

**April 18, 2007**
**FOR PRIVATE CIRCULATION**
**Equity**

	17 Apr 07	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
Sensex	13,607	(0.6)	9.5	(4.3)
Nifty	3,985	(0.7)	10.4	(3.0)
Banking	6,739	0.2	10.3	(9.7)
IT	3,647	(1.9)	6.3	(2.5)
Healthcare	3,705	(0.6)	7.1	(5.9)
FMCG	1,800	(1.1)	10.7	(6.9)
PSU	6,198	(0.4)	13.9	(1.5)
CNX Midcap	5,089	(0.2)	10.7	(4.3)
<b>World indices</b>				
Nasdaq	2,517.0	(0.1)	6.1	3.0
Nikkei	17,527	(0.6)	5.4	1.6
Hangseng	20,789	0.1	9.7	2.5

**Value traded (Rs cr)**

	17 Apr 07	% Chg - 1 Day
Cash BSE	4,446	10.8
Cash NSE	9,612	7.4
Derivatives	29,754	1.1

**Net inflows (Rs cr)**

	16 Apr 07	% Chg	MTD	YTD
FII	788	66	2,315	9,474
Mutual Fund	205	3	203	(3,055)

**FII open interest (Rs cr)**

	16 Apr 07	% chg
FII Index Futures	15,890	5.2
FII Index Options	7,952	15.8
FII Stock Futures	16,935	(1.1)
FII Stock Options	84	6.7

**Advances/Declines (BSE)**

17 Apr 07	A	B1	B2	Total	% Total
Advances	86	245	386	717	40
Declines	127	455	446	1,028	57
Unchanged	-	16	39	55	3

**Commodity**

	17 Apr 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/Bbl)	63.2	0.1	10.6	25.1
Gold (US\$/OZ)	686.5	(0.5)	5.4	9.7
Silver (US\$/OZ)	13.9	(1.1)	6.5	10.9

**Debt/forex market**

	17 Apr 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.16	8.13	8.05	7.79
Re/US\$	42.0	41.9	44.1	44.2

**Sensex**


Source: Bloomberg

**ECONOMY NEWS**

- Refund of service tax paid by exporters under the duty drawback system is on the cards. This will enable exporters to lower the service tax burden on post-production services like quality testing, customs clearance, warehousing, etc. (ET)
- The RBI is considering the option of clamping down on overseas financing for real estate to contain inflation. The clampdown will be part of a package from RBI to make end-use norms for external commercial borrowing funds more stringent for various sectors. (BS)
- The Government is set to lower the FDI limit in the courier and express industry sector to 49% from 100%. The proposal is part of a draft Cabinet note on the Indian Post Office Amendment Bill, 2007. (ET)
- Worries over inflation, which had recently crossed the 6% mark, seem to be receding with the National Council of Applied Economic Research projecting a 5.3% price rise in 2007-08. (ET)
- Gem and jewelry exports from the country in FY07 have grown marginally at 2.74% over the previous year, touching \$17.1 bn (Rs.771.8 bn). (ET)
- Sugar decontrol may be on the cards, at last. The Union Cabinet has decided to constitute an expert group to look into ways and means of setting the sugar industry free. (BL)

**CORPORATE NEWS**

- **Tata Steel** has opted for a mix of domestic rights, preference shares and overseas equity in a delicate balancing act aimed at ensuring financial stability and enough room for meeting future growth targets. (ET)
- **L&T** is forming joint ventures with Japan's Toshiba Corp and Mitsubishi Heavy Industries to set up manufacturing facilities for super-critical turbines and boilers, which are used in coal-fired power generation plants. (ET)
- The Board of Directors of **CESC Ltd** have approved the merger of Pathik Retail Ltd, the holding company which owns 94% of the equity stake in Spencer's Retail, with itself. (BL)
- **Reliance Industries** may invest up to Rs.80 bn in the proposed 1,100-km gas pipeline from Kakinada in Andhra Pradesh to Howrah in West Bengal. The pipeline will connect West Bengal to RIL's major finds in the Krishna-Godavari and Mahanadi-NEC basins. (BL)
- **TCS** intends to beef up recruitment from overseas geographies and recruit more people at its global development centers as part of its strategy to reduce geo-political risk, bring in multi-language capabilities and cater to different time zones. (ET)
- The Government is planning to tweak FDI rules to enable LN Mittal to invest in **HPCL's** Bhatinda refinery. A proposal has been sent to the Cabinet Committee on Economic Affairs for special clearance to allow Mittal Investments to pick up 49% stake (currently capped at 26%) in the proposed joint venture with HPCL for the Bhatinda project. (ET)
- Software developer **Teledata Informatics'** Q4 net profit soared to Rs.2.07 bn as revenues surged 247% to Rs.15.73 bn. Its EPS stood at Rs.48.24 on an annualized basis. (ET)
- **Reliance Capital**, part of the Reliance-Anil Dhirubhai Ambani Group, has said that it intends to buy a further 20% in TV Today, the television firm that owns Aaj Tak news channel. Its current share holding in TV Today has increased to more than 15%. (ET)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange

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### RESULT UPDATE

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**We reiterate BUY on HCL Technologies with a price target of Rs.389**

## HCL TECHNOLOGIES LTD (HCLT)

**PRICE : Rs.300**  
**TARGET PRICE : Rs.389**

**RECOMMEDATION : BUY**  
**FY08E PE(x) : 14.7x**

### Highlights

- HCLT's Q3FY07 results beat our expectations with revenues and PAT growing by 8% and 5%, respectively (after considering Esop write-offs).
- An overall volume growth of about 5.2% (about 7% in infrastructure services and BPO) and a 113 bps improvement in EBIDTA were the positives, in our view.
- The management re-iterates the continuing traction in large deals with no impact of a slowdown in client spending or offshoring, as yet.
- We expect an EPS of Rs.20.8 in FY08 (on expanded equity and post Esop charge), a growth of 21%.
- At our price target of Rs.396, our FY08E earnings are discounted by 19x, a discount to peers. We reiterate **BUY** with a price target of Rs.389.
- An accelerated slowdown/recession in major user economies and a sharper-than-expected appreciation in the rupee v/s major currencies are key risks to our call.

### Q3FY07 results

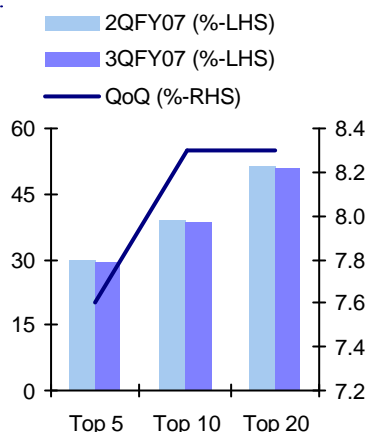
(Rs mn)	Q3FY07	Q2FY07	% Chg	Q3FY06	% Chg
<b>Turnover</b>	<b>15,771</b>	<b>14,651</b>	<b>7.6</b>	<b>11,220</b>	<b>30.6</b>
Expenditure	12,104	11,410		8,722	
<b>Operating Profit</b>	<b>3,667</b>	<b>3,241</b>	<b>13.1</b>	<b>2,498</b>	<b>29.7</b>
Depreciation	659	623		530	
<b>Gross Profit</b>	<b>3,008</b>	<b>2,618</b>	<b>14.9</b>	<b>1,968</b>	<b>33.0</b>
Other Income	615	481		255	
<b>PBT</b>	<b>3,623</b>	<b>3,099</b>	<b>16.9</b>	<b>2,223</b>	<b>39.4</b>
Tax	283	206		277	
<b>PAT</b>	<b>3,340</b>	<b>2,893</b>	<b>15.5</b>	<b>1,946</b>	<b>48.7</b>
Share of income	-20	-23		-6	
Minority interest	3	7		11	
Adjusted PAT	3,317	2,863	15.9	1,929	48.4
ESOP charge	305	0		0	
PAT after ESOP charge	3,012	2,863		1,929	
Shares (mn)	664	664		647	
<b>EPS (Rs) *</b>	<b>4.5</b>	<b>4.3</b>		<b>3.0</b>	
OPM (%)	23.3	22.1		22.3	
GPM (%)	19.1	17.9		17.5	
NPM (%)	21.2	19.7		17.3	

Source: Company \* - on diluted equity

### Revenues

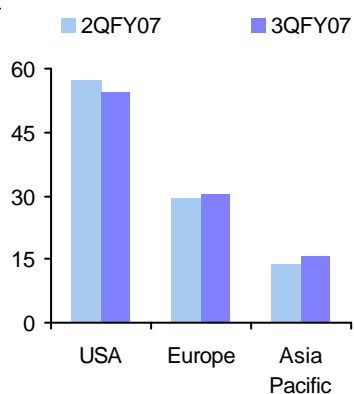
- Revenues grew 8% on a sequential basis on the back of a 16% rise in BPO revenues, even as core IT and infrastructure services witnessed a 6% QoQ rise.
- The overall volume growth, in our opinion, was at 5.2%, with average realizations improving about 1.8%. Higher on-site revenues and non-effort related revenues also contributed to the growth and set off the impact of the rupee appreciation.

**Client concentration (% of revenues)**



Source: Company

**Geographical breakup of revenues (%)**



Source: Company

- Volume growth in core IT services grew only 3.9% and impacted the overall volume growth of HCL Tech. While the company is focusing on more value-added services and investing in the risk-reward strategy, we will watch this growth rate closely in the quarters to come.
- Volumes in BPO grew 7% despite marginal employee additions. The company had added significant numbers in the previous two quarters and these became billable during Q3FY07.
- Average realizations were higher for the company with core IT witnessing an improvement by 1.7% and BPO by a healthy 4.8%.
- The multi-services outsourcing and the Blue Ocean strategy of HCLT continued to bring in additional business from existing clients, which can be seen from the QoQ growth in Top 20 clients.
- The company indicated that the six large deals already acquired by the company were progressing along expected lines with margins in these deals being better than the company average.
- Further maturing of these deals may enhance margin improvement even more.
- The company has won a further six deals in Q3FY07 with one deal being more than \$50 mn in size. Also, four of these deals are in the hi-tech industry indicating no slowdown, as yet. These should increase the revenue visibility for the company.
- As part of its de-risking strategy, HCL Tech is increasingly focusing on the Australia-New Zealand geography. This area is growing at a faster-than-company growth rate. The US' revenue contribution came down to 54% in Q3FY07 v/s 57% in Q2FY07.

**Margin improvement - better-than-expected**

- HCLT managed to improve EBIDTA margins by about 113 bps during the quarter, despite the 1.8% appreciation in the rupee (54 bps impact) and some salary hikes in the BPO division (15 bps impact).
- This was made possible mainly by higher realizations (75 bps), better utilization (29 bps) and SG&A leverage (90 bps).
- We believe the company has further levers for protecting margins, including better utilization, further leverage on SG&A expenses and potential improvement in margins in large deals.

**Other income - significant forex hedging**

- The company reported a higher-than-expected other income as it earned about \$9.6 mn forex gains and had higher treasury income. Returns on treasury assets grew from 6.7% to 7.7% in Q3FY07.
- The company has significantly increased its forex hedges (\$900 mn currently v/s \$516 mn at Q2FY07 end) and this is expected to provide cushion to the company in the event of a sustained appreciation in the rupee v/s the US dollar.

**Esop write-off, equity dilution**

- HCL Tech has not provided for the charge related to the Esops to the tune of Rs.305 mn in Q3FY07. We have arrived at our projections after considering the charge wef Q3FY07.
- As on date, the company has about 50 mn options outstanding, which will be exercised over the next four to five years.
- According to the management, the charge in FY08 is expected to be about \$22 mn. We have assumed the same in our projections.
- We have also assumed a 2% dilution in equity in FY08, due to Esop conversion in that fiscal.

<b>Future prospects</b>					
<b>(Rs mn)</b>	<b>FY06</b>	<b>FY07E</b>	<b>% Chg</b>	<b>FY08E</b>	<b>% Chg</b>
<b>Turnover</b>	<b>43,938</b>	<b>60,844</b>	<b>38.5</b>	<b>78,540</b>	<b>29.1</b>
Expenditure	34,159	47,094		60,930	
<b>EBIDTA</b>	<b>9,779</b>	<b>13,750</b>	<b>40.6</b>	<b>17,611</b>	<b>28.1</b>
Depreciation	2,033	2,552		3,068	
<b>EBIT</b>	<b>7,746</b>	<b>11,198</b>	<b>44.6</b>	<b>14,543</b>	<b>29.9</b>
Other Income	579	1,946		1,860	
<b>PBT</b>	<b>8,325</b>	<b>13,144</b>	<b>57.9</b>	<b>16,403</b>	<b>24.8</b>
Tax	626	1,043		1,610	
Adj. PAT	7,698	12,101	57.2	14,793	22.2
Share of income	-6	-54		-10	
ESOP charge	0	609		946	
Minority interest	25	20		20	
<b>PAT</b>	<b>7,667</b>	<b>11,418</b>	<b>48.9</b>	<b>13,817</b>	<b>21.0</b>
PAT after EO (provisional)	7,667	11,418		13,817	
Shares (mn)	647	664		677	
<b>EPS (Rs) *</b>	<b>11.6</b>	<b>17.2</b>		<b>20.4</b>	
EBIDTA (%)	22.3	22.6		22.4	
EBIT (%)	17.6	18.4		18.5	
PAT (%)	17.5	19.9		18.8	

Source: Company, Kotak Securities - Private Client Research \* - Based on diluted equity

- We have made suitable changes in our earnings estimates to take into account the Q3FY07 results and the changed rupee scenario.
- We have now assumed the average rupee-dollar exchange rate at Rs.43 per US dollar in FY08.
- We expect revenues and profits to grow at 29% and 21%, respectively in FY08.
- While EBIDTA margins are expected to come down marginally, a lower other income component and a higher Esop charge are expected to impact profit growth in FY08.
- We expect the company to report an EPS of Rs.17.2 in FY07 and Rs.20.4 in FY08. This is after assuming equity dilution in FY07 (due to additional issue of about 14 mn shares on Esop conversion in Q3FY07) and a further 2% dilution in FY08.

### Valuations

- We have accorded a discount to HCLT as compared to peers because of a relatively slower growth in IT services and relatively lower margins.
- After according a relatively lower P/E multiple of 19x to our FY08E EPS of Rs.20.4, we arrive at a price target of Rs.389 for HCLT and maintain a BUY on the stock.

### Concerns

- An accelerated slowdown/recession in major user economies may impact our projections.
- The rupee has appreciated to Rs.41.9 v/s the US dollar. This is higher than our assumed levels of about Rs.43 per US dollar in FY08. While we expect the rupee to stabilize at about Rs.43 per US dollar for FY08, a sharp acceleration from current levels may impact our earnings estimates for the company.

## Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
17-Apr	Aro Granit I	Surefin Financial Consult	B	198,975	104.96
17-Apr	Aro Granit I	Mavi Investment Fund Ltd	S	200,000	105.00
17-Apr	Bihar Tubes	Securocrop Securities Ind	B	20,023	134.54
17-Apr	CESC Ltd	Goldman Sachs Investments	B	1,587,833	400.64
17-Apr	CESC Ltd	CLSA Mauritius Limited	B	2,034,484	400.00
17-Apr	CESC Ltd	T Rowe Price Internationa	S	1,572,913	400.64
17-Apr	CESC Ltd	HSBC Global Investment Fu	S	2,034,484	400.00
17-Apr	Core Project	Merrill Lynch Capital Mar	B	200,000	570.00
17-Apr	Empower Inds	Kalpesh Chinubhai Patel	B	27,200	14.53
17-Apr	Gremac Infra	EL Dorado Biotech Pvt Ltd.	B	100,000	95.96
17-Apr	Gremac Infra	Harsha Rajeshbhai Jhaveri	S	100,000	97.65
17-Apr	Hanjer Fibre	Jitendra Mehta	S	69,793	5.93
17-Apr	Indo Borax C	Nisha Suman Jain	B	25,748	63.94
17-Apr	Jagjanani	Sangita Sharma	B	125,000	24.21
17-Apr	K S Oils Ltd	Everest Finance and Inves	B	117,765	318.03
17-Apr	Karut Net L	Vishal Minda	B	38,641	317.95
17-Apr	Kew Industr	Decent Fin. Ser. P Ltd.	S	157,750	37.66
17-Apr	Kopran Ltd.	HDFC Mutual Fund	S	201,874	24.21
17-Apr	Mascon Globa	Chandra Fin. Serv. Pvt. Ltd.	B	1,451,983	13.34
17-Apr	Mida Pharms	BCB Finance P Ltd.	S	19,600	14.45
17-Apr	Phoenix Mill	Smit Capital Services Pvt	B	75,000	1,550.00
17-Apr	Phoenix Mill	Atul Ashokkumar Ruia	S	75,000	1,550.00
17-Apr	SBT Intern	Prashant Kothari	B	100,000	26.75
17-Apr	SBT Intern	Jusal Trading Pvt Ltd.	B	300,000	26.00
17-Apr	SBT Intern	Jusal Trading Pvt Ltd.	B	247,693	26.00
17-Apr	SBT Intern	Goldman Sachs Investments	S	237,000	26.73
17-Apr	SBT Intern	Citigroup Global Mkt Maur	S	715,000	26.12
17-Apr	SBT Intern	Bsma Ltd.	S	500,000	26.14
17-Apr	Sparsh Bpo	Antique Stock Broking Ltd.	B	100,000	149.88
17-Apr	Subhkam Cap	Pushkar Banijya Ltd.	B	45,000	214.00
17-Apr	Subhkam Cap	Arti R Kathotia	S	44,930	214.00
17-Apr	Tripex Over	Bhavana N. Mahida	B	45,025	53.95
17-Apr	Tripex Over	Sar Auto Products Ltd.	S	45,000	51.87
17-Apr	Trish Elec I	RVS Shares and Stock Brok	B	16,000	42.24
17-Apr	Visu Intl	Taib Bank Sub Account Tai	S	250,000	13.55

Source: BSE

## Gainers & Losers

### Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
<b>Gainers</b>				
Reliance Ind	1,476	1.2	4.9	3.8
Reliance Pet	76	2.0	1.3	9.2
Bajaj Auto	2,547	2.4	1.2	0.3
<b>Losers</b>				
Tata Consultancy Services	1,250	(2.3)	(5.7)	2.6
Infosys Tech	2,083	(2.2)	(5.1)	1.7
SAIL	124	(3.3)	(3.4)	9.1

Source: Bloomberg

## Forthcoming events

### COMPANY/MARKET

Date	Event
18-Apr	Praj Industries to announce earnings & bonus; Aban Offshore, Infotech Enterprises earnings expected; ABL Bio Technologies to consider right offer; Dish TV hosts listing ceremony at NSE
18-24 Apr	Initial Public offer of Hilton Metal Forging opens
18-25 Apr	Initial Public offer of Bhagwati Banquets and Hotels opens
19-Apr	ACC, Biocon, Essel Propack, National Fertilizers, Sterling Biotech earnings expected
20-Apr	Exide Industries, Satyam Computers, Merck, Gujarat Ambuja Cements, Wipro, IDBI to announce earnings and dividend; Mahindra & Mahindra to consider funds raising plans
21-Apr	Titan Industries to announce earnings and dividend; Zee Entertainment earnings expected
23-Apr	Power Finance Corporation, Rolta India, Bank of India earnings expected
24-Apr	Hexaware Technologies, MTNL earnings expected; Maruti Udyog to announce earnings and dividend; Sun TV to consider bonus issue
25-Apr	Godrej Consumer to announce earnings and dividend; IDFC, Grasim, Glenmark Pharma, Alfa Laval India, Maharashtra Seamless earnings expected

Source: Bloomberg

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