

Ratings			
CMP	307	Recommendation	REDUCE
Target	290	Risk	MEDIUM

Bloomberg Consensus (BUY/HOLD/SELL)	
	13 / 10 / 23

Sensex	Nifty	BSE IT
15,688	4,659	4,134

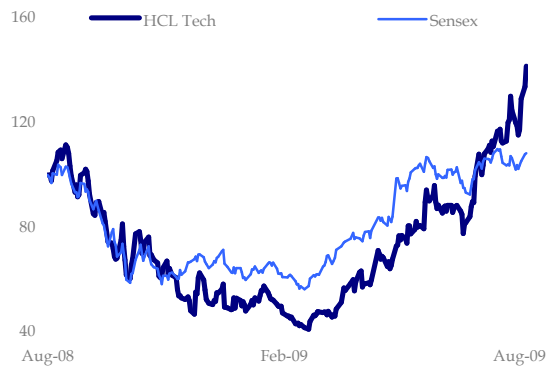
Codes			
BSE	NSE	Bloomberg	Reuters
532281	HCLTECH	HCLT IB	HCLT.BO

	Sensex	HCL Tech
52 Wk: Hi/Lo	16,002/7,697	315/89
Life High	21,608- Jan 08	755-Feb 00
P/E	20.39	20.63
P/BV	3.79	5.90
Dividend Yield (%)	1.22	2.91
Mkt Cap (INR Mn)	52,071,171	205,767
Equity (INR Mn)	-	1,341

Share Holding Pattern %	Mar-09	Jun-09
Foreign	18.81	19.83
Institutions	5.13	4.84
Corporate	2.87	2.53
Promoters	68.20	68.16
Public & Others	4.99	4.64

Returns (%)	Abs Perf	Relative to	
		Sensex	BSE IT
1 Month	28.75	26.71	20.01
3 Months	91.40	75.95	46.08
1 Year	41.61	33.28	35.48

Relative Price Performance



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- 4Q revenue grew by 7.6% well above expectations
- 4Q EBIT margin improved by ~160 bps sequentially
- Net Income at Rs 3,303 mn; up 134.3% yoy, 51.7% qoq
- Interim dividend of Rs 1, totaling Rs 7 for FY09

HCL Tech reported 7.6% sequential growth in USD revenues to USD 607.2 mn higher than our estimates. Large deals won during the first 9 months have seen higher than expected ramp ups which contributed additional USD ~20 mn. Reported net income of USD 68.9 mn remained higher than our estimates, largely due to better revenue growth and lower forex losses.

HCL Tech has inked contracts worth USD ~1.5 bn in first three quarters of FY09, however management commented that deal flow sees slowdown in 4Q and thereafter. Management expects growth to return in mid-2010.

The stock has run-up over 90% in the last three months, outperforming broader market by ~75%. We believe recent stock price run-up, softness in EAS, deal flow slowdown and likely forex loss of USD 127 mn in FY10 would limit stock performance relative to sector going forward. We continue to prefer Infosys and TCS over HCL Tech. We maintain REDUCE rating on the stock with a revised target price of Rs 290 at 12x FY11E earnings.

Consolidated results for the quarter ended June 30, 2009

- Revenues at Rs 29,085 mn; up 34.7% yoy and 1.6% qoq
- EBIT at Rs 5,244 mn; up 26.8% yoy and 11.9% qoq
- Net Income at Rs 3,303 mn; up 134.3% yoy, 51.7% qoq

Consolidated results for the year ended June 30, 2009

- Revenues up by 40% to Rs 105,910 mn
- EBIT up by 40.9% to Rs 18,571 mn
- Net Income up by 13.6% to Rs 12,777 mn

Key Ratios: Comparison

	CMP (INR)	Cash/ Share	EV/EB IDTA	P/S	P/E	EBIDTA (%)	ROCE (%)	ROE (%)
HCL Tech	307	17	9.2	2.0	15.7	20.2	41.1	25.5
Infosys	2,095	197	8.9	5.7	20.7	33.3	39.5	37.4
TCS	528	22	6.9	3.9	20.4	25.8	45.0	37.8
Wipro	544	45	6.6	3.2	20.9	20.9	35.4	30.8

Source: Bloomberg, Khandwala Research

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Financial Summary

Descriptions (INR Mn)	FY07	FY08	FY09	FY10E	FY11E
Revenues	60,337	75,670	105,910	120,874	132,110
EBIT	10,837	13,182	18,571	21,146	21,969
Profit Before Tax	15,261	12,538	15,294	14,983	19,619
Net Income	13,666	11,248	12,777	12,324	16,125
EPS (INR)	20.7	16.9	19.1	18.3	24.0
P/E	14.8	18.2	16.1	16.7	12.8

Result Highlights

Revenue Growth

Factors	% Chg
Volume Growth	2.7
Increase in Infra Business	1.2
Favorable Exchange Rate	3.7
Realization	-0.1
QoQ growth in USD terms	7.6

Margin Movement

Factors	EBITM (%)
Efficiencies Gain	2.2
Exchange Rate	-0.5
Net Change	1.6

- ✓ **Core Software Services:** Segment revenue increased by 4.4% qoq to USD 441.5 mn. EBIT margin improved by ~220 bps sequentially to 19.4%. Software services headcount decrease by 538 sequentially, second consecutive quarterly decline.
- ✓ **Infrastructure Services:** Segment reported 25.4% sequential growth in USD terms. EBIT margin improved by ~40 bps sequentially to 16.4%. Infrastructure services headcount increased by 354 sequentially.
- ✓ **BPO:** Revenue grew by 3.9% sequentially to USD 58.6 mn. EBIT margin improved by ~20 bps sequentially to 10.8%. BPO headcount increased by 374 sequentially.
- ✓ **Revenue Growth:** Revenues grew by 7.6% sequentially to USD 607.2 mn. In constant currency, revenues grew by 3.9% sequentially.
- ✓ **EBIT Margin:** EBIT margin improve by ~160 bps sequentially, better than our expectations due to cost efficiency and lower depreciation and amortization charges.
- ✓ **Clients:** 37 new clients were added during the quarter. Top 5 clients contributed 20.6% of revenues and declined 2.4% on LTM basis. Top 20 clients declined by 0.8% on LTM basis, contributing 40.2% of revenues. Top 5, 10 and 20 clients grew by 2%, 6% and 8% sequentially however.
- ✓ **Hedging Position:** The Company has USD ~0.8 bn of outstanding hedging position at the end of quarter. The company has USD ~162 mn of forex losses residing in other comprehensive income line on the balance sheet, which would result into lower realization/MTM forex loss in the next 5-6 quarters.
- ✓ **Employee:** Net addition of 190 headcount during the quarter, taking total employee strength to 54,216 at the end of FY09.
- ✓ **Deal wins:** In the first three quarters of FY09, HCL has won large deals worth over USD 1.5 bn. However, deal flows see slowdown in 4Q.
- ✓ **Re-financing of debt for Axon acquisition:** The company has refinanced USD 585 mn debt taken for Axon acquisition through USD 300 mn foreign currency loan and Rs 1,000 crores rupee bonds in domestic market. The company has repaid USD 85 mn.



Hedging Position

Descriptions (USD Bn)	Q4 '07	Q1 '08	Q2 '08	Q3 '08	Q4 '08	Q1 '09	Q2'09	Q3'09	Q4'09
Hedge Positions (end of quarter)	1.2	1.9	2.3	2.7	2.0	1.9	1.6	1.3	0.8
Revenues	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.6	0.6
Hedge Positions / Revenues	2.9	4.3	5.0	5.7	4.0	3.8	3.1	2.4	1.3
Closing Rate (INR / USD)	40.7	39.8	39.4	40.1	43.0	47.0	48.7	50.7	47.9

DSO Rising Steadily

	FY06				FY07				FY08				FY09			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
DSO	78	75	77	70	77	70	68	69	77	72	77	79	80	82	83	84

4QFY09 and FY09 Financial Results

Descriptions	Q4'09	Q3'09	Q-o-Q	Q4'08	Y-o-Y	FY'09	FY'08	Y-o-Y
Y/E June (INR Mn)	Jun-09	Mar-09	% Chg	Jun-08	% Chg	Jun-09	Jun-08	% Chg
Gross Revenues	29,085	28,615	1.6	21,589	34.7	105,910	75,670	40.0
Direct Costs	18,136	18,009	0.7	12,910	40.5	65,483	46,877	39.7
Gross Profits	10,949	10,606	3.2	8,679	26.2	40,427	28,793	40.4
	<i>GPM (%)</i>	37.6	37.1	40.2		38.2	38.1	
SG & A	4,508	4,503	0.1	3,694	22.0	17,362	12,578	38.0
EBITDA	6,441	6,103	5.5	4,985	29.2	23,065	16,215	42.2
	<i>EBIDTM (%)</i>	22.1	21.3	23.1		21.8	21.4	
Depreciation & Amortization	1,197	1,417	-15.5	850	40.8	4,494	3,033	48.2
EBIT	5,244	4,686	11.9	4,135	26.8	18,571	13,182	40.9
	<i>EBITM (%)</i>	18.0	16.4	19.2		17.5	17.4	
Cash Flow Hedge A/c gain/(loss)	-1,576	-1,255	25.6	99		-2,440	725	
Foreign Exchange gain/(loss)	690	-761		-2,999		-2,461	-3,067	-19.8
Other Income, Net	-116	-24	383.3	355	-132.7	1,624	1,698	-4.4
EBT	4,242	2,646	60.3	1,590	166.8	15,294	12,538	22.0
	<i>EBTM (%)</i>	14.6	9.2	7.4		14.4	16.6	
Provision for Tax	935	485	92.8	203	360.6	2,544	1,271	100.2
EAT	3,307	2,161	53.0	1,387	138.4	12,750	11,267	13.2
	<i>EATM (%)</i>	11.4	7.6	6.4		12.0	14.9	
Share from Equity Investments / MI	-4	17		23		27	-19	
Net Income	3,303	2,178	51.7	1,410	134.3	12,777	11,248	13.6
	<i>NIM (%)</i>	11.4	7.6	6.5		12.1	14.9	
Equity	1,341	1,340		1,333		1,341	1,333	
EPS (INR)	4.9	3.3	51.5	2.1	132.9	19.1	16.9	12.9



Consolidated revenues for the company grew by 3.9% sequentially to USD 586.2 mn in constant currency while 7.6% in reported currency to USD 607.2 mn

Revenue by Vertical

In constant currency, BFSI, Manufacturing, Telecom, Retail & CPG, Media publishing & Entertainment, Life Sciences, Energy - Utilities - Public sector and others grew (qoq) by 6.8%, 7.5%, 6.4%, -0.6%, 18.4%, 7.7%, -12.8% and -14.7% respectively.

Revenue by Vertical	Q4'09 Jun-09	Q3'09 Mar-09	Q4'08 Jun-08	Q-o-Q % Chg	Y-o-Y % Chg
BFSI	24.8	23.6	27.3	13.1	9.9
Manufacturing	30.9	30.3	30.6	9.7	22.2
Telecom	12.5	12.1	16.0	11.1	-5.4
Retail & CPG	6.6	6.9	8.8	2.9	-9.2
Media Publishing & Entertain.	5.6	5.0	5.6	20.5	21.0
Life Sciences	6.4	6.3	5.7	9.3	35.9
Energy - Utilities - Public Sector	7.6	8.9	1.5	-8.1	513.2
Others	5.6	6.9	4.5	-12.7	50.6
	100.0	100.0	100.0	7.6	21.0

Service Offering Mix

In constant currency, EAS, Engg. & R&D services, Custom application, Infrastructure services and BPO grew (qoq) by -0.7%, -5.1%, 7.9%, 21.3% and -3.1% respectively.

Service Offering Mix	Q4'09 Jun-09	Q3'09 Mar-09	Q4'08 Jun-08	Q-o-Q % Chg	Y-o-Y % Chg
Enterprise Application Service	23.6	24.5	10.8	3.6	164.5
Engg. & R&D Services	19.4	22.0	26.7	-5.1	-12.1
Custom Application	29.7	28.4	36.1	12.5	-0.4
Infrastructure Services	17.6	15.1	15.2	25.4	40.1
BPO Services	9.7	10.0	11.2	4.4	4.8
	100.0	100.0	100.0	7.6	21.0

Geography Mix

In constant currency, US, Europe, and Asia Pacific grew (qoq) by 3.8%, 1.6% and 9.4% respectively.

Geography Mix	Q4'09 Jun-09	Q3'09 Mar-09	Q4'08 Jun-08	Q-o-Q % Chg	Y-o-Y % Chg
US	58.9	61.0	57.2	3.9	24.6
Europe	28.5	27.6	29.2	11.1	18.1
Asia Pacific	12.6	11.4	13.6	18.9	12.1
	100.0	100.0	100.0	7.6	21.0



Analyst Certification

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KSL Ratings

Target Price refers to one year unless specified; CMP: Last closing price

BUY: Expected return >15%

ADD: Expected return 0-15%

REDUCE: Expected decline 0-15%

SELL: Expected decline >15%

Company Risk is based on the systematic risk of the stock. (1-year Beta)

HIGH: >1.2

MEDIUM: 0.8-1.2

LOW: < 0.8

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