# HCL Technologies HCLT IN

TECHNOLOGY/IT SERVICES & SOFTWARE | INDIA


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Maintained

**BUY**

NOMURA
NOMURA FINANCIAL ADVISORY AND SECURITIES (INDIA) PRIVATE LIMITED

## Action

HCL Tech reported q-q revenue growth of 5.1% in 3Q FY10, which matched that of Infosys, despite higher exposure to Europe. We believe the company's focus on total IT outsourcing deals and strength in ERP implementation should help it match the revenue growth rates of its tier-1 peers. We increase our price target to INR435 and maintain our BUY rating.

## Catalysts

Large deal wins would be positive for the stock; sharp appreciation of the rupee against the US dollar would be a negative for margins.

## Anchor themes

Strong top-line growth and reduced forex losses should significantly improve EPS in FY11F. We believe that the current discount of approximately 40% to Infosys in terms of EV/EBITDA (FY11F) will narrow.

| | |
|---|---|
| Closing price on 21 Apr | Rs373.9 |
| Price target | **Rs435.0** |
| | (from Rs425.0) |
| Upside/downside | 16.3% |
| Difference from consensus | **9.6%** |
| FY11F net profit (Rsmn) | 17,321 |
| Difference from consensus | **1.4%** |

Source: Nomura

## Nomura vs consensus

Our earnings estimates are only slightly above consensus.

# Strong top-line growth

### ① Better-than-expected revenue growth

HCL Tech's q-q revenue growth of 5.1% (6.9% in constant currency) was higher than our expectation of 2.1%, primarily reflecting the 15% growth in infrastructure services. On a CQGR basis over the past four quarters, HCL Tech has outperformed tier-1 peers such as Infosys and TCS in revenue growth. This, in our view, has been due to the HCL Tech's focus on total IT outsourcing deals — also reflected in the 15.5% CQGR growth in infrastructure services over the same period.

### ② Margin decline in line with expectations

The EBITDA margin decline of 140bps was in line with our expectations and was primarily due to the cross currency movement and decrease in the BPO business. The BPO division will remain EBITDA negative for two more quarters as per management, given investments being made to revamp the business entirely.

### ③ Infra and core software should continue to do well

The company continues to win deals in the total IT outsourcing space, and management sees huge latent demand among customers for data centre transformation and virtualisation. Discretionary spending by customers also has increased, with four of 13 deals won during 3Q FY10 in the enterprise application space.

### ④ Better EPS growth than tier-1; maintain BUY

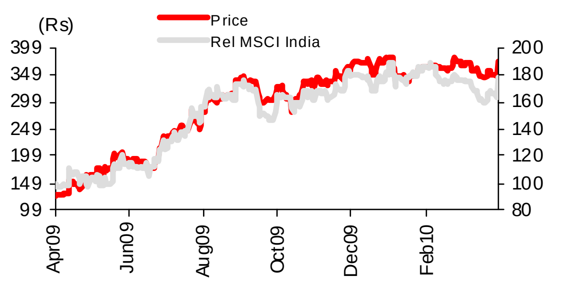
We maintain our BUY on HCL Tech, since we believe the company should be able to match the revenue growth rates of tier-1 peers while delivering better EPS growth over FY10-12F. Our price target increases to INR435 (from INR425), which implies 15x the one-year forward P/E or a 25% discount to our target multiple for Infosys.

### Key financials & valuations

| 30 Jun (Rsmn) | FY09 | FY10F | FY11F | FY12F |
|---|---|---|---|---|
| Revenue | 105,910 | 123,988 | 146,691 | 179,238 |
| Reported net profit | 12,777 | 13,031 | 17,321 | 20,183 |
| Normalised net profit | 12,777 | 13,031 | 17,321 | 20,183 |
| Normalised EPS (Rs) | 19.10 | 19.36 | 25.67 | 29.68 |
| Norm. EPS growth (%) | 12.8 | 1.4 | 32.6 | 15.6 |
| Norm. P/E (x) | 19.7 | 19.6 | 14.8 | 12.7 |
| EV/EBITDA (x) | 12.1 | 10.8 | 9.9 | 8.0 |
| Price/book (x) | 4.4 | 3.7 | 3.1 | 2.6 |
| Dividend yield (%) | 2.2 | 1.3 | 1.3 | 2.5 |
| ROE (%) | 23.4 | 20.8 | 23.0 | 22.6 |
| Net debt/equity (%) | 45.0 | 34.6 | 21.2 | 14.0 |
| **Earnings revisions** | | | | |
| Previous norm. net profit | | 12,466 | 18,263 | 21,057 |
| Change from previous (%) | | 4.5 | (5.2) | (4.1) |
| Previous norm. EPS (Rs) | | 18.55 | 27.10 | 31.15 |

Source: Company, Nomura estimates

### Share price relative to MSCI India




| | 1m | 3m | 6m |
|---|---|---|---|
| Absolute (Rs) | (0.0) | 0.9 | 16.3 |
| Absolute (US$) | 2.1 | 4.3 | 21.4 |
| Relative to Index | 0.6 | (1.6) | 12.6 |
| Market cap (US$mn) | | | 5,677 |
| Estimated free float (%) | | | 25.0 |
| 52-week range (Rs) | | | 382.7/125.1 |
| 3-mth avg daily turnover (US$mn) | | | 8.64 |
| Stock borrowability | | | Hard |
| Major shareholders (%) | | | |
| Shiv Nadar | | | 68.3 |

Source: Company, Nomura estimates

**Any authors named on this report are research analysts unless otherwise indicated.**
**See the important disclosures and analyst certifications on pages 10 to 13.**

Drilling down

# Infrastructure services drives growth

HCL Tech's 3Q FY10 revenues grew by 5.1% on a sequential basis to US$685mn. This is higher than that reported by TCS (3.1%) and slightly lower than Infosys' 5.2% for the same quarter. In constant currency terms, revenue growth was 6.9%.

**3Q revenue growth for HCL Tech was better than TCS and marginally lower than Infosys**

On a compound quarterly growth rate (CQGR) basis, over the past four quarters, HCL Tech has outperformed Infosys (INFO IN, Rs2,712.45, NEUTRAL) and TCS (TCS IN, Rs785, NEUTRAL) with 5% growth, compared with 3.7% and 4.1%, respectively. This, in our view, has been due to HCL Tech's focus on total IT outsourcing deals — also reflected in the 15.5% CQGR growth in infrastructure services over the past four quarters.

**Exhibit 1. Comparison of four-month CQGR and revenue**

| HCL Tech. | 3QFY09 | 4QFY09 | 1QFY10 | 2QFY10 | 3QFY10 |
|---|---|---|---|---|---|
| Revenues (US$ mn) | 565 | 607 | 630 | 652 | 685 |
| q-q growth (%) | | 7.6 | 3.8 | 3.4 | 5.1 |
| CQGR, past 4 quarters (%) | | | | | 5.0 |
| Incremental q-q revenue (US$ mn) | | 43 | 23 | 22 | 34 |
| Cumulative revenue (US$ mn) addition, past 4 quarters | | | | | 121 |
| **Infosys** | **3QFY09** | **4QFY09** | **1QFY10** | **2QFY10** | **3QFY10** |
| Revenues (US$ mn) | 1121 | 1122 | 1154 | 1232 | 1296 |
| q-q growth (%) | | 0.1 | 2.9 | 6.8 | 5.2 |
| CQGR, past 4 quarters (%) | | | | | 3.7 |
| Incremental q-q revenue (US$ mn) | | 1 | 32 | 78 | 64 |
| Cumulative revenue (US$ mn) addition, past 4 quarters | | | | | 175 |
| **TCS** | **3QFY09** | **4QFY09** | **1QFY10** | **2QFY10** | **3QFY10** |
| Revenues (US$ mn) | 1433 | 1481 | 1538 | 1635 | 1686 |
| q-q growth (%) | | 3.3 | 3.9 | 6.3 | 3.1 |
| CQGR, past 4 quarters (%) | | | | | 4.1 |
| Incremental q-q revenue (US$ mn) | | 48 | 57 | 98 | 51 |
| Cumulative revenue (US$ mn) addition, past 4 quarters | | | | | 253 |

Source: Company data, Nomura research

## Huge latent demand for infrastructure services

During 3Q, infrastructure services grew by 15% on a sequential basis. As per management, demand is strong for services like data centre transformation and virtualisation, as customers had stopped investing in data centres during the recession. The company is also seeing opportunities to create and deliver services over the cloud and is currently engaged in such services with 12 customers. The data centre that the company acquired two quarters ago has gone live and provides services to three customers currently, according to management.

## Verticals led by MPE, manufacturing and life sciences

The media publishing and entertainment (MPE) and life sciences verticals continue to grow above the company average pace and have been driving a large part of incremental growth in the last four quarters. HCL Tech has been rated as a tier-1 service provider globally in the MPE space by Gartner. Management sees scope for transformational projects as companies move from print to online, and opportunities to provide end-end IT solutions by also managing IT infrastructure.

**Exhibit 2. Q-Q growth rate (%) trend for MPE and life sciences**

| | 4QFY09 | 1QFY10 | 2QFY10 | 3QFY10 |
|---|---|---|---|---|
| Media Publishing & Entertainment | 20.5 | 26.0 | 9.5 | 15.4 |
| Life Sciences | 9.3 | 3.8 | 16.4 | 9.5 |

Source: Company data, Nomura research

### Manufacturing at a tipping point

Manufacturing has historically been a strong vertical for HCL Tech, and according to management, it is now turning the corner. In FY08 and FY09, manufacturing had a revenue share of about 30%, which declined sharply during the recession (currently at 26.7%).

**Manufacturing grew by 9.7% in 3Q**

In 3Q, manufacturing grew by 9.7% sequentially (10.5% in constant currency). Management commented that the company was seeing growth from sub verticals like semiconductor, aerospace and medical devices.

## Discretionary spending improving

Transformational deals have come back, although they are being broken down and awarded in phases, as per management. HCL Tech has been able to cross-sell Axon services to its existing clients, and two of the four deals won in enterprise solutions are from existing clients.

Management commented that the company was focussing on developing specific solutions by addressing white spaces in SAP applications. This should help the company sustain the leadership position in the SAP space, in our view.

## BPO recovery two quarters away

The BPO division saw revenue decline by 9.7% during 3Q FY10, as the company looks to revamp the business by building a new platform. EBITDA slipped into negative territory (loss of US$2.3mn) as costs did not see a proportional reduction compared with revenues. Management expects that the recovery will take two more quarters, during which time EBITDA would likely remain at a loss, albeit at current levels.

**Exhibit 3. HCL Tech performance across divisions**

| Core Software | 3QFY09 | 2QFY10 | 3QFY10 |
|---|---|---|---|
| Revenue (US$ mn) | 423 | 462 | 481 |
| EBITDA margin (%) | 22.0 | 23.7 | 22.8 |
| Q-q growth (%) | | | |
| Revenue | 16.3 | 3.0 | 4.2 |
| EBITDA | 3.8 | (1.1) | 0.4 |
| **Infrastructure Services** | **3QFY09** | **2QFY10** | **3QFY10** |
| Revenue (US$ mn) | 85 | 132 | 152 |
| EBITDA margin (%) | 21.9 | 17.7 | 18.3 |
| Q-q growth (%) | | | |
| Revenue | 1.1 | 7.8 | 15.0 |
| EBITDA | 13.3 | (3.7) | 19.3 |
| **BPO** | **3QFY09** | **2QFY10** | **3QFY10** |
| Revenue (US$ mn) | 56 | 58 | 52 |
| EBITDA margin (%) | 15.4 | 8.0 | (4.4) |
| Q-q growth (%) | | | |
| Revenue | (11.3) | (2.0) | (9.7) |
| EBITDA | (2.2) | (45.2) | (150.0) |

Source: Company data, Nomura research

## EBITDA margin decline in line with expectations

The EBITDA margin decline of 140bps was in line with our expectations and was primarily due to the cross currency movement and decrease in the BPO business. In infrastructure services, the EBITDA margin improved by 60bps, while in core software it declined by 90bps.

**EBITDA margin decline due to cross currency movement and BPO business decrease**

As per management, margin pressure due to currency movement was partly offset by lower SG&A spend (as a percentage of revenue), as the company was able to leverage on investments made earlier.

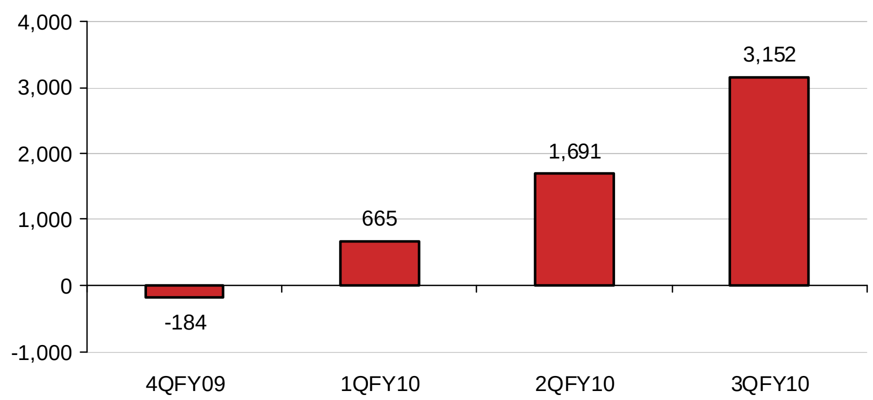
## Net profit boosted by lower forex loss

HCL Tech's net profit grew by 16% sequentially, which was higher than our expectation partly due to lower-than-expected forex losses. As compared to a loss of US$20mn that company management was guiding, the actual loss in 3Q was lower, at US$14mn due to rupee appreciation against the dollar.

## Strong hiring trend continues

The net adds continued to rise in the IT services (core software + Infrastructure services) division, with the majority of the newly added employees at the lateral level.

**Exhibit 4. Net adds trend in IT services**




Source: Company data, Nomura research

## Other highlights

- Debt increased by US$87mn q-q to US$621mn due to additional working capital loans taken
- Cash increased to US$517mn
- OCI loss at US$36.4mn, of which US$18.8 mn will flow in next quarter and the remainder over the first three quarters of FY11
- DSO days increased by 2 days to 84

## Changes to our estimates

We increase our revenue growth estimate to about 24% and 23% in FY11F and FY12F (from 17% and 19% earlier), respectively, on the back of the following expectations: 1) continued strong performance in the infrastructure services division; 2) a pick-up in the manufacturing vertical in which the company has a good presence, and; 3) improvement in discretionary spend, which the company should be able to exploit given its strength in ERP.

**We increase our revenue growth estimate**

Our margin assumptions, however, are lower primarily due to a change in the US$/INR rate, which is in line with the Nomura FX team forecast. We also incorporated forex guidance provided by the company. Our EPS estimates, as a result, are lower by 5.3% and 4.7% for FY11F and FY12F, respectively.

### Exhibit 5. Change in estimates

| | New | | | Old | | | Change (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY10F | FY11F | FY12F | FY10F | FY11F | FY12F | FY10F | FY11F | FY12F |
| Revenue (US$mn) | 2,691 | 3,334 | 4,102 | 2,642 | 3,096 | 3,691 | 1.9 | 7.7 | 11.1 |
| USD/INR rate | 46.1 | 44.0 | 43.7 | 46.1 | 45.0 | 45.0 | -0.1 | -2.2 | -2.9 |
| Revenue (INRbn) | 124 | 147 | 179 | 122 | 139 | 166 | 1.8 | 5.3 | 7.9 |
| EBITDA margin (%) | 20.7 | 18.7 | 18.5 | 21.2 | 20.9 | 21.0 | -50 bps | -230 bps | -250 bps |
| Tax Rate (%) | 18.2 | 18.0 | 26.0 | 18.2 | 18.0 | 26.0 | 10 bps | 0 bps | 0 bps |
| EPS (INR) | 19.4 | 25.7 | 29.7 | 18.6 | 27.1 | 31.1 | 4.3 | -5.3 | -4.7 |

Source: Nomura estimates

### Exhibit 6. Revenue growth rate (%) estimate across divisions (US$ terms)

| | FY10F | FY11F |
|---|---|---|
| Core software | 19.2 | 23.6 |
| Infrastructure services | 59.7 | 32.9 |
| BPO | -6.6 | 2.8 |
| Total | 23.0 | 23.9 |

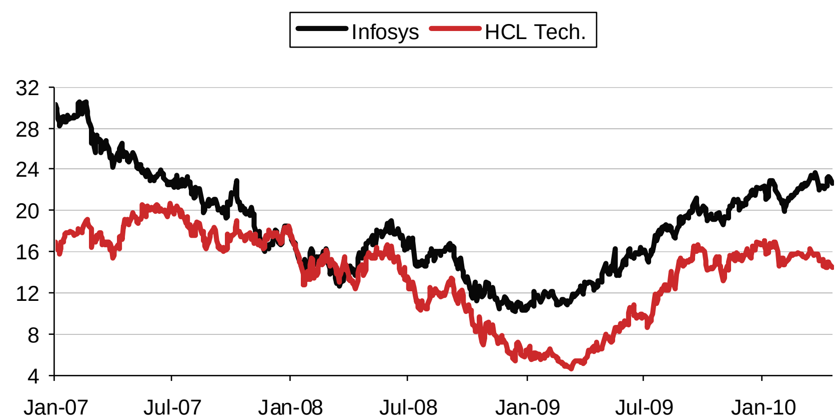
Source: Nomura estimates

## Price target increased to INR435; maintain BUY

Our price target increases to INR435 (from INR425) on our higher near-term revenue growth estimates. At our price target, the implied one-year forward P/E is 15x, or a 25% discount to our target multiple for Infosys.

We maintain our BUY on HCL Tech, as we believe the company will be able to match the revenue growth rates of its tier-1 peers while delivering better EPS growth over FY10-12F. On our estimates, HCL Tech's EPS CAGR over FY10-12F is 23.8%, compared with 13.6% for Infosys.

### Exhibit 7. P/E trend for HCL Tech vs Infosys




Source: Bloomberg

## Valuation methodology and risks

Our DCF-based price target of INR435 is calculated using an 11% discount rate and terminal growth rate assumption of 5%. The key investment risks to our price target are: 1) a lower-than-expected revenue ramp up in the core software and infrastructure services divisions, and; 2) greater-than-expected appreciation of the rupee against the US dollar.

## 3QFY10 results in detail

### Exhibit 8. HCL Tech consolidated results (INR mn)

| | 3QFY09 | 2QFY10 | 3QFY10 | 3QFY10F |
|---|---|---|---|---|
| Gross Revenue | 28,620 | 30,324 | 30,759 | 29,929 |
| Direct Costs | 18,009 | 19,505 | 20,380 | 19,533 |
| Gross Profit | 10,612 | 10,818 | 10,379 | 10,396 |
| SG&A | 4,502 | 4,430 | 4,305 | 4,434 |
| EBITDA | 6,109 | 6,389 | 6,074 | 5,962 |
| Depreciation & Amortization | 1,415 | 1,368 | 1,100 | 1,337 |
| EBIT | 4,695 | 5,021 | 4,974 | 4,625 |
| Foreign Exchange Gains (Loss) | (2,018) | (1,256) | (628) | (900) |
| Other Income, net | (25) | (135) | (139) | (72) |
| PBT | 2,652 | 3,629 | 4,206 | 3,653 |
| Provision for income taxes | 487 | 679 | 768 | 658 |
| Share from equity investment | 0 | 14 | 0 | 5 |
| Loss/(Income) of minority shareholders | 15 | 0 | 0 | 0 |
| Profit after tax | 2,180 | 2,964 | 3,439 | 3,000 |
| EPS (INR) | 3.3 | 4.4 | 5.1 | 4.5 |
| | | | | |
| Q-Q Growth (%) | | | | |
| Revenues | 14.9 | 0.0 | 1.4 | (1.3) |
| EBITDA | 9.0 | (7.3) | (4.9) | (6.7) |
| PAT | (41.7) | (7.4) | 16.0 | 1.2 |
| Y-Y Growth (%) | | | | |
| Revenues | 48.3 | 21.7 | 7.5 | 4.6 |
| EBITDA | 42.1 | 14.0 | (0.6) | (2.4) |
| PAT | (35.8) | (20.8) | 57.7 | 37.6 |
| Margins (%) | | | | |
| Gross margin | 37.1 | 35.7 | 33.7 | 34.7 |
| EBITDA margin | 21.3 | 21.1 | 19.7 | 19.9 |
| Net profit margin | 7.6 | 9.8 | 11.2 | 10.0 |
| Tax Rate | 18.4 | 18.7 | 18.2 | 18.0 |

Source: Company data, Nomura estimates

### Exhibit 9. Revenues by vertical

| Revenue share (%) | 2QFY10 | 3QFY10 |
|---|---|---|
| Banking, FS & Insurance (BFSI) | 26.1 | 25.5 |
| Manufacturing | 25.6 | 26.7 |
| Telecom | 12.5 | 11.6 |
| Retail | 8 | 7.5 |
| Media Publishing & Entertainment (MPE) | 7.2 | 7.9 |
| Life Sciences | 7.2 | 7.5 |
| Energy-Utilities-Public Sector | 7.3 | 7 |
| **q-q growth (%)** | **2QFY10** | **3QFY10** |
| Banking, FS & Insurance (BFSI) | 2.6 | 2.7 |
| Manufacturing | -3.4 | 9.7 |
| Telecom | -0.5 | -2.4 |
| Retail | 18.2 | -1.4 |
| Media Publishing & Entertainment (MPE) | 9.5 | 15.4 |
| Life Sciences | 16.4 | 9.5 |
| Energy-Utilities-Public Sector | 11.0 | 0.8 |

Source: Company data, Nomura research

### Exhibit 10. Revenues by service line

| Revenue share (%) | 2QFY10 | 3QFY10 |
|---|---|---|
| Enterprise Application Services | 22.4 | 21.4 |
| Eng & R&D Services | 18.0 | 19.0 |
| Industry Solutions | 30.5 | 29.9 |
| Infrastructure Services | 20.3 | 22.2 |
| BPO Services | 8.8 | 7.6 |
| **q-q growth (%)** | **2QFY10** | **3QFY10** |
| Enterprise Application Services | 5.8 | 0.4 |
| Eng & R&D Services | -0.4 | 11.0 |
| Industry Solutions | 2.8 | 3.1 |
| Infrastructure Services | 8.2 | 15.0 |
| BPO Services | -2.1 | -9.7 |

Source: Company data, Nomura research

### Exhibit 11. Revenues by geography

| Revenue share (%) | 2QFY10 | 3QFY10 |
|---|---|---|
| US | 57 | 59.5 |
| Europe | 29.5 | 26.7 |
| Rest of world | 13.5 | 13.8 |
| **q-q growth (%)** | **2QFY10** | **3QFY10** |
| US | 0.4 | 9.8 |
| Europe | 5.2 | -4.8 |
| Rest of world | 13.5 | 7.5 |

Source: Company data, Nomura research

# Financial statements

| Income statement (Rsmn) | | | | | |
|---|---|---|---|---|---|
| **Year-end 30 Jun** | **FY08** | **FY09** | **FY10F** | **FY11F** | **FY12F** |
| **Revenue** | 75,670 | 105,910 | 123,988 | 146,691 | 179,238 |
| Cost of goods sold | (49,607) | (69,528) | (85,257) | (103,278) | (125,432) |
| **Gross profit** | **26,063** | **36,382** | **38,731** | **43,413** | **53,806** |
| SG&A | (12,881) | (17,811) | (18,077) | (21,183) | (26,589) |
| Employee share expense | | | | | |
| **Operating profit** | **13,182** | **18,571** | **20,654** | **22,230** | **27,217** |
| **EBITDA** | **16,215** | **23,065** | **25,716** | **27,361** | **33,211** |
| Depreciation | (3,033) | (4,494) | (5,062) | (5,130) | (5,994) |
| Amortisation | | | | | |
| **EBIT** | **13,182** | **18,571** | **20,654** | **22,230** | **27,217** |
| Net interest expense | 1,698 | 1,624 | (449) | (293) | 34 |
| Associates & JCEs | | | | | |
| Other income | (2,342) | (4,901) | (4,291) | (836) | - |
| **Earnings before tax** | **12,538** | **15,294** | **15,914** | **21,102** | **27,251** |
| Income tax | (1,271) | (2,544) | (2,901) | (3,798) | (7,085) |
| **Net profit after tax** | **11,267** | **12,750** | **13,013** | **17,303** | **20,166** |
| Minority interests | (19) | 27 | 18 | 18 | 17 |
| Other items | | | | | |
| Preferred dividends | | | | | |
| **Normalised NPAT** | **11,248** | **12,777** | **13,031** | **17,321** | **20,183** |
| Extraordinary items | | | | | |
| **Reported NPAT** | **11,248** | **12,777** | **13,031** | **17,321** | **20,183** |
| Dividends | (6,375) | (5,475) | (3,151) | (3,158) | (6,365) |
| **Transfer to reserves** | **4,873** | **7,302** | **9,881** | **14,163** | **13,818** |
| **Valuation and ratio analysis** | | | | | |
| FD normalised P/E (x) | 22.7 | 19.7 | 19.6 | 14.8 | 12.7 |
| FD normalised P/E at price target (x) | 26.4 | 22.9 | 22.8 | 17.2 | 14.8 |
| Reported P/E (x) | 22.1 | 19.6 | 19.3 | 14.6 | 12.6 |
| Dividend yield (%) | 2.6 | 2.2 | 1.3 | 1.3 | 2.5 |
| Price/cashflow (x) | 13.5 | 10.7 | 11.0 | 9.9 | 8.1 |
| Price/book (x) | 4.8 | 4.4 | 3.7 | 3.1 | 2.6 |
| EV/EBITDA (x) | 15.4 | 12.1 | 10.8 | 9.9 | 8.0 |
| EV/EBIT (x) | 18.9 | 15.0 | 13.4 | 12.2 | 9.8 |
| Gross margin (%) | 34.4 | 34.4 | 31.2 | 29.6 | 30.0 |
| EBITDA margin (%) | 21.4 | 21.8 | 20.7 | 18.7 | 18.5 |
| EBIT margin (%) | 17.4 | 17.5 | 16.7 | 15.2 | 15.2 |
| Net margin (%) | 14.9 | 12.1 | 10.5 | 11.8 | 11.3 |
| Effective tax rate (%) | 10.1 | 16.6 | 18.2 | 18.0 | 26.0 |
| Dividend payout (%) | 56.7 | 42.9 | 24.2 | 18.2 | 31.5 |
| Capex to sales (%) | 7.4 | 5.0 | 5.6 | 5.5 | 5.3 |
| Capex to depreciation (x) | 1.8 | 1.2 | 1.4 | 1.6 | 1.6 |
| ROE (%) | 22.0 | 23.4 | 20.8 | 23.0 | 22.6 |
| ROA (pretax %) | 19.4 | 18.6 | 16.3 | 16.1 | 17.5 |
| **Growth (%)** | | | | | |
| Revenue | 25.4 | 40.0 | 17.1 | 18.3 | 22.2 |
| EBITDA | 21.3 | 42.2 | 11.5 | 6.4 | 21.4 |
| EBIT | 21.6 | 40.9 | 11.2 | 7.6 | 22.4 |
| Normalised EPS | (18.5) | 12.8 | 1.4 | 32.6 | 15.6 |
| Normalised FDEPS | (17.9) | 15.1 | 0.5 | 32.5 | 16.2 |
| **Per share** | | | | | |
| Reported EPS (Rs) | 16.9 | 19.1 | 19.4 | 25.7 | 29.7 |
| Norm EPS (Rs) | 16.9 | 19.1 | 19.4 | 25.7 | 29.7 |
| Fully diluted norm EPS (Rs) | 16.5 | 19.0 | 19.1 | 25.2 | 29.3 |
| Book value per share (Rs) | 78.5 | 85.0 | 101.5 | 122.2 | 141.6 |
| DPS (Rs) | 9.6 | 8.2 | 4.7 | 4.7 | 9.4 |

Source: Nomura estimates

We estimate revenue to grow by 18.3% in FY11F and 22.2% in FY12F

| Cashflow (Rsmn) | | | | | |
|---|---|---|---|---|---|
| **Year-end 30 Jun** | **FY08** | **FY09** | **FY10F** | **FY11F** | **FY12F** |
| EBITDA | 16,215 | 23,065 | 25,716 | 27,361 | 33,211 |
| Change in working capital | 2,227 | 401 | (2,819) | (1,748) | (1,982) |
| Other operating cashflow | | | | | |
| **Cashflow from operations** | **18,442** | **23,466** | **22,897** | **25,613** | **31,229** |
| Capital expenditure | (5,566) | (5,280) | (7,000) | (8,000) | (9,500) |
| **Free cashflow** | **12,876** | **18,186** | **15,897** | **17,613** | **21,729** |
| Reduction in investments | (1,520) | 5,718 | (4,876) | - | - |
| Net acquisitions | (1,651) | (34,029) | (391) | - | - |
| Reduction in other LT assets | (2,714) | (3,542) | (2,386) | (6,605) | (7,655) |
| Addition in other LT liabilities | 4,667 | 1,675 | (537) | 1,565 | 1,775 |
| Adjustments | | | | | |
| **Cashflow after investing acts** | **11,658** | **(11,992)** | **7,707** | **12,573** | **15,849** |
| Cash dividends | (6,375) | (3,884) | (2,235) | (2,241) | (4,515) |
| Equity issue | - | - | - | - | - |
| Debt issue | - | 29,745 | (1,616) | - | - |
| Convertible debt issue | | | | | |
| Others | (5,029) | (13,506) | (3,808) | (4,191) | (7,313) |
| **Cashflow from financial acts** | **(11,405)** | **12,355** | **(7,659)** | **(6,432)** | **(11,828)** |
| **Net cashflow** | **253** | **363** | **48** | **6,141** | **4,021** |
| Beginning cash | 3,587 | 3,840 | 4,203 | 4,251 | 10,392 |
| Ending cash | 3,840 | 4,203 | 4,251 | 10,392 | 14,414 |
| Ending net debt | (3,840) | 25,568 | 23,636 | 17,495 | 13,473 |

Source: Nomura estimates

| Balance sheet (Rsmn) | | | | | |
|---|---|---|---|---|---|
| **As at 30 Jun** | **FY08** | **FY09** | **FY10F** | **FY11F** | **FY12F** |
| Cash & equivalents | 3,840 | 4,203 | 4,251 | 10,392 | 14,414 |
| Marketable securities | 20,779 | 14,792 | 19,367 | 19,367 | 19,367 |
| Accounts receivable | 18,940 | 27,083 | 29,984 | 36,596 | 44,095 |
| Inventories | | | | | |
| Other current assets | 8,713 | 10,699 | 8,801 | 10,742 | 12,943 |
| **Total current assets** | **52,272** | **56,777** | **62,403** | **77,097** | **90,818** |
| LT investments | 101 | 370 | 671 | 671 | 671 |
| Fixed assets | 13,317 | 15,862 | 18,132 | 21,001 | 24,507 |
| Goodwill | | | | | |
| Other intangible assets | 9,585 | 45,325 | 41,970 | 40,316 | 38,728 |
| Other LT assets | 5,063 | 8,605 | 10,991 | 17,596 | 25,251 |
| **Total assets** | **80,338** | **126,939** | **134,167** | **156,682** | **179,975** |
| Short-term debt | | | | | |
| Accounts payable | 2,319 | 2,444 | 2,469 | 3,013 | 3,631 |
| Other current liabilities | 19,826 | 30,231 | 28,391 | 34,651 | 41,751 |
| **Total current liabilities** | **22,145** | **32,675** | **30,859** | **37,665** | **45,382** |
| Long-term debt | - | 29,771 | 27,887 | 27,887 | 27,887 |
| Convertible debt | | | | | |
| Other LT liabilities | 5,959 | 7,634 | 7,097 | 8,662 | 10,437 |
| **Total liabilities** | **28,104** | **70,080** | **65,843** | **74,214** | **83,706** |
| Minority interest | 57 | 16 | - | - | - |
| Preferred stock | | | | | |
| Common stock | | | | | |
| Retained earnings | 52,177 | 56,843 | 68,323 | 82,468 | 96,269 |
| Proposed dividends | | | | | |
| Other equity and reserves | | | | | |
| **Total shareholders' equity** | **52,177** | **56,843** | **68,323** | **82,468** | **96,269** |
| **Total equity & liabilities** | **80,338** | **126,939** | **134,167** | **156,682** | **179,975** |
| **Liquidity (x)** | | | | | |
| Current ratio | 2.36 | 1.74 | 2.02 | 2.05 | 2.00 |
| Interest cover | na | na | 46.0 | 76.0 | na |
| **Leverage** | | | | | |
| Net debt/EBITDA (x) | net cash | 1.11 | 0.92 | 0.64 | 0.41 |
| Net debt/equity (%) | net cash | 45.0 | 34.6 | 21.2 | 14.0 |
| **Activity (days)** | | | | | |
| Days receivable | 75.5 | 79.3 | 84.0 | 82.8 | 82.4 |
| Days inventory | - | - | - | - | - |
| Days payable | 12.8 | 12.5 | 10.5 | 9.7 | 9.7 |
| Cash cycle | 62.7 | 66.8 | 73.5 | 73.1 | 72.7 |

Cash is increasing

Source: Nomura estimates

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|---|---|---|---|---|---|
| HCL Technologies | HCLT IN | 374 INR | 21 Apr 2010 | Buy | |

### Previous Ratings

| Issuer | Previous Rating | Date of change |
|---|---|---|
| HCL Technologies | Neutral | 10 Sep 2009 |

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• A "**Reduce**" recommendation indicates that downside is between 10% and 20%.
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A "**Neutral**" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation.
A "**Bearish**" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

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