Direct to Consumer Segment produced results.

For our focused businesses of Consumer and Enterprise Distribution, the market opportunity looks good. The Indian Consumer Market is growing, led by increase in demand due to changing lifestyles of individuals, easier access to credit and rising disposable income. Also, it is likely that India will emerge as a manufacturing hub. The multi - channel strategy of the business is also placed well to leverage opportunities as the share in the online market increases. Enterprise IT spending is also expected to grow in the year. One of the key drivers for this growth is that organizations have become more adaptive to business model change led by new technology such as digital transformation.

In our Overseas IT Services operations in Singapore, the business moved along its defined path in the financial year. The System Integration and Solutions business of the company focused on execution of existing projects. These include mission critical projects of the Government and the Defense sector. However, realisation of receivables from certain projects continued to pose challenges.

Going forward, we will continue to focus on our Distribution business and on the execution of projects and realization of receivables in the System Integration and Solutions business. We have taken steps to enhance our productivity and have achieved some success in this year. The company also shall continue to monetize its business and real estate assets in order to repay high cost loans and thereby reduce its finance cost.

I would like to thank our shareholders for the support and faith that you have reposed in the company. We look forward to a successful FY20 for HCL Infosystems!

With Warm Regards,

Rangarajan Raghavan

Management Discussion & Analysis

Growth in Revenues due to Focus on Select Businesses

In FY18, the strategy of the company was to focus on the consolidation of its various businesses. This strategy was continued in FY19 as well and the company was able to move forward on its journey and further consolidate its businesses.

At the beginning of FY19, we had outlined a path to further consolidate our organisation, as well as, focus on Enterprise Distribution, Consumer Distribution, Overseas Services and System Integration Businesses. This strategy has enabled the organisation to move forward on its planned roadmap. In FY18, we had reported revenue from continuing operations of ₹ 3565 Crore while in FY19 our revenues increased to ₹ 4340 Crore. This 22% Y-o-Y growth in revenue has been powered by performances in our Enterprise and Consumer Distribution businesses and also in our Overseas Services businesses in Singapore.

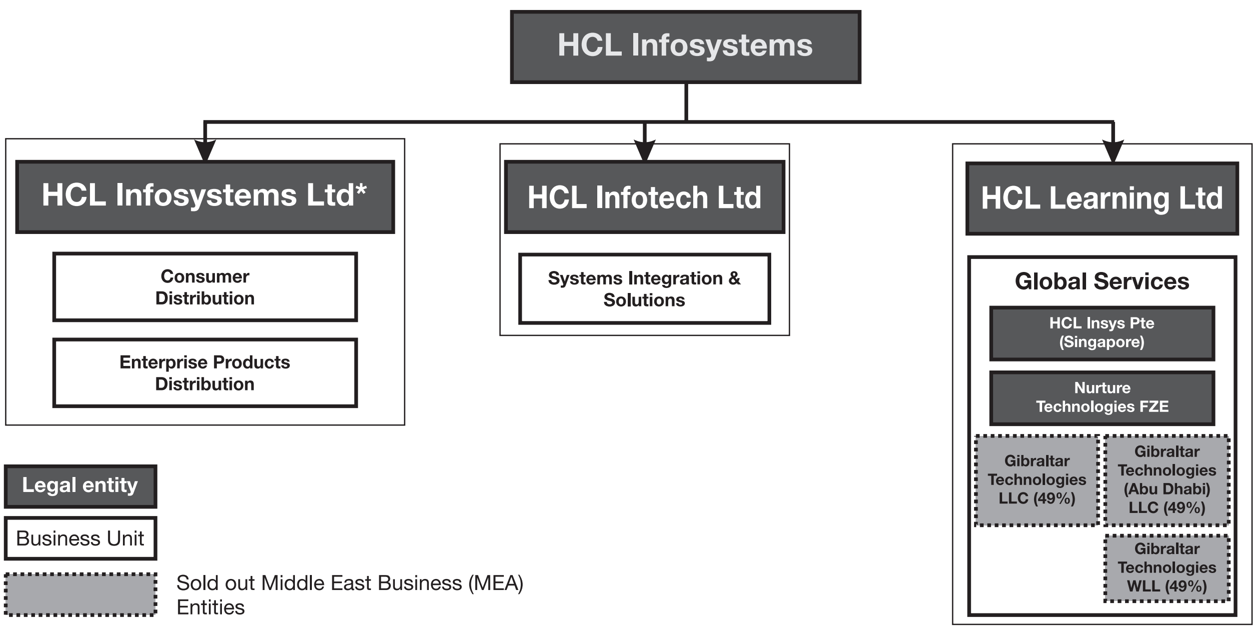
In the financial year, both the focussed business of Consumer and Enterprise Distribution performed well with combined revenue of ₹ 3722 Crore versus ₹ 3017 Crore in FY18, showing a growth of 23 % Y-o-Y.

The Overseas IT Services business in Singapore maintained its steady performance in the financial year. The business grew in revenue as it reached ₹ 486 Crore in FY19 as compared to ₹ 376 Crore in FY18 (from continuing operations). In FY19, the business renewed and enlarged its engagements and has also focused on automation initiatives to provide more value to customers.

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
System Integration and Solutions	System Integration projects



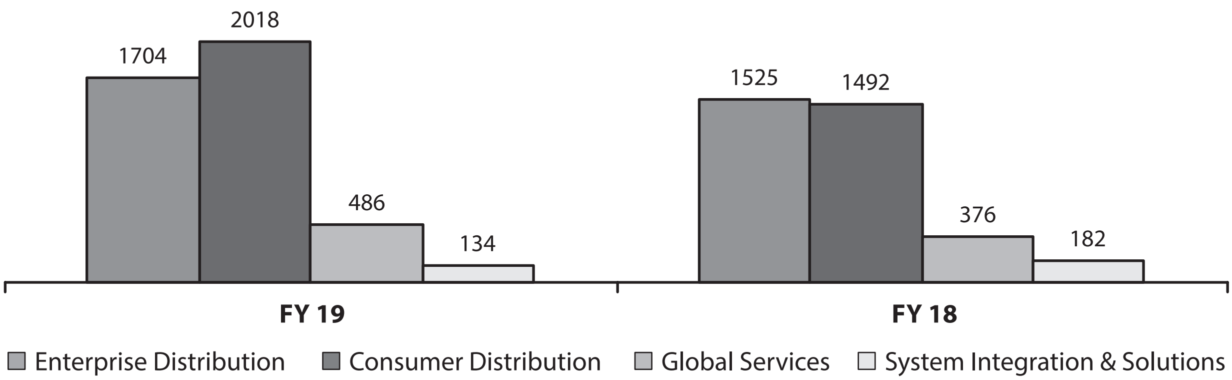
*The MEA Business has been divested in October 2018. These are considered as part of Discontinued Operations.

The numbers provide a line of business-wise view based on management accounts and are not as per reported segments. Revenue from continuing operations was at ₹ 4340 in FY19 as against ₹ 3565 Crore registered in FY18.

The Highlights for FY19 were:

- In FY19 the company registered a revenue increase of 22 % Y-o-Y from continuing operations. Distribution business led the top-line growth with revenue of ₹ 3722 Crore, a 23 % increase Y-o-Y.

- The Distribution business of the company consists of two go-to-market engines - Enterprise Distribution and Consumer Distribution. Both the businesses registered growth as well as profitability in FY19.
- Enterprise Distribution business posted a steady performance. The business has become a good operation underpinned by a strong network of channel partners and strategic alliances with world-leading technology companies.
- Consumer Distribution business after successfully transitioning from a single brand to a multi-brand and multi-channel business has been able to align with changing business dynamics in the industry and build efficient and comprehensive go-to-market offerings leveraging new distribution platforms like e-commerce.
- The System Integration and Solutions business had followed its well-charted path of execution of existing projects as well as collection of receivables.
- During the financial year, the Overseas Services business in Singapore maintained its steady growth and profitability.

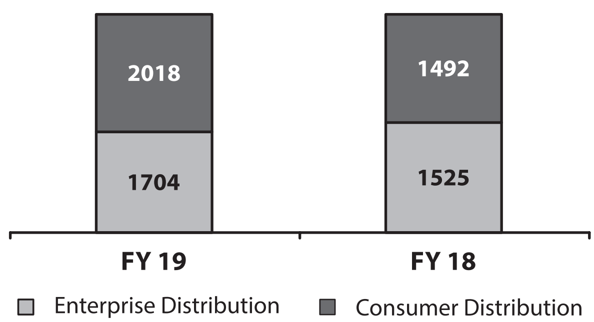


Figures in Rupee Crore

Distribution Business – Enterprise and Consumer Distribution

The company had defined a strategy in FY18 to focus on the Distribution business as a growth engine for the company. In FY19, we followed this strategy which resulted in the growth of the business in a steady manner and contributed to overall revenue growth of the company.

The Enterprise business was started four years back and today has an efficient operation. The annual revenue in FY19 was at ₹ 1704 Crore in comparison to ₹ 1525 Crore in FY18, with a growth of 12% Y-o-Y. The Channel Business of Enterprise Distribution was the main contributor to revenues. Enterprise Distribution has been able to build a strong network of 1800 plus channel partners delivering business value to both partners and customers. The business has a number of strategic alliances with global technology companies and besides driving business through its extensive channel network it also directly provides leading edge technology solutions to customers. The Enterprise Distribution business has been creating strong capabilities for providing solutions not only for Enterprise IT Infrastructure but also for the Digital Enterprises. The business today offers Datacenter, Network, Security, Cloud, Collaboration and Workplace Solutions. The Direct to Customer business has higher margins and provides for go to market capabilities in the emerging technology space.



Figures in Rupee Crore

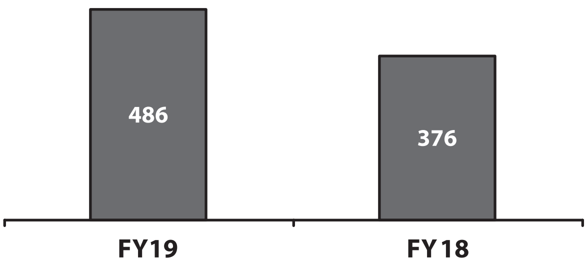
Building on its successful transition into a multi-brand multi-channel business from a single-brand distribution entity, Consumer Distribution in FY19 has moved ahead. Aligned with changing business dynamics in the distribution market with the advent of new platforms and channels, Consumer Distribution today has comprehensive go to market offerings across General Trade, Organized Trade, E-Commerce, Enterprise and D2R (Direct to Retail) and D2C (Direct to Consumer). In FY19, Consumer Distribution achieved revenue of ₹2018 Crore versus ₹ 1492 Crore in FY18, reporting an increase of 35% Y-o-Y.

Consumer Distribution partners with leading brands such as HMD Global for Nokia, Samsung and Microsoft. The partnership with HMD Global for Nokia devices has been gaining grounds in a steady manner and revenue from this partnership has contributed substantially to the business.

During the financial year, Consumer Distribution made inroads in the Telecom Service Provider (Operator) Channel and in its e-Brandstore business. The e-commerce channel remained a focus segment for the business in the financial year. New models by Principals were also successfully launched in FY19. The contract with Apple India Pvt. Ltd ended on September 30, 2018.

Global Services

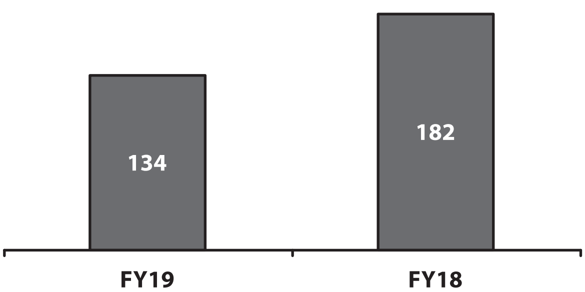
During the financial year, the Overseas Services business in Singapore remained stable. During the financial year the business renewed and expanded engagements with more agencies within its ATFM (Agency Tenant Facility Management) contract. From continuing operations the business registered revenue of ₹ 486 Crore in FY19 versus ₹ 376 Crore in FY18. There was also an increase in profitability in the financial year. The business also focussed on automation initiatives in the End User Computing and Datacenter spaces. In terms of capability building, employees were given training in Datacenter and Networking Technologies as a part of the skill enhancement plan of the company.



Figures in Rupee Crore

Systems Integration & Solutions

The Systems Integration business in FY2019 registered revenue of ₹ 134 Crore. The business continued to focus on the efficient execution of the current order book. The team continued to work with Government and Defence sectors in major mission critical projects. The total order book size stood at ₹ 460 as on 31 March 2018. As projects reached milestones and attained customers' acceptance, the business focussed more on collection of receivables. The team tracked the collection process very closely realizing a total of ₹ 309 Crore in the financial year. Business operations were closely aligned with cost optimization and improved productivity. The business continues to face challenges and delays in customer acceptances and payments, especially in the Power Sector. The company is continuously working on obtaining customer acceptances to enable payments.



Figures in Rupee Crore

Other Updates

In continuation with the previous year's strategy, the company during the financial year focussed on recalibration of its businesses. In line with this plan, divestments of certain businesses were carried out in FY18. In this financial year, on October 15, 2018, the Board of Directors approved the decision to sell most of its operations in the Middle East. These include operations in Dubai, Abu Dhabi and Qatar.

In FY19, HCL Infosystems was able to consolidate and grow it's businesses by following its strategy of bringing focus on some key businesses as well as working on project execution in our Systems Integration and Solutions Business. This roadmap is the outcome of a planned strategy towards driving growth by focussing on certain businesses and at the same time optimizing other operations. This strategy has met with success as overall revenue in FY2019 had increased by 22 %, mainly driven by growth in our focussed businesses such as Distribution.

Due to losses during the last few years and high debt obligation along with challenging marketing conditions, the company has been constantly exploring the following:

- monitoring its businesses, to assess requirement of any further restructuring or rationalization required in order to reduce the financial losses
- restructuring, re-organization and sale of its select businesses & assets etc. in order to reduce the debt obligations and finance cost burden thereon.

Quality Initiatives

During the financial year, there was a renewed focus to enhance the customer and partner experience journey to the next level. To keep continued focus on customer and partner engagement, this year the partner engagement study was extended to online channel partners and respected level of satisfaction via the metric of NPS (Net Promoter Score) was observed. The satisfaction rating of organized partner also improved to a significant level.

For HCL Insys PTE Ltd. (Singapore Entity), Y-o-Y improvement in customer satisfaction was evident from the CSAT (Customer Satisfaction) Overall satisfaction score. On a Y-o-Y basis, scores sustained in these categories like in Service Desk (4.8 on a scale of 0 to 6) and Onsite support (5.1 on a scale of 0 to 6). These satisfaction scores were gained from a survey conducted internally but in an independent manner.

On the System Certification front, the company successfully achieved-

o Keeping risk-based thinking in the top of the mind, Quality Management System has been upgraded from ISO 9001:2008 to ISO 9001:2015 for HCL Infosystems and HCL Insys Pte Ltd. (Singapore)

o Information Security Management System (ISMS) – ISO 27001 for Noida Data Center and HCL Insys Pte Ltd. (Singapore).

o All the ISO (International Organization for Standardization) certifications were successfully recertified this year and confirmed through third party certification and assessment.

o Again, HCL Insys Pte Ltd., Singapore successfully completed Pre-Commission Security Audit & Yearly 'Service Wide Security Assessment (SWSA)', 'Service Management Audit (SMA)' & 'Annual Security Audit (ASA)' for IT Infrastructure and Services built for our esteemed customers. These audits were based on International Standards like ISO 27001:2013, ISO20000, CIS (Centre for Internet Security), 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 the overall risk performance mitigation action is refined and re-planned. The following table provides a glimpse of some key risks and their mitigation measures which 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	Risk Management Strategy
1	Strategic Risk	Changing trend in Consumer Distribution business	• Disruptions in business growth due to external / internal factors	• Building back end to take care of O2O Shift (Offline to Online)
2	Strategic Risk	Single Customer business	• Dependence on single customer – GovTech • Any serious non- compliance to the contract and blacklisting by GovTech can have disastrous impact on the continuity of business	• Stringent monitoring on compliance to GovTech Contractual terms • Exploring options to diversify into Private/ Enterprise customers
3	Strategic Risk	Inability to expand in Distribution business – dependent on a limited number of products and arrangements are with limited number of OEM's	• Business results could be adversely affected in the event of our failure to expand the distribution services that we provide	• Constraint in working capital • Risk is managed by working with more than one product
4	Operational Risk	Liquidity / Cash flow risk due to Delayed Billed Receivables	• Delay in mile stone sign offs and collection in public sector system integration projects • Access to external financing is crucial for continuity • A liquidity risk could arise if external financing is not available	• Focused task groups to work on the receivables and improve collection efficiency • Effective Contract Management discipline • Improve the business performance • Follow up and obtain refunds from Income Tax, etc. • Consult regularly with external debt providers to discuss the ongoing business, results and strategy • To secure long term loans to be in line with the projected cash flow to ensure debt servicing.
5	Operational Risk	Cost escalations (Systems Integration)	• An inability to accurately anticipate the cost and complexity of performing work on an undertaken project due to factors like Project Scope Creep impacted by understanding issues / changing requirements of client • Financial penalties like Liquidity Damages (LD) • Technological obsolescence - An inability to fulfil warranties may hurt reputation and expose the company to potential litigation or claims for damages.	• Regular interactions with client and giving maximum clarity on the scope of contracts / reducing interpretation issues • Management review on cost overruns and exceptional approvals on additional cost items • Assessing on case to case basis for warranty extension or renewals • Financial penalties are critically reviewed by the management for acceptability • Taking up with client wherever there is an unfair penalty levied • Management review and case to case basis decision on further arbitration /legal actions

Sl. No.	Category	Risk Item	Risk Description	Risk Management Strategy
6	Operational Risk	Profitability & Operational Excellence	• Drop in revenue and GM earned while fixed costs in the business remain as is • Business / Project Viability & Growth • Cost Over-runs	• Constant review of fixed costs, Cost Saving / Cost reduction initiatives • Improve business performance; • Continuous monitoring of Business units / Projects viability and profitability; • Optimize fixed costs to variable cost, wherever possible • Contingency planning in estimation; Effective Project Management to reduce risks
7	Operational Risk	Litigation with Government customers	• Poor Contract Management • Contracts with long term issues • Litigation with Government customers • In-ability to handle Government contracts • Inability to secure company's interest while executing Government contracts • Inability to take timely decisions	• Improve compliance to Contractual terms and conditions • Improve efficiency of Project Management / Contract Management • Closely monitor the performance of the project and take timely decisions
8	Operational Risk	Human Capital Risk	• Undesirable attrition • Not able to attract and retain good people	• Comprehensive employee engagement program • Retention plans
9	Operational Risk	Human Capital Risk	• Stringent immigration rules and increasing eligibility criteria for Visa makes it tough to get employment visas and exposes the company for skill set shortage, w.r.t overseas business • Unable to retain employees to continue in Singapore Operations due to strict visa eligibility norms for the dependent family members	• Projects are also resourced through third party resources
10	Operational Risk	Outsourcing Risks (including manpower)	• Inability to deliver products in a timely manner may affect the reputation and prospects of Distribution Business. • Risks not transferred to Vendor / Service provider, while the activity is outsourced • Criminal Liabilities Stiff Penal Provisions (e.g. High Penal interest on default in payment of Service Tax)	• Activity outsourcing instead of manpower outsourcing • Transfer risks as part of outsourcing • Carry out Vendor Risk Assessment at the time of Outsourcing • Stringent monitoring and MIS on outsourced operations • Implementable Penal provisions for non-compliances
11	Operational Risk	Any change in the market performance of OEMs may impact our business, results of operation and financial condition.	• OEMs face stiff competition, and their market share may be affected by a variety of factors including an inability to adapt to technological innovations, an inability to make effective transitions to new product offerings, an inability to adequately address defects in engineering	• In Enterprise Distribution business is spread with multiple OEMs and hence impact may not be significant
12	Financial Risk	Treasury Risk • Financing Risk – credit rating risk	• Inability to raise money • High cost of borrowing with hardening of interest rates and downward revision in credit rating	• Support in the form of HCL Corporate Guarantee, for further financing. • Improve collection efficiency • Daily/Weekly cash flow management to reduce need for borrowings • Monetize identified assets