

Telecoms, Media & Technology
 IT Services
 Equity – India

India IT Services

Positive read-across for India IT from ACN and ORCL results

- ▶ **Accenture reports strong results, again raising its full-year guidance**
- ▶ **Additionally, Oracle reports strong license sales along with a robust outlook for next quarter**
- ▶ **Overall, leading upstream tech services remain strong, with no signs of slowdown in IT demand — a positive read-across for India IT companies; OW on Infosys, TCS and HCLT**

Accenture (ACN, Not rated) reports 3Q (May) results

Accenture reported 20.6% y-o-y revenue growth, along with a book-to-bill ratio of 1.1x. Consulting revenues grew 17% y-o-y (in constant currency), suggesting that clients are investing in new growth initiatives and not just cost cutting. The company raised its guidance for the full year to 14-15% y-o-y (from 11-14% last quarter) in local currency. This is the third consecutive quarter it has raised guidance. Accenture increased headcount by 8,000 to 223,000 and increased (by 2,000) its guidance of hiring 66,000 during the year. Attrition was 15% vs 14% last quarter.

Management stated that there has been no slowdown in demand so far and clients are investing in four areas: 1) business globalization, 2) cost rationalization (creating demand for offshoring), 3) new technology such as cloud and enterprise mobility, and 4) regulatory and compliance related IT spending.

Oracle (ORCL, Not rated) reports 4Q (May) results

Oracle's application license was up 16% y-o-y in constant currency. Database and Middleware license sales rose 10% y-o-y (in constant currency). Oracle had guided for 1Q new software license revenue growth of 10-20% and increased its sales team by 800 in the quarter. As we wrote in our recent report "[Going from strength to strength](#)", 2 March, improving license sales by software providers, such as SAP and Oracle, are a positive leading indicator for India IT companies. Increasing polarization of the software market, due to aggressive M&A by companies such as Oracle is resulting in a significant increase in the addressable market of top-tier India IT companies.

Overall, we conclude that there is no slowdown in IT spending so far and the recent concerns over growth outlook and resulting sell-off in India IT stocks appear to be overdone. We remain positive on the sector and expect returns at least in line with earnings growth. We are OW on Infosys, TCS and HCLT. Any significant deterioration in US/Europe economies remains the key risk to our thesis.

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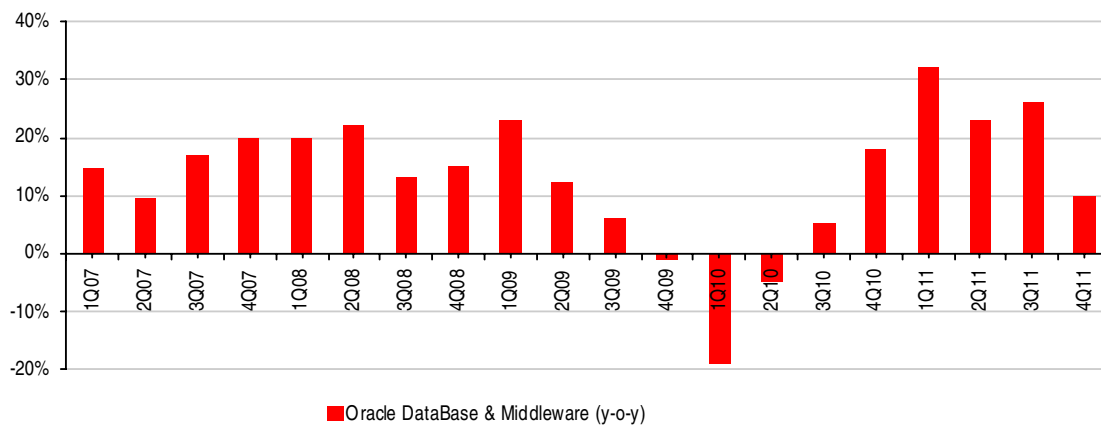
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Accenture key revenue mix

USDbn	Nov-07	Feb-08	May-08	Aug-08	Nov-08	Feb-09	May-09	Aug-09	Nov-09	Feb-10	May-10	Aug-10	Nov-10	Feb-11	May-11
Outsourcing Division	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
Revenues	2.2	2.3	2.4	2.4	2.4	2.24	2.19	2.23	2.26	2.24	2.35	2.33	2.6	2.5	2.75
q-o-q	7.2%	1.8%	6.2%	-0.4%	-1.3%	-5.1%	-2.2%	1.8%	1.3%	-0.9%	4.9%	-0.9%	10.7%	-1.4%	8.1%
y-o-y in cc	14%	11%	12%	9%	9%	9%	3%	1%		-6%	3%	7%	11%	15%	12%
Bookings	2.5	2.7	2.8	4.0	2.2	2.84	3.36	2.68	2.02	3.13	3.25	3.0	2.59	3.18	3.4
q-o-q	41.1%	4.3%	5.3%	44.8%	-44.6%	26.8%	18.3%	-20.2%	-24.6%	55.0%	3.8%	-7.7%	-13.7%	22.8%	6.9%
BBR	1.1x	1.2x	1.2x	1.7x	0.9x	1.3x	1.5x	1.2x	0.9x	1.4x	1.4x	1.3x	1.0x	1.2x	1.2x
Consulting	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
Revenues	3.5	3.4	3.7	3.6	3.7	3.03	2.95	2.91	3.12	2.93	3.22	3.09	3.57	3.5	3.97
q-o-q	13.8%	-3.2%	10.4%	-2.4%	1.4%	-17.2%	-2.6%	-1.4%	7.2%	-6.1%	9.9%	-4.0%	15.5%	-1.7%	13.1%
y-o-y in cc	12%	11%	12%	11%	9%	-1%	-9%	-12%		-9%	4%	9%	16%	20%	17%
Bookings	3.4	3.8	4.0	3.6	3.6	3.14	3.21	2.87	3.51	3.39	3.18	3.5	3.72	3.8	3.7
q-o-q	8.7%	12.5%	5.0%	-8.8%	-1.9%	-11.8%	2.2%	-10.6%	22.3%	-3.4%	-6.2%	10.1%	6.3%	2.2%	-2.6%
BBR	1.0x	1.1x	1.1x	1.0x	1.0x	1.0x	1.1x	1.0x	1.1x	1.2x	1.0x	1.1x	1.0x	1.1x	0.9x
Total booking	5.91	6.44	6.77	7.67	5.8	5.98	6.57	5.55	5.53	6.52	6.43	6.50	6.31	6.98	7.10
Total revenue	5.7	5.6	6.1	6.0	6.0	5.3	5.1	5.14	5.4	5.2	5.6	5.4	6.2	6.1	6.7

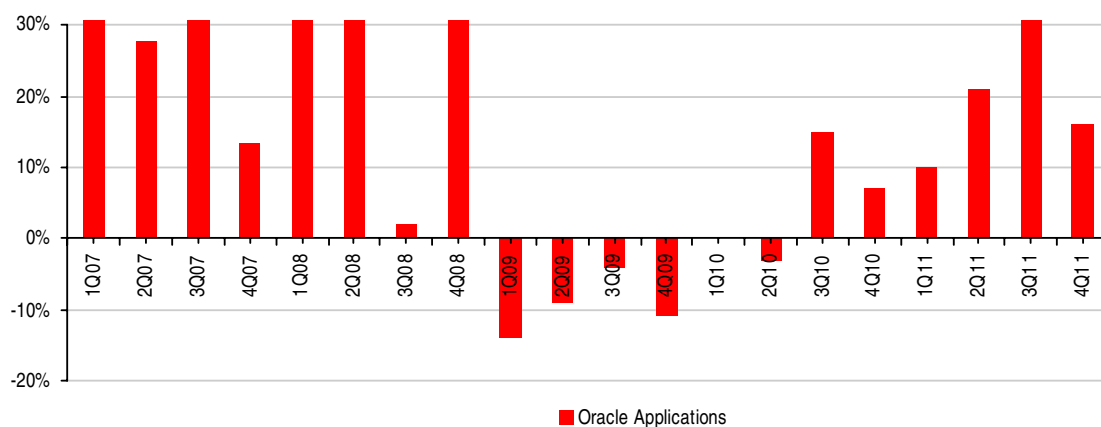
Source: Accenture, HSBC

Oracle database & Middleware growth trends (y-o-y)



Source: Oracle, HSBC

Oracle application license sale growth trends (y-o-y)



Source: Oracle, HSBC

Valuations and risks

Infosys valuation (INFY.BO, OW, INR2,774, TP INR3,400)

We believe Infosys is likely to see better growth in FY12, on the back of strong demand environment, investments in sales and delivery, aggressive go-to-market and stability in the management. Infosys stock is currently trading at nearly 20x on our FY12e EPS. Overall, we remain positive on the stock from a 12-month investment horizon. We believe 1Q is likely to remain muted compared to TCS, but revenue growth could accelerate from 2Q. We remain OW and continue to value the stock at 20x (a 10% discount to its historical average due to weaker earnings growth and guidance) FY13e EPS at INR3,400.

Downside risks: 1) INR appreciation vs. USD (we find every 1% appreciation affects margins by 30-40bp) remains a concern with foreign inflows to India increasing steadily; and 2) deterioration in macroeconomic conditions.

TCS valuation (TCS BO, OW, INR1,097 , TP INR1,380)

Among the large cap names, TCS remains our highest conviction call in the near term, thanks to the high revenue and margin visibility. We see continued strong momentum in its FY12 hiring outlook and our channel checks also suggest strong volume growth and pricing outlook for new deals, further reinforcing our positive view on TCS. We value TCS at 22x (a 10% premium to Infosys, due to better operational efficiency) FY13e EPS at INR1,380.

Downside risks: wage inflation and a macroeconomic slowdown represent the primary downside risks to our Overweight rating on TCS.

HCL Tech valuation (HCLT IN, OW, INR470, TP INR585)

HCL Tech stock is trading at 16x our FY12e EPS. We believe the company is likely to continue trading near current valuations and offer stock returns in line with earnings growth. We value HCL at 16x (a 20% discount to Infosys, as we factor in the better margin profile and a strong balance sheet) FY13e EPS of INR36.6 for a target price of INR585.

While the stock could remain volatile from quarter to quarter results as investors readjust margin expectations, we would advise long-term investors to remain invested to capture the expected +20% earnings CAGR in FY11-13e, in our view.

Downside risks: 1) SAP upgrades lower than estimates; 2) EBITDA margin miss owing to wage inflation and investments in growth; and 3) INR appreciation and slowdown in macroeconomic recovery are the risks to our OW thesis.

Disclosure appendix

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Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation of coverage, change of volatility status or change in price target). Notwithstanding this, and although ratings are subject to ongoing management review, expected returns will be permitted to move outside the bands as a result of normal share price fluctuations without necessarily triggering a rating change.

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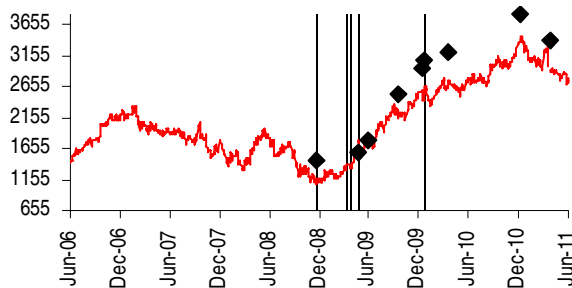
Rating distribution for long-term investment opportunities

As of 24 June 2011, the distribution of all ratings published is as follows:

Overweight (Buy)	51%	(24% of these provided with Investment Banking Services)
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Share price and rating changes for long-term investment opportunities

Infosys Technologies (INFY.BO) Share Price performance INR Vs HSBC rating history



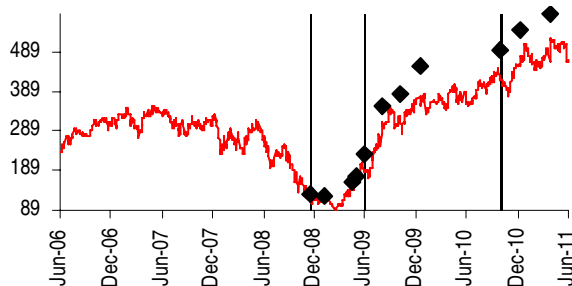
Source: HSBC

Recommendation & price target history

From	To	Date
N/A	Overweight (V)	10 December 2008
Overweight (V)	Overweight	01 April 2009
Overweight	Overweight	16 April 2009
Overweight	Neutral (V)	12 May 2009
Neutral (V)	Overweight	12 January 2010
Target Price	Value	Date
Price 1	1450.00	10 December 2008
Price 2	1600.00	12 May 2009
Price 3	1800.00	24 June 2009
Price 4	2525.00	07 October 2009
Price 5	2950.00	07 January 2010
Price 6	3100.00	12 January 2010
Price 7	3200.00	13 April 2010
Price 8	3830.00	02 January 2011
Price 9	3400.00	17 April 2011

Source: HSBC

HCL Technologies (HCLT.BO) Share Price performance INR Vs HSBC rating history



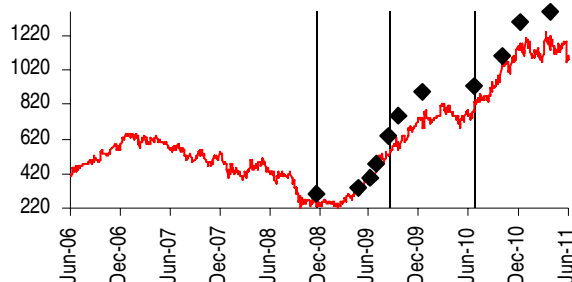
Source: HSBC

Recommendation & price target history

From	To	Date
N/A	Neutral (V)	10 December 2008
Neutral (V)	Overweight (V)	24 June 2009
Overweight (V)	Overweight	20 October 2010
Target Price	Value	Date
Price 1	130.00	10 December 2008
Price 2	125.00	26 January 2009
Price 3	160.00	12 May 2009
Price 4	175.00	26 May 2009
Price 5	230.00	24 June 2009
Price 6	350.00	25 August 2009
Price 7	385.00	30 October 2009
Price 8	455.00	07 January 2010
Price 9	495.00	20 October 2010
Price 10	545.00	02 January 2011
Price 11	585.00	20 April 2011

Source: HSBC

TCS (TCS.BO) Share Price performance INR Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
N/A	Neutral (V)	10 December 2008
Neutral (V)	Overweight (V)	01 September 2009
Overweight (V)	Overweight	15 July 2010
Target Price	Value	Date
Price 1	300.00	10 December 2008
Price 2	335.00	12 May 2009
Price 3	400.00	25 June 2009
Price 4	480.00	20 July 2009
Price 5	640.00	01 September 2009
Price 6	755.00	07 October 2009
Price 7	890.00	07 January 2010
Price 8	925.00	15 July 2010
Price 9	1100.00	22 October 2010
Price 10	1300.00	02 January 2011
Price 11	1360.00	21 April 2011

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
HCL TECHNOLOGIES	HCLT.NS	470.65	23-Jun-2011	4
INFOSYS TECHNOLOGIES	INFY.NS	2779.10	23-Jun-2011	2, 6

Source: HSBC

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