

# BUILDING 21<sup>ST</sup> CENTURY ENTERPRISES THROUGH **MODE 1-2-3 STRATEGY**



ANNUAL REPORT 2016-17



## **CONTENTS**

Board of Directors	02
Management Discussion and Analysis	03
Directors' Report	29
Corporate Governance Report	84
CEO & CFO Certificates	115
Business Responsibility Report	116
Standalone Financial Statements	134
Consolidated Financial Statements	201
Statement under Section 129	280

## BOARD OF DIRECTORS

**MR. SHIV NADAR**

Chairman & Chief Strategy officer

**MS. ROSHNI NADAR MALHOTRA**

Non-Executive Director

**MR. SUDHINDAR KRISHAN KHANNA**

Non-Executive Director

**MR. DEEPAK KAPOOR**

Non-Executive & Independent Director

**MR. KEKI MISTRY**

Non-Executive & Independent Director

**MS. NISHI VASUDEVA**

Non-Executive & Independent Director

**MR. RAMANATHAN SRINIVASAN**

Non-Executive & Independent Director

**MS. ROBIN ABRAMS**

Non-Executive & Independent Director

**MR. SUBRAMANIAN MADHAVAN**

Non-Executive & Independent Director

**DR. SOSALE SHANKARA SASTRY**

Non-Executive & Independent Director

**MR. THOMAS SIEBER**

Non-Executive & Independent Director

**MR. C. VIJAYAKUMAR**

President & Chief Executive Officer

**MR. ANIL KUMAR CHANANA**

Chief Financial Officer

**MR. MANISH ANAND**

Company Secretary

**AUDITORS****M/s. S.R. Batliboi & Co. LLP**

Chartered Accountants

Gurgaon

**BANKERS****1. Citibank N.A.**

Global Transaction Services  
Citigroup Corporate and Investment Banking  
17th Floor, 'M' Block Jacaranda Marg  
DLF City Phase II Gurgaon – 122002

**2. Deutsche Bank AG**

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

**3. The Hongkong and Shanghai Banking Corporation Limited**

Major Corporates Group (MCG)  
Institutional Plot No. 68, Sector 44  
Gurgaon - 122002

**4. State Bank of India**

Corporate Accounts Group –II  
4th and 5th Floor, Redfort Capital  
Parsvnath Towers, Bhai Veer Singh Marg  
Gole Market, Near Speed Post Office  
New Delhi-110001

**5. Canara Bank**

Prime Corporate Branch-I  
DDA Building, Plot No. 1  
1st Floor, Near Paras Cinema  
Outer Ring Road, Nehru Place  
New Delhi – 110019

**6. Standard Chartered Bank**

3rd Floor, DLF Building No. 7A  
Sector 24, 25 & 25A  
DLF Cyber City Gurgaon – 122022

**7. BNP Paribas**

8th Floor, Sood Tower (East Tower)  
25, Barakhamba Road  
New Delhi-110001

**8. Bank of America N.A.**

DLF Centre, 1st Floor  
Sansad Marg, New Delhi-110001

## **MANAGEMENT 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,' 'expect' and other similar expressions are used in this discussion, they relate to 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 other factors. 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 and Concerns' as well as factors discussed elsewhere in this report. Readers are cautioned 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.

## INSIDE

	Page No.
• The Changing Landscape	05
• Mode 1: Core Services	06
• Mode 2: Next-Generation Services	10
• Mode 3: Products & Platforms	13
• Human Resource Update	14
• Risks and Concerns	16
• Performance Trend	18
• Financial Performance	19
• Consolidated Results	19
• Standalone Results	25

## THE CHANGING LANDSCAPE

### Industry Overview

The digital age is rapidly transforming technology paradigms, redefining the way businesses and technology interact with each other. Today, businesses across industries stand at an inflection point due to far-reaching disruptions, fueled by Automation, Cloud, Artificial Intelligence, IoT and Digitalization.

Technology is not only impacting every aspect of human life and society, it has become a key lever for driving business outcomes and success. More than ever, technology is taking precedence across almost all areas of business, as the priorities have changed from cost-saving and cost-efficiency to driving innovation, business growth and customer delight.

The momentum of change, stimulated by an explosion of data and connected devices, software defined infrastructure, cloud-enabled, as-a-service and experience-driven digital platforms, is forcing enterprises to reimagine their business and re-engineer it for success in the new world. The industry landscape is moving towards the fourth industrial revolution where technology is becoming core to the business and transforming business models.

As 21st Century Enterprises grapple with industry disruptions, evolving dynamics and a rapidly changing business environment, they are adopting new age technologies to drive business growth, develop innovative products and offerings and solve their business problems. Organizations are striving hard not just to be at par, but to rise above their competitors and are looking for the means to that end.

### HCL Strategy

Businesses across industries stand at an inflection point today. Far-reaching disruption fuelled by technologies like Digitalization, Analytics, Cloud, Security, IoT and Automation mean these technologies lie at the core of any enterprise that is trying to reinvent itself. As the demand for these services increase, HCL Technologies is accelerating its evolution into a next-generation technology services firm through HCL's Mode 1-2-3 strategy, with Mode 1 comprising core services, Mode 2 comprising next-generation services and Mode 3 comprising products & platforms.

HCL Technologies leverages its **Mode 1-2-3 strategy** to help its customers thrive in the digital age, creating unmatched value, growth and innovation through collaborative ecosystems consisting of employees, clients and partners.

Moving from traditional efficiency-oriented offerings to outcome-driven approach, HCL is helping customers adapt to the new world and navigate their way through new technologies like Internet of Things, Cloud, Software-Defined Infrastructure, Artificial Intelligence, Machine Learning, Robotics and more.

HCL's Mode 1-2-3 Strategy helps future proof its customers' businesses by focusing a concurrent 3-point spotlight on the existing core of their business, growth areas, as well as the future. Each of the three modes have a distinct outcome and growth potential. DRYICE™, the comprehensive Autonomics & Orchestration platform, is the core force behind HCL's Mode 1 and 2 offerings. DRYICE™ combines some of the world's best Automation and Artificial Intelligence (AI) technology across 54 interconnected modules that can automate any number of standard and non-standard tasks across infrastructure, applications, business processes and engineering services.

Mode 1 is about sustaining the leadership position, as well as gaining market share, in existing product or service offerings. It revolves around strengthening the existing core of the business, be it through forging expansion into new markets or by expanding further into existing markets. This necessitates a sharp focus on one's most powerful differentiators. The emergence of new technologies does not necessarily mean that existing products or core services are losing relevance. It implies adoption of, and adapting to, newer technologies to make them even more relevant.

The Mode 2 strategy focuses on the immediate high-growth opportunity. This is where one can step up its game, realizing high acceleration and high-growth business opportunities at the inflection points in their industry using **IoT, Digitalization, Analytics and Cyber-security capabilities**. This involves close study of the direction in which customer preferences are headed, the resultant changes in industry landscape and potential impact on one's business.

Mode 3 is about looking beyond tomorrow and aligning with the trends shaping the future. The formation of ecosystems is evident across the value chains and across industries. Therefore, rather than a ground-up approach, Mode 3 entails future proofing the business by making the required business model changes, and building innovative alliances within an ecosystem of strategic partners through **Products and Platforms**. A successful Mode 3 approach connects the dots between one's existing strengths, focus-points for tomorrow and the shifting canvas in which one operates in to stay ahead in the future.

HCL believes in the power of ideas, a culture known as Ideapreneurship™, giving the employees the license to ideate and empowering them to deliver value beyond the contract to customers. Thus, the promise of 'Relationships Beyond the Contract' (RBtC), powered by the Ideapreneurship-led culture, fosters grass-root innovation, providing an opportunity to Ideapreneurs to ideate, collaborate and create innovative ideas to solve customers' business problems. With its thrust on RBtC, HCL focuses on building long-term, mutually beneficial associations with its enterprise customers.

HCL further leverages its global network of integrated co-innovation labs, and global delivery capabilities to provide holistic multi-service delivery in key industry verticals.

HCL is the digital transformation partner of the '21st Century Enterprise' and classifies the 21st Century Enterprise as being:

1. experience-centric - strives to offer consumers and technology users a unified experience across delivery platforms
2. service-oriented - an operating model focused on customer satisfaction
3. agile and lean - "optimized" in size and scalability to rapidly adopt to technology developments
4. ecosystem-driven - collaborates to extend the technology ecosystem beyond the enterprise, and
5. outcome-based - delivers "outcomes" which cut across value chains.

### **Mode 1: Core Services**

Under Mode 1, HCL delivers the core services in areas of Applications, Infrastructure, BPO and Engineering & R&D, leveraging DRYICE™ Autonomics to transform clients' business and IT landscape, making them 'lean' and 'agile'. Through Mode 1 services, HCL augments its clients' core capabilities, expanding their global footprint and consolidating existing operations.

#### **Applications Services**

The applications services market today is undergoing a massive transformation with a continual shift from systems of record to systems of innovation. Overall spend on traditional applications has reduced, but HCL sees growth taking place in new technologies like cloud, applications modernization, analytics, Internet of Things and digitalization. HCL offers a comprehensive suite of services that are flexible, scalable and customized to meet clients' needs. HCL offers deep functional and technical expertise in complex application development and management, systems integration, enterprise package services and testing services across industry verticals and functional areas like HCM, SCM, Finance, CRM etc, offering customers transformational value in the new world of enterprise applications. HCL's alternative approach helps organizations make the right investments in the right solutions in parallel with key business objectives.

HCL offers a full lifecycle of consulting services and proven delivery capabilities, tailored to each client and the needs of their industry and sector. HCL's Applications business is structured around various integrated horizontal capabilities, allowing them to offer clients a unified approach in developing the right solutions for their business needs. HCL combines its core expertise and capabilities in each of these areas with deep experience in industry verticals to provide powerful business

solutions and systems integration capabilities which ensure that every one of its engagements adds transformational value to the organization in an increasingly digital world.

Using end-to-end IT capabilities, from systems integration to application maintenance and support, HCL delivers value-driven solutions designed to help organizations to maximize their return on investment, enhance business productivity and reduce the total cost of technology ownership.

HCL has a strong partner network and works with leading technology providers to deliver best-in-class solutions. Each business also works with niche partners to develop solutions in specialized technology areas. HCL helps its alliance partners -

- generate incremental revenue growth through differentiated solutions and service offerings,
- extend market and geographic reach, and
- enhance their product and service offerings

HCL's delivery model integrates on-site business transformation consulting services with near and offshore technical development and support to ensure that its clients receive the ideal systems integration solutions at the right price. Through its offshore centers of excellence, HCL is able to accelerate implementation, while reducing the risks and costs associated with global deployment. Business and IT transformation is a result of HCL's unique capabilities to merge its onsite and offshore capabilities seamlessly. HCL's benefits-led approach recommends the best tools and solutions to meet an organization's needs, and incorporate best practices acquired through years of complex engagements in systems applications consulting. HCL helps organizations realize the true benefits of their technology investments by aligning IT service offerings with business goals and strategies.

HCL work with its clients to drive business outcomes through large IT program delivery. HCL has strategic partnerships with leading enterprise application providers-SAP, Oracle and Microsoft.

HCL operates as a single global organization, allowing it to deploy consulting teams that leverage proven industry and solution best practices from its offices and delivery centers around the world. HCL offers:

- A benefits-led approach
- Global labs and innovation centers dedicated to transforming ideas into real-world solutions
- Business application consulting capabilities through deep domain experience and technology expertise
- Integrated service offerings for end-to-end global applications lifecycle management
- Deep enterprise application integration solutions capabilities and skills across key industry verticals



- Creative commercial models that allow for business-aligned and outcome-based contracts
- Knowledge management consulting services to leading global companies
- World class partnerships across its core capabilities

### Recognitions

- Everest Group, in its report “Life Sciences IT Application Services - Service Provider Landscape with PEAK Matrix™ Assessment 2016” named HCL among leaders, recognizing HCL’s ‘wide range of application services solutions across all value chain elements of life sciences practice.
- HCL has been recognized for its IT applications outsourcing leadership and integrated services value proposition for the global capital markets by Everest Group in its report titled “IT Outsourcing in Global Capital Markets - PEAK Matrix™\_Assessment 2016”.

### Infrastructure Management Services (IMS)

HCL IMS manages mission-critical IT environments for some of the largest and most forward looking organizations in the world, including large Fortune 500 / Global 2000 companies. With differentiated and well defined value propositions, the best-in-class partner ecosystem and pioneering automation solutions based on the DRYICE™ Autonomics platform, IMS continues to retain its market leadership position in this space by evolving to be the “digital infrastructure management” partner of choice. HCL is widely recognized by the analyst community as the leading global service provider and innovator in IT Infrastructure Management Services.

HCL recently introduced the Next Generation IT and Operations (NGIT&O) framework to enable 21st Century Enterprises operate with agility, run lean operations, and focus on customer experience - all critical success factors in today’s fast moving markets. With Digitalization and Internet-of-things driving customer investment and playing critical roles in business success in the 21st Century, the NGIT&O enables “Multi-modal I.T.” to support these new initiatives while running lean operations. Powering the Next Generation framework are 21st Century Blueprints for Datacenter & Cloud, Workplace Services and Networks which apply proven transformation levers across the entire I.T. Infrastructure stack to maximize benefits of a secure Enterprise Cloud, create a modernized workplace that transforms employee productivity, enable internet-optimized highly-available networks and power lean and agile operations through DRYICE™, HCL’s Autonomics and Orchestration platform.

Key IT Infrastructure service offerings which enable the Next Generation ITO include:

- **Next Generation Data Center and Cloud Services:** Powered by the 21<sup>st</sup> Century Enterprise Blueprint (21CE

Blueprint) for Datacenter and Cloud, these services enable transformation and operations of Datacenters for delivery of customer facing and within-company applications and services. The 21CE Blueprint for the Datacenter is focused on “Business Outcomes”; with cloud and automation at the core with DRYICE™. HCL supports the entire lifecycle from DC transformation to modern datacenters by enabling Hybrid Cloud and Hyper-converged Infrastructure; and running agile and lean DC operations through application of advanced autonomies and service orchestration.

- **Next Generation Workplace Services:** Powered by the 21CE Blueprint for Workplace, these services enable organizations to create a modern workplace through a whole gamut of End-user Computing services which focus on User Experience, User Empowerment, Secure productive-on-the-go and Lean Operations. With DRYICE™ powered Automation enabling Self-Help and Self-Healing to empower users and My Workplace ensuring secure information, application and data access from any device and any location - HCL enables a workplace that is Gen-Y ready.
- **Next Generation Network Services:** Powered by the 21CE Blueprint for Networks, these services enable secure, agile, automated, efficient and optimized networks for organizations. By supporting the customers’ transformation to Software Defined Networks (SDN) and Network Function Virtualization (NFV) - HCL helps them deploy secure, fast and programmable networks which can scale and transform as per changing business needs.
- **Enterprise Platform Services:** These services include the modernization of application platform infrastructure across application servers, middleware, and data platforms, by adopting pattern-driven workload engineered systems and creating enterprise-grade PaaS (Platform as a Service) to be delivered across a hybrid cloud which leverages development operations and elastic infrastructure.
- **Business Services Management:** This includes the modernization of the technology management fabric for next gen hybrid enterprises, covering unified monitoring, I.T. automation through DRYICE™, I.T. operations analytics, and unified reporting.
- **Service Integration and Management:** This includes the modernized orchestration of multiple service providers, cloud services, and outsourcing services across a common process-driven service integration platform, powered by HCL’s GBPS (Gold Blue Print Solution). The solution enables a customer to have a unified Enterprise Service Integration experience across applications, infrastructure and the cloud. SIAM (Service Integration and Management) is at the heart of I.T. service integration as a Company evolves towards Gen 3.0.

- **Integrated Operations Services across Enterprise and Digital:** HCL's integrated operations service capability brings Web-scale I.T. architecture into an enterprise. The HCL service offering combines several components including an agile development operations oriented support framework, a highly elastic and self-healing infrastructure, high levels of automation, eSecurity practices and an end-to-end performance management solution. This service offering is designed for the end-to-end I.T. operations of the digital side of large Global 2000 enterprises.
- **Technology Transformation Services:** These cover the entire range of technology infrastructure offerings. HCL has successfully delivered a large number of complex I.T. infrastructure, architecture and operations transformations, and is increasingly acknowledged and recognized by Fortune 100, Fortune 500 and Global 2000 companies as a credible alternative to top tier global MNCs.

HCL provides infrastructure management services to customers through a robust delivery network of service centers across the globe. HCL's infrastructure operations include the standardized management of over 6 million globally distributed I.T. assets and devices and over 20 million helpdesk contacts that support the needs of over 1.7 million business users in over 26 languages..

### Recognitions

- HCL has been recognized as a 'leader' in Gartner<sup>1</sup> 'Magic Quadrant for Managed Workplace Services, North America', and 'Magic Quadrant for Managed Workplace Services in Europe', January 2017.
- HCL has been named a Leader in IDC Marketscape: Worldwide Datacenter Transformation Consulting and Implementation Services, Dec 2016.
- HCL has been positioned as a 'Leader' and 'Star Performer' in the Everest Group PEAK Matrix™ 'Global Workplace Services'.
- HCL has been positioned in the 'Winner's Circle' for Service Now Services by HfS Research, The Services Research Company™, in its inaugural report "HfS Blueprint Report: Service Now Services 2016"
- HCL has been recognized as a 'Leader' in Gartner Magic Quadrant for Data Center Outsourcing and Infrastructure Utility Services, North America and Europe, 2016.

- HCL has been named amongst leaders by Everest Group in its report "Life Sciences IT Infrastructure Services - Service Provider Landscape with PEAK Matrix™ Assessment 2016".

### Engineering and R&D Services

HCL's Engineering and R&D Services (ERS), a global engineering services provider (ESP), works with some of the most innovative and successful organizations in the world. With over three decades of experience of operating under complex multi-vendor environments and customer value chains, HCL can seamlessly integrate with and complement customers' existing R&D activities.

HCL offers comprehensive engineering services and solutions in hardware, embedded, digital, mechanical and software product & platform engineering. It works with industry leaders across verticals such as aerospace and defense, automotive, consumer electronics, industrial manufacturing, medical devices, telecom and networking, office automation, semiconductor, server and storage, and software products. It successfully collaborates with other innovation partners, universities, industry bodies, and manufacturing partners.

Over the past decade, HCL's engineering services have helped large global organizations develop and launch market-leading products and services across various market segments. Today, it works with more than 60 of the top 100 R&D spenders in the globe. Empowered by a deep engineering heritage, out-of-the-box thinking, and a solid foundation of talent, processes, systems, frameworks, and tools, this group is a preferred engineering partner for global companies with its ability to drive significant business impact and value through accelerated product launches, improved engineering efficiencies, and adoption of new and disruptive technologies.

Thought leadership has become one of the key differentiators as the industry moves up the value chain. The company's engineering services offerings are committed to creation of thought leadership in areas such as the Internet of Things, digital platforms, product intelligence, big data analytics, accessibility, social media, medical devices, gesture technology, PLM and more. HCL encourages bold thinking and disruptive approach that is needed to help customers outperform in a rapidly changing digital economy. HCL Engineering R&D Services engages technology enthusiasts through CTO Straight Talk, a one-of-its-kind publication that features peer-to-peer knowledge, thought leadership, and creates a new platform for industry leaders to connect.

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### Note:

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