

HCL Technologies (HCLT.BO)

Alert: Takeaways from Asia NDR

- Takeaways from Asia** — We hosted senior management of HCL Tech for investor meetings in Singapore and Hong Kong. Following are the key takeaways:
- RTB pipeline up yoy; pace of decision-making the key** — RTB (run the business) pipelines remain robust and are up yoy - deal wins in 2Q were strong with TCV of \$1b (new clients and incremental business from existing clients). Continental Europe is witnessing strong traction on cost take out deals.
- Discretionary spends in some verticals; budgets exist** — Clients are trying to take savings out of RTB budgets and invest back in discretionary spends. Banking, insurance and healthcare are some of the areas witnessing discretionary spends. Budgets exist with clients but customer confidence/demand environment needs to pick up for any meaningful recovery in this segment.
- Margin guidance (EBIT) at 18-19% at INR 55/\$** — HCLT has executed well with margin increase of ~520 bps yoy in 2Q, on the back of higher utilization, more offshore, focus on delivery excellence and currency gains. Management believes margins should be 18-19% in constant currency (at INR 55/\$).
- Thoughts on management change** — (a) Anant Gupta has been with HCLT for ~20 years and instrumental in lot of growth initiatives over past many years - infra services, public services, continental Europe, global delivery etc. (b) internally, some kind of transition plan had started with Anant becoming COO 6 months back - so now, it is business as usual (c) Vineet Nayar will continue in his current role for 6 months and then become vice chairman of the company.
- Other points** — (a) Tax rates at 22-23%; likely to fall another ~100 bps next year as incremental growth comes from SEZs (b) Forex hedge book at avg of Rs54.27/USD.
- Citi view: top pick in Indian IT along with Infosys** — The stock was up ~60% in CY12 – but this was largely on the back of ~40-45% consensus EPS upgrades. With a pickup in the sector ([Déjà Vu - Will CY13 Be a Repeat of CY09?](#)), we believe the next leg of rerating should happen – its "all in one" performance in recent quarters (above industry growth, improving margins/ROEs and strong deal wins) and relatively attractive valuations (~12.5x FY14E) positions it well in the sector.

Company Update

Buy	1
Price (25 Jan 13)	Rs676.35
Target price	Rs820.00
Expected share price return	21.2%
Expected dividend yield	1.9%
Expected total return	23.2%
Market Cap	Rs469,767M
	US\$8,746M

Price Performance (RIC: HCLT.BO, BB: HCLT IN)



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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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HCL Technologies

Valuation

Our target price is Rs820 based on ~15x Mar'14E EPS. This is higher than the mid-point of the 5-20x band that the stock has traded in over the past three years. We believe a higher multiple is justified given HCLT's improved positioning in the sector (in terms of sale and capabilities), better service portfolio (post Axon acquisition). We believe PE remains the most appropriate valuation measure given HCLT's profitable track record.

Risks

The key risks to our investment thesis on HCL Tech are: (1) any significant appreciation of the rupee against the USD/EUR/GBP; (2) a sharp slowdown in the US/global economy; (3) acquisition-related risks; and (4) the strategy of pursuing large deals could have negative margin implications. If any of these risk factors has a greater downside impact than we anticipate, the share price will likely have difficulty attaining our target price.

Infosys Ltd

(INFY.BO; Rs2,799.90; 1)

Valuation

Our Rs3,035 target price for Infosys is based on 17x Mar'14E EPS. This is at a ~5% discount to the 5-year average 12-month forward earnings and factors in deceleration in growth and macro overhang. Our estimates continue to assume a certain PE premium to the market; this is justified, in our view, given the strong FCF and ROIC for Infosys vs. the overall market. We believe PE remains the most appropriate valuation measure given Infosys' profitability record and higher earnings visibility.

Risks

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Appendix A-1

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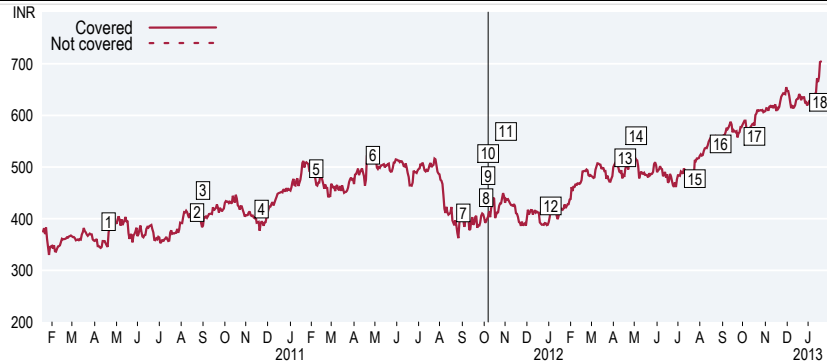
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HCL Technologies (HCLT.BO)

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Fundamental Research**

Analyst: Surendra Goyal, CFA



Date	Rating	Target Price	Closing Price
1 21-Apr-10	*1M	435.00	374.10
2 24-Aug-10	*1L	*495.00	408.50
3 1-Sep-10	1L	*480.00	386.55
4 23-Nov-10	1L	*510.00	394.95
5 8-Feb-11	1L	*560.00	465.50
6 28-Apr-11	1L	*595.00	512.45

Date	Rating	Target Price	Closing Price
7 2-Sep-11	1L	*505.00	397.35
8 5-Oct-11	1L	*510.00	395.10
9 7-Oct-11	Stock rating system changed		
10 7-Oct-11	*1	510.00	404.65
11 2-Nov-11	1	*515.00	438.20
12 4-Jan-12	1	*550.00	418.10

Date	Rating	Target Price	Closing Price
13 18-Apr-12	1	*570.00	495.55
14 3-May-12	1	*585.00	514.10
15 25-Jul-12	1	*615.00	513.75
16 30-Aug-12	1	*650.00	546.30
17 17-Oct-12	1	*680.00	580.30
18 17-Jan-13	1	*820.00	703.30

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

HCL Technologies (HCLT.BO)

**Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)**

Analyst: Surendra Goyal, CFA



Date	Rating	Target Price	Closing Price
1 11-Feb-11	*ADD MP	-	469.95

Date	Rating	Target Price	Closing Price
2 4-May-12	*REM MP	-	512.85

Date	Rating	Target Price	Closing Price
3 30-Jun-12	*N	-	476.20

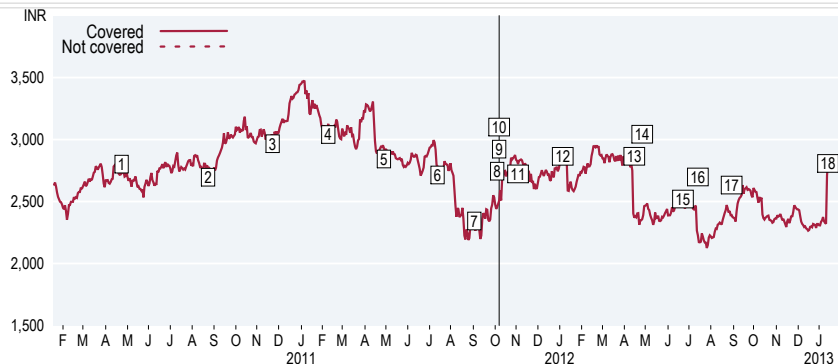
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Infosys Ltd (INFY.BO)

**Ratings and Target Price History
Fundamental Research**

Analyst: Surendra Goyal, CFA



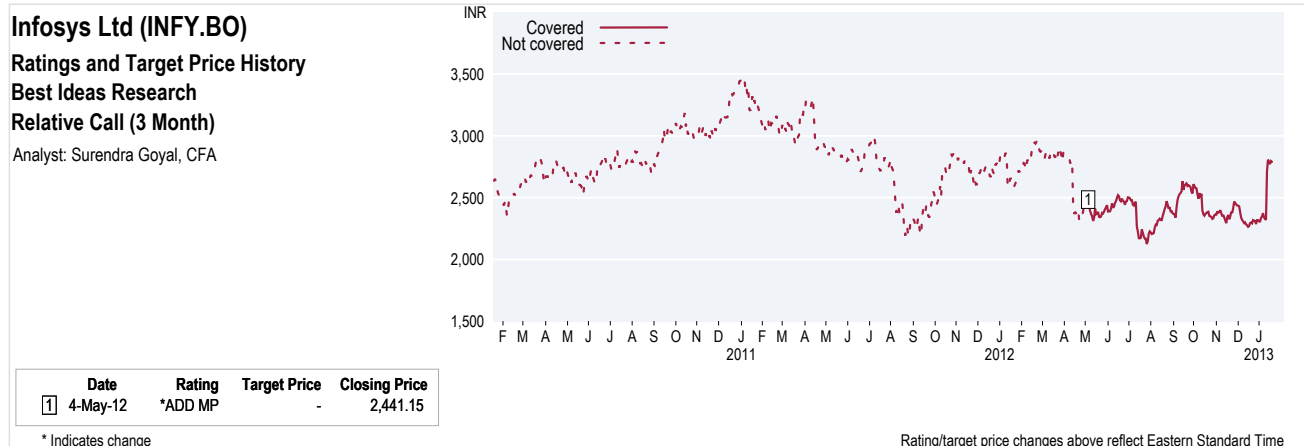
Date	Rating	Target Price	Closing Price
1 23-Apr-10	2L	*2,935.00	2,728.10
2 24-Aug-10	2L	*3,065.00	2,765.50
3 23-Nov-10	2L	*3,220.00	3,013.30
4 9-Feb-11	2L	*3,430.00	3,127.00
5 28-Apr-11	2L	*3,230.00	2,931.55
6 13-Jul-11	2L	*3,125.00	2,784.20

Date	Rating	Target Price	Closing Price
7 2-Sep-11	2L	*2,570.00	2,315.55
8 5-Oct-11	2L	*2,650.00	2,454.30
9 7-Oct-11	Stock rating system changed		
10 7-Oct-11	*2	2,650.00	2,507.05
11 3-Nov-11	2	*2,890.00	2,802.15
12 5-Jan-12	2	*3,110.00	2,838.90

Date	Rating	Target Price	Closing Price
13 16-Apr-12	2	*2,700.00	2,369.35
14 26-Apr-12	*1	*2,750.00	2,358.20
15 22-Jun-12	1	*2,825.00	2,475.10
16 13-Jul-12	1	*2,550.00	2,227.80
17 30-Aug-12	1	*2,710.00	2,391.00
18 14-Jan-13	1	*3,035.00	2,807.25

* Indicates change

Rating/target price changes above reflect Eastern Standard Time



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	Buy	Hold	Sell	Buy	Hold	Sell
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