

## RESULT UPDATE

### MID CAP

#### Share Data

Reuters code	HCLI.BO
Bloomberg code	HCLI IN
Market cap. (US\$ mn)	563
6M avg. daily turnover (US\$ mn)	0.9
Issued shares (mn)	218
Target price (Rs)	115

#### Performance (%) 1M 3M 12M

Absolute	(3)	9	(30)
Relative	(2)	(2)	(43)

#### Valuation ratios

Yr to 30 June	FY11E	FY12E
EPS (Rs)	11.3	12.0
+/- (%)	(5.1)	6.1
PER (x)	10.1	9.6
Dividend/Yield (%)	7.0	7.0
EV/Sales (x)	0.2	0.1
EV/EBITDA (x)	4.9	4.6

#### Major shareholders (%)

Promoters	50
FII's	31
MF's	8
BFSI's	2
Public & Others	9

#### Financial highlights

(Rs mn)	4QFY10	1QFY11	QoQ (%)	1QFY10	YoY (%)	FY10	FY11E	YoY (%)	FY12E	YoY (%)
Revenue	32,049	29,594	(7.7)	29,990	(1.3)	120,498	121,795	1.1	128,354	5.4
EBITDA	1,003	647	(35.5)	909	(28.8)	3,466	3,782	9.1	4,107	8.6
EBITDA margin (%)	3.1	2.2	-	3.0	-	2.9	3.1	-	3.2	-
Other Income	151	322	113.6	64	406.1	647	808	25.0	748	(7.5)
Depreciation	72	86	20.2	59	46.8	255	354	38.6	372	5.2
PBT	962	740	(23.1)	830	(10.9)	3,465	3,664	5.7	3,898	6.4
Tax	290	257	(11.4)	240	7.0	1,041	1,163	11.7	1,247	7.2
Adjusted PAT	672	475	(29.4)	590	(19.5)	2,424	2,468	1.8	2,618	6.1
Reported PAT	672	475	(29.4)	590	(19.5)	2,424	2,468	1.8	2,618	6.1
PAT margin (%)	2.1	1.6	-	2.0	-	2.0	2.0	-	2.0	-

## HCL Infosystems

Maintain Underperformer

Price: Rs 115

BSE Index: 20,005

27 October 2010

### 1QFY11 Result – Weak revenue and operational performance

**HCL Infosystems (HCLI) posted weak results with revenues at ~Rs 29.6 bn, down 7.7% QoQ. EBITDA margins declined sharply to 2.2%, a contraction of 90 bps QoQ, on account of increased investments by the company in people and CoEs. Weak revenue and operational performance led to significantly lower than expected PAT at Rs 475 mn, a steep decline of ~30% QoQ.**

**The revenue decline was led by the computer segment (30% of revenue) which declined by 22% QoQ. The management attributed this to lack of enterprise demand, which is seasonally weak in 1Q and is likely to pick up in 2H. Also, we believe players like Dell and Acer continue to strengthen their position (through attractive pricing) in the retail segment of computers, hurting HCLI. Revenue from System Integration (SI) business (which is generally lumpy in nature) dipped sharply to Rs 1.9 bn from Rs 3.7 bn in 4QFY10. Telecom segment (70% of revenue) was flattish after a steep increase of 11% QoQ in the last quarter. Nokia is trying to regain some of the market share which it lost to newer players such as Micromax and Videocon, by introducing new QWERTY models. This move has seen initial success, not material however in our view. The recent acquisition of NTS proved to be a bright spot for the quarter with revenue in 1Q almost 50% of its last years' revenue.**

**The order book in the SI business touched an all time high; at Rs 40 bn it is up 100% QoQ. Within SI, the share of services business (which is annuity based) is increasing; we believe this will lead to increased revenue predictability and margin improvement going forward. However, over the near term, the revenue booking from SI will continue to be lumpy. We remain positive on the SI business of HCLI and expect it to grow ~45% in FY12. However, we remain concerned about the telecom business of HCLI and also the lumpy nature of SI business which makes its financials chequered. Our EPS estimates for HCLI stand revised to Rs 11.3 for FY11 and Rs 12 for FY12. We maintain our Underperformer rating on HCLI.**

## Income Statement

Yr end 30 Jun (Rs mn)	FY09	FY10	FY11E	FY12E
<b>Net sales</b>	<b>122,524</b>	<b>120,498</b>	<b>121,795</b>	<b>128,354</b>
<i>Growth (%)</i>	<i>0.1</i>	<i>(1.7)</i>	<i>1.1</i>	<i>5.4</i>
Operating expenses	(118,723)	(117,033)	(118,013)	(124,247)
Operating profit	3,801	3,466	3,782	4,107
<b>EBITDA</b>	<b>3,801</b>	<b>3,466</b>	<b>3,782</b>	<b>4,107</b>
<i>Growth (%)</i>	<i>(14.9)</i>	<i>(8.8)</i>	<i>9.1</i>	<i>8.6</i>
Depreciation	(213)	(255)	(354)	(372)
Other income	371	647	808	748
<b>EBIT</b>	<b>3,960</b>	<b>3,857</b>	<b>4,237</b>	<b>4,483</b>
Interest paid	(447)	(392)	(573)	(584)
Pre-tax profit	3,513	3,465	3,664	3,898
(before non-recurring)				
Pre-tax profit	3,513	3,465	3,664	3,898
(after non-recurring)				
Tax (current + deferred)	(1,114)	(1,041)	(1,163)	(1,247)
Net profit (before Minority Interest, Pref. Dividend, etc.)	2,399	2,424	2,501	2,651
Minority interests	0	0	(33)	(33)
<b>Reported PAT</b>	<b>2,399</b>	<b>2,424</b>	<b>2,468</b>	<b>2,618</b>
<b>Adjusted net profit</b>	<b>2,399</b>	<b>2,424</b>	<b>2,468</b>	<b>2,618</b>
<i>Growth (%)</i>	<i>(20.1)</i>	<i>1.0</i>	<i>1.8</i>	<i>6.1</i>

## Balance Sheet

Yr end 30 Jun (Rs mn)	FY09	FY10	FY11E	FY12E
Cash and Marketable sec.	4,701	11,539	11,529	10,840
Other current assets	27,015	33,144	34,840	37,414
Net fixed assets	1,852	2,873	2,789	2,716
Other non-current assets	56	135	135	135
<b>Total assets</b>	<b>33,625</b>	<b>47,691</b>	<b>49,293</b>	<b>51,105</b>
Current liabilities	20,137	23,558	24,736	25,973
Total debt	2,269	5,206	5,206	5,206
<b>Total liabilities</b>	<b>22,406</b>	<b>28,764</b>	<b>29,942</b>	<b>31,179</b>
Share capital	342	437	437	437
Reserves & surplus	10,877	18,490	18,915	19,490
<b>Shareholders' funds</b>	<b>11,219</b>	<b>18,927</b>	<b>19,351</b>	<b>19,927</b>
<b>Total equity &amp; liab.</b>	<b>33,625</b>	<b>47,691</b>	<b>49,293</b>	<b>51,105</b>
<b>Capital employed</b>	<b>13,488</b>	<b>24,133</b>	<b>24,557</b>	<b>25,132</b>

## Cash Flow Statement

Yr end 30 Jun (Rs mn)	FY09	FY10	FY11E	FY12E
Pre-tax profit	3,513	3,465	3,664	3,898
Depreciation	213	255	354	372
Change in working capital	(150)	(2,708)	(518)	(1,337)
Total tax paid	(1,237)	(1,120)	(1,163)	(1,247)
<b>Cash flow from oper. (a)</b>	<b>2,339</b>	<b>(107)</b>	<b>2,336</b>	<b>1,686</b>
Capital expenditure	(213)	(1,225)	(200)	(200)
Change in investments	(444)	(5,937)	0	0
Others	(154)	(51)	(70)	(99)
<b>Cash flow from inv. (b)</b>	<b>(811)</b>	<b>(7,213)</b>	<b>(270)</b>	<b>(299)</b>
<b>Free cash flow (a+b)</b>	<b>1,528</b>	<b>(7,320)</b>	<b>2,066</b>	<b>1,387</b>
Equity raised/(repaid)	7	7,101	0	0
Debt raised/(repaid)	(1,277)	2,937	0	0
Dividend (incl. tax)	(1,302)	(1,994)	(2,043)	(2,043)
Others	(48)	177	(33)	(33)
<b>Cash flow from fin. (c)</b>	<b>(2,619)</b>	<b>8,221</b>	<b>(2,076)</b>	<b>(2,076)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(1,091)</b>	<b>901</b>	<b>(10)</b>	<b>(689)</b>

## Key Ratios

Yr end 30 Jun (%)	FY09	FY10	FY11E	FY12E
Adjusted EPS (Rs)	14.0	11.9	11.3	12.0
Growth	(20.4)	(15.0)	(5.1)	6.1
Book NAV/share (Rs)	65.5	93.0	88.7	91.3
Dividend/share (Rs)	6.5	8.4	8.0	8.0
Dividend payout ratio	54.3	82.3	82.8	78.0
Tax	31.7	30.0	31.8	32.0
EBITDA margin	3.1	2.9	3.1	3.2
EBIT margin	3.2	3.2	3.5	3.5
RoCE	29.0	20.5	17.4	18.0
Net debt/Equity	(21.7)	(33.5)	(32.7)	(28.3)

## Valuations

Yr end 30 Jun (x)	FY09	FY10	FY11E	FY12E
PER	8.2	9.6	10.1	9.6
PCE	7.5	8.7	8.9	8.4
Price/Book	1.8	1.2	1.3	1.3
Yield (%)	5.7	7.3	7.0	7.0
EV/Net sales	0.2	0.2	0.2	0.1
EV/EBITDA	4.9	5.4	4.9	4.6

## Du Pont Analysis – ROE

Yr end 30 Jun (x)	FY09	FY10	FY11E	FY12E
Net margin (%)	2.0	2.0	2.0	2.0
Asset turnover	3.8	3.0	2.5	2.6
Leverage factor	3.0	2.7	2.5	2.6
Return on equity (%)	22.4	16.1	12.9	13.3

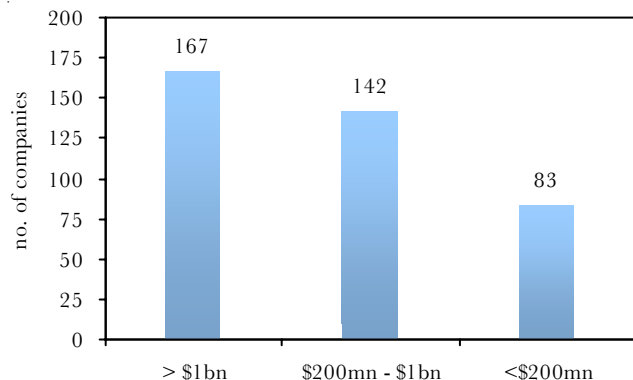
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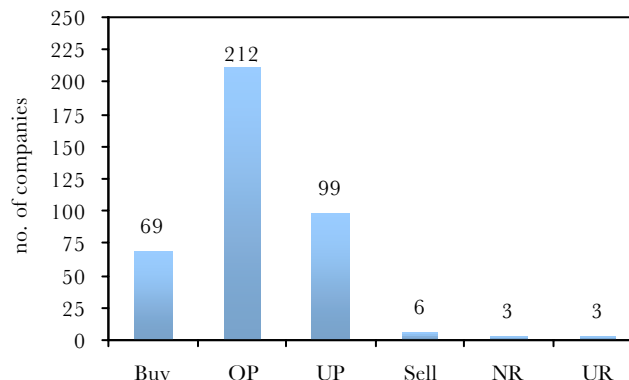
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## B&amp;K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



**B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.**

**B&K Investment Ratings:**

1. **BUY:** Potential upside of > +25% (absolute returns)
2. **OUTPERFORMER:** 0 to +25%
3. **UNDERPERFORMER:** 0 to -25%
4. **SELL:** Potential downside of < -25% (absolute returns)

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