

## HCL-Technologies

Decent quarter; share price upside potential

- HCL Tech reported strong 3QFY10 ahead of our estimates:** US\$ revenues grew 5.1% Q/Q (1.4% in rupees; 6.9% CC) driven by 15% growth in Infrastructure and 4.2% in software. Notably, infrastructure segment contributed ~60% of the incremental revenues in the quarter. HCLT's traditional engineering and R&D division bounced back with 11% growth Q/Q (USD). BPO remained weak (down 9.7% Q/Q), slipping into operating loss. EBITDA margins declined 130 bps Q/Q driven mainly by revenue decline in BPO and rupee appreciation. Bottom-line boost was provided by lower forex losses in this quarter (US\$ 14mn loss vs. US\$27 mn in 2QFY10). In Rs terms, revenues/EBITDA/net income stood at Rs 30.8/5.85/3.22 B (1.4%, -5%, 17% Q/Q growth)
- Metrics were good:** with 39 client additions and 3,152 net additions to manpower in software & infrastructure (IT Services). The company continued to maintain traction in the sub-USD 30 mn accounts by increasing million dollar clients (below USD 30 mn+) by 26 in the last four quarters. HCLT continues to successfully sustain traction in its hyper-growth verticals such as life-sciences, media and entertainment growing 9.5% and 15.4% Q/Q (in USD), respectively.
- Management outlook was confident:** The outlook for enterprise application services (EAS) was positive, especially for manufacturing. Management is beginning to see discretionary spend happening. In terms of service lines, infrastructure remains solid, while the BPO business is going through a restructuring that will take more time to start delivering results. Revenue decline in BPO is likely over the next two quarters.
- Investment view: We believe that HCL Tech stock offers better return potential than other top-tier Indian IT names with 20%-plus upside potential:** Our estimates are largely unchanged. Our new Mar-11 target price is Rs460/share based on a one-year forward P/E of 14x. This is still at a 30% discount to top-tier players, in line with historical averages, leaving room for further upside if HCLT beats our estimates. Our target EV/EBITDA multiple of 10x provides further cushion to our price target.

### Overweight

HCLT.BO, HCLT IN

Price: Rs373.90

▲ **Price Target: Rs460.00**  
Previous: Rs450.00

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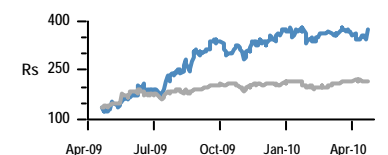
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#### Price Performance



	YTD	1m	3m	12m
Abs	0.7%	-0.0%	0.9%	170.2%
Rel	-0.1%	0.3%	-2.1%	114.3%

Reuters: HCLT.BO, Bloomberg: HCLT IN

Rs in billions, year-end June

RsB (Year-end: Jun)	FY09	FY10E	FY11E	FY12E		FY09	FY10E	FY11E	FY12E		
Sales	106.1	123.2	140.1	163.6	Y/E BPS (Rs)	86.4	104.3	123.9	150.9	52-Week range	Rs118.1-388.9
Operating Profit	18.0	20.3	24.3	29.8	ROE (%)	20.8	20.3	24.4	23.7	Shares Outstg	670Mn
EBITDA	22.5	25.3	28.9	34.6	ROIC (%)	21.2	17.7	20.3	21.3	Date of price	4/21/2010
Pre Tax Profit	14.6	15.7	23.5	30.3		1Q	2Q	3Q	4Q	Avg daily volume	1.3 Mn
Net profit	12.0	12.7	18.7	22.4	EPS (FY09)	5.1	5.3	3.0	4.6	Index (Sensex)	17,473
EPS (Rs)	18.0	18.8	27.4	32.5	EPS (FY10) E	4.5	4.1	4.8	5.5	Avg daily value (US\$ M)	9.9 Mn
P/E (x)	20.8	19.9	13.6	11.5	EPS (FY11) E	5.6	6.7	7.4	7.8	Dividend Yld (%)	2.4%
EV/EBITDA (x)	10.8	9.6	8.4	7.0	Local	1M	3M	12M		Exchange rate	Rs44.6/US\$1
P/B (x)	4.3	3.6	3.0	2.5	Abs. Perf.(%)	1.3	-2.3	199.0		Free float	32%
Cash	19.3	25.7	34.8	46.5	Rel. Perf.(%)	1.9	-4.6	86.5		Market Cap (US\$ B)	5.6
										Target Price (12/2010)	460.00

Source: Company data, Bloomberg, J.P. Morgan estimates.

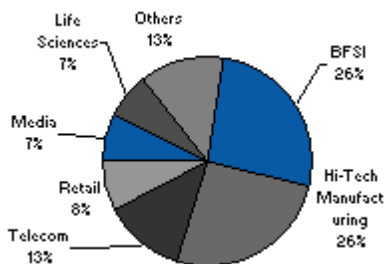
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## Company Description

HCL Technologies (HCLT) is one of India's larger IT services vendors with good presence in R&D services, Infrastructure management and BPO. HCLT has several Fortune 500 names in its top clients. The company has 45,000+ employees working for 250+ clients. HCL Tech recently acquired Axon, which operates in the package implementation space. HCL Tech has good leverage to high growth services with 15% of its revenues coming from Infrastructure management and 10% from BPO.

## Revenue chart



Source: Company data

## EPS: J.P. Morgan vs. consensus

	J. P. Morgan	Consensus
FY10E	18.8	18.6
FY11E	27.4	25.3
FY12E	32.5	28.9

Source: Bloomberg, J. P. Morgan estimates.

## P&L sensitivity metrics

	EBITDA impact (%)	EPS impact (%)
Sales volume growth assumption 18%(FY11)		
Impact of each 5%	3.1%	5.0%
Gross margin assumption 32%(FY11)		
Impact of each 1%	4.6%	7.5%
Capacity utilization assumption 82%(FY11)		
Impact of each 5%	4.7%	7.7%
Debt/equity assumption 0%(FY11)		
Impact of each 10%	0%	0.4%

Source: J. P. Morgan estimates

## Price target and valuation analysis

Our Mar-11 price target of Rs460 is based on a one-year forward P/E multiple of 14.6x –reasonable, we believe, with estimated 32% EPS CAGR FY10E-12E.

Risk free rate:	6.50%
Market risk premium:	8.00%
Beta:	0.87
Debt/equity:	10.00%
Cost of debt:	8.00%
Terminal "g":	4%

Key risks to our target price are rupee/US\$ appreciation.

## Q3FY10 sees strong revenue growth; margin decline

HCLT reported revenues of US\$685 mn (5.1% growth Q/Q), EBITDA of US\$130mn (19% EBITDA margins, down 1.6% Q/Q) and net profits of USD 71.6 mn (21.4% growth Q/Q (after cost of options that amounted to US\$ 5 mn). Significant bottom-line boost was helped by lower forex losses in this quarter (USD 14 mn loss versus USD 27 mn in 2QFY10).

**Infra management continues on strong growth path:** Revenue growth healthy driven by HCLT's core strengths namely, infra management (15% Q-o-Q growth in USD) and engineering and R&D (11% Q-o-Q growth in USD). It's good to see a bounce-back of engineering & R&D as this has been weak for a while. This has helped HCLT post decent performance in software services (4.2% growth Q-o-Q) keeping pace with peers.

The performance of the BPO division, which has been on a declining trend for a while now, was poor in this quarter. Management indicated that continued product mix re-alignment in BPO segment could lead to revenues going down further by 10%-15% from current levels, before stabilizing. The performance of enterprise solutions (reflective of Axon) is also relatively muted.

**Growth spread across verticals:** Growth verticals continue to perform. HCLT's recent verticals of trust, namely life-sciences, media and entertainment continued to deliver results growing 9.5% and 15.4% Q-o-Q (in USD). Hi-tech manufacturing, HCLT's core has grown 9.7% Q-o-Q, signifying that the high-tech segment in manufacturing is looking up.

Growth from US and Asia Pacific was healthy at 9.7% and 7.9%, respectively (in constant currency). Europe saw subdued (1.4%) growth, lending credence to our thought that Europe still lags in outsourcing recovery.

Figure 1: 3QFY10: Actual vs. estimates

	Actuals	Estimates	% Difference
Revenue	30,759	30,328	1.4
Gross Profit	9,054	9,446	(4.1)
EBIT	4,749	5,018	(5.4)
EBITDA	5,849	6,190	(5.5)
Reported net profit	3,214	3,137	2.4
EPS (Rs)	4.8	4.6	2.5
Margins (%)			
Gross Margin	30.4	31.4	(1.0)
Operating Margin	15.8	16.9	(1.1)
EBITDA Margin	20.3	21.5	(1.1)
Net Margin	9.1	9.2	(0.1)

Source: Company reports and J.P. Morgan estimates.

Table 2: HCL Tech: Quarterly P&L

Rs in millions, year-end June

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10
<b>Software services</b>											
Revenues	12,315	13,198	14,311	15,976	17,301	17,698	21,431	21,148	21,592	21,502	21,610
Q/Q growth (%)	7.0	7.2	8.4	11.6	8.3	2.3	21.1	-1.3	2.1	-0.4	0.5
Gross profit	4,299	4,713	5,206	6,039	6,559	6,799	7,073	7,429	7,395	7,273	7,326
Gross margin (%)	34.9	35.7	36.4	37.8	37.9	38.4	33.0	35.1	34.2	33.8	33.9
EBITDA	2,633	2,845	3,225	3,783	4,103	4,368	4,720	5,025	5,321	5,090	4,929
EBITDA Margin (%)	21.4	21.6	22.5	23.7	23.7	24.7	22.0	23.8	24.6	23.7	22.8
<b>BPO Services</b>											
Revenues	2,195	2,183	2,266	2,432	2,686	3,097	2,859	2,807	2,829	2,680	2,334
Q/Q growth (%)	(0.2)	(0.5)	3.8	7.3	10.4	15.3	-7.7	-1.8	0.8	-5.3	-12.9
Gross profit	713	749	770	947	817	984	887	829	731	600	305
Gross margin (%)	32.5	34.3	34.0	38.9	30.4	31.8	31.0	29.5	25.9	22.4	13.1
EBITDA	570	568	594	684	507	433	441	422	404	214	-103
EBITDA Margin (%)	26.0	26.0	26.2	28.1	18.9	14.0	15.4	15.0	14.3	8.0	-4.4
<b>Infrastructure services</b>											
Revenues	2,578	2,782	2,876	3,280	3,709	4,115	4,330	5,130	5,893	6,142	6,814
Q/Q growth (%)	6.7	7.9	3.4	14.0	13.1	10.9	5.2	18.5	14.9	4.2	10.9
Gross profit	633	721	758	938	1,052	1,179	1,237	1,499	1,621	1,577	1,647
Gross margin (%)	24.6	25.9	26.4	28.6	28.4	28.6	28.6	29.2	27.5	25.7	24.2
EBITDA	430	469	517	615	704	804	948	992	1,164	1,089	1,252
EBITDA Margin (%)	16.7	16.9	18.0	18.8	19.0	19.5	21.9	19.3	19.8	17.7	18.4
<b>Total company</b>											
Revenues	17,091	18,168	19,449	21,692	23,696	24,691	28,615	29,085	30,314	30,324	30,759
Q/Q growth (%)	6.0	6.3	7.1	11.5	9.2	4.2	15.9	1.6	4.2	0.0	1.4
Gross profit	5,454	5,998	6,538	7,730	8,244	8,566	9,014	9,551	9,559	9,232	9,054
Gross margin (%)	31.9	33.0	33.6	35.6	34.8	34.7	31.5	32.8	31.5	30.4	29.4
EBITDA	3,450	3,701	4,139	4,889	5,132	5,201	5,932	6,241	6,702	6,161	5,849
EBITDA Margin (%)	20.2	20.4	21.3	22.5	21.7	21.1	20.7	21.5	22.1	20.3	19.0
PAT	2,892	3,145	3,229	1,214	3,380	3,555	1,987	3,109	3,012	2,745	3,214
Net margin (%)	16.9	17.3	16.6	5.6	14.3	14.4	6.9	10.7	9.9	9.1	10.4
EPS (Rs)	4.4	4.7	4.9	1.8	5.1	5.3	3.0	4.6	4.5	4.1	4.8

Source: Company reports.

## Outlook improving – Discretionary spend uptick already visible

Management continues to see traction in outsourcing and transformation engagements driven by continued customer focus on cost rationalization. They suggest that growth in manufacturing project spending coming back. Part of the growth is being driven by discretionary spend up-tick in client budgets – we believe continued improvement in discretionary spend environment could provide further fillip to the robust volume growth estimates for the Indian IT sector overall and remains one of the key areas to watch over the coming 3-6 months.

Growth in Europe remained weak and management expects recovery in continental Europe to lag the recovery in US.

Further, management indicated that margins would be under pressure in 1Q/2Q FY11 as wage hikes are scheduled to be given out starting in July.

## Estimate changes

We keep our estimates largely the same after 3QFY10. We estimate 15% revenue CAGR and 24% EPS CAGR over FY09-11E.

Table 4: Estimate changes

(Year-end June) (Rs in m)	New			Old			Change (%)		
	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
Revenue	123,199	140,069	163,615	122,447	139,503	164,234	0.6	0.4	(0.4)
Gross Profit	37,952	45,301	54,324	38,338	45,219	53,785	(1.0)	0.2	1.0
EBIT	20,329	24,291	29,782	20,669	24,991	29,972	(1.6)	(2.8)	(0.6)
EBITDA	25,329	28,936	34,577	25,755	29,779	34,945	(1.7)	(2.8)	(1.1)
Pre Tax Profit	15,690	23,509	30,328	15,426	23,958	30,480	1.7	(1.9)	(0.5)
Net Profit	12,671	18,720	22,443	12,398	18,962	22,555	2.2	(1.3)	(0.5)
EPS (Rs)	18.8	27.4	32.5	18.4	27.8	32.7	2.3	(1.2)	(0.4)
<b>Margins (%)</b>									
Gross Margin	30.8	32.3	33.2	31.3	32.4	32.7	(0.5)	(0.1)	0.5
EBIT Margin	16.5	17.3	18.2	16.9	17.9	18.2	(0.4)	(0.6)	(0.0)
EBITDA Margin	20.6	20.7	21.1	21.0	21.3	21.3	(0.5)	(0.7)	(0.1)
Net margin	10.3	13.4	13.7	10.1	13.6	13.7	0.2	(0.2)	(0.0)

Source: J.P. Morgan estimates.

Table 5: HCL P&L

RsMM, YE June	2010				2011				FY07	FY08	FY09	FY10E	FY11E	FY12E
	1Q	2Q	3Q	4QE	1QE	2QE	3QE	4QE						
Revenue	30,314	30,324	30,759	31,803	32,920	34,348	35,732	37,070	60,338	76,401	106,087	123,199	140,069	163,615
Gross Profit	9,559	9,232	9,054	10,106	10,220	10,956	11,693	12,432	19,606	25,720	35,376	37,952	45,301	54,324
EBIT	5,282	4,802	4,749	5,495	5,282	5,804	6,334	6,871	10,232	13,143	18,019	20,329	24,291	29,782
EBITDA	6,702	6,161	5,849	6,618	6,419	6,957	7,503	8,057	12,761	16,179	22,506	25,329	28,936	34,577
Net Other Income	-1,568	-1,391	-768	-911	-599	-176	-55	47	4,262	-1,372	-3,457	-4,638	-782	546
Pre Tax Profit	3,714	3,411	3,982	4,584	4,683	5,628	6,279	6,919	14,493	11,771	14,561	15,690	23,509	30,328
Net Profit	3,012	2,745	3,214	3,700	3,781	4,543	5,069	5,327	12,935	10,480	12,032	12,671	18,720	22,443
EPS (Rs)	4.5	4.1	4.8	5.5	5.6	6.7	7.4	7.8	19.7	15.8	18.0	18.8	27.4	32.5
<b>Margins (%)</b>														
Gross Margin	31.5	30.4	29.4	31.8	31.0	31.9	32.7	33.5	32.5	33.7	33.3	30.8	32.3	33.2
Operating Margin	17.4	15.8	15.4	17.3	16.0	16.9	17.7	18.5	17.0	17.2	17.0	16.5	17.3	18.2
EBITDA Margin	22.1	20.3	19.0	20.8	19.5	20.3	21.0	21.7	21.1	21.2	21.2	20.6	20.7	21.1
Net Margin	9.9	9.1	10.4	11.6	11.5	13.2	14.2	14.4	21.4	13.7	11.3	10.3	13.4	13.7
<b>Seq Growth (%)</b>														
Revenue	4.2	0.0	1.4	3.4	3.5	4.3	4.0	3.7	37.1	26.6	38.9	16.1	13.7	16.8
Gross Profit	0.1	-3.4	-1.9	11.6	1.1	7.2	6.7	6.3	36.2	31.2	37.5	7.3	19.4	19.9
EBIT	4.7	-9.1	-1.1	15.7	-3.9	9.9	9.1	8.5	30.9	28.5	37.1	12.8	19.5	22.6
EBITDA	7.4	-8.1	-5.1	13.1	-3.0	8.4	7.8	7.4	29.6	26.8	39.1	12.5	14.2	19.5
Net Profit	-3.1	-8.8	17.1	15.1	2.2	20.2	11.6	5.1	67.0	-19.0	14.8	5.3	47.7	19.9
EPS	-3.2	-9.1	16.7	14.8	1.9	19.8	11.2	4.8	63.6	-19.8	14.0	4.5	45.9	18.5

Source: Company data, J.P. Morgan estimates.

## Valuation and recommendation: Mar-11 PT of Rs460

Our Mar-11 price target of Rs460 (earlier Dec-10 PT was Rs450) is based on a one-year forward P/E multiple of 14.6x –reasonable, we believe, with estimated 32% EPS CAGR FY10-12. We believe that HCL Tech will continue to trade at a discount to the top-tier players. However, the large deal wins and the strong growth rate shown over the last 3-4 quarters should provide more investor confidence in the revenue growth trajectory and stability of margins, in our view.

Table 6: Price target comparison to P/E multiples

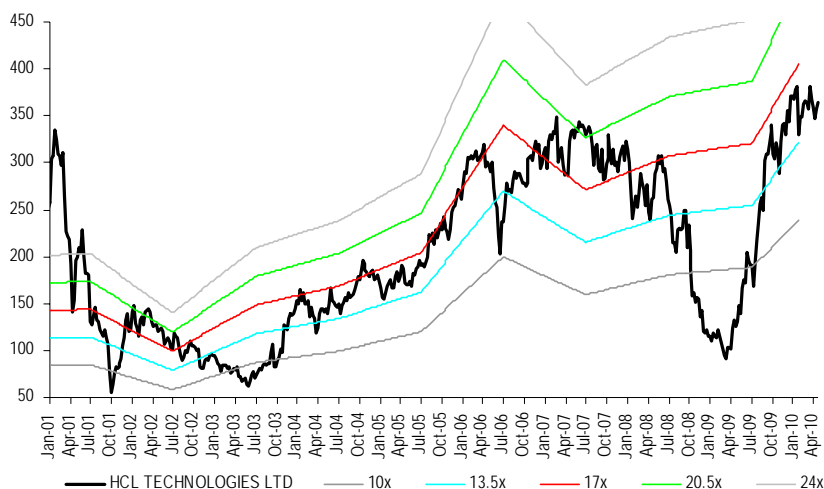
	1 year forward	1 year trailing
Average P/E multiple over past 1 year	13.2	15.9
Current P/E Multiple (x)	14.1	19.5
Mar-11 EPS (Rs.)	31.5	25.1
Multiple used in price target (x)	14.6	18.3

Source: Company data, J.P. Morgan estimates.

### Risks to our price target

Slowdown in Infra management deal ramp-ups and appreciation of the rupee against the US\$ are key negative risks to our price target. On the positive front, better-than-expected integration of Axon and revenue uptick in the EAS business could lead to better performance versus our estimates.

Figure 2: One-year forward P/E



Source: Company data, J.P. Morgan estimates.

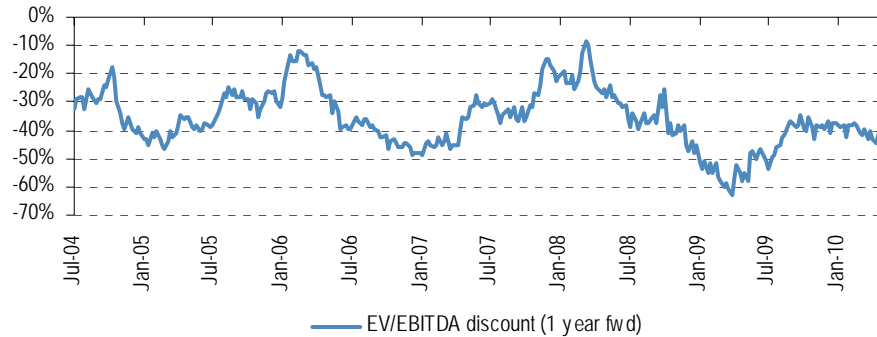
**Fwd EV/EBITDA of 10x translates into a June-11 PT of Rs530. Thus, we have some cushion to our P/E-based PT of Rs460**

### EV/EBITDA multiple-based valuation

Since HCLT's earnings performance in the past was marred by swings owing to forex losses (on hedges) and interest on debt. Now with HCLT substantially cutting back its hedging and partly repaying its debt, we see a cleaner flow-through from EBITDA to PAT and a better correlation between the two. To understand the true discount to a top-tier (e.g., Infosys) on a historical basis, we plot HCLT's EV/EBITDA (rolling 12-month forward) discount to that of Infosys. The mean discount for the last four years stood at 38%.

However, in a more normalized, benign environment, we believe that a fair discount to Infosys is 30%. Applying this discount to Infosys' target FY12 EV/EBITDA of 14x, we arrive at our target EV/EBITDA of 10x for HCLT (Jun-12). This translates into a June-11 PT of Rs 530 based on discounting FY12. Thus, we believe that we have some cushion to our P/E-based PT of Rs460.

Figure 3: One-year Forward EV/EBITDA discount to Infosys



Source: Company data, J.P. Morgan estimates.

## Result metrics

### Hedging and forex losses

HCL Tech reported forex loss of Rs626MM, versus Rs1,257MM loss last quarter. HCL Tech has outstanding hedges worth US\$468mn at an average rate of Rs40.5/US\$ (down from \$645MM last quarter). These hedges cover the next two quarters of net forex inflows. The company has ~US\$36.4MM of hedging losses accumulated on the balance sheet under 'Other comprehensive income.'

### ESOP charge

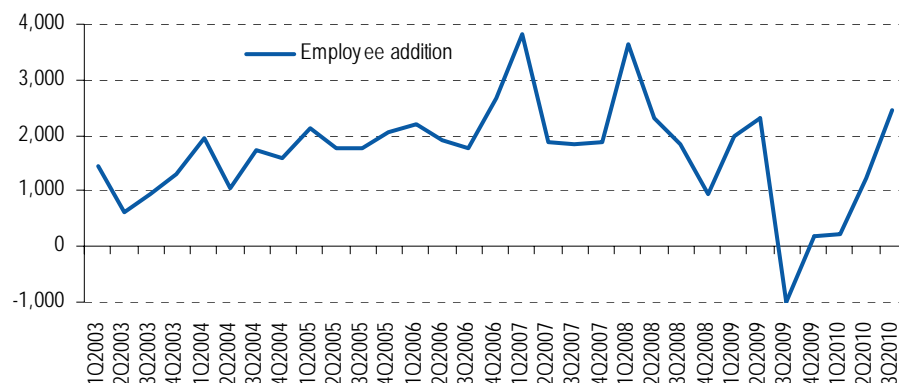
HCL Tech incurred a non-cash ESOP charge of US\$5.0 million (Rs224 million) below market price. We include the charge from ESOPs issued below market price as part of salary costs (US\$5.0 million for the quarter).

### Headcount

Gross headcount addition was good at 7136 and takes headcount to 58,129. Net addition was increased to 2441, with net addition of 3152 in IT Services, but attrition rate for BPO was high at 20.3% and net BPO reduction is 711.

**HCL IT services headcount increased by 3152 and BPO headcount decreased by 711**

Figure 4: Headcount Addition



Source: Company reports.

Table 7: Quarterly metrics

Year-end June

Client data	1Q 2008	2Q 2008	3Q 2008	4Q 2008	1Q 2009	2Q 2009	3Q 2009	4Q 2009	1Q 2010	2Q 2010	3Q 2010
No of US\$ 1m clients	166	175	186	201	205	218	256	253	264	281	281
Repeat business (%)	94.3	94.7	94.5	94	92.9	90.9	90.0	88.4	93.7	94.4	93.4
<b>Client concentration</b>											
Top 5 clients (% of revenue)	27.8	27.2	27.5	26.7	26.1	25.3	22.7	20.6	19.0	18.0	17.8
Top 10 clients (% of revenue)	38.0	37.8	38.2	37.3	36.6	35.1	31.9	28.9	27.2	26.2	25.8
Top 20 clients (% of revenue)	50.7	50.5	50.6	49.6	48.8	47.9	43.6	40.2	38.1	36.9	36.6
<b>Geographical breakup (%)</b>											
US	54.2	55.0	55.9	57.4	57.3	57.6	61.0	58.9	58.7	57.0	59.5
Europe	30.8	29.7	29.6	29.1	28.7	27.1	27.6	28.5	29.0	29.5	26.7
Rest of World	15.0	15.3	14.5	13.5	13.9	13.1	11.4	12.6	12.3	13.5	13.8
<b>Verticals</b>											
BFSI	28.7	29.2	28.4	27.3	27.5	27.5	23.6	24.8	26.3	26.1	25.5
Hi-Tech Manufacturing	30	28.5	29.5	30.7	30.7	30.5	30.3	30.9	27.4	25.6	26.7
Telecom	16.3	16.1	16.4	16	16.5	15.7	12.1	12.5	13.0	12.5	11.6
Retail	8.7	8.8	8.4	8.8	8.2	7.7	6.9	6.6	7.0	8.0	7.5
Media	5.5	5.9	5.7	5.6	5.6	5.5	5.0	5.6	6.8	7.2	7.9
Life Sciences	5.2	5.6	5.5	5.7	5.9	5.8	6.3	6.4	6.4	7.2	7.5
Others	5.6	5.9	6.2	6	5.6	7.4	15.8	13.2	13.1	13.4	13.3
<b>Service offering breakup (%)</b>											
Enterprise Application Services	11.8	11.1	10.7	10.8	10.9	12.5	24.5	23.6	21.9	22.4	21.4
Engineering and R&D Services	24.8	24.9	25.4	26.7	26.3	25.7	22.0	19.4	18.7	18.0	19.0
Industry Solutions	35.5	36.7	37.5	36.2	35.8	32.9	28.4	29.7	30.7	30.5	29.9
Infrastructure services	15.1	15.3	14.8	15.1	15.7	16.5	15.1	17.6	19.4	20.3	22.2
BPO services	12.8	12.0	11.6	11.2	11.3	12.4	10.0	9.7	9.3	8.8	7.6
<b>Manpower</b>											
Organic software business	29,157	30,484	30,387	30,412	31,271	31,237	32,902	32,364	32,312	33,455	36,169
Infrastructure	5,223	5,605	6,176	7,035	8,279	8,970	9,698	10,052	10,769	11,317	11,755
BPO	11,262	11,865	13,239	13,315	13,164	12,750	11,426	11,800	11,362	10,916	10,205
Total people in company	45,642	47,954	49,802	50,741	52,714	52,957	54,026	54,216	54,443	55,688	58,129
Net addition	3625	2,312	1,848	960	1,973	243	-992	190	227	1,245	2,441

Source: Company reports.



## HCL-Technologies: Summary of financials

Rs in millions, year-end June

Income statement						Ratio Analysis					
	FY08A	FY09A	FY10E	FY11E	FY12E		FY08A	FY09A	FY10E	FY11E	FY12E
Revenues	76,401	106,087	123,199	140,069	163,615	Gross Margin	33.7	33.3	30.8	32.3	33.2
Cost of Goods Sold	50,681	70,710	85,248	94,768	109,291	EBITDA margin	21.2	21.2	20.6	20.7	21.1
Gross Profit	25,720	35,376	37,952	45,301	54,324	Operating Margin	17.2	17.0	16.5	17.3	18.2
SG&A Expenses	12,577	17,358	17,623	21,010	24,542	Net Margin	13.7	11.3	10.3	13.4	13.7
Operating Profit (EBIT)	13,143	18,019	20,329	24,291	29,782	SG&A/Sales	16.5	16.4	14.3	15.0	15.0
EBITDA	16,179	22,506	25,329	28,936	34,577	Sales growth	26.6	38.9	16.1	13.7	16.8
Other Income	-1,372	-3,457	-4,638	-782	546	Operating Profit Growth	28.5	37.1	12.8	19.5	22.6
						Net profit growth	-19.0	14.8	5.3	47.7	19.9
						EPS (Reported) growth	-19.8	14.0	4.5	45.9	18.5
Earnings before tax	11,771	14,561	15,690	23,509	30,328						
Tax	1,273	2,544	3,033	4,790	7,885	Interest coverage (x)	n.m	n.m	n.m	n.m	n.m
Net Income (Reported)	10,480	12,032	12,671	18,720	22,443	Net debt to total capital	n.m.	0.1	0.0	n.m.	n.m.
						Net debt to equity	n.m.	0.2	0.0	n.m.	n.m.
INR											
EPS (Reported)	15.8	18.0	18.8	27.4	32.5	Asset Turnover	100.8	82.4	90.2	92.8	94.9
BPS	74	86	104	124	151	ROE	21.4	20.8	20.3	24.4	23.7
DPS	8.9	7.1	4.0	4.0	4.0	ROIC	29.9	22.5	17.3	20.1	21.3
Shares Outstanding (bn)	666	667	677	685	693	ROCE	20.7	18.9	15.4	17.0	17.1
Balance sheet						Cash flow statement					
	FY08A	FY09A	FY10E	FY11E	FY12E		FY08A	FY09A	FY10E	FY11E	FY12E
Cash and cash equivalents	23,223	19,255	25,695	34,839	46,495	Net Income	10,601	12,097	12,706	18,720	22,443
Accounts receivable	26,090	38,306	39,160	44,525	52,047	Depr. & Amortisation	3,033	4,473	4,989	4,645	4,795
Inventories	0	0	0	0	0	Change in working capital	3,084	15	-3,586	-4,311	-5,722
Others	0	0	0	0	0	Other					
Current assets	49,313	57,561	64,855	79,364	98,541	Cash flow from operations	16,718	16,585	14,109	19,054	21,516
LT investments	97	170	175	171	171	Capex	-4,769	-43,967	-3,419	-4,103	-6,516
Net fixed assets	21,607	62,029	61,622	61,800	64,105	Disposal/ (purchase)	-2,268	-5,152	-2,137	-473	-585
Others	4,779	8,931	9,900	9,657	9,657	Cash flow from investing	-7,037	-49,119	-5,557	-4,576	-7,101
Total assets	75,796	128,691	136,551	150,991	172,475	Free cash flow	11,949	-27,382	10,690	14,951	15,000
Liabilities						Equity raised/ (repaid)	-9,109	1,034	2,967	-1,733	0
ST loans	0	0	0	0	0	Debt raised/ (repaid)	4,137	32,261	-2,383	-873	0
Payables	20,893	33,124	30,392	31,446	33,246	Other	0	0	0	0	0
Others	0	0	0	0	0	Dividends paid	-5,949	-4,726	-2,697	-2,727	-2,759
Total current liabilities	20,893	33,124	30,392	31,446	33,246	Cash flow from financing	-10,922	28,570	-2,113	-5,334	-2,759
Long term debt	0	30,182	28,658	27,954	27,954	Net change in cash	-1,240	-3,964	6,440	9,144	11,656
Other liabilities	5,676	7,755	6,897	6,728	6,728	Beginning cash	24,459	23,223	19,255	25,695	34,839
Total liabilities	26,569	71,062	65,946	66,128	67,928	Ending cash	23,219	19,259	25,695	34,839	46,495
Shareholders' equity	49,223	57,629	70,605	84,864	104,547						

Source: Company data, J.P. Morgan estimates.

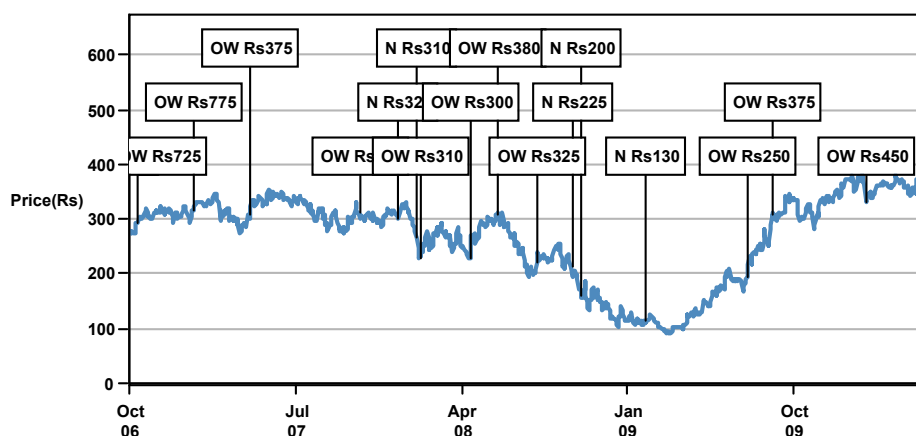
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**HCL-Technologies (HCLT.BO) Price Chart**



Date	Rating	Share Price (Rs)	Price Target (Rs)
16-Oct-06	OW	292.30	725.00
16-Jan-07	OW	314.90	775.00
17-Apr-07	OW	308.75	375.00
16-Oct-07	OW	312.95	360.00
19-Dec-07	N	300.50	325.00
18-Jan-08	N	267.60	310.00
23-Jan-08	OW	228.60	310.00
15-Apr-08	OW	230.20	300.00
29-May-08	OW	306.80	380.00
05-Aug-08	OW	220.10	325.00
29-Sep-08	N	212.95	225.00
16-Oct-08	N	158.20	200.00
28-Jan-09	N	112.50	130.00
16-Jul-09	OW	194.80	250.00
26-Aug-09	OW	307.00	375.00
27-Jan-10	OW	330.20	450.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. This chart shows J.P. Morgan’s continuing coverage of this stock; the current analyst may or may not have covered it over the entire period. J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

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Asia Pacific Equity Research  
22 April 2010

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