

April 15, 2008

Rating	Market Performer
Price	Rs248
Target Price	Rs302
Implied Upside	19.1%
Sensex	19,701

(Prices as on April 15, 2008)

### Trading Data

Market Cap. (Rs bn)	180.9
Shares o/s (m)	675.9
Free Float	32.5%
Avg. Daily Vol ('000)	192.7
Avg. Daily Value (Rs m)	51.0

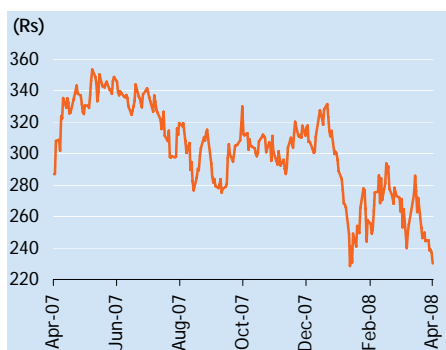
### Major Shareholders

Promoters	67.5%
Foreign	15.6%
Domestic Inst.	7.2%
Public & Others	9.7%

### Stock Performance

(%)	1M	6M	12M
Absolute	(12.6)	(26.3)	(19.8)
Relative	(10.6)	(10.3)	(39.7)

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



Source: Bloomberg

■ **Results:** HCL Technologies' Q3FY08 numbers beat street estimates. Consolidated revenue grew by 7.06% QoQ in rupee terms to Rs19.49bn (5.2% in US\$ terms), while PAT grew 2.9% QoQ to Rs3.42bn. Operating (EBITDA) margin expanded by 88bps QoQ, while PAT margin declined by 70bps QoQ on the back of forex loss of Rs271m. Revenue during the quarter included US\$2.2m from Capital Stream (revenue only for 1.5 months).

■ **The break-up:** Revenue growth was driven by 6.1% volume growth and 0.9% growth in realisation. Proportion of fixed price projects increased significantly from 32.2% in Q2FY08 to 35.0% in Q3FY08. Net addition to headcount during the quarter was 1,848 taking the total number of employees to 49,802.

■ **Other highlights:** BPO services 3.5% QoQ after two consecutive quarters of negative growth. Revenue figures include US\$6.8m forex loss from hedging. HCL Technologies had a hedging cover of US\$2.7bn (approximating 10 quarters cover). The management reported having won US\$500m worth of deals and adding 32 new clients during the quarter.

■ **Valuation:** HCL Technologies' revenue is expected to grow at a CAGR of 24.8% over FY08-10. Earnings CAGR over the same period is expected to be lower at 12.3% owing to higher tax rates in FY10. At the CMP of Rs248, it quotes at 9.9x FY10E earnings. We maintain Market Performer rating with a target price of Rs302 (12x FY10E earnings) over a 12-18 month period, implying an upside of 21% from current levels.

Key financials (Y/e June)	FY07	FY08E	FY09E	FY10E
Revenue (Rs m)	60,336	75,418	95,070	117,648
Growth (%)	37.5	25.0	26.1	23.7
EBITDA (Rs m)	13,370	16,389	19,746	23,394
PAT (Rs m)	13,660	13,603	16,177	17,106
EPS (Rs)	18.5	19.9	23.8	25.2
Growth (%)	72.9%	7.8%	19.3%	5.7%
Net DPS (Rs)	8.0	9.0	12.0	14.0

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08E	FY09E	FY10E
EBITDA margin (%)	22.2	21.7	20.8	19.9
RoE (%)	30.1	25.5	27.0	25.7
RoCE (%)	29.4	24.8	26.1	24.7
EV / sales (x)	2.4	1.9	1.5	1.2
EV / EBITDA (x)	10.9	8.9	7.3	6.0
PE (x)	13.4	12.4	10.4	9.9
P / BV (x)	3.3	3.0	2.7	2.4
Net dividend yield (%)	3.2	3.6	4.8	5.6

Source: Company Data; PL Research

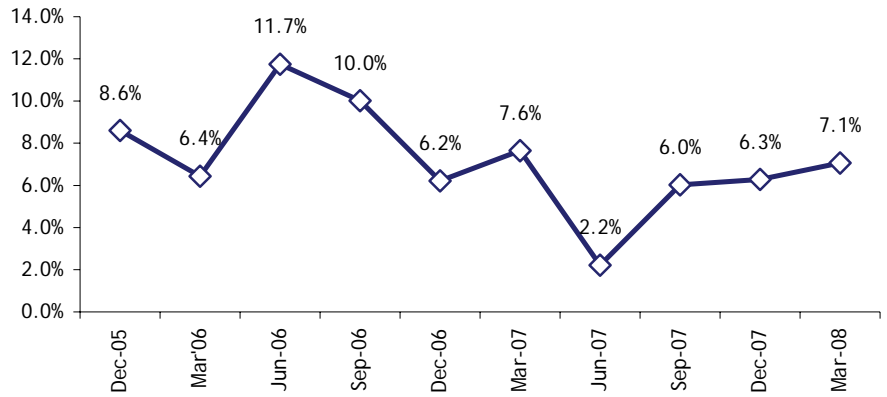
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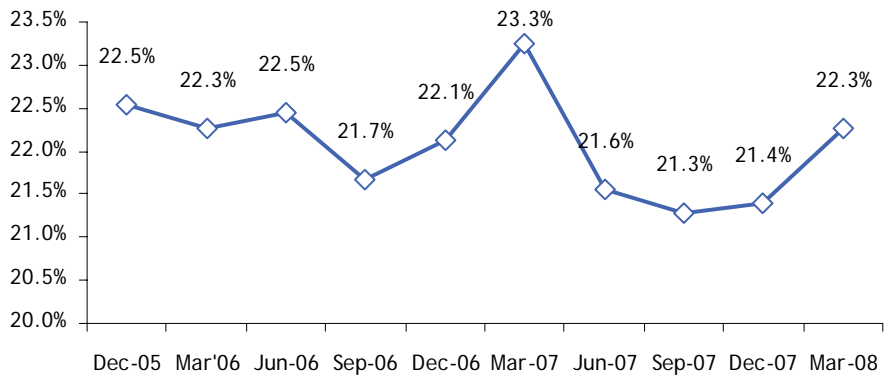
## Highlights

### Revenue grew a strong 7.06% QoQ...



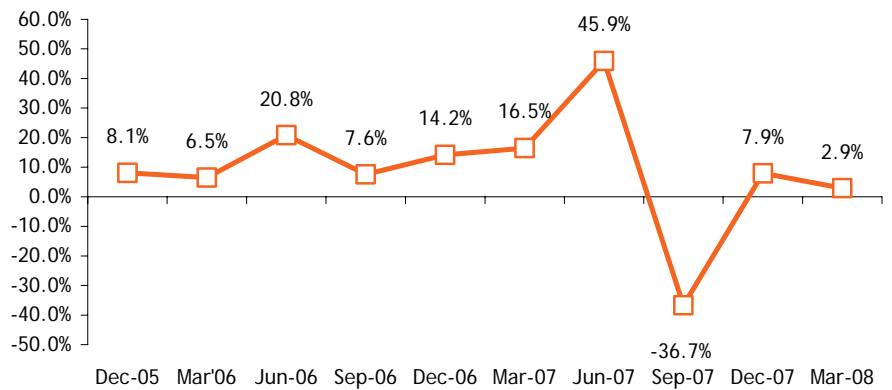
Source: Company Data, PL Research

### While operating margin expanded a healthy 88bps QoQ to 22.3% ...



Source: Company Data, PL Research

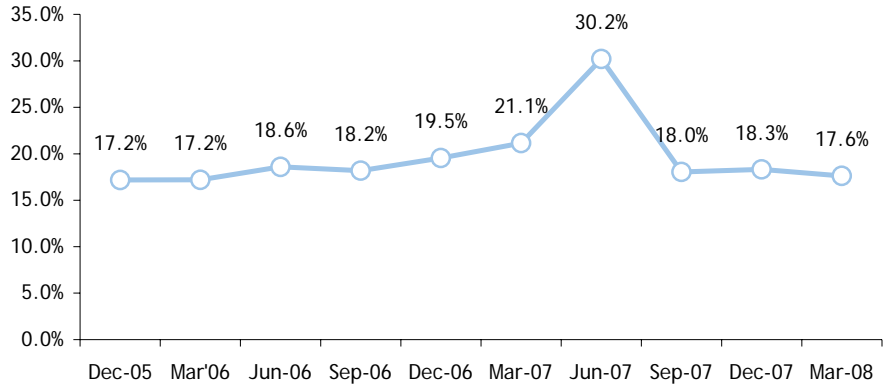
### While PAT grew by a mere 2.9% owing to forex losses...



Source: Company Data, PL Research

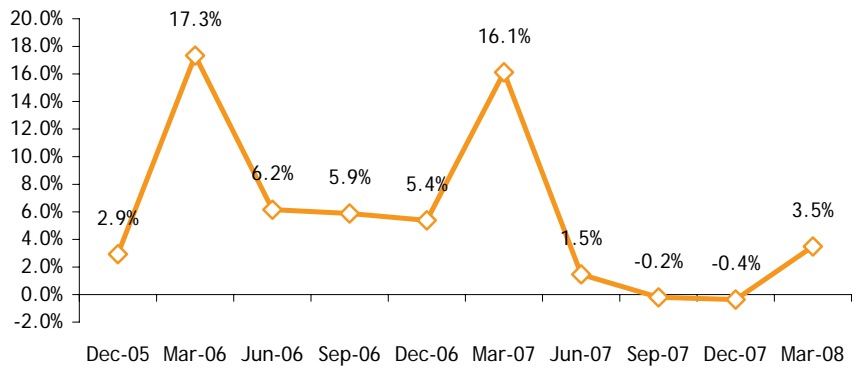


Leading PAT margin to decline 270bps...



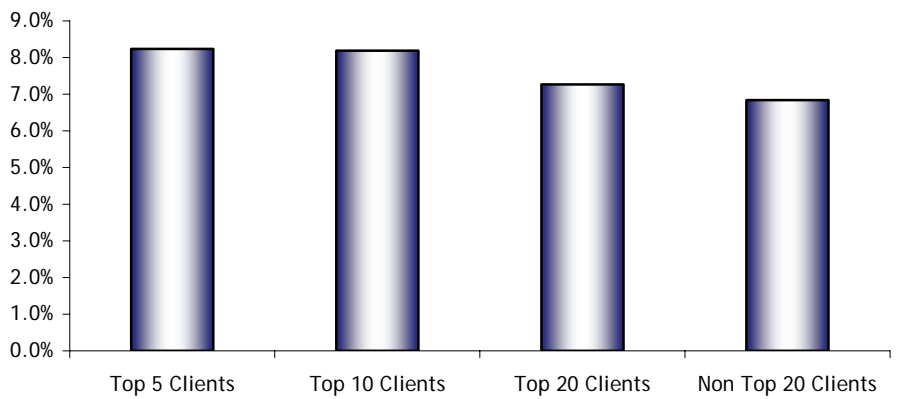
Source: Company Data, PL Research

BPO operations showed a minor uptick after 2 quarters of degrowth...



Source: Company Data, PL Research

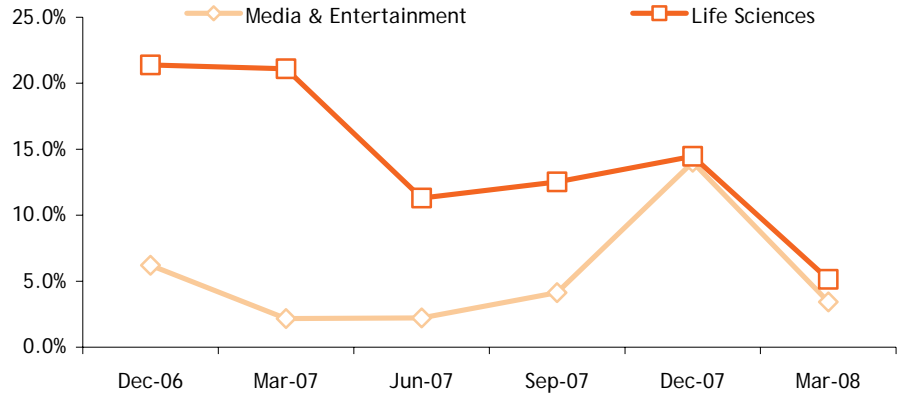
Growth was observed across all client profiles



Source: Company Data, PL Research

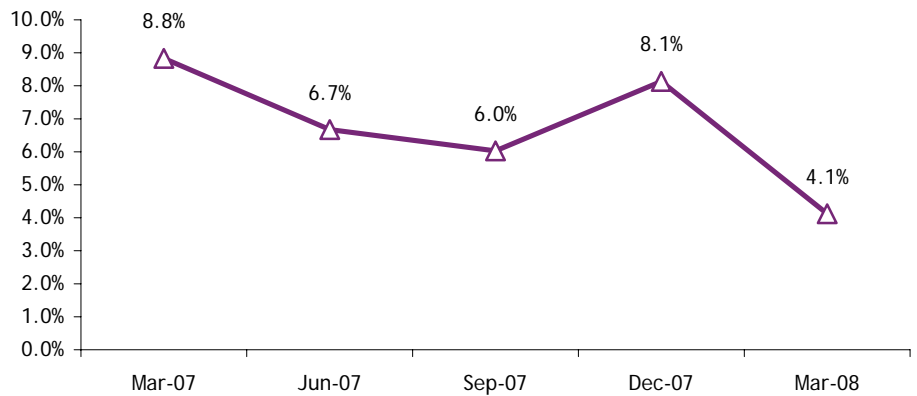
## Interestingly,

New verticals seem to have slipped down this quarter...



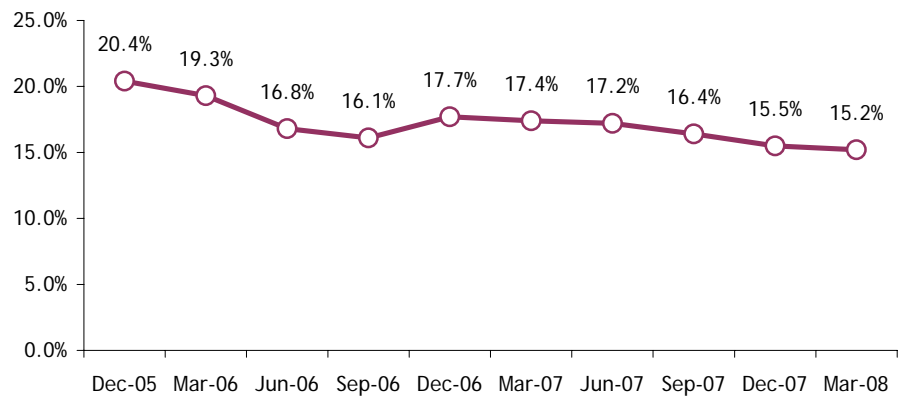
Source: Company Data, PL Research

The keenly watched BFSI segment grew a decent 4.1%...



Source: Company Data, PL Research

Good show on the human capital front (attrition rates trending downwards over the last few quarters)



Source: Company Data, PL Research



Key operating metrics

(Rs m)

Y/e June	Q3FY06	Q4FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08	Q3FY08
Total employee count	29,948	32,626	36,452	38,317	40,149	42,017	45,642	47,954	49,802
<b>Utilisation (%)</b>									
Offshore - including trainees	72.6	71.8	67.9	69.4	69.8	71.1	69.2	69.1	71.3
Offshore - excluding trainees	76.9	78.1	77.7	74.6	74.8	76.7	77.2	75.5	74.4
Onsite	93.5	94.2	92.2	95.2	95.6	95.6	95.8	96.4	95.1
<b>Revenue mix (core IT) (%)</b>									
Offshore	48.2	48.6	48.2	49.0	47.7	47.9	49.4	50.5	50.7
Onsite	51.8	51.4	51.8	51.0	52.3	52.1	50.6	49.5	49.3

Q3FY08 result overview

(Rs m)

Y/e June	Q3FY08	Q2FY08	QoQ (%)	Q3FY07 A	FY08	FY07	YoY (%)
Net Sales	19,448	18,166	7.1	15,771	75,418.1	60,336.0	25.0
Total Expenses	15,117	14,281	5.9	12,104	59,028.9	46,966.0	25.7
Software Development	11,945	11,258	6.1	9,738	46,993.9	37,592.0	25.0
Others	3,172	3,023	4.9	2,366	12,035.0	9,374.0	28.4
Operating Profits / EBITDA	4,331	3,885	11.5	3,667	16,389.2	13,370.0	22.6
Depreciation	773	724	6.8	659	2,983.0	2,531.0	17.9
EBIT	3,558	3,161	12.6	3,008	13,406.2	10,839.0	23.7
Other Income	235	521		610	1,637.0	4,196.0	(61.0)
PBT	3,793	3,682	3.0	3,618	15,043.2	15,035.0	0.1
Tax	368	355	3.7	283	1,524.3	1,485.0	2.6
<i>Tax rate (%)</i>	<i>9.7</i>	<i>9.6</i>		<i>7.8</i>	<i>10.1</i>	<i>9.9</i>	
PAT before Extra-ordinaries	3,425	3,327	2.9	3,335	13,518.9	13,550.0	(0.2)
Extra-ordinaries			(305)	(967.0)			(305)
PAT after Extra-ordinaries	3,425	3,327	2.9	3,030	13,518.9	12,583.0	7.4
<b>Key Ratios</b>							
<i>GPM (%)</i>	<i>38.6</i>	<i>38.0</i>	<i>0.6</i>	<i>38.3</i>	<i>37.7</i>	<i>37.7</i>	<i>(0.0)</i>
<i>OPM (%)</i>	<i>22.3</i>	<i>21.4</i>	<i>0.9</i>	<i>23.3</i>	<i>21.7</i>	<i>22.2</i>	<i>(0.4)</i>
<i>NPM (%)</i>	<i>17.6</i>	<i>18.3</i>	<i>(0.7)</i>	<i>19.2</i>	<i>17.9</i>	<i>20.9</i>	<i>(2.9)</i>
Adj. EPS (Rs.)	5.1	4.9	2.9	4.5	19.9	18.6	7.4
Adj. EPS excl. OI & Extras (Rs.)	2.3	2.3	-	2.3	9.8	9.8	-
Adj. EPS based on Rec. PAT(Rs.)	2.5	2.5	-	2.4	11.6	11.6	-



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#### PL's Recommendation Nomenclature

<b>BUY</b>	: > 15% Outperformance to BSE Sensex	<b>Outperformer (OP)</b>	: 5 to 15% Outperformance to Sensex
<b>Market Performer (MP)</b>	: -5 to 5% of Sensex Movement	<b>Underperformer (UP)</b>	: -5 to -15% of Underperformance to Sensex
<b>Sell</b>	: <-15% Relative to Sensex		
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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