HCL

HCL Technologies Limited
A N N U A L   R E P O R T   2 0 0 8 - 0 9

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HCL

BOARD OF DIRECTORS

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Chairman & Chief Strategy Officer

MR. VINEET NAYAR
CEO & Whole-time Director

MR. T. S. R. SUBRAMANIAN
Non-Executive Director

MS. ROBIN ABRAMS
Non-Executive Director

MR. AJAI CHOWDHRY
Non-Executive Director

MR. SUBROTO BHATTACHARYA
Non-Executive Director

MR. AMAL GANGULI
Non-Executive Director

MR. P. C. SEN
Non-Executive Director

Auditors

Price Waterhouse
Chartered Accountants
Gurgaon

Bankers
Citibank, N.A.
Global Corporate & Investment Banking
DLF Centre, 5th Floor
Parliament Street
New Delhi–110001

Deutsche Bank AG
Corp. Office – DLF Square
4th floor, Jacaranda Marg,
DLF City, Phase – II
Gurgaon-122002

Standard Chartered Bank
Corporate & Institutional Banking
Credit Operations, India
H -2, Connaught Circus
New Delhi–110001

ICICI Bank Limited
ICICI Tower
NBCC Place, Bhisham Pitamah Marg,
Pragati Vihar
New Delhi–110003

HDFC Bank Limited
B-6/3, Safdarjung Enclave
DDA Commercial Complex
Opp. Deer Park
New Delhi-110029

State Bank of India
Corporate Accounts Group Branch
11th / 12th Floor Jawahar Vyapar Bhawan
1, Tolstoy Marg
New Delhi-110001

Canara Bank
C-3, Sector-1, Noida

MANAGEMENT'S DISCUSSION AND ANALYSIS

Investors are cautioned that this discussion contains forward looking statements that involve risks and uncertainties. When words like 'anticipate', 'believe', 'estimate', 'intend', 'will', and 'expect' and other similar expressions are used in this discussion, they relate the Company or its business and are intended to identify such forward-looking statements. The Company undertakes no obligations to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Actual results, performances or achievements could differ materially from those expressed or implied in such statements. Factors that could cause or contribute to such differences include those described under the heading 'Risk Factors' in the Prospectus filed with the Securities and Exchange Board of India (SEBI) as well as factors discussed elsewhere in this report. Readers are cautioned as not to place undue reliance on the forward-looking statements as they speak only as of their dates. The following discussion and analysis should be read in conjunction with the Company's financial statements included herein and the notes thereto.

### Current State of Indian IT Industry

Indian IT Industry is going through a phase of transformation to reengineer itself in the wake of Global Economic slowdown. The clients are looking to their Indian IT service providers, not only to reduce costs, but also to partner with them in these difficult times. Looking beyond labor cost arbitrage benefits, they are seeking transformative offerings with a stronger business case. The vendors are also making focused investments in capability building across domains, processes, technologies to deliver enhanced value proposition to their customers.

Indian IT Industry growth is still intact. As per NASSCOM Strategic Review 2009, Indian IT Industry export revenues are estimated to be $47.3 bn in FY09. The IT Export revenues have grown at a CAGR of 25% during last 3 years. They were $24.2 bn during FY06.
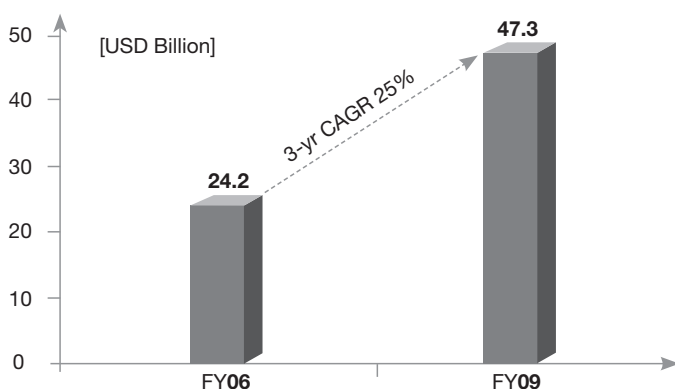

The overall structure of the Industry started to change in 2008. Custom Application Development, which used to be the backbone of Indian IT exports, saw a negative growth of -1% during FY09, while there was a positive double digit growth observed in IT Outsourcing (Applications and Infrastructure Management), BPO and Engineering services. These services grew at 23%, 17% and 16% respectively. The main reason for

the decline in Custom Applications Development was the shifting of client's focus from 'Change-the-Business' projects to 'Run-the-Business' projects.
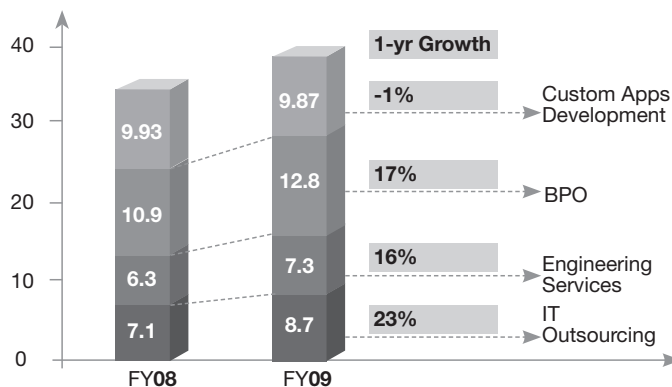

Indian IT Industry is continuing to innovate its offerings. Remote Infrastructure Management (RIM) services market, which was just $0.8 bn in FY06 grew at a CAGR of 70% during the last 3 years to reach at $4.1 bn in FY09. RIM services are predicted to be the next high growth engine for Indian IT Services market.
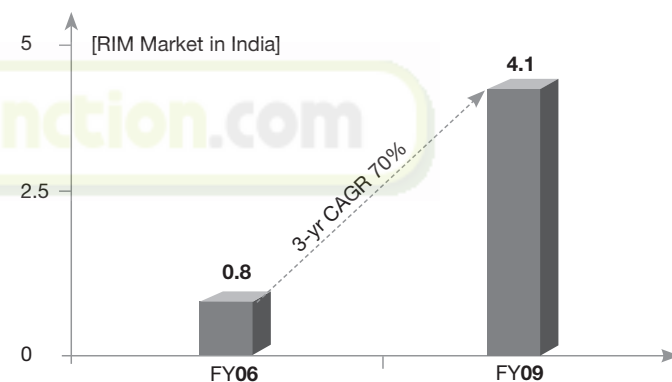
Indian IT Exports so far have been concentrated around US and UK markets. During FY08, 79% of the Indian IT exports were made to US/UK. Remaining 21% of exports were made to the rest of the countries. However, in terms of IT services spend the Rest of World (Non US/UK) region represents nearly 51% of Global IT services spend. So, there still exists, a lot of opportunities that are yet to be tapped by the Indian IT service providers.
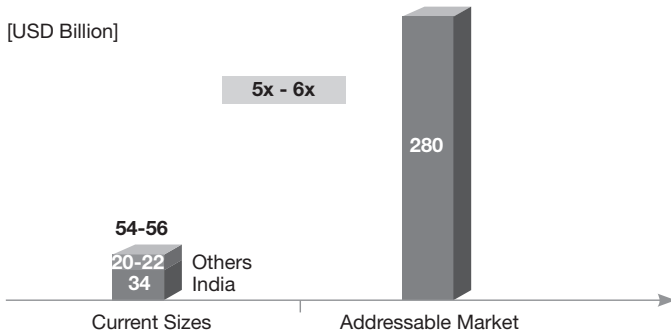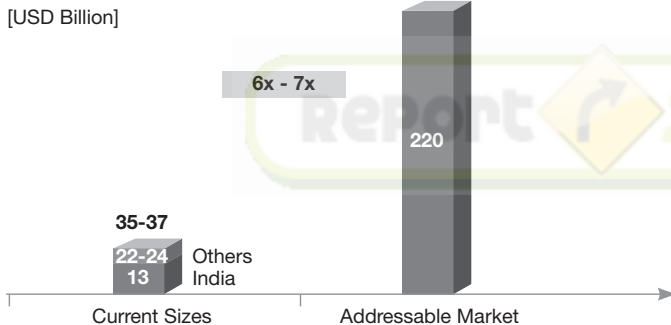
FY08 Exports Geo-Mix

![HCL]
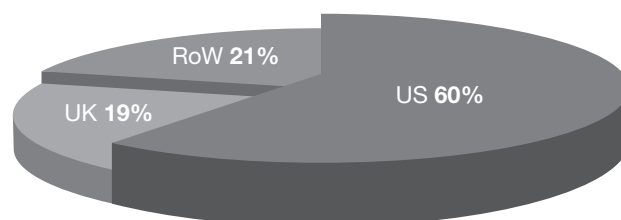
Drivers for Future Growth

As per NASSCOM Strategic Review 2009, Global Sourcing of Services has significant headroom for growth as the current penetration levels are very low. For Global Sourcing of IT and Engineering Services, the addressable market is nearly $280 bn, of which $54-56 bn has been tapped so far leaving a head room of 5-6x for growth. For Global Sourcing of BPO Services, the addressable market is nearly $220 bn, of which $35-37 bn has been tapped so far. This means there is still 6-7x headroom for growth available in global sourcing of BPO services.
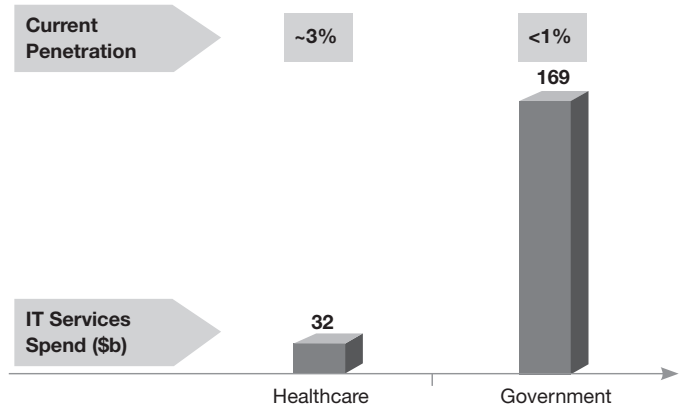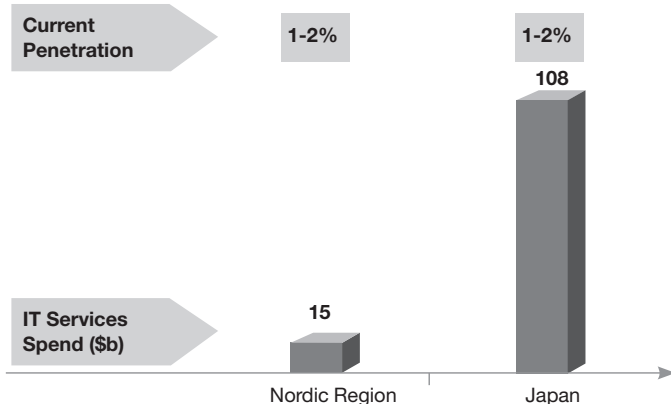
Global Sourcing of IT/ Engineering Services

[USD Billion]

```
5x - 6x          280
                (Addressable Market)

54-56
20-22  Others
34     India
(Current Sizes)
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Global Sourcing of BPO Services

[USD Billion]

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6x - 7x          220
                (Addressable Market)

35-37
22-24  Others
13     India
(Current Sizes)
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The Indian IT-BPO industry has a very low penetration level in certain geographies, verticals, and horizontals. For example, Japan has $100+ bn IT services spend and only 1-2% has been currently penetrated by the Indian providers. Amongst verticals, Healthcare and Government have a low penetration and will offer significant opportunities for future growth.

```
Current       1-2%        1-2%
Penetration               108

                          Japan

IT Services   15
Spend ($b)    Nordic Region
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Current       ~3%         <1%
Penetration               169

IT Services   32
Spend ($b)    Healthcare  Government
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Industry Outlook

With the global economic slowdown, Client IT spending is likely to fall globally in the near term. However, spend on IT services will be affected to a lesser degree than spending on hardware and software licenses. Within IT Services, maintenance and support are seen to be less sensitive to a downturn than application development and deployment services. Clients are still spending in the non-discretionary areas such as applications and infrastructure maintenance/ support, regulatory requirements, business critical enhancements and security.

As per 'NASSCOM Perspective 2020: Transform Business, Transform India' report, India's IT/BPO Exports could range from $65 bn to $75 bn in FY12. Two potential scenarios were analyzed. In the worst case scenario, factors such as constraints on pricing pressures, global sourcing mix, talent, infrastructure and productivity were considered in addition to falling demand as a result of regulation and policy changes in core markets. In this scenario, export revenues could grow to $65 bn to $70 bn with industry growing at a CAGR of 13%- 15% between 2008 and 2012. In the Best case scenario, export revenues are projected to grow to $70 bn to $75 bn with industry growing at a CAGR of 15%-17% between 2008 and 2012.

The Indian global sourcing industry is expected to reach $ 175 bn in revenues by 2020. This will imply a slightly lower CAGR of 13% and a decline in India's share of global market from 51% to 40% in 2020. The India share decline may be reduced if substantial efforts are made to reform education, enhance capacity, improve the business environment, and reduce risks.

The Indian IT/BPO industry has contributed significantly to Indian economy and society and can sustain this impact by 2020. Its contribution to Indian GDP can reach almost 10% if the industry achieves its full potential. Further, it can create 30 million (direct and indirect) employment opportunities, both in urban as well as rural and non-metro regions of the country. The industry can also foster India's development by encouraging improved infrastructure and providing technology enabled services far more effectively and efficiently than today's traditional models.

HCL Strategy

HCL is a dominant player in its own niche and is uniquely positioned as a co-sourcing partner because of the experience it has created for its clients. The unique positioning lends HCL to be different in its Business Model from other Indian IT Services players. HCL is focused on the following 5 strategies to achieve growth during the recessionary times.
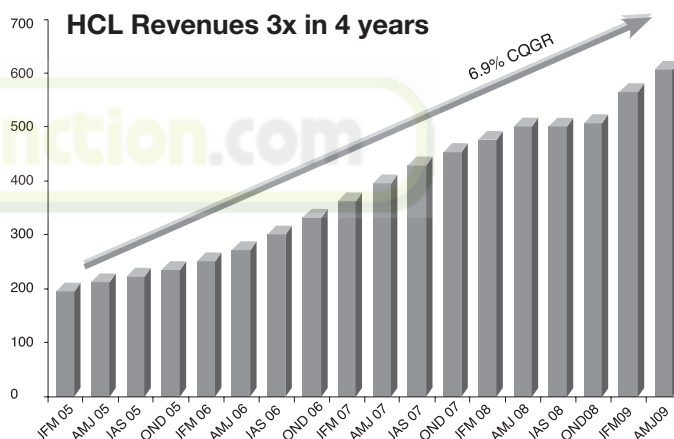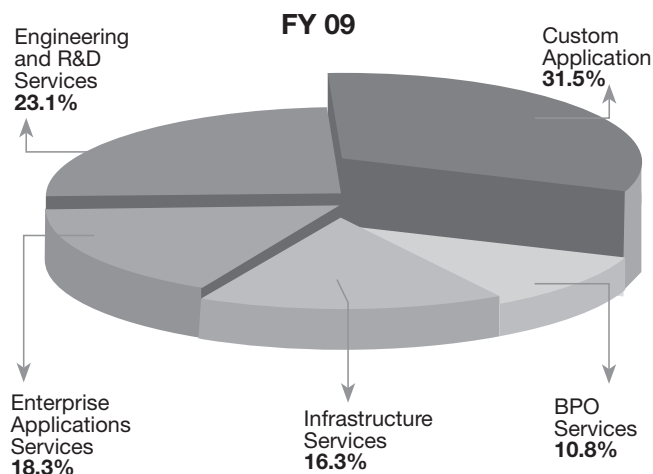
- **Unique dual horizontal - vertical strategy** – HCL has a unique model focusing equally on verticals and horizontals as equal end to end entities. In the case of horizontals, HCL has diversified go to market entities focused on achieving salience and dominance in the market. HCL is investing and energizing its Enterprise Application Services (EAS), Remote Infrastructure Management Services (RIMS) and Engineering and R&D Services (ERS) businesses that are high growth in nature. On the verticals front, HCL has a diversified portfolio of verticals today and is focusing on building micro verticalised domain competency.

- **Acquisitions to gain salience in growth segments** – HCL completed Axon acquisition in Dec 08, the biggest acquisition in Indian IT Industry history, to create a dominant position in the SAP Applications Services market place. As per an analysis of SAP Services Market, the Global SAP Services market size is around $26-28bn, of which $7-8bn has the potential for offshore. Currently, about $2bn has been captured by Indian players. So, there exists enough headroom for growth in this market segment.

- **Increase cross-sell and up-sell within acquired entities** – HCL is focused on cross-sell and up-sell opportunities with Axon accounts for non-SAP service and HCL accounts for SAP services. HCL had some quick wins during second half of FY09 on cross sell with Axon accounts. 3 of top 5 Axon customers have signed for non-Axon services.

- **Focus on winning new deals** – HCL continued to win large deals during tough times. HCL won several large deals during the last financial year with 70% of the wins won against global players. In the new wins, there was a domination of Infrastructure Services, which will be the key driver for future growth of Indian IT Industry.

- **Investments in new geographies** – HCL believes that Continental Europe and Asia have huge untapped potential and will offer opportunities for future growth. So far Indian IT Exports were focused on US/UK, with these two countries capturing 79% of Indian IT exports. With US/ UK IT Outsourcing markets maturing, HCL believes that untapped outsourcing potential in Continental Europe and Asia can be exploited by investing in these geographies. HCL has invested in a new leadership team and local presence to drive growth in these geographies. 85% of HCL Europe employee headcount is local to the region and has a diverse employee mix from 12 nationalities. HCL has also opened New Delivery centers in Poland and China to cater to Continental Europe and Asia markets.

Company Overview

About HCL Technologies Ltd.

HCL Technologies is a leading global IT services company, working with clients in the areas that impact and redefine the core of their businesses. Since its inception into the global landscape after its IPO in 1999, HCL focuses on 'transformational outsourcing', underlined by innovation and value creation, and offers integrated portfolio of services including software-led IT solutions, Remote Infrastructure Management, Engineering and R&D Services and BPO. HCL leverages its extensive global offshore infrastructure and network of offices in 23 countries to provide holistic, multi-service delivery in key industry verticals

including Financial Services, Manufacturing, Aerospace & Defense, Telecom, Retail & CPG, Life Sciences & Healthcare, Media & Entertainment, Travel, Transportation & Logistics, Automotive, Government, Energy & Utilities. HCL takes pride in its philosophy of 'Employee First' which empowers our 54,216 transformers to create a real value for the customers.

FY 09 — Custom Application **31.5%**, Engineering and R&D Services **23.1%**, Enterprise Applications Services **18.3%**, Infrastructure Services **16.3%**, BPO Services **10.8%**

HCL Revenues 3x in 4 years — 6.9% CQGR

Service Offerings

HCL has re-structured and re-energized its diversified portfolio of service offering with each having a robust and resilient business model in place. It is important to note that no single service line contributes more than 32% to the total revenue, while maintaining a leading edge in key verticals where the company has chosen to focus.

Custom Application Services

Custom Application Services division at HCL endeavors to help customers' businesses by designing and implementing scalable, reliable, robust, secure, and easily maintainable business applications. In order to provide our customers with state-of-the-art solutions, HCL has ensured continuous development of niche competencies in the latest technologies.

The Application Consulting Group at HCL provides services ranging from custom application development, application re-

engineering and integration, legacy migration and modernization, to application portfolio optimization, maintenance and production support.

The group contributes 31.5% of the HCL revenues and boast of servicing at least two of the top five players in various industries like Retail, Banking, Insurance, Media & Publishing, Gaming and Life Sciences.

HCL is continuously investing in robust methodologies, tools, and processes to ensure high quality of delivery to customers. The unique Knowledge Transfer methodology - ASSET™ ensures minimum cost bulge for clients and a smooth transition to offshore. HCL's CoE concept ensures continuous upgradation of skills and also helps customers benefit from our extensive research and developments of reusable components and frameworks.

With a focus on quality and keeping with the customers' information security requirements, all company software development centers are certified with ISO 9001:2000, Level 5 of Software Engineering Institute's Capability Maturity Model (CMM Level 5) standards, and British Security Standard—BS7799.

HCL is also investing significantly in areas like cloud computing, pay as you go services and hosted services.

HCL has also built a managed services model as a new operating model. We are also developing a new framework that allows alignment of IT with the Business. The new framework provides a unified view of business processes and underlying IT landscape and helpful in cycle time reduction, be more resilient by high availability and, most efficient by providing the lowest IT cost of a business transaction.

Engineering and R&D Services

Engineering and R&D Services account for 23.1% of the Company's revenues. Over the past decade and more - HCL has been involved in engineering engagements with leading technology companies, in almost all Manufacturing verticals and in the Software domain. Many of these project-based engagements are today large scale multi-product multiservice partnerships - where HCL plays a critical role in our Customers' global innovation network.

As our customers' needs are changing, so are their expectations - and in the past couple of years - HCL has been called upon to deliver greater value in terms of business impact higher up in the value chain. With our Full Lifecycle Expertise, Ecosystem partnerships for manufacturing and research, our IPs and Frameworks, our Vertical Solutioning capability and our appetite to take risks and invest - we are today positioned to be the Business Aligned R&D partner to global technology companies.

HCL understands the importance of Research & Development (R&D) for its customers businesses and is committed to provide world-class R&D and Technology Services to them. HCL offers comprehensive range of R&D and Engineering services to component vendors, OEMs, ODMs and ISVs across multiple industry segments and domains. The company has a proven track record in providing "end to end solutions" that span across conceptualising to manufacturing and ability to consistently deliver complex and critical products. With its significant product engineering strength and experience, HCL provides full lifecycle product engineering services, spanning from requirements definition to prototype architecture, development, testing, and manufacturing technical help desk to field support, maintenance and upgrades.

Business Aligned R&D is a new paradigm for Global Collaborative Innovation, where synergistic partnerships are leveraged by Innovation driven companies to maximize ROI and meet business objectives in increasingly challenging yet rapidly expanding global markets. Over a decade of operating in multi-vendor environments and being involved in every part of our Customers' value chain, we have the ability to seamlessly integrate into your existing R&D ecosystem, working with your other innovation partners, captive centers, universities, industry bodies and manufacturing partners. This is what it takes to make an R&D ecosystem truly business aligned.

Enterprise Application Services (EAS)

HCL's Enterprise Applications Services (EAS) is focused on providing best-in-class services and solutions to its customers in areas like in areas like ERP, SCM, CRM, HCM, EPM, etc. leveraging its strong strategic partnerships with SAP, Oracle and Microsoft.

The EAS accounts for about 18.3% of the Company's revenue and is one of the key areas of growth at HCL.

HCL further strengthens its presence in the Enterprise Application space by acquiring Axon group plc, one of the few large-scale pure play SAP companies, in December 2008, making is one of the biggest acquisitions by any Indian company in recent times. The combination of Axon's strong SAP implementation capabilities with HCL's strong SAP application and infrastructure management capabilities ensured higher value on an end-to end services basis for all our customers.

HCL reverse merged its SAP practice with the acquired company and created HCL AXON, the largest SAP only Global Partner and service provider in the world. HCL AXON has created great opportunity to bring new capabilities to the market with a truly global delivery model providing the full lifecycle suite of services - fitting into HCL's Blue Ocean strategy perfectly.

AMR Research believes that AXON acquisition puts HCL in the SAP Big League and ranked HCL among the Top 10 SAP service providers, with a combined SAP consulting and support capability that is 60% larger than its closest India-based competitor. HCL also won the FT ArcelorMittal Boldness in Business award for its strategic acquisition of Axon.

Another important arm of HCL's EAS service line is Oracle Universe (OU), which provides the entire gamut of end-to-end application life-cycle management services such as blue printing, implementation, global roll-outs, upgrades & migration, integration and development. The group delivers high value solutions in Oracle, PeopleSoft, Siebel, JD Edwards, Hyperion, Agile, Oracle Transportation Management, Stellent, and other Oracle Edge applications and technology products.

Enterprise Transformation Services (ETS)

HCL's Enterprise Transformation Services group assists our forward-looking customers to develop a transformation roadmap that aligns business strategy with IT strategy. HCL partners with customers and help them identify the initiatives driving change, manage the transformation process, and implement supporting

technology solutions that add value to the organization. We provide value by reducing IT intensity (IT Spend to Revenue ratio), helping achieve operational excellence, and helping customers achieve business goals.

The ETS group provides comprehensive "Advise to Execute" services that span from end-to-end implementation, to maintenance and support services that guarantee alignment of customer's IT spend to industry benchmarks, while supporting Transformation initiatives across the enterprise.

HCL's ETS proposition comes with guaranteed benefits of transformation arising out of its capability to provide integrated IT services including Applications, Infrastructure and BPO.

The group offers a complete bouquet of best-in-class services in key areas including Middleware & SOA, Data Warehousing & Business Intelligence Services, Enterprise Content Management & Portals, Independent Verification & Validation, and Mainframe and Midrange Services, Governance, Risk Compliance Consulting.

In 2008, we have introduced several new propositions and services like Integrated Mainframe Operations and Applications Management services for our customers, which are compliant with industry standard frameworks such as ITIL, Six Sigma and CMM-i.

Infrastructure Management Services (IMS)

HCL Infrastructure Management Services contributes to 16.3% of revenues of the company. We consider this space as one of the key growth areas and continue to invest and expand its footprint in niche areas such as Integrated Operations Management Services, Cloud Computing and Green IT services.

HCL's leadership in Infrastructure Space has been recognized by many leading independent analysts and media firms. We have been cited as a 'Leader' in Global IT Infrastructure Outsourcing by Forrester (Forrester Wave™ report on Global Infrastructure Outsourcing Q1, 2009). Global Services 100 Survey, 2008 ranked HCL as the world's 'Best Performing Infrastructure Service Provider'. We were ranked amongst the Top 10 'Green 50 Sourcing Vendors' by Blackbook of Outsourcing Survey, 2009. We also won the Golden Peacock Award for Eco Innovation.

The company was Ranked No.1 in Customer Satisfaction Audit in IT Services in India by IDC-Dataquest CSA, 2008 (second year in a row!) and Ranked No. 2 in Network management and Network Integration Services in V&D100 Survey, 2009 Ranked No. 1 Security Service Provider in V&D 100 Survey, 2009 (fifth year in a row!).

HCL ISD offers end-to-end 'Remote Infrastructure Management' services to clients. This includes services such as Data Center Design, Migration & Rollout Planning, Process Design, Service Delivery Structure Design, Implementation & Rollouts as well as Day to Day Operations across the entire range of Infrastructure Elements such as Servers, Storage, End User Devices, Network Equipment, Security Devices etc.

HCL recently launched a suite of Green Data Center Services primed to impact and reduce the disproportionate share of an enterprise carbon footprint and environmental impact by assessing, planning, and implementing initiatives around their DC environment. A key highlight of this service is our unique Data center Green Quotient Framework that offers assessment of the 'green' state of an enterprise DC.

HCL is the first ever technology company in India to launch a comprehensive Green Data center Service Offering ahead of its competitors, the other Indian IT players.

So far, HCL's Green DC Services has impacted cost savings for the enterprise by saving power to the tune of 11334 KW in a year which is equivalent to*

• 22,500 Cars off the highway

• 300,000 Trees Planted

• 133,140,990 lbs reduction in Carbon Emissions

• Reduced 15000 Servers through virtualization

• Annual Energy cost savings: 10 million USD

Business Process Outsourcing (BPO)

HCL BPO Services is a dominant player in the BPO field, contributing about 10.8% of the company's revenue. HCL BPO excels at developing reliable and scalable solutions for essential business processes, consecutive with industry best practices and metric-based Quality norms.

HCL views BPO as a key growth segment and is aggressively expanding its presence in niche areas and geographies. HCL is investing in creating unique differentiators and competencies to achieve over a period world class competencies in its BPO services.

HCL's BPO strategy determines our conscious move from voice-based services to platform-based services; and from input-based pricing to output-based pricing to outcome- based pricing.

The company focuses on 'transformational outsourcing' by offering a combination of voice and non voice based processes that relate to:

• Business Generation (Contact Scoring/Customer acquisition/ Post Sales Service)

• Operations Management (Technical desk support/ Procurement Services/ Transaction Processing/ Collection Services)

• Management Support (Primary/Secondary Research/ Data Analysis and Modeling)

• Platform based Services – (Supply Chain Management, Knowledge & Legal Services/Human Resource Outsourcing/ Customer Relationship Management)

HCL's acquisitions of UK-based Liberata Financial Services and US-based Control Point Solutions in 2008 is in line with its VBPO strategy. This VBPO strategy also defines our global delivery model which is to expand our delivery footprint, minimize risks from currency fluctuations and country specific risks and to offer near-shore, off-shore options to customers.

The acquisition of Liberata Financial Services (LFS), a leading UK-based BPO, offered a wide range of end-to-end administrative and customer services for the Life and Pensions industry. With this strategic acquisition, HCL BPO catapulted to become one of the Top 5 Insurance service providers in UK. LFS has been rebranded to HCL Insurance BPO Services (HCL IBS) and Control Point Solutions Inc. changed to HCL Expense Management Services Inc.

HCL BPO expanded its global presence to the USA in September 2008 with the acquisition of Control Point Solutions (CPS). This acquisition makes HCL BPO the first Indian BPO to enter the Telecommunications Expense Management (TEM) market. CPS has been rebranded to HCL Expense Management Services (HCL EMS).

HCL BPO is the first BPO Company in the world to be successfully appraised at Maturity Level 3 of People CMM. With respect to Quality, HCL BPO is the first BPO to go for "Integrated Business Management System" (IBMS) to ensure that the organization follows the most innovative and Best Practices of all Quality Certifications (ISO 9001, ISO 14001, OHSAS 18001, and COPC). HCL BPO is also the first Indian company and 3rd in the world to be COPC certified in the specialized area of collections.

Risks and Concerns

Operating Business Environment Risk & Deepening Recession

The business environment deteriorated sharply in the past year particularly in US due to the subprime banking crisis emanating in the US and its spiral-down effect to other parts of the world. Most of the IT service providers derive significant business from the Banking, Financial Services & Insurance (BFSI) vertical which is facing severe credit crunch. The service providers are facing challenging times with clients and the downward trend is expected to continue into 2009 as well with global IT spend expected to decline due to challenging economic environment. As fallout of global economic slowdown there is a growing trend among the IT outsourcing client base to explore opportunities to achieve cost optimization through consolidation of services provided by various technology service providers and by putting discretionary projects on hold.

HCL Strategy

To reduce dependence on any particular market, HCL has its operations well diversified across various geographies. Moreover, it has a vertically focused business approach and offers combination of services mix reducing its dependence on any particular service. The Company's business is spread over six distinct service lines and no single business line contributes more than 32% of the total revenue.

Similarly, our revenue from biggest industry vertical is also within 31% of overall revenue and BFSI vertical contribution is within 26% of overall revenue.

Further, HCL strengthened its position in Package implementation segments and Platform based outsourcing services by making acquisitions in these segments.

Competition Related Risks

New competitors are emerging from adjacent markets and distant geographies. The Company faces competition not only from the India based IT services providers but increasingly from the multinational IT vendors who are expanding their presence in the country owing to attractiveness of the Offshoring model.

HCL Strategy

HCL's differentiation strategy incorporating its unique business approach has led to its emerging as a "Thought Leader" in the rapidly dynamic IT industry. HCL's differentiation strategy is four fold which includes Employee First initiative, Value centricity and Trust, Transparency and Flexibility.

Employee Related Risks – Managing Talent

Attracting talent is still important and so is retaining key talent during an economic downturn. What was the "war for talent" is now more complicated. One of the key challenges being faced by IT industry today is to avoid losing key competencies especially when companies are undergoing downsizing or making strategic divestures. Even though the attrition has abated a bit, still the supply of talent and skilled manpower continues to remain major challenge for companies in services and consulting domain.

HCL Strategy

HCL's continues with its "Employee First" initiative which has now entered in its fourth year of successful implementation. The focus on employees as key resources has led to introduction of several employee friendly policies that has helped HCL in containing its attrition rates from 20.4% in 2005 to 13.0% in 2009. Success of this program continues to be hailed globally as it won various accolades.

This year, HCL was ranked the No. 1 Employer in India and Best Employer in Asia by Hewitt 2009 Study and was also voted as the Most Innovative Company in the world for its workforce practices and won the Optimas award instituted by Workforce Management in US. In addition, HCL was declared Leaders in the category Human Capital Development and ranked 3rd amongst the 100 best global IT service provider companies that made it to the Global Services 100 list 2009. In Europe, HCL was named as one of Britain's Top Employers 2009 for the third successive year by CRF International, an independent business research organisation.

HCL has been taking adequate steps to improve and augment the supply of experienced manpower. It has partnered with select local engineering colleges/institutes and imparts quality and contemporary technical education.

HCL continues to make investment in Employee Development initiatives through Up-gradation of skills, re-skilling and leadership development. These programs have not only helped in ensuring that there is no skill mismatch and building high motivation levels of employees through skill enhancement.

Technology Risks

HCL operates in an ever evolving and dynamic technology environment and it is of utmost importance that the Company continuously reviews and upgrades its technology, resources and processes lest it faces technology obsolescence.

HCL Strategy

The Company keeps itself abreast and updated on the contemporary developments in technology landscape through participation in key technology forums, in-house training and development initiatives and its intensive focus on core research and development activities. The Company is not dependent on any single technology or platform. HCL has developed competencies in various technologies, platforms and operating environment and offers the wide range of technology options to clients to choose from, for their needs.

Further, HCL has a dedicated Delivery Excellence Group (DEX) which offers consulting to various delivery teams in developing best practices, development of reusable code and registering patents for methodologies and tools developed. This group works closely with Technology Research Council (TRC) of respective Vertical Delivery Units for adopting and implementing the latest technological enhancements in their respective domains.

Exchange Rate Risks

Global financial crisis and house price declines has sparked capital flight from emerging markets thereby causing depreciation of currencies of developing countries against US Dollar. This would benefit the exporters and provide a gain which partly offsets the decline in margin on account of pricing pressure due to deepening recession. However, this benefit will not accrue in the short term due to hedges taken by exporters against their forecasted revenues.

HCL Strategy

As a risk containment strategy, HCL has taken forward covers to hedge its receivables and forecast revenues against the foreign currency fluctuations. This strategy ensures certainty in revenue collection and also provides safeguards against any unfavorable movement to stakeholder. The treasury department of the Company continues to track the foreign exchange movements and takes advise from financial experts to decide its hedging strategy from time to time.

Further, there is an increased focus on Europe, Asia Pacific and Rest of World for generating business which not only insulates from dependency on a single chosen economy but also ensures that the revenue streams are denominated in multiple currencies thereby de-risking the currency risk.
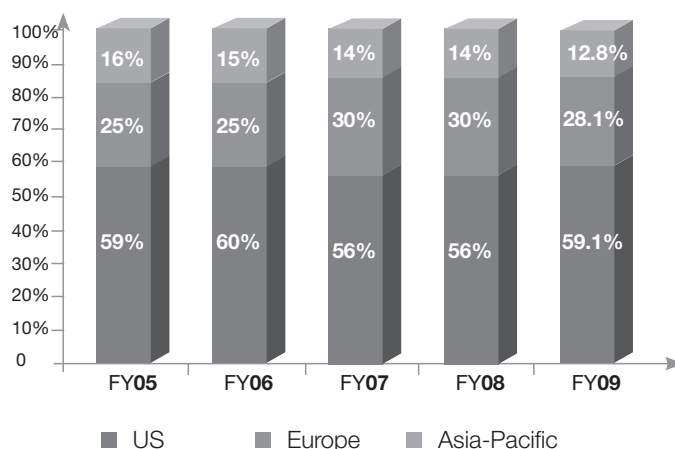
Business Concentration Risks

Geographical Concentration

HCL has fairly well diversified portfolio of services spread over various geographies across multiple verticals. This has ensured adequate de-risking of the business model and protects HCL from any adverse development in any geography, vertical or for any service line. Enclosed below are the details of HCL's business concentration based on geography and verticals. In addition, the client portfolio of HCL is also adequately diversified and does not carry any concentration risks.

HCL Strategy

This year has marked a positive growth in all geographies across HCL. HCL derives 59% of business from the US and rest 41% from the other regions. Even though the company has a strategy to grow more out of non-US geographies, the share of the US has increased in total revenue during the year 2009. The same has been primarily on account of two reasons - firstly on account of more number of outsourcing opportunities arising out of the US due to continued focus on off-shoring and cost-cutting necessitated by recession. Secondly because of decline of value of other currencies especially in Euro Zone vis-à-vis US Dollar.

Industry Vertical Concentration

While the BFSI remained the most challenged vertical against the backdrop of US slowdown, HCL's broad based vertical approach ensured that business impact is minimized through enhanced contribution from other verticals.

HCL Strategy

Our vertical constitution has changed significantly. New growth verticals constitute 5.5% of our business as against 1.2% till last year.

Further, HCL has been successful in gaining new client engagements in newer growth verticals like Life Sciences and Media, Publishing & Entertainment. These verticals are not conventionally large outsourcers of business applications and therefore present good growth potential. HCL continues to replicate its successful business engagements in these verticals in newer geographies and has been successful in gaining clients in this space.

Physical Security

Increased risk to human life and assets due to frequent incidents of terror assault remains major risk for companies operating in third world. The impact would be more on service companies as against manufacturing companies due to manpower intensive business model applicable to IT/ ITeS companies.

HCL Strategy

HCL has stringent security levels on all its facilities and ODCs. Comprehensive security is provided by leveraging on People, Processes and Technologies. Formation of ERT (Emergency Response Team), Evacuation plan and strengthening of Disaster Recovery and Business Continuity Plan (DR-BCP) are other related steps in this direction to minimize the loss of human life and to provide continuity of operations with minimal disruptions.

Mergers & Acquisitions - Executing M&A Transactions

To increase depth and breadth of HCL's services, UK based SAP consulting company AXON Plc. has been acquired (£441 mn) through a combination of internal accrual and debt.

HCL Strategy

For facilitating integration of AXON, HCL's strategy was built around Five Ps i.e. (Purpose, Planning, Process, Pace & People).