

April 22, 2009

Rating	Reduce
Price	Rs125
Target Price	Rs106
Implied Upside	(-)15.2%
Sensex	10,818

(Prices as on April 22, 2009)

Trading Data

Market Cap. (Rs bn)	84.9
Shares o/s (m)	678.8
Free Float	31.8%
3M Avg. Daily Vol ('000)	249.0
3M Avg. Daily Value (Rs m)	28.1

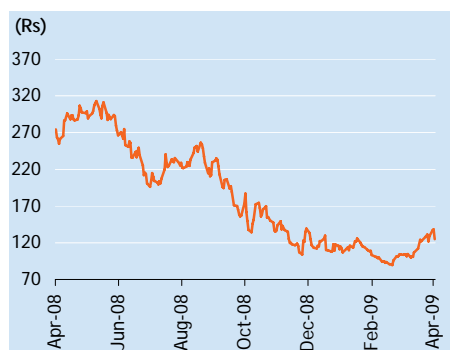
Major Shareholders

Promoters	68.2%
Foreign	16.7%
Domestic Inst.	5.3%
Public & Others	9.8%

Stock Performance

(%)	1M	6M	12M
Absolute	20.0	(22.7)	(52.5)
Relative	(0.7)	(29.1)	(17.0)

Price Performance (RIC: HCLT.BO, BB: HCLT IN)



Source: Bloomberg

HCL Technologies

Outlook weakens

- **Decent operational performance; forex losses drag down PAT:** HCL Technologies' (HCL Tech's) Q3FY09 results were in-line with our estimates on the revenue front. However, higher-than-expected MTM forex losses (Rs2.0bn from Rs1.4bn in Q2) on its o/s hedges, continues to be a drag on its net profit. Revenue grew sequentially by 14.9% (including Axon). However, EBITDA margins came down by 120bps sequentially to 21.3% as expected.
- **Segmental performance:** All service lines for HCL Tech saw a sequential decline in revenues (except Enterprise business, that too due to Axon consolidation). Among the verticals, telecom and BFSI reported weak performance (de-growing by 15.0% and 5.3%, respectively), giving signals that the pain for the company could continue for atleast a couple of quarters more.
- **Huge MTM forex losses to affect FY10 performance significantly:** HCL Tech has incurred MTM forex loss of Rs4.4bn in the first nine months of the current fiscal and will close the year at Rs 6.0bn. For FY2010, we have factored in a loss of Rs7.5bn on o/s hedges, which will result in 11.0% decline in its earnings. Although the company has reduced its o/s hedges from around US\$2.0bn to US\$1.3bn as on March 2009, still losses on its current hedging will continue to affect its earnings adversely.
- **Outlook & Rating:** We expect its revenue and earnings to grow at a CAGR of 11.7% and 11.0%, respectively over FY09-11. However, the recent run-up in the stock has made it decently valued at 8.0x FY10E earnings. We see limited upside in the stock from the current levels and hence, downgrade it to 'Reduce', with a target price of Rs106. Also, lowering of dividend (from Rs3 in Q1 to Rs2 in Q2 to further Rs1 in Q3) has lowered its attractiveness as a high dividend yield stock.

Key financials (Y/e June)	FY08	FY09E	FY10E	FY11E
Revenues (Rs m)	76,394	105,545	116,415	128,972
Growth (%)	26.6	38.2	10.3	10.8
EBITDA (Rs m)	16,939	23,021	24,534	27,180
PAT (Rs m)	11,245	12,047	10,282	14,357
EPS (Rs)	16.6	17.7	15.1	21.2
Growth (%)	(10.3)	6.9	(14.6)	39.6
Net DPS (Rs)	8.8	7.0	4.0	6.0

Source: Company Data; PL Research

Profitability & valuation	FY08	FY09E	FY10E	FY11E
EBITDA margin (%)	22.2	21.8	21.1	21.1
RoE (%)	27.3	26.7	19.2	21.8
RoCE (%)	25.4	19.5	13.1	17.0
EV / sales (x)	0.9	0.9	0.7	0.5
EV / EBITDA (x)	4.0	4.2	3.5	2.6
PE (x)	7.5	7.1	8.3	5.9
P / BV (x)	2.0	1.8	1.4	1.2
Net dividend yield (%)	7.0	5.6	3.2	4.8

Source: Company Data; PL Research

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Q3FY09 Result Overview

(Rs m)

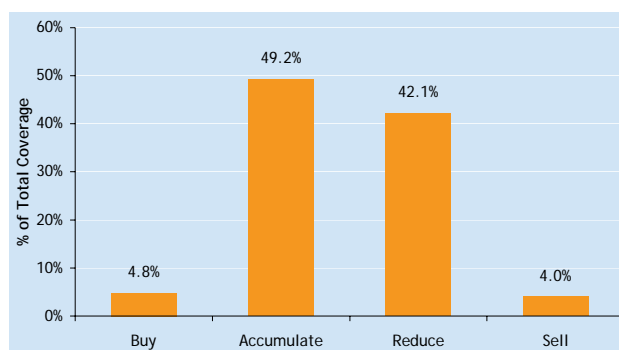
Y/e June	Q3FY09	Q2FY09	QoQ gr. (%)	Q3FY08	9MFY09	9MFY08	YoY gr. (%)
Net Sales	28,615	24,908	14.9	19,448	77,216	54,706	41.1
Total Expenses	22,512	19,307	16.6	15,117	60,201	42,851	40.5
Software Development	18,009	14,975	20.3	11,945	47,347	33,966	39.4
Others	4,503	4,332	3.9	3,172	12,854	8,885	44.7
Operating Profits / EBITDA	6,103	5,601	9.0	4,331	17,015	11,855	43.5
Depreciation	1,417	971	45.9	773	3,296	2,183	51.0
EBIT	4,686	4,630	1.2	3,558	13,719	9,672	41.8
Interest	-	-			-		
EBT before Other Income	4,686	4,630	1.2	3,558	13,719	9,672	41.8
Other Income	(2,040)	(213)		228	(2,669)	1,274	
PBT	2,646	4,417	(40.1)	3,786	11,050	10,946	1.0
Tax	485	684	(29.1)	368	1,608	1,069	50.4
<i>Tax rate (%)</i>	<i>18.3</i>	<i>15.5</i>		<i>9.7</i>	<i>33.8</i>	<i>9.8</i>	
PAT before Extraordinaries	2,161	3,733	(42.1)	3,418	9,442	9,877	(4.4)
Minority Interest	17	-		7	31	(42)	
PAT after Extraordinaries	2,178	3,733	(41.7)	3,425	9,473	9,835	(3.7)
Key Ratios							
<i>GPM (%)</i>	<i>37.1</i>	<i>39.9</i>	<i>(2.8)</i>	<i>38.6</i>	<i>38.7</i>	<i>37.9</i>	<i>0.8</i>
<i>OPM (%)</i>	<i>21.3</i>	<i>22.5</i>	<i>(1.2)</i>	<i>22.3</i>	<i>22.0</i>	<i>21.7</i>	<i>-</i>
<i>NPM (%)</i>	<i>7.6</i>	<i>15.0</i>	<i>(7.4)</i>	<i>17.6</i>	<i>12.3</i>	<i>18.0</i>	<i>(5.7)</i>
Adjusted EPS (Rs.)	3.2	5.5	(41.7)	5.0	13.9	14.5	(3.6)

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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