

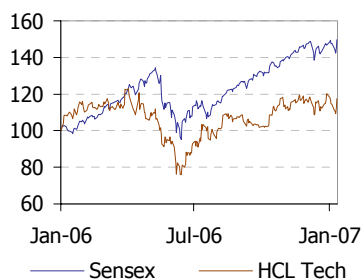
HCL Technologies

 Relative to sector: **Neutral**

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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

 No. of shares (basic) : 325mn
 Market cap : Rs.207bn
 52 week high/low : Rs.707/ Rs.362
 Avg. daily vol. (6mth) : 561,900 shares
 Bloomberg code : HCLT IN
 Reuters code : HCLT.BO

Shareholding (%) Dec-06 QoQ chg

Shareholder	Dec-06 (%)	QoQ chg
Promoters	69.0	(0.1)
FII's	13.9	(0.1)
MFs / UTI	4.3	(0.4)
Banks / FIs	3.2	0.4
Others	9.6	0.2

IMS LEADS THE GAIN

HCL Tech's Q2FY07 topline and PAT growth (post ESOP charge) at 6.2% and 12.8%, QoQ, respectively, are marginally better than our expectations.

Business unit/ clientele performance

- Software services:** Topline growth of 5.2% QoQ was aided by a meaningful blended volume growth of 7% QoQ and better price realizations (3-5% price hikes in renegotiations, higher success in engineering services that contributes ~24% to topline along with R&D services).
- BPO services:** Topline growth (5.4% QoQ) was marginally lower than our expectations with 70:30 share between India and Northern Ireland operations. Better pricing uptrend and 9.6% QoQ increase in employees would have yielded better revenue run-rate but for rupee appreciation of 3.6% QoQ. We expect a subdued FY07E revenue growth of ~ 31% YoY.
- IMS:** With annualized run rate of over USD 185mn, IMS continues to lead performance with 12.5% QoQ topline growth, and 15.0% QoQ EBIT growth. In addition to being a distinctive entry strategy with clients, IMS should lead earnings growth with higher share from the international business (currently ~60%)
- Clientele:** Top 20 clients lead the revenue run rate with 9.6% QoQ growth driven by ramp-ups in its multi-service offerings. 31% of its USD 1mn accounts (total 145) source multiple services, a reasonable increase from 28% last quarter.

Valuations: The contribution of large deals to the software services segment has been positively apparent in the 7% QoQ blended volume growth. We believe this transition is critical for operational synergies in large deals to accrue at the bottomline. This would also be a key factor for improvement of P/E multiple. Nonetheless, as our FY08 estimates (post RSU charge) do not undergo a material uptrend, we retain our sector **NEUTRAL** rating at current valuations of 20.6x FY07E and 16.6x FY08E.

Financial summary

Y/E Jun	Sales (Rs mn)	Rep. PAT (Rs mn)	Consensus EPS* (Rs)	EPS (Rs)	Change YoY (%)	P/E (x)	RoE (%)	EV/EBIDTA (x)
2005	33,288	6,067	-	19.1	7	20.3	17.7	13.4
2006#	44,007	7,746	-	22.6	18	22.0	19.7	15.9
2007E^	59,758	10,605	31.6	31.0	37	20.6	24.7	14.5
2008E^	76,075	13,161	38.0	38.5	24	16.6	27.0	11.3

Source: *Consensus broker estimates, Company, ENAM estimates;

Note: ^PAT for FY07E and FY08E is post RSU charge. FY07 and FY08 average INR/ USD rate assumed at Rs.45.0 and Rs.44.1 respectively

#FY06 EPS is exclusive of ESOP charge of USD15.24mn and one-time charge (USD13.5 mn) for change in accounting policy for forward contracts

Results update

(Rs mn)	Quarter ended					12 months ended		
	Dec-06	Dec-05	% Chg	Sep-06	% Chg	Jun-07E	Jun-06	% Chg
Net Sales	14,651	10,542	39.0	13,795	6.2	59,758	44,007	35.8
EBIDTA	3,587	2,245	59.8	3,001	19.5	13,851	9,507	45.7
Other income	134	275	(51.3)	278	(51.8)	1,381	919	50.2
PBIDT	3,721	2,520	47.7	3,279	13.5	15,232	10,426	46.1
Depreciation	623	493	26.4	557	11.8	2,382	2,032	17.2
PBT	3,098	2,027	52.8	2,722	13.8	12,850	8,394	53.1
Tax	206	203	1.5	219	(5.9)	1,195	626	90.9
Adjusted PAT	2,626	1,824	44.0	2,301	14.1	11,655	7,768	50.0
Share from equity investment	(7)	(7)	-	5	-	(5)	(6)	-
Share of income (loss) of minority shareholders	(23)	(6)	-	(5)	-	(20)	(16)	-
ESOP provisioning	(266)	(202)	-	-	-	(1,025)	-	-
Reported PAT	2,596	1,811	43.3	2,301	12.8	10,605	7,746	36.9
No. of shares (mn)	342	317	-	338	-	342	342	-
EBIDTA margins (%)	24.5	21.3	-	21.8	-	23.2	21.6	-
PBIDT margins (%)	25.4	23.9	-	23.8	-	25.5	23.7	-
EPS (Rs)	7.7	5.7	33.7	6.8	13.0	31.0	22.6	37.1

Source: Company, ENAM estimates. Note: FY07E and FY08E exclude non-cash employee stock option charges. Company has used exchange rate of 1USD=INR44.25

Revenue by Services Offerings

(Rs mn)	Dec-06	Dec-05	YoY grth (%)	Sep-06	QoQ grth (%)
Revenue	14,651	10,542	38.8	13,795	6.1
Enterprise Application Services	1,875	1,444	28.8	1,890	(1.5)
Engineering and R&D Services	3,546	2,467	43.7	3,311	7.1
Industry Solutions	5,318	4,090	30.0	4,994	6.5
Infrastructure Services	2,051	1,202	70.7	1,835	11.8
BPO Services	1,861	1,339	39.0	1,766	5.4

Source: Company, ENAM Research

Clientele Performance

(Rs mn)	Dec-06	Dec-05	YoY grth (%)	Sep-06	QoQ grth (%)
Client Concentration					
Top 5 Clients	4,351	3,004	44.8	3,959	9.9
Top 6-10 Clients	1,363	959	42.0	1,311	4.0
Top 11- 20 Clients	1,831	1,139	60.9	1,614	13.5
Top 20 Clients	7,545	5,102	47.9	6,884	9.6
Remaining Clients	7,106	5,440	30.6	6,911	2.8
Client Quality (Nos.)					
No : of USD1mn accounts	145	130	-	143	-
No : of USD5mn accounts	46	33	-	41	-
No : of USD10mn accounts	22	16	-	18	-
No : of USD20mn accounts	8	6	-	8	-
No : of USD30mn accounts	4	3	-	4	-
No : of USD40mn accounts	4	3	-	3	-
No : of USD50mn accounts	3	2	-	2	-

Source: Company, ENAM Research

Segmental Performance

(Rs mn)	Dec-06	Dec-05	YoY grth (%)	Sep-06	QoQ grth (%)
Revenue					
Software Services	10,739	8,001	34.2	10,206	5.2
BPO Services	1,859	1,339	38.8	1,763	5.4
Infrastructure Services	2,053	1,202	70.8	1,825	12.5
Gross Profits					
Software Services	4,196	3,042	37.9	3,842	9.2
BPO Services	677	546	24.0	619	9.4
Infrastructure Services	670	390	71.8	626	7.0
Gross margins (%)					
Software Services	39.1	38.0	-	37.6	-
BPO Services	36.4	40.8	-	35.1	-
Infrastructure Services	32.6	32.4	-	34.3	-
EBITDA					
Software Services	2,455	1,832	34.0	2,271	8.1
BPO Services	426	364	17.0	396	7.6
Infrastructure Services	359	181	98.3	322	11.5
EBITDA margin (%)					
Software Services	22.9	22.9	-	22.3	-
BPO Services	22.9	27.2	-	22.5	-
Infrastructure Services	17.5	15.1	-	17.6	-
EBIT					
Software Services	2,097	1,539	36.3	1,961	6.9
BPO Services	276	251	10.0	257	7.4
Infrastructure Services	245	93	163.4	213	15.0
EBIT margin (%)					
Software Services	19.5	19.2	-	19.2	-
BPO Services	14.8	18.7	-	14.6	-
Infrastructure Services	11.9	7.7	-	11.7	-

Source: Company, ENAM Research

Employee Base

(Nos)	Dec-06	Dec-05	YoY grth (%)	Sep-06	QoQ grth (%)
Total employee base	38,317	28,182	36.0	36,452	5.1
- Software Services	22,523	17,793	26.6	21,943	2.6
- BPO	12,181	8,334	46.2	11,112	9.6
- Infrastructure Services	3,613	2,055	75.8	3,397	6.4

Source: Company, ENAM Research

Geography Revenues

(Rs mn)	Dec-06	Dec-05	YoY grth (%)	Sep-06	QoQ grth (%)
US	8,395	6,388	31.4	8,222	2.1
Europe	4,278	2,267	88.8	3,945	8.4
Asia Pac	1,978	1,887	4.8	1,628	21.5

Source: Company, ENAM Research

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