India Infoline Result Update
HCL Technologies Ltd (Q3 F6/07)
April 18, 2007

For the second consecutive quarter, HCL Technologies has delivered better performance than its larger peers (results declared yet for Q4 FY07). The Rupee revenues grew by a healthy 7.6% qoq and net profit by robust 15.9% qoq led by significant OPM improvement of 120 bps and higher Other Income. This strong operational performance was despite the negative impact of sharp rupee appreciation. BPO business stood out with 16.4% qoq revenue growth and 360 bps qoq margin expansion. Another highlight of the quarter is continuation of significant price negotiation wins.

Financial Highlights

Period	03/07	12/06	Growth (%)	03/06	Growth (%)	F6/07E	Growth (%)	F6/08E	Growth (%)
Rs mn	(3)	(3)	qoq	(3)	yoy	(12)	yoy	(12)	yoy
Sales	15,771	14,651	7.6	11,220	40.6	61,042	39.1	79,657	30.5
Operating Profit	3,667	3,241	13.1	2,498	46.8	13,784	41.7	17,624	27.9
OPM (%)	23.3	22.1	-	22.3	115.4	22.6	-	22.1	-
PAT	3,317	2,863	15.9	1,929	72.0	12,137	56.8	15,136	24.7
NPM (%)	21.0	19.5	-	17.2	-	19.9	-	19.0	-
EPS (Rs) Annualized	20.0	17.7	-	12.2	-	18.3	-	22.9	-
P/E (x) at CMP Rs302	15.1	-	-	-	-	16.5	-	13.2	-

Segmental Performance

Period		Q3 F6/07			Q3 F6/07	
Segment	Revenues	qoq % grth	yoy % grth	EBITDA %	qoq abs	yoy abs
Software	11,421	6.4	36.8	23.7	0.8	0.2
BPO	2,164	16.4	38.3	26.5	3.6	5.0
Infrastructure	2,186	6.5	67.3	17.6	0.1	2.2

- ✓ The sequential 7.6% Rupee-based topline growth in the quarter was driven by robust 16.4% qoq growth in BPO and healthy 6.4% and 6.5% sequential growth in core software and infrastructure services respectively. In dollar terms, total revenues grew by strong 9.5% qoq.

- ✓ The dollar growth in core software services was 8.1% qoq split into 3.9% volume growth, 1.7% pricing improvement growth, 1.1% growth from onsite shift and the balance growth being contributed by other factors. Qoq volume growth was higher onsite at 6.6% against 2.9% offshore as also the sequential pricing improvements at 4% onsite against 2.3% offshore. Onsite revenues increased by 10.9% qoq with its share improving by 130 bps qoq to 52.3%. The blended pricing improvements continue to be astonishingly higher than peers at 4.1% qoq and 14.7% yoy.

- ✓ In BPO, the dollar growth was robust at 18.1% qoq (highest in the past four quarters) driven by ramp-ups in key clients. Out of the above sequential growth, 11% was from volume and utilization improvement, 4.8% was due to higher realizations (pricing upticks + value chain scale-up) and balance 2.6% was from other non-efforts benefits.

- ✓ The infrastructure revenues grew by 8.2% in dollar terms, lowest in the past six quarters. The sequential growth was a mix of 7.3% volume growth and 1% realization growth.

- ✓ For the third consecutive quarter, key large clients grew at strong pace with company's multi-services based mining efforts. The Top 5, Top 10 and Top 20 client baskets grew 7.6%, 8.3% and 8.3% respectively on sequential basis. In terms of geography, Europe and Asia Pac (especially Australia & New Zealand) led company growth by registering strong qoq growth of 13.2% and 25.7% respectively.

- ✓ Amongst verticals, company witnessed strong sequential growth of 10.7% in BFSI (27.5% of revenues), 23.1% in Life Sciences (4.5% of revenues) and 16.2% in Telecom (17.2% of revenues). Revenues from Retail vertical (9.4% of revenues) de-grew for second consecutive quarter.

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- ✓ OPM improved sequentially by 120bps to 23.3% despite the sharp rupee appreciation and increments distributed in BPO. SG&A leverage and higher realizations enabled company to more than offset the negative impact of adverse exchange rate movement and increments. On segmental basis, OPM improved in all the three business segments sequentially. Margin improved by 80 bps in core software services, 360 bps in BPO and 10 bps in infrastructure services.

- ✓ Other Income jumped 27.9% qoq to Rs615mn with higher forex and treasury gains. Tax provisioning reversed from the lower level (6.6%) of the previous quarter to 7.8%.

- ✓ Lead by OPM expansion and higher other income, earnings grew faster at 15.9% qoq. Annualized EPS stood at Rs20.

- ✓ The company added net 1,832 employees comprising 1,273 in core software services, 173 in BPO and 386 in infrastructure services. Offshore manpower utilization (excluding trainees) inched up by 20bps 74.8%.

Outlook

We maintain BUY on the company and upgrade our EPS expectations for F6/07 and F6/08 by about 8.9% and 10.9% to Rs18.3 and Rs22.9 respectively. We arrive at our one-year target price of Rs435 by assigning a P/E multiple of 19x to our FY08 EPS forecast. HCL Technologies remains our best pick amongst Tier-II sector universe with an upside potential of more than 40% over 12 months.

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