

22nd April' 2010**ACCUMULATE**

Price Target Price
Rs 374 Rs 430

Sensex 17,473

Price Performance

(%)	1M	3M	6M	12M
Absolute	1	(0)	16	170
Rel. to Sensex	1	(0)	13	69

Source: Capitaline

Stock Details

Sector	IT Services
Reuters	HCLT.BO
Bloomberg	HCLT@IN
Equity Capital(Rs mn)	1353
Face Value(Rs)	2
52 Week H/L	388/118
Market Cap(Rs bn//US\$ bn)	234/5,267
Daily Avg Volume (No of shares)	1034558
Daily Avg Turnover (US\$)	8.3

Shareholding Pattern (%)

(31 st Mar'10)	
Promoters	68.1
FII/NRI	21.6
Institutions	4.6
Private Corp.	2.3
Public	3.5

Manik Taneja

manik.taneja@emkayglobal.com

+91 22 6612 1253

Delivers better than expectations, retain ACCUMULATE

HCL Tech reported revenues of US\$ 685 mn (+5.1% QoQ), at the top end of peers reported till date with IMS continuing to drive growth at 15% QoQ and core S/w growth also picking up at 4.2% sequentially. BPO continues to be sluggish with revenues declining by ~10% sequentially and we do not see a sharp recovery in BPO's business prospects either. EBITDA margins declined by ~130 bps QoQ to 19% (V/s expectations of ~100 bps decline) and we would not be too worried despite concern on the same from some quarters of the street as operational improvements on the Apps and the IMS segment continue to take care of the BPO transition

We upgrade FY11/12 earnings estimates by ~5.2%/4.6% to Rs 26.3/Rs 29.9 (V/s Rs 25/28.6 earlier) as we now build in a FY11/12 revenue growth of 19.7%/18.8% (V/s 15.6%/17% earlier). Retain ACCUMULATE with a revised target price of Rs 430 (V/s Rs 400 earlier). Valuation discount at ~30%+ given decent operational show and improving prospects continue to tilt us towards a case for sharp out performance V/s peers

Q3FY10 Results; Rock solid yet again

Revenues at US\$ 685 mn (+5.1% QoQ) beat expectations (Emkay est at US\$ 664 mn) driven by ~15% QoQ growth in the IMS business and a 4.2% increase in Core Software segments. BPO continued to suffer with revenues declining by ~10% sequentially (cross currency also playing truant here). Operating margins declined by ~130 bps QoQ to 19% V/s expectations of ~100 bps decline. Profits at Rs 3.2 bn (+18% QoQ, +65% YoY) were helped in by better than expected revenues and lower forex losses

Operating metrics performance improves

HCL Tech's operating metrics performance was good with revenues from US growing by ~10% sequentially on a/c of rampups on some of the deals won in the previous quarter. Revenues from Manufacturing/BFSI grew by ~10%/3% QoQ. Volume growth in Core S/w grew by ~7.2% sequentially, highest ever in the last 9 quarters, albeit average pricing was down by ~3% (cross currency movements also playing a role in the same). Traction through Axon continues with 2 of the 13 new deals during the quarter coming in in the Enterprise Solutions side.

Raise FY11/12 earnings estimates by ~5%; Retain ACCUMULATE with a revised TP of Rs 430

We raise our FY11/12 earnings estimates by ~5.2%/4.6% to RS 26.3/Rs 29.9 respectively driven by increase in FY11/12 revenue growth assumptions at 19.7%/18.8% (V/s 15.5%/17.5% earlier). We believe that the road to recovery in BPO is a multiple quarter process; however co continues to do an impressive job in the applications and the IMS segment. Valuation discount to peers at ~30%+ given decent show should narrow going forward as investors get more confident on consistency in financial performance. We retain ACCUMULATE with a revised target price of Rs 430, based on 15x 1 year rolling forward P/E multiple (V/s Rs 400 earlier).

Year end June (in Rs mn)	Net Sales	EBITDA %	EBITDA	PAT (Rs)	EPS %	ROE	EV/EBITDA (x)	P/B (%)	Div Yield (x)	P/E(x)
FY09	106,084	22,441	21.2	11,976	17.4	22.0	11.9	4.5	1.9	21.5
FY10E	123,004	24,667	20.1	12,234	17.7	19.8	10.5	3.9	1.1	21.1
FY11E	143,736	28,476	19.8	18,186	26.3	24.7	8.7	3.2	1.8	14.2
FY12E	170,765	33,309	19.5	20,686	29.9	23.6	7.8	2.7	2.0	12.5

Revenue growth impressive with IMS continuing to driven growth. Volume growth in core S/W at 9 quarter high only reflects the improved demand environment

In Rs mn	Q3FY10	Q2FY10	QoQ(%)	Q3FY09	YoY(%)
Net sales	30,757	30,325	1.4%	28,615	7.5%
Operating expenses	24,913	24,181		22,710	
EBITDA	5,844	6,144	-4.9%	5,905	-1.0%
Margins (%)	19.0	20.3		20.6	
Depreciation	1,100	1,361		1,417	
EBIT	4,744	4,783	-0.8%	4,488	5.7%
Margins (%)	15.4	15.8		15.7	
Interest received	0	0		0	
Other income	(767)	(1,390)		(2,040)	
Pre-tax profit	3,977	3,393		2,448	
Tax provided	754	665		470	
Profit after tax	3,223	2,728		1,978	
Emkay Net profit	3,235	2,740	18.1%	1,961	65.0%
EPS, Rs	4.7	4.0		2.8	

Source: Company, Emkay Research

HCL Tech has executed well during the past few quarters

	Dec'08	March'09	June'09	Sep'09	Dec'09	March'10
Revenue growth						
Core S/w	-2.4	17.5	4.5	1.7	3.0	4.2
BPO	10.1	-10.5	3.9	0.3	-2.0	-9.7
IMS	7.0	1.1	25.4	14.4	7.8	15.0
Overall Co	0.5	11.3	7.6	3.8	3.4	5.1
EBITDA mgns, %						
Core S/w	23.9	22.0	23.8	24.6	23.7	22.8
BPO	13.0	15.3	15.0	14.3	7.9	-4.5
IMS	19.6	22.0	19.4	19.7	17.7	18.4
Overall Co	21.0	20.6	21.5	22.1	20.3	19.0

Source: Company, Emkay Research

We expect Core S/w and IMS to continue driving growth for HCL Tech

Revenue growth	FY09	FY10E	FY11E	FY12E
Core S/w	16.6	18.6	18.3	17.7
BPO	5.5	-6.7	-15.1	9.6
IMS	25.7	57.5	37.9	24.1
Overall Co	16.7	22.3	19.7	18.8
EBITDA mgns, %				
Core S/w	23.3	23.3	22.8	22.0
BPO	15.5	4.4	-0.8	6.5
IMS	20.0	18.8	17.8	17.1
Overall Co	21.2	20.1	19.8	19.5

Source: Emkay Research

Upping FY11/12E earnings by ~5% to Rs 26.3/Rs 29.9 as we factor in US\$ revenue growth of 19.7%/18.8% earlier. Valuation discount to peers at 30%+should narrow as investors gather more confidence on improving operational performance

(All fig in Rs mn except EPS)	FY11E			FY12E		
	Old	New	% change	Old	New	% change
Revenues(US\$ mn)	3,049	3,194	4.8	3,565	3,795	6.4
Revenues	137,220	143,736	4.7	160,422	170,765	6.4
EBITDA	28,328	28,476	0.5	32,703	33,309	1.9
Net profits	17,279	18,170	5.2	19,763	20,670	4.6
EPS	25.0	26.3	5.2	28.6	29.9	4.6

Source: Emkay Research

Financials

Income Statement

Y/E, June (Rs. m)	FY09	FY10E	FY11E	FY12E
Net Sales	106,084	123,004	143,736	170,765
Growth (%)	39	16	17	19
Total Expenditure	(83,643)	(98,337)	(115,260)	(137,456)
Growth (%)		18	17	19
EBIDTA	22,441	24,667	28,476	33,309
Growth (%)		10	15	17
EBIDTA %	21.2	20.1	19.8	19.5
Other Income	-	-	-	-
Depreciation	(4,494)	(4,992)	(4,962)	(5,899)
EBIT	17,947	19,675	23,515	27,410
Interest				
EBT	14,490	15,041	22,707	27,954
Tax	(2,514)	(2,807)	(4,520)	(7,268)
EAT	11,976	12,234	18,186	20,686
Growth (%)		2	49	14
EAT (%)	11.3	9.9	12.7	12.1

Balance Sheet

Y/E, June (Rs. m)	FY09	FY10E	FY11E	FY12E
Equity share capital	1,335	1,350	1,350	1,350
Reserves & surplus	55,508	65,237	78,884	93,509
Minority Interest	15	22	-	-
Networth	56,858	66,609	80,234	94,858
Secured Loans	0	0	0	0
Unsecured Loans	29771	27887	27887	27887
Loan Funds	29771	27887	27887	27887
Total Liabilities	86,629	94,496	108,143	122,767
Goodwill	42315	41278	40671	40671
Gross Block	36,422	40,262	45,662	52,412
Less: Depreciation	18,553	23,545	28,506	34,406
Net block	60,184	57,995	57,826	58,677
Capital WIP	1,000	1,000	1,000	1,000
Investment	-	-	-	-
Current Assets	65,755	74,861	95,312	117,735
Sundry debtors	27,083	28,308	33,079	39,299
Cash & bank balance	4,203	4,732	13,363	18,668
Loans & advances	8,608	9,840	12,218	15,369
Current Liab & Prov	40,309	39,361	45,996	54,645
Current liabilities	32,675	30,751	35,934	42,691
Provisions	7,634	8,610	10,062	11,954
Net current assets	25,446	35,500	49,317	63,090
Total Assets	86,630	94,495	108,143	122,767

Cash Flow	FY09	FY10E	FY11E	FY12E
Net Profit after Tax	11,969	12,253	18,170	20,670
Add : Depreciation	4,494	4,992	4,962	5,899
Add : Misc exp w/off	-	-	-	-
Net changes in WC	(1,739)	(3,076)	(11,522)	(9,179)
Operational Cash Flows	15,276	14,680	20,257	22,712
Capital expenditure	(38,547)	(9,071)	(6,274)	(10,790)
Investments	-	-	-	-
Investing Cash Flows	(38,547)	(9,071)	(6,274)	(10,790)
Borrowings	29,496	(1,884)	-	-
dividend paid	(5,639)	(3,235)	(5,314)	(6,045)
Issue of shares	8	14	-	-
Share Premium	-	-	-	-
Financing Cash Flows	23,816	(5,079)	(5,352)	(6,061)
changes in cash	545	529	8,631	5,860
Opening balance	3,658	4,203	4,732	13,363
Closing balance	4,203	4,732	13,363	18,668

Key ratios	FY09	FY10E	FY11E	FY12E
EPS (Rs)	17.4	17.7	26.3	29.9
CEPS (Rs)	23.9	24.9	33.5	38.4
Book Value Per Share (Rs)	82.6	96.4	116.1	137.2
Dividend Per Share (Rs)	7.0	4.0	6.6	7.5
Valuations Ratios (x)				
PER	21.5	21.1	14.2	12.5
P/CEPS	15.6	15.0	11.2	9.7
P/BV	4.5	3.9	3.2	2.7
EV/EBIDTA	11.9	10.5	8.7	7.8
EV/Sales	2.5	2.1	1.7	1.5
M-Cap/sales	2.4	2.1	1.8	1.5
Profitability Ratios (%)				
RoCE	23.5	19.9	21.3	21.7
RoNW	22.0	19.8	24.7	23.6
EBITDA Margin	21.2	20.1	19.8	19.5
EBIT Margins	16.9	16.0	16.4	16.1
Net Profit Margin	11.3	10.0	12.6	12.1

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Emkay Global Financial Services Ltd.
Paragon Center, H -13 -16, 1st Floor,
Pandurang Budhkar Marg, Worli, Mumbai – 400 013.
Tel no. 6612 1212. Fax: 6624 2410