

July 28, 2011

Reco	Previous Reco
Hold	Hold
CMP	Target Price
Rs503	Rs 540
EPS change FY12E/13E (%)	(0.6)/(1.7)
Target Price change (%)	NA
Nifty	5,547
Sensex	18,432

Price Performance

(%)	1M	3M	6M	12M
Absolute	3	(3)	(1)	32
Rel. to Nifty	2	3	1	29

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	IT Services
Bloomberg	HCLT@IN
Equity Capital (Rs mn)	1377
Face Value(Rs)	2
No of shares o/s (mn)	689
52 Week H/L	528/368
Market Cap (Rs bn/USD mn)	346/7,855
Daily Avg Volume (No of sh)	132298
Daily Avg Turnover (US\$mn)	1.5

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	64.4	64.7	64.8
FII/NRI	23.0	23.1	23.3
Institutions	6.1	6.0	5.8
Private Corp	3.0	2.9	3.0
Public	3.5	3.4	3.1

Source: Capitaline

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- HCLT reported rev at US\$ 963 mn (+5.3% QoQ) in line with est with growth yet again led by IMS (+10.5%QoQ) and Apps (+4.3%QoQ) while BPO struggles continue(-4.2%QoQ)
- Op mgns at 18% (+130 bps QoQ) , in line with est driven largely by SG&A leverage (down ~90 bps QoQ). Marginal profit beat aided by higher other income
- Growth well spread across geographies with non top 20 clients continuing to grow faster than co. Manufacturing leads the growth with a 8% QoQ revenue increase
- Tweak FY12E/13E EPS lower by 0.6/1.7 to ~Rs 31.8/37.7 driven by lower mgn assumptions (17.4/16.8% V/s 17.6/17.3% earlier). HOLD , unchanged TP of Rs 540, on 14x FY13E EPS

Broadly in line with expectations

HCLT reported a 5.3% QoQ growth in rev to US\$963 mn driven by strong growth in IMS revenues (US\$ 236 mn, +10.5% QoQ) and Apps business (+4.3% QoQ) while BPO still struggling with a 4.2% QoQ revenue decline. Op margins expanded by ~130 bps QoQ to 18% , in line with expectations driven by SG&A leverage (-90 bps QoQ) with BPO loses reducing further despite the revenue pressures. Growth was well spread across geographies with Asia Pac growth lagging co growth for the 1st time in 4 quarters and after strong double digit sequential increases in the recent quarters. Top 5/10/20 clients continued to grow lower than co at 0.1/2.8/2.7% QoQ for the 2nd successive quarter. Net headcount addition was ~3,600 (with core S/W addition at ~2,400). Profits at Rs 4.9 bn (+12% QoQ, +55% YoY) were marginally higher than expected aided by higher than expected other income.

Margins, cash generation improve during the quarter

HCLT's margins improved by ~130 bps QoQ to 18% , in line with Emkay expectations and higher than ~100 bps improvement outlook by the co management. The margin improvement over the past 2 quarters is a relief after the sharp decline in margins over the past few quarters, however note that this has come at the cost of a lower revenue growth. Further cash generation has improved during the quarter, however note that CFO's at <11% of revenues is still below co's historical levels and much lower than peers.

Tweak earnings estimates marginally lower , retain HOLD

HCL Tech's results are operationally in line with notable discipline on margins and cash generation in the past 2 quarters , however has come at the cost of lower revenue growth. We tweak our FY12/13E earnings lower by 0.6%/1.7% to ~Rs 31.8/37.7 driven by lower margin expectations (17.4%/16.8% V/s 17.6%/17.3% earlier) despite marginal reduction in tax assumptions. We continue to retain HOLD on HCL Tech with an unchanged price target of Rs 540, based on `14x FY13E earnings

Financials

Y/E June (in Rs mn)	Net Sales	EBITDA	EBITDA %	PAT	EPS (Rs)	ROE %	P/E (x)	EV/ EBITDA	P/B (x)
FY10	125,650	24,813	19.7	12,149	17.6	19.1	28.6	14.1	4.9
FY11	158,555	26,228	16.5	16,037	23.1	20.7	21.8	13.2	4.1
FY12E	198,650	34,653	17.4	22,293	31.8	24.2	15.8	9.6	3.5
FY13E	236,949	39,830	16.8	26,448	37.7	24.0	13.3	7.9	2.9

Quarterly performance

Rs mn	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)	FY11	FY10	YoY (%)
Revenue	34,254	36,116	38,625	40,778	43,036	25.6	5.5	158,555	125,650	26.2
Operating Expenditure	28,116	30,482	32,574	33,970	35,301	25.6	3.9	132,326	100,837	31.2
Cost of revenues	23,167	24,740	26,471	27,736	29,092	25.6	4.9	108,039	82,875	30.4
as % of sales	67.6	68.5	68.5	68.0	67.6			68.1	66	
SG&A expenses	4,949	5,742	6,103	6,234	6,208	25.4	(0.4)	24,287	17,962	35.2
as % of sales	14.4	15.9	15.8	15.3	14.4			15.3	14	
EBITDA	6,138	5,634	6,051	6,807	7,735	26.0	13.6	26,228	24,813	5.7
Depreciation	1,131	1,217	1,230	1,182	1,289	14.0	9.1	4,918	5,010	(1.8)
EBIT	5,007	4,417	4,821	5,625	6,446	28.7	14.6	21,310	19,803	7.6
Other Income	(1,578)	(634)	(79)	15	154	(109.8)	926.7	-544	(5,302)	(89.7)
PBT	3,429	3,783	4,742	5,640	6,600	92.5	17.0	20,766	14,501	43.2
Total Tax	246	778	1,019	1,250	1,683	584.2	34.6	4,730	2,352	101.1
Adjusted PAT	3,183	3,006	3,723	4,390	4,917	54.5	12.0	16,037	12,149	32.0
(Profit)/loss from JV's/Ass/MI	0	-2	0	0	0			-2	23	
APAT after MI	3,183	3,004	3,723	4,390	4,917	54.5	12.0	16,035	12,172	31.7
Extra ordinary items	0	0	0	0	0			0	-	
Reported PAT	3,183	3,004	3,723	4,390	4,917	54.5	12.0	16,035	12,172	31.7
Reported EPS	4.6	4.3	5.3	6.3	7.0	52.5	11.9	23	18	30.0

Margins (%)	(bps)		(bps)		(bps)		(bps)		(bps)	
EBIDTA	17.9	15.6	15.7	16.7	18.0	6	128	16.5	19.7	(321)
EBIT	14.6	12.2	12.5	13.8	15.0	36	118	13.4	15.8	(232)
EBT	10.0	10.5	12.3	13.8	15.3	533	150	13.1	11.5	156
PAT	9.3	8.3	9.6	10.8	11.4	213	66	10.1	9.7	43
Effective Tax rate	7.2	20.6	21.5	22.2	25.5	1,832.6	333.9	22.8	16.2	656

Source: Company, Emkay Research

Tweak our FY12/13E earnings lower by 0.6%/1.7% sequentially driven by lower margin assumptions

(All fig in Rs mn except EPS)	FY12E			FY13E		
	Old	New	% change	Old	New	% change
Revenues (US\$ mn)	4,388	4,414	0.6	5,267	5,266	0.0
Revenues	197,450	198,650	0.6	237,003	236,949	0.0
EBITDA	34,801	34,653	-0.4	41,019	39,830	-2.9
Net profits	22,289	22,293	0.0	26,886	26,448	-1.6
EPS	32.0	31.8	-0.6	38.4	37.7	-1.7

	Q4FY11 (% contri to revenue)	Growth	
		% QoQ	% YoY
Service Offerings			
Core Software	70.5%	4.3%	28.9%
BPO	5.0%	-4.2%	4.8%
IMS	24.5%	10.5%	42.9%
Revenue Breakup by Geography (in %)			
US	54.4	5.5%	15.5%
Europe	27.1	5.7%	43.8%
Asia Pacific	18.5	4.2%	73.7%
Revenue by Service Offering (in %)			
Enterprise App Services	20.9	2.8%	22.9%
Engg & R&D services	17.8	5.9%	18.6%
Industry Solutions	31.8	4.6%	40.2%
Infrastructure services	24.5	10.3%	42.8%
BPO services	4.9	-4.4%	3.2%
Revenues by industry (in %)			
BFSI	26.0	4.5%	36.3%
Hi Tech Manufacturing	28.0	8.0%	33.9%
Telecom	9.1	-7.0%	9.0%
Retail	7.9	-4.4%	25.8%
Media, Publishing & Entertainment	7.1	13.3%	25.3%
Life Sciences	8.3	9.3%	32.1%
Others	6.9	-0.5%	45.3%
Energy Utilities -Public Sector	5.7	7.2%	7.8%
Client Contribution to revenues (in %)			
Top 5, %	15.4	0.1%	12.9%
Top 10, %	24.6	2.8%	23.5%
Top 20, %	35.3	2.7%	25.9%
Utilisation (Core Software) (in %)			
	Q4FY11	Q3FY11	Q4FY10
Offshore	72.5	71.9	72.9
Offshore(excluding Trainees)	76.1	76.3	77.0
Onsite	96.2	96.5	95.2
Total Employees			
	77,046	73,420	64,557
Gross Addition	9,572	7,534	8,293
Net Addition	3,626	1,153	6,428
Revenues by Contract Type (in %)			
Time & material	57.5	58	59.1
Fixed Price	42.5	42	40.9

Financials

Income Statement

Y/E, June (Rs. m)	FY10	FY11	FY12E	FY13E
Net Sales	125,650	158,555	198,650	236,949
Growth (%)	18	26	25	19
Total Expenditure	(100,837)	(132,326)	(163,996)	(197,118)
Growth (%)	21	31	24	20
EBIDTA	24,813	26,228	34,653	39,830
Growth (%)	11	6	32	15
EBIDTA %	19.7	16.5	17.4	16.8
Other Income	-	-	-	-
Depreciation	(5,010)	(4,918)	(5,779)	(6,702)
EBIT	19,803	21,310	28,874	33,128
Interest				
EBT	14,501	20,766	29,262	34,348
Tax	(2,352)	(4,730)	(6,969)	(7,900)
EAT	12,149	16,037	22,293	26,448
Growth (%)	1	32	39	19
EAT (%)	9.7	10.1	11.2	11.2

Balance Sheet

Y/E, June (Rs. m)	FY10	FY11	FY12E	FY13E
Equity share capital	1,354	1,358	1,358	1,358
Reserves & surplus	69,015	82,987	98,719	118,607
Minority Interest	(2)	-	-	-
Networth	70,368	84,345	100,078	119,966
Secured Loans	0	0	0	0
Unsecured Loans	26632	21240	21240	21240
Loan Funds	26632	21240	21240	21240
Total Liabilities	97,000	105,585	121,318	141,206
Goodwill	43122	41878	41878	41878
Gross Block	42,049	50,646	60,996	67,746
Less: Depreciation	23,563	28,481	34,260	40,962
Net block	61,608	64,043	68,614	68,662
Capital WIP	-	-	1,000	1,000
Investment	-	-	-	-
Current Assets	74,107	82,192	111,321	142,651
Sundry debtors	30,496	34,065	41,363	48,688
Cash & bank balance	4,686	5,198	19,574	37,719
Loans & advances	9,640	10,392	15,495	18,482
Current Liab & Prov	38,715	40,650	59,595	71,085
Current liabilities	31,329	33,763	47,676	56,868
Provisions	7,386	6,887	11,919	14,217
Net current assets	35,392	41,542	51,726	71,567
Total Assets	97,000	105,585	121,317	141,206

Cash Flow

Y/E, June (Rs. m)	FY10	FY11	FY12E	FY13E
Net Profit after Tax	12,172	16,035	22,293	26,448
Add : Depreciation	5,010	4,918	5,779	6,702
Add : Misc exp w/off	-	-	-	-
Net changes in WC	(4,668)	(6,599)	(10,184)	(19,840)
Operational Cash Flows	12,974	14,868	32,264	39,355
Capital expenditure	(6,139)	(10,851)	(11,350)	(15,203)
Investments	-	-	-	-
Investing Cash Flows	(6,139)	(10,851)	(11,350)	(15,203)
Borrowings	(3,139)	(5,392)	-	-
dividend paid	(3,239)	(6,095)	(6,560)	(6,560)
Issue of shares	19	4	-	-
Share Premium	-	-	-	-
Financing Cash Flows	(6,352)	(11,483)	(6,560)	(6,560)
changes in cash	483	(7,467)	14,354	17,592
Opening balance	4,203	4,686	5,198	19,574
Closing balance	4,686	5,198	19,574	37,719

Key ratios

Y/E, June	FY10	FY11	FY12E	FY13E
EPS (Rs)	17.6	23.1	31.8	37.7
CEPS (Rs)	24.8	30.2	40.0	47.3
Book Value Per Share (Rs)	101.7	121.4	142.8	171.2
Dividend Per Share (Rs)	4.0	7.5	8.0	8.0
Valuations Ratios (x)				
PER	28.6	21.8	15.8	13.3
P/CEPS	20.3	16.7	12.6	10.6
P/BV	4.9	4.1	3.5	2.9
EV/EBIDTA	14.1	13.2	9.6	7.9
EV/Sales	2.8	2.2	1.7	1.3
M-Cap/sales	2.8	2.2	1.8	1.5
Profitability Ratios (%)				
RoCE	21.6	21.0	25.5	25.2
RoNW	19.1	20.7	24.2	24.0
EBITDA Margin	19.7	16.5	17.4	16.8
EBIT Margins	15.8	13.4	14.5	14.0
Net Profit Margin	9.7	10.1	11.2	11.2

Recommendation History: HCL Technologies – HCLT IN

Date	Reports	Reco	CMP	Target
20/04/2011	HCL Technologies Q3FY11 Result Update	Hold	523	540
20/01/2011	HCL Technologies Q2FY11 Result Update	Hold	508	540
20/10/2010	HCL Technologies Q1FY11 Result Update	Hold	426	430
29/07/2010	HCL Technologies Q4FY10 Result Update	Accumulate	382	430

Recent Research Reports

Date	Reports	Reco	CMP	Target
20/07/2011	Wipro Q1FY12 Result Update	Reduce	399	420
20/07/2011	NIIT Tech Q1FY12 Result Update	Accumulate	203	250
19/07/2011	Persistent Q1FY12 Result Update	Accumulate	373	430
18/07/2011	NIIT Technologies Initiating Coverage	Accumulate	209	250

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