



Annual Report 2020-21

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman

Nikhil Sinha

Manager

Raj Sachdeva

Directors

Dilip Kumar Srivastava

Kaushik Dutta

Pawan Kumar Danwar

Ritu Arora

Sangeeta Talwar

CHIEF FINANCIAL OFFICER

Alok Sahu

COMPANY SECRETARY

Komal Bathla

AUDITORS

BSR & Associates LLP, Gurugram

BANKERS

State Bank of India

ICICI Bank Ltd.

Standard Chartered Bank

Axis Bank Limited

IDFC First Bank Ltd.

Indusind Bank Ltd.

REGISTERED OFFICE

806, Siddharth, 96,

Nehru Place, New Delhi - 110019

CORPORATE OFFICE

A-11, Sector-3, Noida-201301 (U.P.)

CORPORATE IDENTITY NUMBER

L72200DL1986PLC023955

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CHAIRMAN MESSAGE



Dear Shareholders,

During the financial year 2020-21, the company continued to focus on debt and loss reduction. The Company took various actions during the year to meet these objectives.

Last financial year the Board had recommended that both the Enterprise and Consumer distribution businesses be gradually scaled down. Accordingly, our Consumer and Enterprise Distribution businesses have been scaled down, resulting in the decline in revenues during the year.

In our System Integration and Solution business, we continued to focus on deliverables of existing projects and collection of receivables from customers. We also took a strategic decision to divest the entire shareholding in HCL Infotech Ltd to Novezo Consulting Pvt. Ltd, after certain carve outs. The transaction is subject to approval of statutory authorities and closure of certain conditions precedent.

The Company has been facing challenges and delays in the Systems Integration (SI) and Solutions business related to customer acceptances and payments in large contracts resulting in cost overruns and significant losses for the Company. Such delays and losses have also been the main reason for the high debt obligation and high cost of finance for the Company. The delay in realization of SI receivables has created financial challenges for the Company.

The Company will continue to monetize its real estate assets to help repay high-cost loans thereby reducing the cost of finance.

To assist the Company in meeting its financial obligations, Promoter Company has been voluntarily extending financial support to the Company from time to time in form of Corporate Guarantees and loans.

Due to the current pandemic situation, some of our plans concerning rationalization of our businesses and asset monetization may be delayed.

I would like to thank our shareholders for the support and faith that you have reposed in the company. I wish all of you safety and good health and hope that you come out of the pandemic stronger and better.

With Warm Regards,
Nikhil Sinha

Management Discussion & Analysis

Focus on reduction of outstanding debt and losses

In FY20 and FY 21, the strategy of the Company was to focus on the reduction of outstanding debt as well as curtailment of losses. Hence, during the financial year, we continued to focus on initiatives to reduce the company's debt and business losses by rationalizing our businesses. Accordingly, our Enterprise and Consumer Distribution businesses were gradually scaled down during the year. We also took a strategic decision to divest the entire shareholding in HCL Infotech Ltd to Novezo Consulting Pvt. Ltd, after certain carve-outs.

In FY20, we had reported revenue from continuing operations of ₹ 1815 Crore while in FY21 our revenues decreased to ₹ 353 Crore.

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
System Integration and Solutions	System Integration projects

The numbers provide a line of business-wise view based on management accounts and are not as per reported segments.

The Highlights for FY21 were:

- The Distribution business of the company consists of two business units:- Enterprise Distribution and Consumer Distribution. During the financial year, the distribution was gradually scaled down as recommended by the Board in January 2020 to limit future financial losses.
- FY21 Annual revenue of Enterprise Distribution was ₹ 58 Crore vs. ₹ 1,083 Crore in FY20.
- Consumer Distribution registered revenue of ₹ 159 Crore in FY21 vs. ₹ 573 Crore in FY20
- The System Integration and Solutions business had followed its well-charted path of execution of existing projects as well as the collection of receivables.
- During the financial year, a strategic decision to divest the entire shareholding in HCL Infotech Ltd to Novezo Consulting Pvt. Ltd, after certain carve-outs was taken.

Distribution Business – Enterprise and Consumer Distribution

In FY21, the Distribution business had reported a revenue of ₹ 217 Crore.

System Integration (SI) & Solutions Business

The SI and Solutions business reported revenue of ₹ 135 Crore in FY21 with a focus on project execution and gain outstanding receivables from customers.

Though the business was able to realize ₹ 185 Crore from customers, it continued to face delays in receivables. This delay was especially witnessed in customers from the power sector. The company has been constantly focusing on expediting the resolution of such issues by continuous engagement with the customer for the acceptance of project completions; however, progress has been very slow. It can be noted here that such delays have been the main reason for the high debt obligation and finance costs of the company.

During the year, ₹ 89 Crore has been provided for on account of such receivables.

Other Updates:

In keeping with our stated goal of minimizing losses and rationalizing the operations of the Company, the Board of Directors in its meeting held on February 10, 2021 had approved to sell the entire shareholding held by HCL Infosystems Limited in HCL Infotech Limited at "Net Asset Value" as on closing date, after acquiring the undertaking which shall comprise of the business relating to two specific projects through a business transfer agreement, certain other assets and liabilities through assignment deed and HCL Investments Pte., Singapore & its step down subsidiary through a share purchase agreement. Unaudited net asset value of HCL Infotech Limited post this carve out as on 30 September 2020 is ₹ 147 Crores. The sale will be made to Novezo Consulting Pvt. Ltd based on the terms and conditions as specified in share purchase agreement dated February 10, 2021. One of the customers of our key defense project which is forming part of the deal has asked us to maintain status quo and further explore alternative options. We are in active discussion with the investor and the customer, and this transaction is expected to take longer time than expected initially with change in terms.

To reduce our debt obligations, we have decided to monetize company-owned properties in a phased manner. Several of our properties are not being fully utilized due to changes in the business of the Company.

Based on the detailed assessment performed by management which also included, wherever considered necessary, performing reconciliation with the parties and obtaining legal opinion, the Company has credited in Statement of Profit and Loss with ₹ 71.18 Crores, for the year ended March 31, 2021 (2020: ₹ 24.85 Crores), on account of write back of certain old payables and provisions.

The Company is facing delays in receipts from the customers, primarily in the power sector, due to which the Company has charged ₹ 90.14 Crores, in the Statement of Profit and Loss, for the year ended March 31, 2021 (2020: ₹ 110.54 Crores) on account of provision for certain receivable balances.

As of March 31, 2021, the company has accumulated losses and its net worth has been fully eroded, the company has incurred a net loss of ₹ 204.76 Crores the current year (March 31, 2020: ₹ 318.44 Crores and the Company's current liabilities exceed its current assets by ₹ 461.33 Crores March 31, 2020, Rs.344.88 Crores) as at March 31, 2021. The losses are primarily as a result of delayed receipts on certain system integration contracts, certain historically low margin contracts, slow-down of distribution businesses and finance costs.

The management of the Company is pursuing strategies which include scale down of loss-making businesses like scaling down of the distribution business, sale of certain non-core properties and reduction in outstanding debts. To ensure the necessary financial support for its operations, the Board of Directors of HCL Corporation Private Limited has approved support (in the form of corporate guarantees and unsecured loans) to the Company upto ₹ 1,500 Crores. This had been approved by the shareholders of the Company, vide their resolution dated September 14, 2017. Considering the above support, the Company's management and the Board of Directors have reasonable expectation that the Company will be able to realize its assets and discharge its contractual obligations and liabilities as they fall due in the near future in the normal course of business. Accordingly, these financial results have been prepared on a going concern basis.

In the past, certain loss-making businesses like PC Manufacturing, Financial Inclusion, Learning, and Enterprise & Consumer Distribution Business have been wound down. Other businesses such as Care (Consumer Services), Enterprise Services, and overseas businesses in Singapore & Middle East have been sold off. This was in addition to the sale of

unutilized surplus properties, whose proceeds were used to reduce outstanding loans.

Despite all these efforts to reduce debt & losses as well as the promoter's support from time to time, the Company continues to face very challenging financial conditions and a very tight fund position. As a consequence, the Company cannot invest in any new businesses or in expanding its current operations and consequently, the business of the Company will continue to contract for the foreseeable future.

COVID – 19 Impact

In evaluating the impact of COVID-19 on its ability to continue as a going concern and the possible impact on its financial position, the management has assessed the impact of macro-economic conditions on its business and the carrying value of its major assets comprising of Property, Plant and Equipment (PPE), trade receivables and other balances recoverable. In this regard, the management has carefully considered the circumstances and risk exposures arising from the COVID-19 situation for developing the estimates based on available information in its assessment of the impact thereof on its financial reporting.

Based on the aforesaid assessment, management believes that the Group will continue as a going concern and will be able to meet all of its obligations as well as recover the carrying amount of its aforesaid assets as of March 31, 2021. The impact assessment of COVID-19 is a continuing process given the uncertainties associated with its nature and duration and actual results may differ materially from these estimates. The Group will continue to monitor any material changes to future economic conditions and any significant impact of these changes would be recognized in the financial statements, as and when these material changes to economic conditions arise.

Business Risks & Mitigation Measures

The 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
01	Litigation	Sustainability	<ul style="list-style-type: none"> Delay from Client in Project sign off and payment Increasing finance cost to continuously run the Operations without corresponding collections (BR) Contractual compulsions to continue servicing unviable contracts 	<ul style="list-style-type: none"> The subject is under Arbitration This has shown positive results in terms of movement in collections as well as a positive movement in Arbitration for a time-bound solution.

Sl. No.	Category	Risk Item	Risk Description	Risk Management Strategy
02	Litigation	Sustainability	<ul style="list-style-type: none"> Disputed billed receivables due to Project deliverable issues. 	<ul style="list-style-type: none"> Contesting the matters based on judicial precedents in the cases Case to case basis, strategically handled Provisions are made on a case to case basis based on management assessment of the legal cases
03	Financial	Continuity	<ul style="list-style-type: none"> Continuity challenges in "Going Concern" status As of Mar, 21, Group's net worth has been fully eroded As of Mar, 21, Group's current liabilities exceeds its current assets. Once the SI transaction is complete, the Holding company revenue will reduce significantly. 	<ul style="list-style-type: none"> The company continues to derive some revenue from SI Projects & Enterprise Distribution related AMC customers. Promoters have been supporting the company from time to time by extending loans and Corporate Guarantees. Promoters have issued comfort letter/ support letter to the company to the extent of ₹ 500 Crs
04	Operational	Financial risk	<ul style="list-style-type: none"> Delay in getting the IT Refund from investors who had purchased domestic Services business. 	<ul style="list-style-type: none"> We are opening a new bank account with a joint signature, so that whenever the refund comes from the IT Dept., we will be able to get it from the investor company.
05	Financial	Treasury	<ul style="list-style-type: none"> Operational scale down and reduced revenue opportunity can pose a challenge to the ability to pay creditors on time 	<ul style="list-style-type: none"> Improve the collection efficiency – SI Monetization of identified Assets Daily/Weekly cash flow management to reduce the need for borrowings. Support in the form of HCL Corporate Guarantee Continuous monitoring & adherence to loan payment terms
06	Operational	Financial Risk	<ul style="list-style-type: none"> Share Purchase Agreement has been signed with investors in HCL Infotech business, with open Billed receivables and income tax refund. Non-compliance to the contractual terms 	<ul style="list-style-type: none"> It is agreed that the acquirer of HCL Infotech business, will refund the money back to HCL Infotech whenever the clients/income tax dept. pay. Share Purchase Agreement includes Unsecured OCD, through Private placement. In case of any challenge in recovering the BR & IT Refunds, HCL reserves the right to convert OCD to equity.
07	Operational	Human Capital	<ul style="list-style-type: none"> Loss of Human capital in critical operations 	<ul style="list-style-type: none"> Retention plans in place for identified critical resources Outsource the activities, with Supervision/monitoring by the Internal Governance team
08	Operational	Compliances	<ul style="list-style-type: none"> Legacy litigations in labour cases in HR practices 	<ul style="list-style-type: none"> Criminal cases have been addressed to mitigate the risk for Directors and management members,
09	Operational	Compliances	<ul style="list-style-type: none"> Risk of compliance gaps due to operational scale down, resultant Organizational structural changes and attrition of resources 	<ul style="list-style-type: none"> Periodical review of processes and alignment with organizational structure and compliance requirements. Risk assessment before delegating the authority. The financial authorities delegated are capped, within the framework of Board approved delegation. Stringent exception approval process and close monitoring of adherence to Delegation of Authority and Segregation of Duty.

Sl. No.	Category	Risk Item	Risk Description	Risk Management Strategy
10	Operational	Compliance	<ul style="list-style-type: none"> Code of Conduct (COC) & Ethical Issues 	<ul style="list-style-type: none"> Independent Whistle Blower Mechanism Strict actions on violations Continuous emphasis on company's Code of conduct policy Annual / Quarterly certification on compliance Periodic Internal Audit Quarterly Statutory Audit
11	Operational	Compliance	<ul style="list-style-type: none"> Risk of Shared services agency opting out and continuity issues in Finance & Accounting process 	<ul style="list-style-type: none"> Management is exploring alternative agency, considering a cost reduction. Retention of key resources as part of HCL's Governance team. Post the transition of SI business, a comprehensive review shall be taken and necessary corrective actions shall be implemented
12	Outsourcing risks	Compliance	<ul style="list-style-type: none"> Governance in Finance & Accounts function can get complicated with Multiple outsourced vendors (activity/ manpower) dependency 	<ul style="list-style-type: none"> Documented SOP's Retention of key resources Close supervision Internal audits Statutory audits
13	Operational risks	Financial	<ul style="list-style-type: none"> Expensive maintenance cost due to Operational downsizing and redundant IT Infrastructure 	<ul style="list-style-type: none"> Exploring alternative systems and vendors Data Classification, retention policies
14	Indirect tax	Compliance	<ul style="list-style-type: none"> Authorities claim cannot be foreseen without any time-limit 	<ul style="list-style-type: none"> Document retention policies in the company aligned with the Statutory requirements and for Open transactions (legally or otherwise) Maintain statutorily required documents as per retention policies Wherever required, a suitable legal approach
15	Indirect tax	Compliance	<ul style="list-style-type: none"> Actual liability could be more due to unsuccessful trials; Insufficient funds to meet unsuccessful Litigations 	<ul style="list-style-type: none"> High-value litigation matters were Opined in the company's favour by expert advocates The company has opted for an amnesty scheme in Service Tax & Excise cases & filed applications in SVLDRS-2019 wherein certain tax liabilities have been settled without payment of interest and penalty. There are deposits made and Bank Guarantee issued against some of the specific claims Necessary provisions are also made in the books of accounts In most of the cases except where Provision has been created, the company has assessed the cases and are of the view that the company has a fairly good chance of success both on factual as well as Technical grounds.

Internal Control Systems and their adequacy

The Company has put in place controls commensurate with the size and nature of Operations. These have been designed to provide reasonable assurance with regards to recording and providing reliable financial and operational information, complying with applicable statutes, safeguarding assets from unauthorized use or losses, executing transactions with proper authorization and ensuring compliance with corporate policies.



HCL INFOSYSTEMS

The company has an internal audit function designed to review the adequacy of internal control checks in the system which covers all significant areas of the Company's Operations such as Accounting and Finance, Procurement, Business Operations, Statutory compliances, IT Processes, Safeguarding of Assets and their protection against unauthorized use, among others. The Internal Audit function performs the internal audit of the Company's activities based on the Internal audit plan, which is reviewed each year and approved by the Board Audit Committee. The Audit Committee reviews the reports submitted by internal auditors. Suggestions for improvements are considered and the Audit Committee follows up on corrective action. Disciplinary action is taken, wherever required, for non-compliance to Corporate policies and controls.

Human Resource Development

As of March 31, 2021, the employee strength of the Company stood at 788, while on April 1, 2020, it was 1127. Besides full-time employees, the Company also engaged with over 87 associates for various short-term projects across different timelines during the year. The reduction in headcount was due to the scaling down of the Distribution Business and organization Rightsizing.

DISCLAIMER

Certain statements made in this report relating to the Company's objectives, projections, outlook, estimates, etc. may constitute 'forward-looking statements' within the meaning of applicable laws and regulations. Actual results may differ from such estimates or projections etc., whether expressed or implied. Several factors including but not limited to economic conditions affecting demand and supply, government regulations and taxation, input prices, exchange rate fluctuation, etc., over, which the Company does not have any direct control, could make a significant difference to the Company operations. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether because of new information, future events, or otherwise. Readers are cautioned not to place undue reliance on any forward-looking statements. The MD&A should be read in conjunction with the Company's financial statements included herein and the notes thereto. Information provided in this MD&A pertains to HCL Infosystems Limited and its subsidiaries on a consolidated basis unless otherwise stated.