

## HCL Technologies Ltd.(HCLT)

DOLAT CAPITAL



CMP: Rs 307

Target Price: Rs 310

IT / Reduce

HCL Technologies results are inline with estimates. The topline has grown sequentially by 1.6%, and the net profit growth is 53% aided by the appreciating rupee, which has led to lower Forex losses in this quarter. The deal pipeline which had seen a robust growth in the previous quarter is softening now. The IT budgets have remained steady and HCLT is looking at reaping benefits through vendor consolidation. The volumes and pricing have been stable and we do not expect further pricing pressure. At CMP the stock is trading at 13.1x FY10E EPS and 11.9x FY11E EPS. We recommend a 'Reduce' rating on the stock with a target price of Rs. 310

## Q4FY09 Result

Particulars (Rs.mn)	Q4FY09	Q3FY09	Q-O-Q(%)	Q4FY08	Y-O-Y(%)	FY08	FY09
<b>Net Sales</b>	<b>29085</b>	<b>28615</b>	<b>1.6</b>	<b>21688</b>	<b>34.1</b>	<b>75670</b>	<b>105910</b>
Expenditure	18136	18009	0.7	12910	40.5	46877	65483
Gross Profit	10949	10606	3.2	8778	24.7	28793	40427
<b>EBITDA</b>	<b>6441</b>	<b>6103</b>	<b>5.5</b>	<b>5084</b>	<b>26.7</b>	<b>16215</b>	<b>23065</b>
Operating Profit	5555	4087	35.9	2085	166.4	13873	18164
Depreciation and Amortization	1197	1417	-15.5	850	40.8	3033	4494
Profit Before Interest and Tax	4358	2670	63.2	1235	252.9	10840	13670
Other Income Net	-116	-24	383.3	355	-132.7	1698	1624
<b>Profit before Tax</b>	<b>4242</b>	<b>2646</b>	<b>60.3</b>	<b>1590</b>	<b>166.8</b>	<b>12538</b>	<b>15294</b>
Tax	935	485	92.8	203	360.6	1271	2544
Profit before Minority Interest	3307	2161	53.0	1387	138.4	11267	12750
Minority Interest	4	-17	-123.5	-23	-117.4	19	-27
<b>Net Profit</b>	<b>3303</b>	<b>2178</b>	<b>51.7</b>	<b>1410.0</b>	<b>134.3</b>	<b>11248.0</b>	<b>12777</b>
Equity Capital	1339.8	1339.8		1339.8		1339.8	1339.8
Basic And Diluted EPS after Extraordinary item	4.9	3.3		2.1		16.8	19.1
Operating Profit Margin (%)	22.1%	21.3%		23.4%		21.4%	21.8%
Net Profit Margin (%)	11.4%	7.6%		6.5%		14.9%	12.1%

## Key Highlights

- HCLT's Q4FY09 revenues have gone up by 1.6% sequentially to Rs. 29.08bn in INR terms while the USD revenues for the quarter have been up by 7.6% sequentially to USD 607.2mn. The revenue growth has been on the back of the growing Infrastructure services business while the BPO has remained a laggard with the current transformation being done in the BPO space.
- The EBITDA has gone up sequentially by 5.5% to Rs. 6.4bn and there is an 80 bps margin improvement due to lower employee costs as well as reduced SG&A expenses.
- The Net Profit for HCLT is at Rs. 3.3bn, which is a sequential growth of 51.7%. This growth has been due to lower Forex losses as well as lower depreciation. HCLT had earlier capitalized some of their buildings under construction and have now written back the depreciation provisions made for these assets.
- The Core Software Services business has de-grown by 1.3% sequentially, while the Infrastructure services business has grown by 18.5% sequentially to Rs. 5.1bn in Q4FY09. The BPO service has also de-grown by 1.8% to Rs. 2.8 bn.
- HCLT added 190 employees in this quarter. The employee addition is mainly in the Infrastructure services while there has been a reduction in the core software services. The volume growth is on the back of this employee reduction and very high utilization levels, which look unsustainable going forward.
- HCLT recently bought a data center in New Jersey for their Infrastructure services business.
- HCLT has outstanding hedges of \$813mn hedged at an average rate of Rs. 40.69.
- HCLT had taken a loan of \$500mn for the Axon acquisition. This loan has been now converted into a \$300mn foreign currency loan along with a Rs. 10bn bonds. HCLT declined to disclose the interest rate for the foreign currency loan, while the rupee bond has a weighted average yield of 8.24%.

## Valuations

HCLT' FY09 results are inline with estimates. With the reduction in hedges HCLT reduced their Forex losses, which also boosted the net profit significantly. The deal pipeline which had witnessed considerable growth in the earlier quarters has slowed down. Although the volume and pricing pressure has eased up we believe that these things are factored in and recommend a 'Reduce' rating on the stock with a target price of Rs. 310(12x FY11E EPS) over a 12 month period.

## Financials

Year	Net Sales	% growth	EBITDA	OPM%	PAT	% growth	EPS(Rs.)	% growth	PER(x)	ROANW(%)	ROACE(%)
FY08	75670	25.4	16215	21.4	11248	(17.6)	16.9	(17.7)	18.1	22.0	28.9
FY09P	105910	40.0	23065	21.8	12777	13.6	19.1	12.7	16.1	23.4	29.0
FY10E	142393	34.4	34547	24.3	15674	22.7	23.4	22.7	13.1	24.9	25.1
FY11E	152946	7.4	36092	23.6	17333	10.6	25.9	10.6	11.9	22.7	23.6

Figure in Rs.mn



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The ratings are based on the absolute upside of our target price from the current price.

**Upside**

> 25 %  
15% - 25%  
0% - 15%  
< 0 %

**Ratings**

Buy  
Accumulate  
Reduce  
Sell

**DOLAT TEAM**

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