

HCL Technologies

Volume growth soft, realisation and FX led EPS beat

❖ **Q1FY12 – Volume growth soft:** HCL Technologies (HCLT) reported revenue of US\$1,002mn marginally below expectations (RCMLe US\$1013mn) and up 4.1% QoQ (5.1% CC). Volume growth at 4% QoQ was below estimates. EBIT margins declined by 110bps (largely due to wage hikes) to 13.9% against our expectations of 150bps QoQ decrease helped by improvement in pricing. Net profits for the quarter came in at Rs4.8bn ahead of our expectations by 5% on account of better margins performance and lower FX loss. Infrastructure services segment saw some moderation in growth momentum up 5.8% CC QoQ, while engineering and R&D reported growth of 8.6% CC. BPO revenues declined and came in at US\$46.5mn, down 1.3% CC QoQ.

❖ **Growth driven by Americas and Europe:** From a region perspective, growth was good in Americas (up 6.8% CC QoQ) while Europe grew 4.5% CC QoQ. However ROW growth was muted at 0.7% CC QoQ. Among verticals Retail and Manufacturing led the growth, up 12%/8.2% CC QoQ respectively. BFSI grew by 2.1% CC QoQ, while Telecom declined by 2% CC QoQ. Both Software services and Infrastructure services saw EBIT margin decline by 140bps to 15.4%/15.1% respectively. Losses in the BPO division were lower QoQ to US\$3.3mn (US\$3.9mn in last quarter).

❖ **Metrics inline:** The Company added 3,053 employees during quarter in the Software services segment, 783 in Infrastructure but BPO headcount reduced by 362 QoQ. Utilisation (Incl. trainees) was down QoQ to 69.7% (72.5% in 3QFY11), while utilisation excluding trainees was flat 76.5%. Attrition inched down marginally to 15.9% (LTM) in IT services. DSOs (ex- unbilled revenues) were flat at 53 days (v/s 54 days in Jun-11) while operating cash flow for the quarter was lower at US\$26mn.

❖ **Valuations and View:** Overall a soft quarter on volumes from HCLT with a good margin performance, helped by FX and pricing. However we note that, growth among the top-tier players is beginning to converge. As such valuations in HCLT remain reasonable; beating expectations remains the key share price driver. While we wait for more clarity on volume trajectory on the conference call, we do not anticipate material change to our EPS estimates. HCLT is currently trading at 13x FY12 and we have a BUY recommendation.

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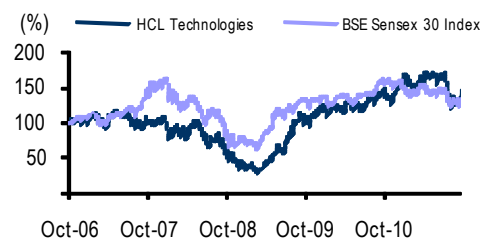
Recommendation snapshot

Company	CMP	Target	Rating
HCL Technologies	440	575	Buy

Company data

Market cap (Rs mn / US\$ mn)	309,168 / 6,307
Outstanding equity shares (mn)	702.5
BVPS (Rs)	121
Free float (%)	28.6
52-week high / low (Rs)	523 / 363
2-month avg. daily vol (mn)/ value (US\$ mn)	1 / 12
ADR/GDR premium (%)	NA

Stock performance



HCL Tech: Condensed P&L

(Rs mn; Yr-End: Jun)	FY10	FY11	FY12E	FY13E
Revenue	2,705	3,545	4,447	5,344
Growth (%)	23.9	31.1	25.4	20.2
Adj net income	262	359	484	601
Growth (%)	5.0	37.1	35.0	24.2
FDEPS (Rs)	18.0	23.0	31.0	38.5
Growth (%)	0.2	27.8	34.6	24.2

Source: RCML Research

In the interest of timeliness this report has not been edited.



Fig 1 - Constant currency growth (QoQ)

Particulars	Segment	4QFY11	1QFY12
Consolidated	For the Company	4.8%	5.1%
Geography	Americas	0.7%	6.8%
	Europe	4.2%	4.5%
	Rest of World	20.5%	0.7%
Service Offerings	Enterprise Application Services	5.7%	-0.6%
	Engineering and R&D Services	1.6%	8.6%
	Custom Application Services	5.1%	7.3%
	Infrastructure Services	7.7%	5.8%
	BPO Services	-1.0%	-1.3%
Verticals	Financial Services	10.5%	2.1%
	Manufacturing	6.1%	8.2%
	Telecom	-0.3%	-2.0%
	Retail & CPG	-0.4%	12.0%
	Media Publishing & Entertainment	1.7%	0.4%
	Healthcare	0.5%	0.0%
	Energy-Utilities-Public Sector	6.3%	1.6%
	Others	1.3%	23.1%
Clients(LTM)	Top 5	3.7%	3.9%
	Top 10	5.5%	2.7%
	Top 20	5.6%	1.5%

Source: Company

Fig 2 - Quarterly performance

(US\$ mn, Y.E June)	Q1FY12	Estimate	% Variance	Q4FY11	% Chg QoQ
Revenue	1002	1013	-1.1%	963	4.1%
EBIT	139	137	2.1%	145	-3.7%
EBITDA	168	165	1.4%	174	-3.4%
Reported net profit	104	100	3.2%	110	-6.0%
EPS (Rs)	6.8	6.5		7.0	-2.3%
Margins (%)					
Operating Margin	13.9%	13.5%		15.0%	
EBITDA Margin	16.7%	16.3%		18.0%	
Net Margin	10.3%	9.9%		11.4%	

Source: Company, RCML Research

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