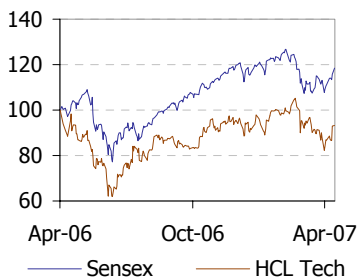


HCL Technologies

 Relative to sector: **Outperformer**

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Relative Performance


Source: Bloomberg, ENAM Research

Stock data

 No. of shares (basic) : 664mn
 Market cap : Rs 200bn
 52 week high/low : Rs 358/ Rs 181
 Avg. daily vol. (6mth) : 1.5mn shares
 Bloomberg code : HCLT IN
 Reuters code : HCLT.BO

Shareholding (%) Mar-07 QoQ chg

Promoters	: 67.6	(1.5)
FII's	: 13.6	(0.3)
MFs / UTI	: 3.1	(1.2)
Banks / FIs	: 2.9	(0.3)
Others	: 12.9	3.3

LARGE-DEALS LEAD GROWTH

HCL Tech's Q3FY07 topline and PAT growth (pre ESOP charge) at 7.6% and 27.8% QoQ respectively, are better than our expectations. PAT growth has been buoyed by forex gain of Rs 418mn. ~Greater than 10% of revenues accrued from large deals won in the past few quarters. Salary hikes would be inline with the industry (offshore – 12-15%, onsite – 3-5%).

Business unit/ clientele performance

- **Software services:** ~4% QoQ blended volume growth and ~12.2% QoQ growth in Enterprise Application Services led to 6.4% QoQ growth in core software services. Given the strong business momentum in the Engineering & R&D services, we expect volume growth QoQ to improve in the coming quarters.
- **BPO services:** Topline growth (16.4% QoQ) with pricing uptrend and increase in utilization rates led to ~350bps increase in EBITDA margins. Employee growth was subdued at ~1.4% QoQ. We, have now revised our FY07E revenues upwards implying ~38% YoY growth with EBIT margins of ~17.6%.
- **IMS:** With annualized run-rate of over USD 200mn+, IMS is likely to lead earnings growth in the coming quarters, though current quarter performance was muted at ~6.5% QoQ topline growth and ~7.3% QoQ EBIT, as compared to past quarters.
- **Clientele:** Growth was all-round in nature with Top 20 clients recording 6.4% QoQ growth, whereas remaining clients grew at a higher pace of 9.0% QoQ. ~33% of its USD 1mn accounts (total 147) source multiple services from HCL.

Valuations: The positive contribution of large deals to HCL's consolidated performance has been apparent in the current quarter. We believe a strong volume growth in software services and operational synergies in large deals are critical for higher PAT growth. We believe these would reflect in the coming quarters as the large deals become profitable. We thus maintain our sector **Outperformer** rating at current valuations of 19.2x FY07E and 15.3x FY08E EPS.

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)
2006#	44,007	7,746	-	11.3	18	22.1	19.7	16.1
2007E	61,137	11,230	16.7	15.7	39	19.2	26.0	13.8
2008E	78,795	14,066	19.9	19.7	25	15.3	28.5	10.5
2009E	97,855	16,880	24.3	23.6	20	12.8	29.0	8.3

Source: *Consensus broker estimates, Company, ENAM estimates

Note: #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 . FY07, FY08 and FY09 EPS is based on fully diluted shares of 714.3 mn

Results update

(Rs mn)	Quarter ended					12 months ended		
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	Jun-07E	Jun-06	% Chg
Net Sales	15,771	11,220	40.6	14,651	7.6	61,137	44,007	38.9
EBIDTA	4,085	2,485	64.4	3,587	13.9	14,377	9,507	51.2
Other income	197	268	(26.5)	134	47.0	1,374	919	49.5
PBIDT	4,282	2,753	55.5	3,721	15.1	15,752	10,426	51.1
Depreciation	659	530	24.3	623	5.8	2,372	2,032	16.7
PBT	3,623	2,223	63.0	3,098	16.9	13,380	8,394	59.4
Tax	283	277	2.0	206	37.1	1,100	626	75.8
Adjusted PAT	3,341	1,946	71.7	2,892	15.5	12,280	7,768	58.1
Share from equity investment	(3)	(6)	-	(7)	-	(5)	(6)	-
Share of income (loss) of minority shareholders	(20)	(11)	-	(23)	-	(20)	(16)	-
Other Provisions	-	-	-	(266)	-	(1,025)	0	-
Reported PAT	3,318	1,929	72.0	2,596	27.8	11,230	7,746	45.0
No. of shares (mn)	687	669	-	683	-	714	684	-
EBIDTA margins (%)	25.9	22.1	-	24.5	-	23.5	21.6	-
PBIDT margins (%)	27.2	24.5	-	25.4	-	25.8	23.7	-
EPS (Rs.)	4.9	2.9	67.2	4.2	14.9	15.7	11.3	38.9

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)	Mar-07	Mar-06	YoY grth (%)	Dec-06	QoQ grth (%)
Revenue by Service Offerings	15,771	11,220	40.6	14,651	7.6
Enterprise Application Services	2,088	1,411	47.9	1,861	12.2
Engineering and R&D Services	3,681	2,646	39.1	3,546	3.8
Industry Solutions	5,652	4,295	31.6	5,318	6.3
Infrastructure Services	2,183	1,299	68.0	2,051	6.4
BPO Services	2,167	1,569	38.1	1,875	15.5

Source: Company, ENAM Research

Clientele Performance

(Rs mn)	Mar-07	Mar-06	YoY grth (%)	Dec-06	QoQ grth (%)
Client Concentration					
Top 5 Clients	4,605	3,175	45.0	4,351	5.8
Top 6-10 Clients	1,467	1,043	40.6	1,363	7.6
Top 11- 20 Clients	1,956	1,178	66.0	1,831	6.8
Top 20 Clients	8,027	5,397	48.7	7,545	6.4
Remaining Clients	7,744	5,823	33.0	7,106	9.0
Client Quality (Nos.)					
No : of USD 1 mn accounts	147	131	-	145	-
No : of USD 5 mn accounts	48	34	-	46	-
No : of USD 10 mn accounts	25	14	-	22	-
No : of USD 20 mn accounts	10	6	-	8	-
No : of USD 30 mn accounts	5	3	-	4	-
No : of USD 40 mn accounts	4	3	-	4	-
No : of USD 50 mn accounts	3	2	-	3	-

Source: Company, ENAM Research

Segmental Performance

(Rs mn)	Mar-07	Mar-06	YoY grth	Dec-06	QoQ grth
			(%)		(%)
Revenue					
Software Services	11,421	8,348	36.8	10,739	6.4
BPO Services	2,164	1,565	38.3	1,859	16.4
Infrastructure Services	2,186	1,307	67.3	2,053	6.5
Gross Profits					
Software Services	4,507	3,277	37.5	4,196	7.4
BPO Services	835	543	53.8	677	23.3
Infrastructure Services	691	421	64.1	670	3.1
Gross margins (%)					
Software Services	39.5	39.3	-	39.1	-
BPO Services	38.6	34.7	-	36.4	-
Infrastructure Services	31.6	32.2	-	32.6	-
EBITDA					
Software Services	2,708	1,960	38.2	2,455	10.3
BPO Services	574	337	70.3	426	34.7
Infrastructure Services	385	201	91.5	359	7.2
EBITDA margin (%)					
Software Services	23.7	23.5	-	22.9	-
BPO Services	26.5	21.5	-	22.9	-
Infrastructure Services	17.6	15.4	-	17.5	-
EBIT					
Software Services	2,319	1,654	40.2	2,097	10.6
BPO Services	426	213	100.0	276	54.3
Infrastructure Services	263	101	160.4	245	7.3
EBIT margin (%)					
Software Services	20.3	19.8	-	19.5	-
BPO Services	19.7	13.6	-	14.8	-
Infrastructure Services	12.0	7.7	-	11.9	-

Source: Company, ENAM Research

Employee Base

(Nos)	Mar-07	Mar-06	YoY grth	Dec-06	QoQ grth
			(%)		(%)
Total employee base	40,149	29,948	34.1	38,317	4.8
- Software Services	23,796	18,623	27.8	22,523	5.7
- BPO	12,354	8,903	38.8	12,181	1.4
- Infrastructure Services	3,999	2,422	65.1	3,613	10.7

Source: Company, ENAM Research

Geography Revenues

(Rs mn)	Mar-07	Mar-06	YoY grth	Dec-06	QoQ grth
			(%)		(%)
US	8,564	6,653	28.7	8,395	2.0
Europe	4,763	2,884	65.2	4,278	11.3
Asia Pac	2,445	1,683	45.2	1,978	23.6

Source: Company, ENAM Research

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