

18th January 2008**BUY**

Price	Target Price
Rs268	Rs 384

Sensex	19,701
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Price Performance

(%)	1M	3M	6M	12M
Absolute	(11)	(13)	(18)	(17)
Rel. to Sensex	(14)	(18)	(36)	(41)

Source: Capitaline

Stock Details

Sector	IT Services
Reuters	HCLT.BO
Bloomberg	HCLT@IN
Equity Capital(Rs mn)	1329
Face Value(Rs)	2
52 Week H/L	366/260
Market Cap(Rs bn)	177.7
Daily Avg Volume (No of shares)	1234031
Daily Avg Turnover (US\$)	9.5

Shareholding Pattern (%)

(31 st Dec.'07)	
Promoters	67.5
FII/NRI	18.1
Institutions	6.0
Private Corp.	2.8
Public	5.6

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HCL Technologies

Result
Update**Consistency on display for yet another quarter**

HCL Technologies delivered yet another consistent performance during Q2FY08. HCLT reported revenues of US\$ 461 mn, a sequential growth of 7.5%. In Indian Rs terms, revenues have grown by 6.3% QoQ, 24% YoY to Rs 18166 mn, in line with expectations. EBITDA (including ESOP charge) expanded by 30 bps sequentially. Net profits increased by 11.7% QoQ to Rs 3030 mn. The company witnessed strong growth in US (+9% QoQ), BFSI (+9.3% QoQ) and Infrastructure services (+8.9% QoQ) and in our view the operating metrics did not reflect any signs of weakness (*as had been the case with Infosys and TCS*). More importantly, the growth was broad based. (*top 5 clients growing by 5.1%, top 10 by 6.9% and top 20 by 7% as against the top clients led growth for both TCS and Infosys*) We would like to note that the management acknowledged that the macro environment was challenging, however appeared more optimistic than both the Infosys and TCS managements in terms of outlook (*sounding reasonably confident of sustaining a 30% CAGR growth over FY07-10E*). Besides the company articulated that despite the negative bit of news from the US financial services industry, the number of large deals in the market continued to be strong for now and the company was prepared to address transformation opportunities that would arise out of slowdown if any. We have tweaked our estimates slightly and expect HCLT to record revenue, EBITDA and adjusted net profit CAGR of 23.5%, 22.7% and 20.9% over FY07-10E respectively. We maintain our price target of Rs 384.

Consistency on show for yet another quarter

In Rs mn	Q2FY08	Q1FY08	QoQ(%)	Q2FY07	YoY (%)
Net sales	18,166	17,094	6.3%	14,651	24.0%
Total Income	18,166	17,094		14,651	
Operating expenses	14,521	13,701		11,684	
EBITDA	3,645	3,393	7.4%	2,967	22.9%
Margins (%)	20.1	19.8		20.2	
Depreciation	723	686		622	
EBIT	2,922	2,707	7.9%	2,344	24.6%
Margins (%)	16.1	15.8		16.0	
Interest Paid	0	0		0	
Other income	542	504		481	
Pre-tax profit	3,464	3,211	7.9%	2,825	22.6%
Tax provided	337	326		199	
Profit after tax	3,127	2,885		2,626	
Emkay Net profit	3,048	2,712	12.4%	2,596	17.4%
EPS, Rs	4.5	4.0		3.8	

Other result highlights**No signs of weakness in the operating metrics for now**

HCLT's Q2FY08 operating metrics continued to remain strong and came in as a positive surprise given that some weakness was reflected in the operating metrics for both Infosys and TCS. The company reported robust growth in revenues from the US (+9% QoQ), BFSI (+9.3% QoQ) and Infrastructure services (+8.9% QoQ). We would like to note that the growth in case of HCLT was more broad based (*top 5 clients growing by 5.1%, top 10 by 6.9% and top 20 by 7% during the quarter*) V/s top clients led growth for both Infosys and TCS during the quarter.

Dec'07 performance	TCS	Infosys	HCLT
Volume growth, %	5.3	5.1	6.6
BFSI revenues QoQ increase, %	7.9	6.9	9.3
US revenues QoQ increase	0.7	5.6	9.0
Headcount YoY increase, %	29.6	27.6	25.2
Margin expansion, bps	40	130	30

The management indicated that though the macro environment appeared to get challenging, with the continuous negative news flow from the US financial services industry, it was confident of keeping up its growth momentum by way of addressing the new opportunities that could arise in the form of business transformation in case of a slowdown.

Revenue growth remains robust

HCL Technologies reported a 7.5% growth in US\$ terms revenues at US\$ 461 mn, in line with our expectations. The company reported a volume growth of 6.6% during the quarter. Though BPO revenues were almost flat QoQ at US\$55.4 mn (as the company had indicated during the Q1FY08 investor call), Core software services and Infrastructure Services displayed strong performance with 8.3% and 8.9% growth during the quarter.

Revenues(in US\$ mn)	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08
Core Software services	242.7	262.4	282.4	309.1	334.9
QoQ growth, %	9.2	8.1	7.6	9.5	8.3
IMS	46.4	50.2	59.3	64.7	70.6
QoQ growth, %	16.6	8.2	18.1	9.1	8.9
BPO	42	49.7	54	55.1	55.4
QoQ growth, %	9.4	18.3	8.7	2.0	0.5
Overall Revenues	331.1	362.3	395.7	428.9	460.9
QoQ growth, %	10.2	9.4	9.2	8.4	7.5

Micro vertical strategy continuing to propel the growth momentum

We would like to highlight that HCL T continued to exhibit strong revenue growth in the micro verticals within the BFSI, and the Life Sciences space. The revenues from Life Sciences vertical have grown at ~20% CQGR over the past 6 quarters while the Capital Markets revenues (account for ~39% of the BFSI revenues) have grown at 15% CQGR over the past 6 quarters.

(in US\$ mn)	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08
Life Sciences	10.5	13.2	16.3	19.4	22.3	25.8
QoQ growth, %	-5.8	25.9	23.1	18.9	15.0	15.7
Aero & Auto(~16% of Hi Tech rev)	15.0	15.7	16.8	18.2	20.6	21.0
QoQ growth, %	11.0	4.6	6.5	8.5	13.3	2.1
Capital markets(~39% of BFSI rev)	26.7	35.1	38.9	44.3	48.0	52.5
QoQ growth, %	6.6	31.4	10.6	14.0	8.4	9.3

EBITDA margins expand by 30 bps.

HCL Technologies reported a 30 bps improvement in operating margins (including ESOP charge of US\$t 6.1 mn), lower than our expectations. However this was on account of increased investments on the sales side (SGA as % of sales increased by 90 bps and was up by 12.4% QoQ).

Net profits grow by 12.4% QoQ, to Rs 3048 mn.

HCLT reported a 12.4% sequential growth in adjusted net profits (including ESOP charge) to Rs 3048 mn. The net profits were boosted by higher treasury income and were in line with expectations despite the EBITDA expansion of only 30 bps. The company recognized forex gains of US\$ 7 mn during the quarter (with US\$ 5.5 mn as part of the revenue line and US\$ 1.5 mn as part of other income) and had US\$ 63 mn of unrecognized forex gains lying as Other Comprehensive Income on the Balance Sheet as on 31st Dec'07.

Marginal change to our estimates, Maintain Rating.

We have tweaked with our estimates slightly resulting in a cut in FY09E revenues by ~0.5% and a cut in FY09E EBITDA and net profits of ~0.3%.

We continue to remain positive on HCL T and maintain our view that HCLT's consistent operating performance should get rewarded. At the current market price of Rs 267, HCLT is trading at 12.3x and 11.1x on FY09E and FY10E fully diluted earnings of Rs 21.6 and Rs 24 respectively.

	FY08E			FY09E		
(in Rs mn, except EPS)	Old	New	change	Old	New	change
Revenues	74303	74322	0.0%	93730	93287	-0.5%
EBITDA	15232	15191	-0.3%	18935	18883	-0.3%
Net Profits	12859	12845	-0.1%	15390	15347	-0.3%
EPS	19.4	19.4	-0.2%	23.1	23.0	-0.3%

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