

Sector: IT Services  
 BSE Sensex: 15,971

## IT Services

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**Rohit Kumar Anand**

rohit.anand@pinc.co.in

+9122 6618 6372

**Niraj Garhyan**

niraj.garhyan@pinc.co.in

+9122 6618 6382

### Revisiting estimates factoring demand & currency

After the downgrade of credit rating of US, the prospects of good growth in FY13 were dismal which forced us to revise our business volume estimates in our earlier report ("Rebound expected after medium term pressures" dated 22 Aug 2011). However, then tech stocks were beaten and valuations were attractive and we continued to be positive on the sector with BUY rating on tier-1 stocks viz. Infosys, TCS and Wipro and HCL Tech. All except HCL Tech have given around 23-26% absolute return in approx. last four months. The current business environment continues to be uncertain which will further put pressure on discretionary IT spending and USD revenue growth in FY13. We further revise downwards our volume growth estimates but it is likely to be in the range of 12-15%YoY for tier-1 firms. However, weaker rupee will suppress negative impact of low volume growth.

**Discretionary spending falling more than expected-** There are delays in decision making for discretionary spending. We revise volume estimates downwards with higher decline for HCL Tech and Infosys for FY13.

**Outsourcing trend maintained positive, new client addition healthy, pricing intact**

The new order bookings for outsourcing has shown sustained growth for Accenture based on latest results. Also, Indian IT firms are getting more enquiries from clients for outsourcing. The new client addition has been strong in last couple of years post the Lehman crisis in 2008, for all tier-1 firms.

**Restating that attrition and salary increments will be on downtrend** - The attrition rate is expected to be lower going ahead. Salary increments will be lower in FY13. According to companies, salary levels for freshers are similar to last year.

### VALUATIONS AND RECOMMENDATION

The uncertainties on global front has decreased the prospects of technology spending in FY13 but outsourcing is expected to be on a positive trend and tier-1 players are expected to post double digit dollar revenue growth. Rupee depreciation will help rupee revenue growth & margins. The value proposition of Indian IT firms remains intact as enquiries for outsourcing increases and more verticals & geographies open up along with growth in the main market of US. We have further lowered volume estimates and revised INR/USD rate to 48 for FY12 & 49 for FY13 (earlier 47.5 for FY12 & 46.5 for FY13) leading to change in earnings estimates by 3-6% for FY13.

Absolute Performance (%)	1m	3m	12m
Geometric	13.4	5.6	(33.8)
HCL Tech	0.3	0.5	(14.3)
Hexaware	(10.1)	5.2	44.8
Infosys	6.9	18.0	(17.7)
MindTree	(2.2)	15.2	(21.9)
Mphasis	(0.8)	(4.4)	(54.7)
NIIT Technologies	(13.3)	(10.4)	(9.5)
Patni	(0.0)	54.9	(8.8)
Persistent Systems	(1.5)	5.9	(26.4)
Sasken	(6.2)	(11.9)	(45.2)
TCS	11.8	19.4	4.3
Wipro	9.9	19.5	(16.2)

Relative Performance (%)	1m	3m	12m
Geometric	11.4	6.1	(17.0)
HCL Tech	(1.5)	1.0	7.4
Hexaware	(11.6)	5.8	81.6
Infosys	5.1	18.6	3.2
MindTree	(3.9)	15.8	(2.0)
Mphasis	(2.5)	(4.0)	(43.2)
NIIT Technologies	(14.8)	(9.9)	13.5
Patni	(1.7)	55.7	14.4
Persistent Systems	(3.2)	6.4	(7.6)
Sasken	(7.8)	(11.4)	(31.3)
TCS	9.9	20.0	30.8
Wipro	8.0	20.1	5.1

### KEY FINANCIALS

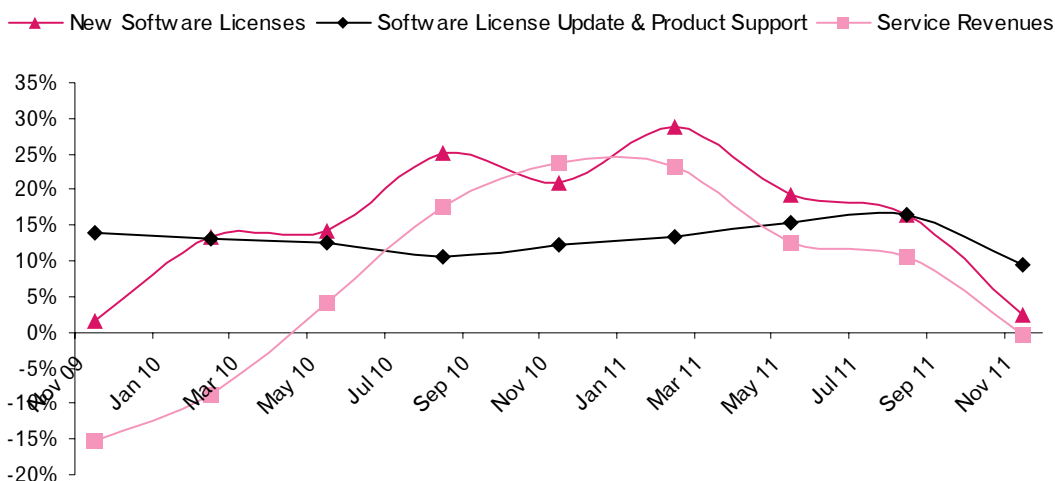
Company	CMP (Rs)	Mkt Cap (Rs bn)	Net Sales (Rs mn)		EPS (Rs)		P/E (x)		TP (Rs)	Upside (%)	Rating
			FY12E	FY13E	FY12E	FY13E	FY12E	FY13E			
Infosys	2,773	1,584	343,090	395,768	149.0	169.6	18.6	16.3	3,050	10%	Accumulate
TCS	1,188	2,325	494,616	585,968	56.8	63.9	20.9	18.6	1,215	2%	Reduce
Wipro	407	998	377,985	438,048	23.5	26.2	17.3	15.5	420	3%	Reduce
HCL Tech	388	272	205,582	232,628	34.3	36.1	11.3	10.7	470	21%	Buy

**Discretionary spending cutback more than expected**

The expectations of discretionary IT spending has lowered further due to increase in the uncertain environment. This has forced clients to hold back decisions on discretionary IT spending.

Oracle's results for Q2FY12 (November 2011 end) shows significant decline in the revenue. The new license sales have increased 2.5%YoY, lower than streets' expectation. Overall revenue grew 2.4%YoY. For Q3FY12, the management expects growth in the range of 1-5%. The macro uncertainty has added to the lower predictability of forecasts as well.

**Exhibit 1 - Oracle license sales declined**



Source: PINC Research, Company

We lower our volume estimates for HCL Tech and Infosys more than TCS due to relatively higher dependence on package implementation services.

**Campus offers – will we see deferment next year?**

**Exhibit 2 - Campus offers**

Company	FY11 Headcount	FY12	FY13 (As of Q2FY12)	FY13 (Planned)
Infosys	130,820	26,000	23,000	23,000
TCS	198,614	37,000	35,000	45,000

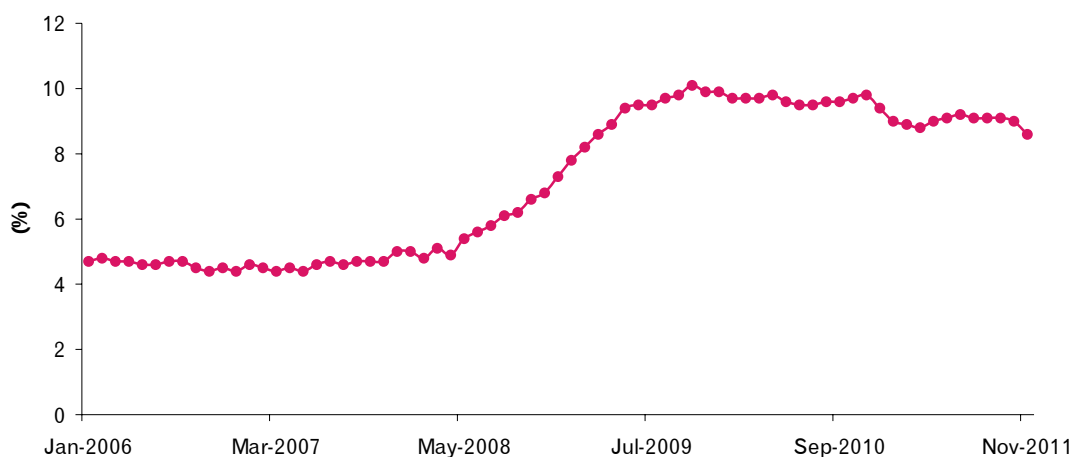
Source: PINC Research, Company

We believe Infosys has given reasonable number of campus offers given its low utilisation and expectations ahead and it should be able to honor all offers. There might be deferment of offers from TCS due to its initial aggressive stance of strong hiring in FY13 as well.

**But all's not bad**

**i. Initial signs of improving sentiment in US**

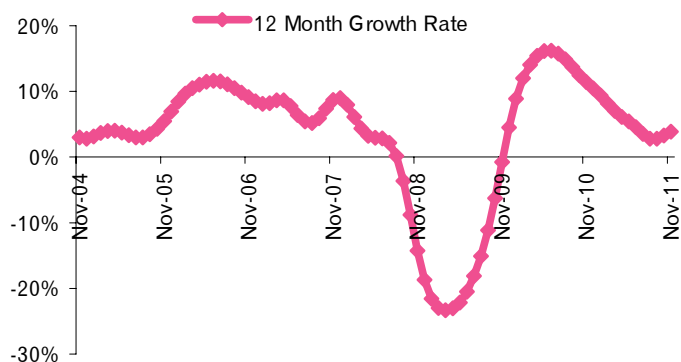
**Exhibit 3 - Unemployment rate in US dipped in November**



Source: PINC Research, Bureau of Labor Statistics

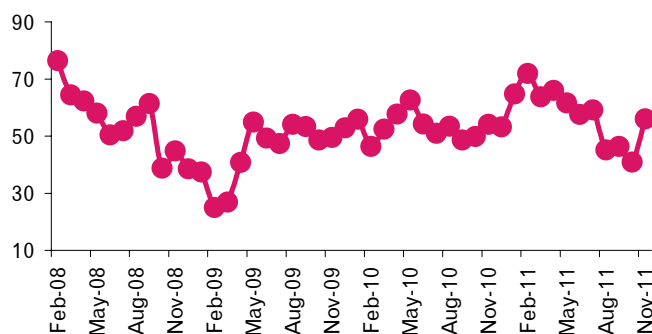
The marginal dip in the unemployment rate in US over the past couple of months can be probable signs of improving business environment.

**Exhibit 4 - Tech Pulse Index**



Source: PINC Research, Tech Pulse Index

**Exhibit 5 - US Consumer Confidence Index**



Source: PINC Research, The Conference Board

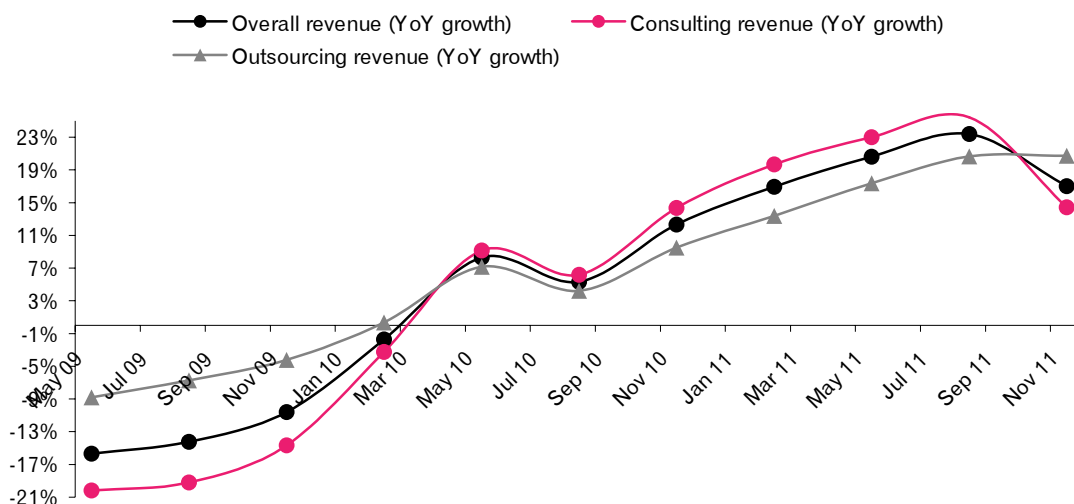
The y-o-y change in Tech Pulse Index has been witnessing a gradual uptrend over the past few months which might reflect an improvement in overall Tech Spending going ahead.

The uptick in Consumer Confidence Index in Nov-2011 might be a sign of improving macroeconomic environment in US.

**ii. Outsourcing revenue momentum maintained**

Accenture's outsourcing has shown good growth in the recent quarter. However, the consulting revenue growth has declined signaling similar caution as from Oracle that discretionary spending is slowing down.

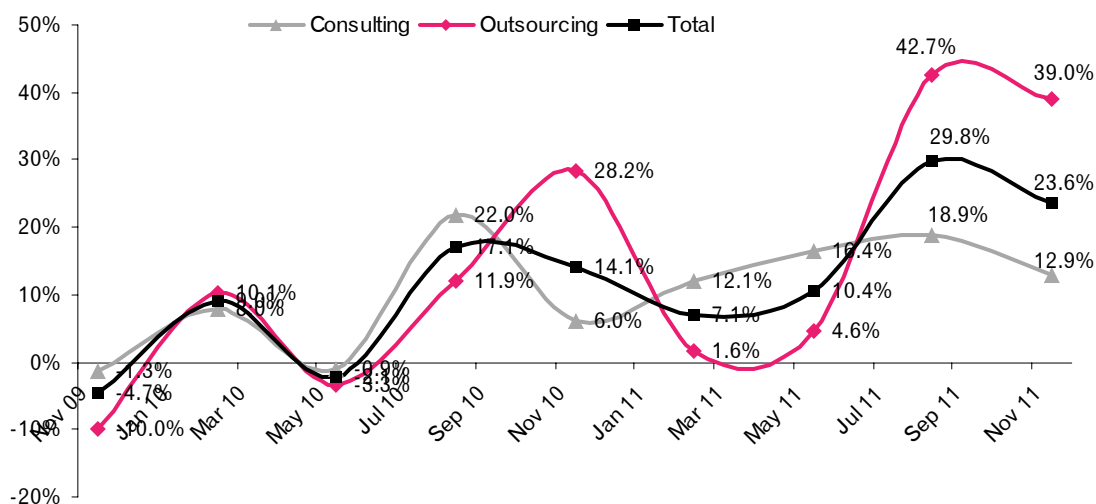
**Exhibit 6 - Outsourcing revenue growth robust for Accenture**



Source: PINC Research, Company

The new order bookings for outsourcing continue to be strong for the current quarter for Accenture.

**Exhibit 7 - Accenture's new order booking – YoY growth**

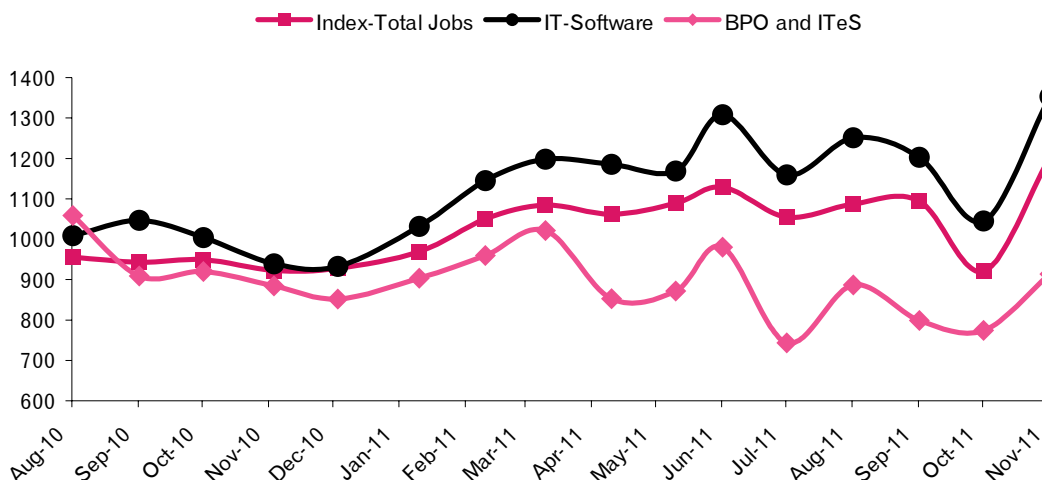


Source: PINC Research, Company

**iii. Hiring bounced back in November 2011**

The Job Speak Index has bounced back sharply in November 2011 after a weak hiring in October 2011. According to Info Edge, which publishes this survey data, it could be a temporary phenomenon but the rapid jump in index indicates strength in hiring activity. Also, the index has shown good growth on a YoY basis.

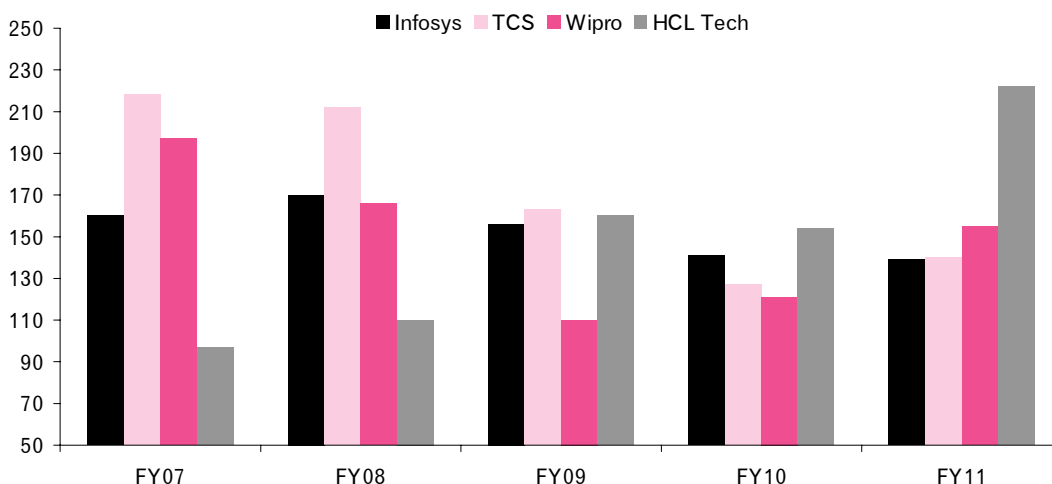
**Exhibit 8 - Job Speak index shows improvement in IT and ITeS**



Source: PINC Research, Info Edge "Job Speak Index", Company

**iv. Client metrics – strong new addition and revenue productivity up**

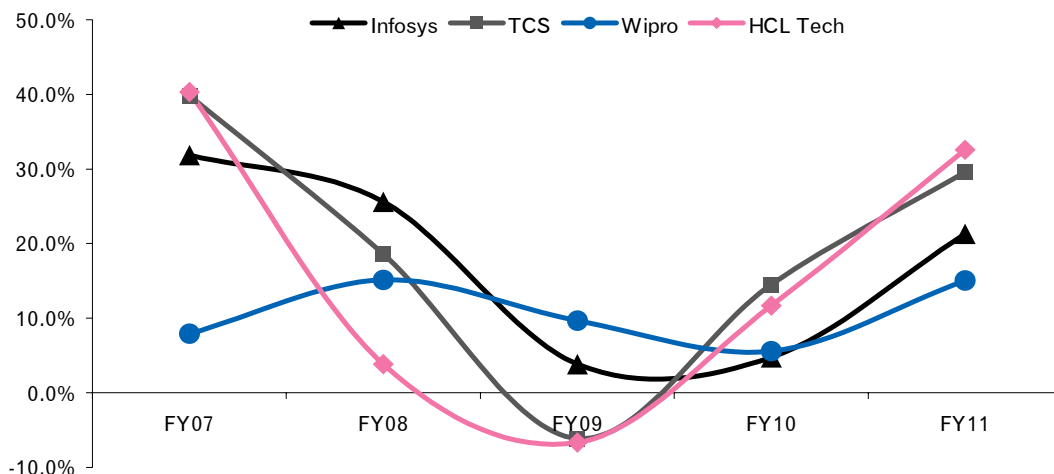
**Exhibit 9 - Client addition strong – more enquiries for offshoring**



Source: PINC Research, Company

The client addition has been very strong after the Lehman crisis in 2008, and the client mining has been a focus area for all the firms as reflected in revenue per client metrics of top tier firms in Exhibit-10.

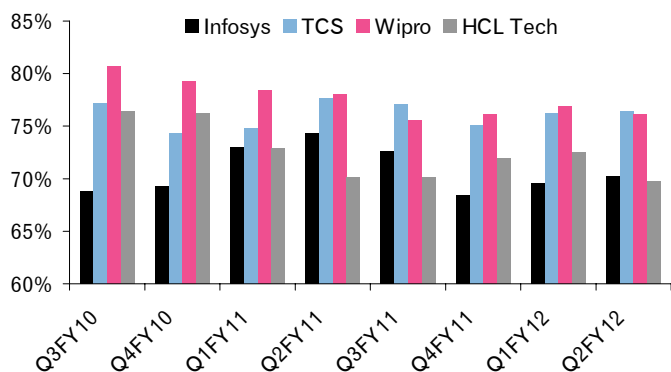
**Exhibit 10 - Revenue per client (YoY change) has been good for all big firms**



Source: PINC Research, Company

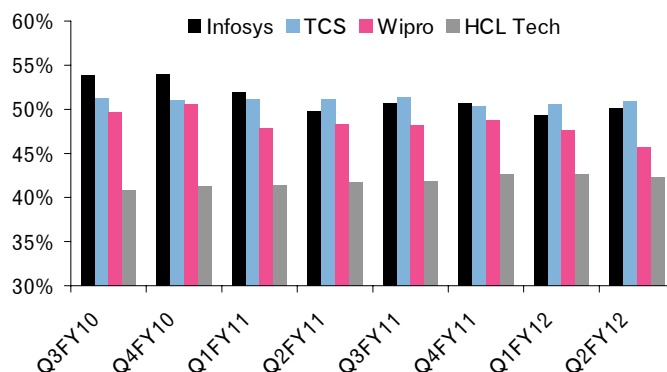
**Margin levers – Infosys and HCL Tech placed better than TCS and Wipro**

**Exhibit 11 - Utilisation – Infosys & HCL Tech placed well**



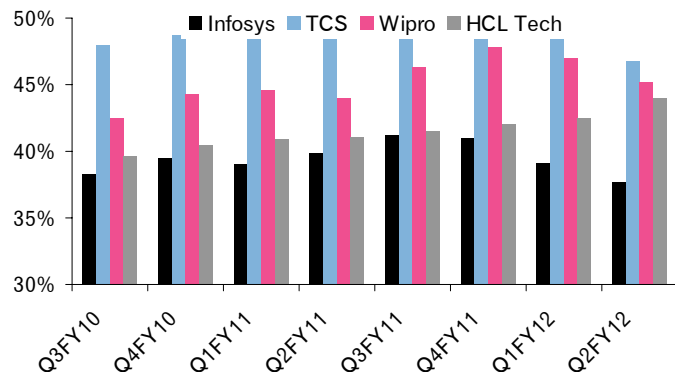
Source: PINC Research, Company

**Exhibit 12 - Offshoring – peaked for TCS and Infosys**



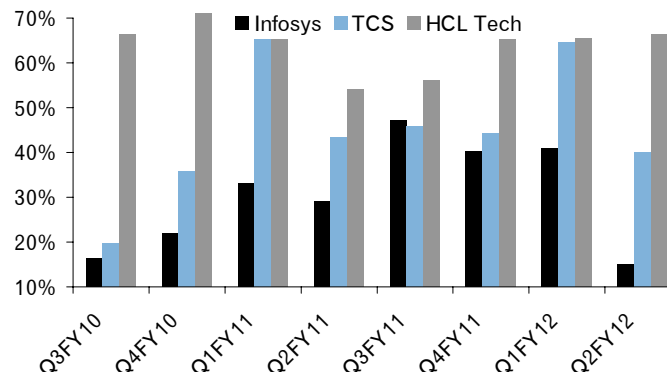
Source: PINC Research, Company

**Exhibit 13 - Fixed priced projects – TCS already used this margin lever, Infosys and HCL Tech are placed better**



Source: PINC Research, Company

**Exhibit 14 - Gross lateral add as a % of total gross add – HCL Tech and TCS have been hiring more laterals**

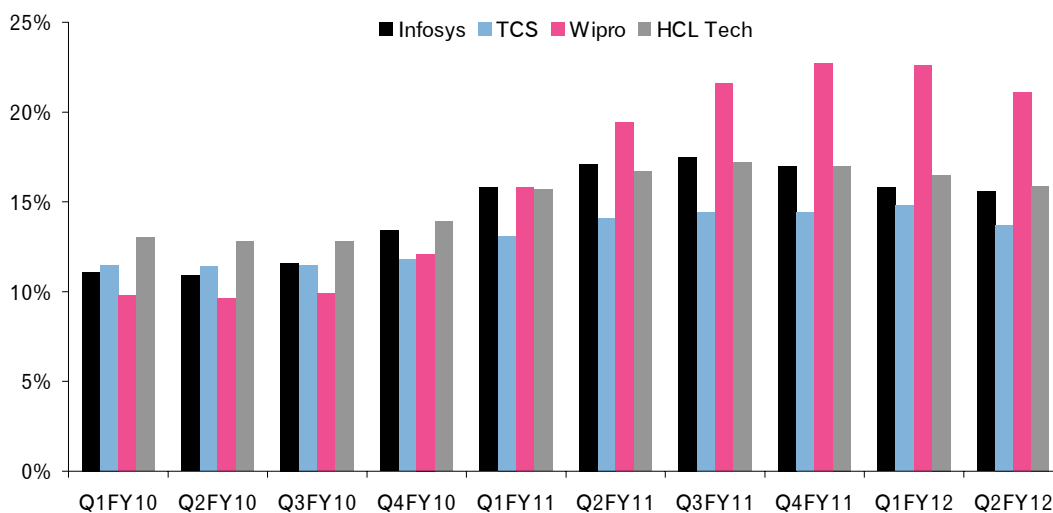


Source: PINC Research, Company

We have margin levers for next year which is favourable for Infosys as it has lower utilisation, lower offshoring and lower hedges to get expected benefit of rupee depreciation. TCS and Wipro have higher currency hedges so in a medium term they won't get the benefit of rupee depreciation. HCL Tech is also placed better on margin lever front as it has lower utilisation, lower offshoring and low hedges as well.

**Restating that attrition and salary increments will be on downtrend**

**Exhibit 15 - Attrition visibly lower for firms apart from Wipro**



Source: PINC Research, Company

As indicated by companies, the campus offers have been made on similar salary levels compared to last year. Also, due to expected weakness in the demand, we believe salary increments will be lower in FY13.

**Cross currency impact on revenues – impact of 0.7-1.5%QoQ on USD revenue in Q3FY12**

USD has appreciated against the GBP and EURO in the current quarter. Based on the exposure to different currencies for Infosys, the negative impact on dollar revenue is likely to be 0.7%QoQ. Other large firms like TCS, Wipro and HCL Tech have higher exposure to Europe due to which the negative impact will be higher in Q3FY12.

**Exhibit 16 - Currency movement**

Average movement	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10	Mar 11	Jun 11	Sep 11	Dec 11TD
EUR/USD	1.48	1.38	1.27	1.29	1.36	1.37	1.44	1.41	1.35
GBP/USD	1.64	1.55	1.49	1.55	1.58	1.60	1.63	1.61	1.57
AUD/USD	0.91	0.90	0.88	0.90	0.99	1.01	1.06	1.05	1.01
USD/INR	46.6	45.9	45.6	46.5	44.9	45.3	44.7	45.8	50.7
EUR/INR	66.6	60.6	56.8	60.8	59.8	63.4	64.7	66.6	69.0
GBP/INR	75.2	68.1	69.4	70.0	69.7	71.5	71.6	76.3	82.5
<b>QoQ change</b>									
EUR/USD	3.7%	-7.0%	-7.7%	1.5%	5.2%	0.6%	5.2%	-1.7%	-4.5%
GBP/USD	-0.2%	-5.3%	-3.8%	4.0%	1.9%	1.4%	1.8%	-1.3%	-2.3%
AUD/USD	9.0%	-0.5%	-2.3%	2.3%	9.6%	1.6%	5.7%	-1.1%	-3.6%
USD/INR	-3.6%	-1.5%	-0.7%	1.9%	-3.4%	0.8%	-1.2%	2.4%	10.8%
EUR/INR	-5.4%	-9.1%	-6.2%	7.1%	-1.7%	6.0%	2.0%	3.0%	3.6%
GBP/INR	-2.1%	-9.5%	2.0%	0.9%	-0.5%	2.5%	0.2%	6.5%	8.2%
<b>Qtr end movement</b>									
EUR/USD	1.4	1.4	1.2	1.4	1.3	1.4	1.5	1.3	1.3
GBP/USD	1.6	1.5	1.5	1.6	1.6	1.6	1.6	1.6	1.6
AUD/USD	0.9	0.9	0.8	1.0	1.0	1.0	1.1	1.0	1.0
USD/INR	46.5	44.9	46.5	44.9	44.7	44.6	44.7	49.0	52.8
EUR/INR	66.6	60.6	56.8	60.8	59.8	63.4	64.7	66.6	69.0
GBP/INR	75.2	68.1	69.4	70.0	69.7	71.5	71.6	76.3	82.5
<b>QoQ change</b>									
EUR/USD	-2.2%	-5.7%	-9.4%	11.4%	-1.8%	5.8%	2.4%	-7.7%	-2.4%
GBP/USD	1.2%	-6.1%	-1.6%	5.2%	-0.7%	2.7%	0.2%	-2.9%	0.3%
AUD/USD	1.7%	2.2%	-8.3%	15.0%	5.8%	0.9%	3.8%	-9.9%	5.2%
USD/INR	-3.3%	-3.5%	3.4%	-3.2%	-0.5%	-0.3%	0.3%	9.6%	7.9%
EUR/INR	-5.4%	-9.1%	-6.2%	7.1%	-1.7%	6.0%	2.0%	3.0%	3.6%
GBP/INR	-2.1%	-9.5%	2.0%	0.9%	-0.5%	2.5%	0.2%	6.5%	8.2%

Source: PINC Research, Company

**Exhibit 17 - Infosys to have least impact of cross currency movement due to its lower exposure in Europe**

Q2FY12	USD	Europe	RoW
Infosys	65.3%	20.5%	14.2%
TCS	56.4%	25.6%	18.0%
Wipro	51.7%	28.8%	19.5%
HCL Tech	55.8%	26.6%	17.5%

Source: PINC Research, Company

Also, the depreciating rupee in the current quarter will help Infosys and HCL Tech more due to their lower hedges compared to TCS and Wipro.



**Exhibit 18 - Outstanding hedge position (as on 30 Sept. 2011)**

	USD mn
Infosys	688
TCS	2,900
Wipro	1,687
HCL Tech	713

Source: PINC Research, Company

INR has depreciated against EUR and GBP as well. There will be translation gains for companies due to restatement of assets.

**Factoring further rupee depreciation in the estimates for FY13**

Earlier, we have assumed INR/USD rate of 47.25 for FY12 and 46.5 for FY13. Due to the current state of currency dynamics, we revise average INR/USD rate to be in-line with house call as 48 for FY12 and 49 for FY13.

We have also introduced FY14 financials in the current report. In the long term we expect rupee to appreciate and our INR/USD rate assumption for FY14 is 48 at the moment.

**Exhibit 19 - Infosys – brief financials**

Infosys	FY11	FY12	YoY	FY13	YoY	FY14	YoY
Revenue	275,010	344,568	25.3	395,768	14.9	450,302	13.8
EBITDA	89,640	112,225	25.2	126,295	12.5	137,919	9.2
EBITDA margin	32.6	32.6	-3bps	31.9	-66 bps	30.6	-128 bps
Other Income	12,110	15,662	29.3	18,020	15.1	22,608	25.5
PBT	93,130	118,564	27.3	132,760	12.0	147,036	10.8
Tax	24,900	33,449	34.3	35,845	7.2	38,229	6.7
Tax rate	26.7	28.2	147bps	27.0	-121 bps	26.0	-100 bps
PAT	68,230	85,116	24.7	96,915	13.9	108,806	12.3
EPS	119.4	149.6	25.2	169.2	13.1	190.4	12.6

Source: PINC Research, Company

**Exhibit 20 - TCS – brief financials**

TCS	FY11	FY12	YoY	FY13	YoY	FY14	YoY
Revenue	373,245	492,662	32.0	585,968	18.9	682,488	16.5
EBITDA	111,985	148,272	32.4	169,891	14.6	191,787	12.9
EBITDA margin	30.0	30.1	9 bps	29.0	-110 bps	28.1	-89 bps
Other Income	5,324	8,774	64.8	10,814	23.2	18,453	70.6
PBT	110,093	147,427	33.9	168,591	14.4	195,599	16.0
Tax	21,739	35,088	61.4	42,148	20.1	48,900	16.0
Tax rate	19.7	23.8	405 bps	25.0	120 bps	25.0	0 bps
PAT	87,164	110,720	27.0	125,033	12.9	145,049	16.0
EPS	44.5	56.6	27.0	63.3	11.9	74.1	17.0

Source: PINC Research, Company

**Exhibit 21 - Wipro - brief financials**

Wipro	FY11	FY12	YoY	FY13	YoY	FY14	YoY
Revenue	310,542	377,985	21.7	438,048	15.9	494,715	12.9
EBITDA	65,434	75,345	15.1	85,129	13.0	94,236	10.7
EBITDA margin	21.1	19.9	-114 bps	19.4	-50 bps	19.0	-39 bps
Other Income	6,652	7,060	6.1	10,292	45.8	16,570	61.0
PBT	62,387	70,779	13.5	80,541	13.8	92,602	15.0
Tax	9,714	13,448	38.4	16,108	19.8	19,277	19.7
Tax rate	15.6	19.0	343 bps	20.0	100 bps	20.8	82 bps
PAT	52,977	57,631	8.8	64,682	12.2	73,675	13.9
EPS	21.6	23.5	8.7	26.2	11.7	29.9	13.9

Source: PINC Research, Company

**Exhibit 22 - HCL Tech – brief financials**

HCL Tech	FY11	FY12	YoY	FY13	YoY	FY14	YoY
Revenue	160,342	205,582	28.2	232,628	13.2	265,992	14.3
EBITDA	27,488	37,268	35.6	38,599	3.6	43,035	11.5
EBITDA margin	17.1	18.1	98 bps	16.6	-154 bps	16.2	-41 bps
Other Income	-562	642	-214.2	1,143	78.1	2,507	119.3
PBT	21,950	31,784	44.8	32,843	3.3	37,447	14.0
Tax	4,854	7,787	60.4	7,554	-3.0	8,238	9.1
Tax rate	22.1	24.5	239 bps	23.0	-150 bps	22.0	-100 bps
PAT	17,095	23,997	40.4	25,289	5.4	29,209	15.5
EPS	24.5	34.3	39.7	36.1	5.4	41.7	15.5

Source: PINC Research, Company

**Exhibit 23 - Change in Estimates**

	FY12			FY13		
	Earlier	Revised	Chg (%)	Earlier	Revised	Chg (%)
<b>Infosys</b>						
Revenue	339,184	343,090	1.2	391,079	395,768	1.2
EBITDA	109,699	112,225	2.3	121,280	126,295	4.1
EBITDA margin	32.3	32.7	37 bps	31.0	31.9	90 bps
PAT	82,599	85,116	3.0	93,382	96,915	3.8
EPS	144.6	149.0	3.0	163.4	169.6	3.8
<b>TCS</b>						
Revenue	482,399	494,616	2.5	572,722	585,968	2.3
EBITDA	141,880	148,272	4.5	160,289	169,891	6.0
EBITDA margin	29.4	30.0	57 bps	28.0	29.0	101 bps
PAT	106,302	111,134	4.5	117,919	125,033	6.0
EPS	54.3	56.8	4.5	60.2	63.9	6.0
<b>Wipro</b>						
Revenue	372,428	377,985	1.5	425,330	438,048	3.0
EBITDA	73,799	75,345	2.1	81,377	85,129	4.6
EBITDA margin	19.8	19.9	12 bps	19.1	19.4	30 bps
PAT	56,420	57,631	2.1	62,113	64,682	4.1
EPS	23.0	23.5	2.1	25.2	26.2	4.1
<b>HCL Tech</b>						
Revenue	205,171	205,582	0.2	229,508	232,628	1.4
EBITDA	37,577	37,268	-0.8	38,352	38,599	0.6
EBITDA margin	18.3	18.1	-19 bps	16.7	16.6	-12 bps
PAT	24,239	23,997	-1.0	25,515	25,289	-0.9
EPS	34.6	34.3	-1.0	36.5	36.1	-0.9

Source: PINC Research, Company

**VALUATION SUMMARY**

We arrive at a target price of Rs3,050 for Infosys factoring 18x FY13E EPS of Rs1 69.6, target price of Rs1,215 for TCS factoring 19x FY13E EPS of Rs63.9, target price of Rs420 for Wipro factoring 16x FY13E EPS of Rs26.2 and target price of Rs470 for HCL Tech factoring 13x FY13E EPS of Rs36.1.

**Exhibit 24 - Valuations**

Company	CMP	Reco	TP	O/S shares	Mkt Cap	EV / Sales		EV / EBITDA		P/E		RoE		Div Yield (%)	
	(Rs)		(Rs)	(mn)	(Rs bn)	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Infosys	2,773	Accumulate	3,050	571	1,584.4	4.0	3.3	12.2	10.3	18.6	16.3	25.0	23.1	1.0%	1.0%
TCS	1,188	Reduce	1,215	1,957	2,325.2	4.6	3.8	15.5	13.0	20.9	18.6	34.2	29.8	1.4%	1.4%
Wipro	407	Reduce	420	2,452	998.0	2.4	2.0	12.0	10.2	17.3	15.5	18.9	17.8	1.4%	1.4%
HCL Tech	388	Buy	470	701	272.0	1.2	1.1	5.9	5.6	11.1	10.5	24.5	21.5	1.0%	1.0%

Source: PINC Research, Company

**Exhibit 25 - Financials - comparison**

Company	Sales (Rs mn)			Sales CAGR	EBITDA margin			EBITDA CAGR			Net profit		Net margin		EPS			
	FY12E	FY13E	FY11-13E		FY12E	FY13E	FY11-13E	FY12E	FY13E	FY11-13E	FY12E	FY13E	FY12E	FY13E	FY11-13E	FY12E	FY13E	FY11-13E
Infosys	343,090	395,768	20.0%		32.7%	31.9%	18.7%	85,116	96,915	24.8%	24.5%	149.0	169.6	19.2%				
TCS	494,616	585,968	25.3%		28.0%	26.9%	22.7%	111,134	125,033	22.5%	21.3%	56.8	63.9	19.8%				
Wipro	377,985	438,048	18.8%		17.2%	16.7%	13.1%	57,631	64,682	15.2%	14.8%	23.5	26.2	10.2%				
HCL Tech *	205,582	232,628	20.5%		18.1%	16.6%	18.5%	23,997	25,289	11.7%	10.9%	34.3	36.1	21.3%				

Source: PINC Research, Company

**Exhibit 26 - Change in target price, PER multiples, ratings**

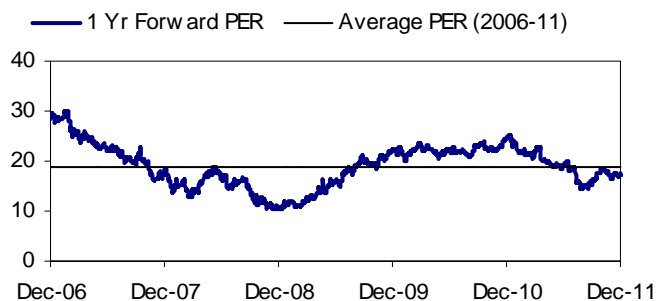
	CMP	TP	Upside	Tgt PE	Disc to TCS	chg tgt PE	chg EPS	earlier TP	chgTP	Rating	Chg Rating
	Rs	Rs	%	x	%	%	%	Rs	%	-	-
Infosys	2,773	3,050	10%	18	-5%	0%	4%	2,950	3%	Accumulate	No
TCS	1,188	1,215	2%	19	0%	0%	5%	1,140	6%	Reduce	No
Wipro	407	420	3%	16	-16%	3%	6%	390	9%	Reduce	No
HCL Tech	388	470	21%	13	-32%	-4%	-1%	490	-4%	BUY	No

Source: PINC Research, Company

**1-year forward PER Graphs**

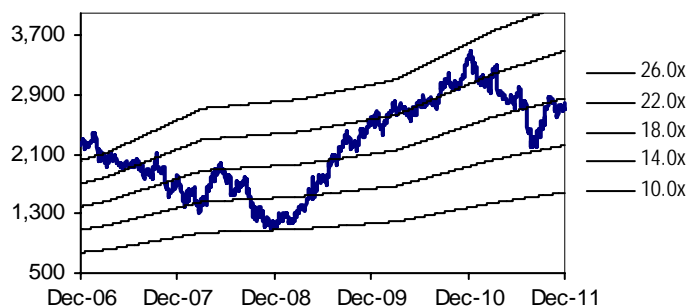
**Infosys**

**Exhibit 27 - 1-year forward PER**



Source: Bloomberg, PINC Research

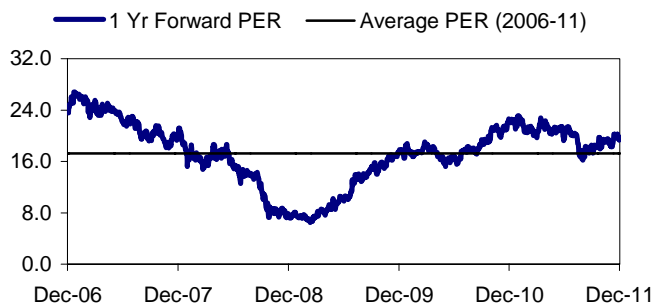
**Exhibit 28 - PER band**



Source: Bloomberg, PINC Research

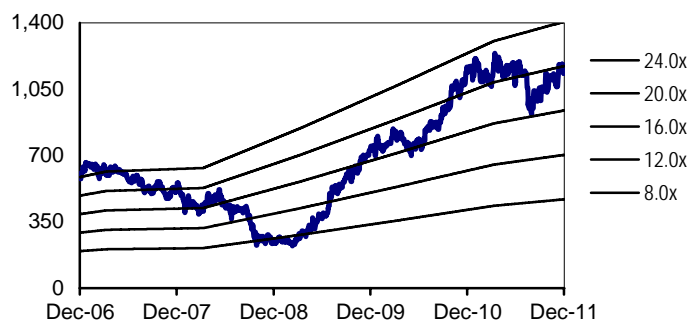
**TCS**

**Exhibit 29 - 1-year forward PER**



Source: Bloomberg, PINC Research

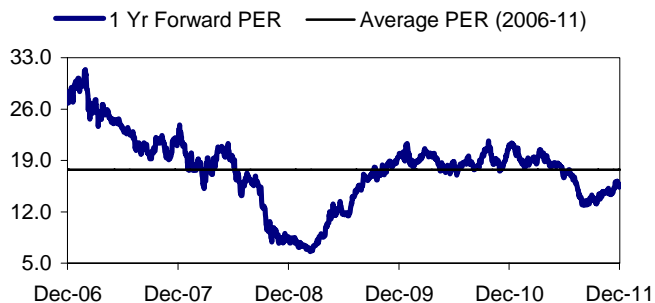
**Exhibit 30 - PER band**



Source: Bloomberg, PINC Research

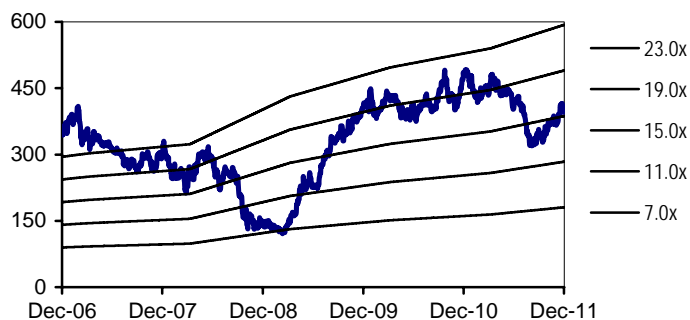
**Wipro**

**Exhibit 31 - 1-year forward PER**



Source: Bloomberg, PINC Research

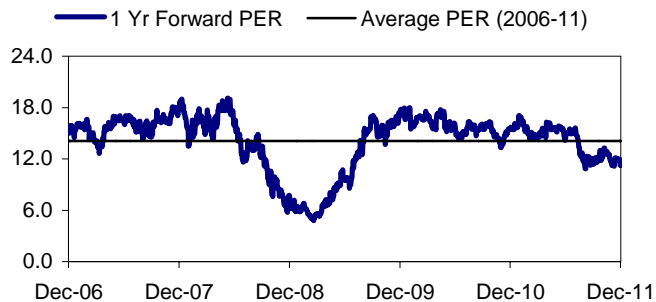
**Exhibit 32 - PER band**



Source: Bloomberg, PINC Research

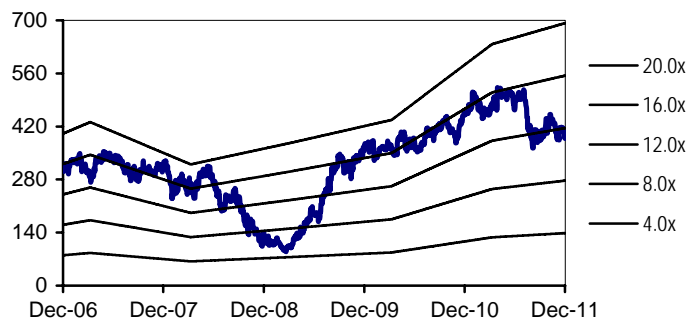
**HCL Tech**

**Exhibit 33 - 1-year forward PER**



Source: Bloomberg, PINC Research

**Exhibit 34 - PER band**



Source: Bloomberg, PINC Research

**Company Update**  
Sector: IT Services  
BSE Sensex: 15,971

## Infosys

Maintain  
CMP  
TP  
ACCUMULATE  
Rs2,773  
Rs3.050

### “Focus on profitability”

**Revenue guidance for FY12** – Infosys is likely to miss the upper end of Q3FY12 revenue guidance and hence the full year FY12 revenue guidance is expected to be revised downwards on the upper range. Q3FY12 revenue growth likely to be in middle of the range of revenue guidance of 3.2-5.4%QoQ growth. There will be cross currency impact of 0.7%QoQ on dollar revenue due to strengthening of USD against the EUR, GBP and AUD. For full year FY12, we expect 18%YoY growth in dollar revenue.

**Hiring guidance for FY13** - Infosys has maintained the campus offers of 23,000 for FY13 (27,500 campus offers in FY12). The salary level of campus freshers is similar to the last year. There is likelihood of increase in utilisation for the next year.

**Pricing expected to be stable going ahead** – The reported pricing might have some impact of cross currency in Q3FY12 but on a like to like basis, pricing is expected to be stable hereon. We are factoring in flat pricing in FY13 compared to FY12.

**Acquisition of Portland Group** – Infosys acquired Portland Group Pty Ltd for a consideration of AUD37mn (~USD37mn). Portland reported revenue of AUD31.3mn and employs 113 professionals. Portland is a leading provider of sourcing and category management services headquartered in Sydney. Through this acquisition Infosys has acquired access to several large ASX 200 organisations. Infosys had cash and equivalent of USD3.8bn at the end of Q2FY12.

**Margin levers favourable pointing to better profitability** – Infosys is placed better compared to peers and it is likely to perform better on profitability due to its possibility to improve utilisation, offshoring and lower outstanding hedges. A lower exposure on Europe will also restrict the impact of cross currency movement on revenue and margins.

**Outlook and Recommendation:** We believe Infosys will deliver revenue growth in mid teens in FY13. The profitability is expected to be better compared to its peers. We maintain 'Accumulate' recommendation on the stock with a target price of Rs3,050 based on 18x FY13E EPS of Rs169.6.

27 December 2011

#### Rohit Kumar Anand

rohit.anand@pinc.co.in  
+9122 6618 6372

#### Niraj Garhyan

niraj.garhyan@pinc.co.in  
+91-22-6618 6382

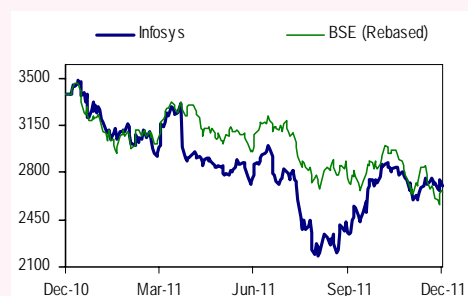
#### STOCK DATA

Market cap	Rs1,584bn
Book Value per share	Rs478
Shares O/S (F.V. Rs1)	571mn
Free Float	85%
Avg Trade Value (6 months)	Rs3,902mn
52 week High/Low	3494/2169
Bloomberg Code	INFO IN
Reuters Code	INFY.BO

#### PERFORMANCE (%)

	1M	3M	12M
Absolute	6.9	18.0	(17.7)
Relative	5.1	18.6	3.2

#### RELATIVE PERFORMANCE



#### KEY FINANCIALS (Rs mn)

	FY10	FY11	FY12E	FY13E	FY14E
Net Sales	227,420	275,010	343,090	395,768	450,302
YoY Gr.(%)	4.8	20.9	24.8	15.4	13.8
Op. Profit	78,520	89,640	112,225	126,295	137,919
Op. Marg.(%)	34.5	32.6	32.7	31.9	30.6
Adj. Net Profit	62,340	68,230	85,116	96,915	108,806
YoY Gr.(%)	4.1	9.4	24.7	13.9	12.3

#### KEY RATIOS

Dil. EPS (Rs)	109.2	119.4	149.0	169.6	190.4
ROCE (%)	28.3	29.3	30.0	27.2	24.3
RoE (%)	25.9	25.0	25.0	23.1	21.3
PER (x)	25.4	23.2	18.6	16.3	14.6
EV/ Net Sales (x)	6.3	5.2	4.0	3.3	2.7
EV/EBDITA (x)	18.2	15.8	12.2	10.3	8.8

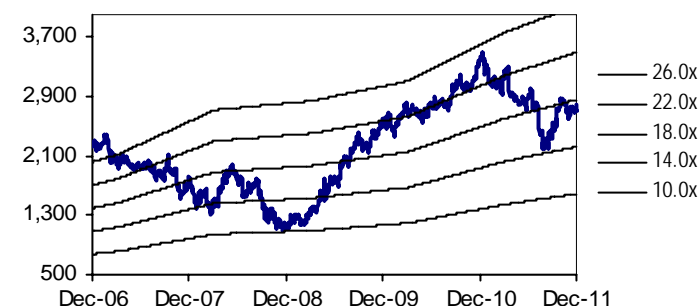
Income Statement					
Year ended 31 Mar (Rs mn)	FY10	FY11	FY12E	FY13E	FY14E
Net sales	227,420	275,010	343,090	395,768	450,302
Growth (%)	4.8	20.9	24.8	15.4	13.8
Gross profit	106,640	124,470	155,795	176,239	194,824
Other operating charges	28,120	34,830	43,570	49,944	56,905
EBITDA	78,520	89,640	112,225	126,295	137,919
Growth (%)	9.1	14.2	25.2	12.5	9.2
Depreciation	9,310	8,620	9,323	11,555	13,491
Other income	9,370	12,110	15,662	18,020	22,608
EBIT	78,670	93,130	118,564	132,760	147,036
Interest paid	0	0	0	0	1
Pre-tax profit (before E/o items)	78,670	93,130	118,564	132,760	147,036
Tax Provision	19,970	24,900	33,449	35,845	38,229
E/o loss / (Income)	-3,640	0	0	0	0
Net profit	58,700	68,230	85,116	96,915	108,806
Adjusted net profit	62,340	68,230	85,116	96,915	108,806
Growth (%)	4.1	9.4	24.7	13.9	12.3
Diluted EPS (Rs)	109.2	119.4	149.0	169.6	190.4
Diluted EPS Growth (%)	4.5	9.4	24.7	13.9	12.3

Cash Flow Statement					
Year ended 31 Mar (Rs mn)	FY10	FY11	FY12E	FY13E	FY14E
Pre-tax profit	79,000	93,130	118,564	132,760	147,036
Depreciation	9,420	8,620	9,323	11,555	13,491
Total tax paid	(17,540)	(28,560)	(33,449)	(35,845)	(38,229)
Chg in working capital	(470)	(13,150)	(8,039)	(5,122)	2,361
Other operating activities	(1,680)	(970)	0	0	0
Cash flow from oper. (a)	68,730	59,070	86,400	103,348	124,658
Capital expenditure	(6,550)	(13,000)	(17,154)	(17,414)	(19,363)
Chg in investments	(11,800)	11,450	0	0	0
Other investing activities	(25,530)	23,860	0	0	0
Cash flow from inv. (b)	(43,880)	22,310	(17,154)	(17,414)	(19,363)
Free cash flow (a+b)	24,850	81,380	69,245	85,935	105,295
Equity raised/(repaid)	890	240	0	0	0
Debt raised/(repaid)	0	0	0	0	0
Change in Minorities Interest	0	0	0	0	0
Dividend (incl. tax)	(15,690)	(36,650)	(18,044)	(18,044)	(18,044)
Other financing activities	0	0	0	0	0
Cash flow from fin. (c)	(14,800)	(36,410)	(18,044)	(18,044)	(18,044)
Net chg in cash (a+b+c)	10,050	44,970	51,201	67,891	87,252

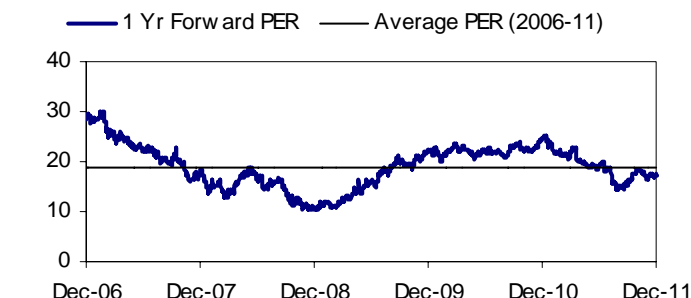
Balance Sheet					
Year ended 31 Mar (Rs mn)	FY10	FY11	FY12E	FY13E	FY14E
Equity Share capital	2,860	2,860	2,860	2,860	2,860
Reserves & surplus	237,870	270,170	337,242	416,114	506,876
Shareholders' funds	240,730	273,030	340,102	418,974	509,736
Minorities interests	0	0	0	0	0
Total Debt	0	0	0	0	0
Capital Employed	240,730	273,030	340,102	418,974	509,736
Net fixed assets	61,060	68,770	76,602	82,461	88,333
Net Other Current Assets	44,340	32,590	40,629	45,750	43,390
Cash & Cash Eq.	121,110	166,660	217,861	285,752	373,004
Investments	11,900	1,230	1,230	1,230	1,230
Net Deferred Tax Assets	2,320	3,780	3,780	3,780	3,780
Total assets	240,730	273,030	340,102	418,974	509,736

Key Ratios					
Year ended 31 Mar	FY10	FY11	FY12E	FY13E	FY14E
OPM (%)	34.5	32.6	32.7	31.9	30.6
Net margin (%)	27.4	24.8	24.8	24.5	24.2
Yield (%)	1.0	2.3	1.0	1.0	1.0
Net debt/Equity (x)	-0.7	-0.6	-0.6	-0.7	-0.7
Net Working Capital (days)	90	45	45	43	36
Asset turnover (x)	0.8	0.9	0.9	0.8	0.8
ROCE (%)	28.3	29.3	30.0	27.2	24.3
RoE (%)	25.9	25.0	25.0	23.1	21.3
EV/Net sales (x)	6.3	5.2	4.0	3.3	2.7
EV/EBITDA (x)	18.2	15.8	12.2	10.3	8.8
PER (x)	25.4	23.2	18.6	16.3	14.6
Price/Book (x)	6.6	5.8	4.7	3.8	3.1

**P/E Band**



**Avg PER**





Company Update  
 Sector: IT Services  
 BSE Sensex: 15,971

**TCS**

Maintain **REDUCE**  
 CMP Rs1,188  
 TP Rs1,215

**We met the management of TCS to gauge the trend in overall IT spending by its clients in the current volatile macroeconomic environment.**

27 December 2011

**Rohit Kumar Anand**

rohit.anand@pinc.co.in  
 +9122 6618 6372

**Niraj Garhyan**

niraj.garhyan@pinc.co.in  
 +91-22-6618 6382

**IT budgets expected to remain stable; delays in decision making**

As of now, TCS has not witnessed any of its clients cutting their IT budgets for the next year and the company expects the overall IT budgets to remain stable across geographies. But the current macroeconomic uncertainty prevalent in major markets of the company is causing delays in decision making by clients.

**Pricing expected to be flat in the medium term**

TCS expects the pricing to remain flat on a like-to-like basis. We have modeled flat pricing for FY13.

**Utilisation to remain at current levels; Volume growth to be subdued in Q3FY12**

Going ahead, TCS intends to keep its utilisation rate at the existing levels; offshore utilisation excluding trainees at 83% as per Q2FY12. For Q3FY12, volume growth is expected to be subdued; Q3 being a seasonally weak quarter due to lesser number of working days.

**Fresher hiring in place; Laterals yet to be finalised**

The company has already made 35,000 campus offers for the next fiscal year and plans to hire overall 45,000 freshers, which we believe is a bit optimistic under current environment. Salary level for campus hiring is same as last year. We expect salary increments for next fiscal to be at lower levels than that witnessed in FY12.

**No material benefit from rupee depreciation in the near term**

The company had hedged around USD1.3bn each for Q3FY12 and Q4FY12 at a rate of Rs46.5/USD and Rs47.5/USD respectively. Due to this the company won't gain much benefits of rupee depreciation in the near term.

**Outlook and Recommendation** – TCS is likely to outperform peers in terms of volume growth for FY13 due to potential to win new large deals and lower exposure to discretionary spending which is currently under pressure. However, there are fewer margin levers left for TCS as it has rationalised costs and used its levers in recent past to increase margins along with good growth. The campus hiring guidance for FY13 might be revised downwards. We don't expect significant upside from the current levels. We maintain 'Reduce' recommendation on the stock with a target price of Rs1,215.

**STOCK DATA**

Market cap	Rs2,325bn
Book Value per share	Rs131
Shares O/S (F.V. Rs1)	1957mn
Free Float	30%
Avg Trade Value (6 months)	Rs2,117mn
52 week High/Low	1247/903
Bloomberg Code	TCS IN
Reuters Code	TCS.BO

**PERFORMANCE (%)**

	1M	3M	12M
Absolute	11.8	19.4	4.3
Relative	9.9	20.0	30.8

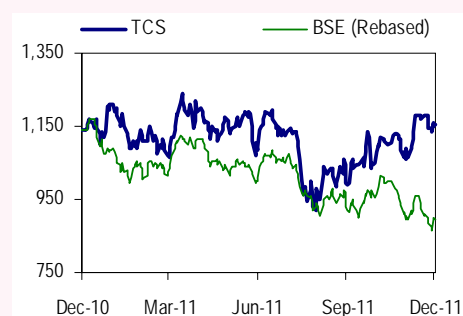
**KEY FINANCIALS (Rs mn)**

	FY10	FY11	FY12E	FY13E	FY14E
Net Sales	300,289	373,245	494,616	585,968	682,488
YoY Gr.(%)	8.0	24.3	32.5	18.5	16.5
Op. Profit	79,591	104,769	138,652	157,777	177,146
Op. Marg.(%)	26.5	28.1	28.0	26.9	26.0
Adj. Net Profit	68,728	87,164	111,134	125,033	145,049
YoY Gr.(%)	32.9	26.8	27.5	12.5	16.0

**KEY RATIOS**

Dil. EPS (Rs)	35.1	44.5	56.8	63.9	74.1
ROCE (%)	35.8	39.1	40.6	36.2	32.2
RoE (%)	32.6	34.5	34.2	29.8	27.2
PER (x)	33.8	26.7	20.9	18.6	16.0
EV/ Net Sales (x)	7.8	6.3	4.6	3.8	3.1
EV/EBDITA (x)	26.9	20.9	15.5	13.0	11.1

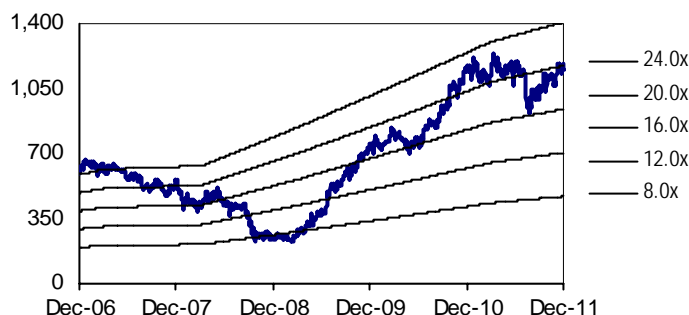
**RELATIVE PERFORMANCE**



Income Statement					
Year ended 31 Mar (Rs mn)	FY10	FY11	FY12E	FY13E	FY14E
Net sales	300,289	373,245	494,616	585,968	682,488
<i>growth (%)</i>	8.0	24.3	32.5	18.5	16.5
Gross profit	138,661	168,949	226,320	262,504	298,333
Other operating charges	51,862	56,964	78,048	92,613	106,546
<b>EBITDA</b>	<b>86,799</b>	<b>111,985</b>	<b>148,272</b>	<b>169,891</b>	<b>191,787</b>
<i>growth (%)</i>	18.3	29.0	32.4	14.6	12.9
Depreciation	7,208	7,216	9,620	12,113	14,641
Other income	2,781	5,324	8,774	10,814	18,453
<b>EBIT</b>	<b>79,591</b>	<b>104,769</b>	<b>138,652</b>	<b>157,777</b>	<b>177,146</b>
Interest paid	536	0	0	0	0
<b>PBT (before E/o items)</b>	<b>81,835</b>	<b>110,093</b>	<b>147,427</b>	<b>168,591</b>	<b>195,599</b>
Tax provision	12,088	21,739	35,088	42,148	48,900
E/o Income / (loss)	1,019	1,190	1,205	1,410	1,650
<b>Net profit</b>	<b>69,747</b>	<b>88,354</b>	<b>112,339</b>	<b>126,444</b>	<b>146,699</b>
<b>Adjusted net profit</b>	<b>68,728</b>	<b>87,164</b>	<b>111,134</b>	<b>125,033</b>	<b>145,049</b>
<i>growth (%)</i>	32.9	26.8	27.5	12.5	16.0
<b>Diluted EPS (Rs)</b>	<b>35.1</b>	<b>44.5</b>	<b>56.8</b>	<b>63.9</b>	<b>74.1</b>
<i>Diluted EPS Growth (%)</i>	32.9	26.8	27.5	12.5	16.0

Balance Sheet					
Year ended 31 Mar (Rs mn)	FY10	FY11	FY12E	FY13E	FY14E
Equity capital	21,156	21,149	21,149	21,149	21,149
Reserves & surplus	189,686	232,895	305,608	399,219	512,889
<b>Shareholders' funds</b>	<b>210,842</b>	<b>254,044</b>	<b>326,757</b>	<b>420,368</b>	<b>534,038</b>
Minorities interests	2,204	3,147	3,147	3,147	3,147
Total Debt	6,297	5,425	5,680	5,948	6,229
<b>Capital Employed</b>	<b>219,344</b>	<b>262,616</b>	<b>335,584</b>	<b>429,463</b>	<b>543,414</b>
Net fixed assets	87,020	132,425	138,062	148,742	160,214
Cash & Cash Eq.	10,250	15,539	55,901	127,828	206,626
Net other Current Assets	37,479	58,378	85,044	95,995	119,341
Investments	74,347	50,193	50,193	50,193	50,193
Net Deferred Tax Assets	10,248	6,081	6,385	6,704	7,039
<b>Total assets</b>	<b>219,344</b>	<b>262,616</b>	<b>335,584</b>	<b>429,462</b>	<b>543,414</b>

**P/E Band**

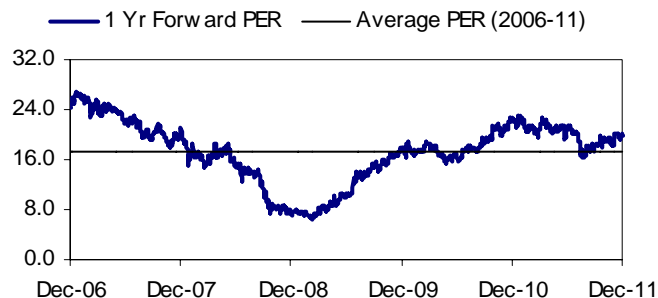


Cash Flow Statement					
Year ended 31 Mar (Rs mn)	FY10	FY11	FY12E	FY13E	FY14E
Pre-tax profit					
Depreciation					
Total tax paid					
Chg in working capital					
Other operating activities					
<b>Cash flow from oper. (a)</b>	<b>74,869</b>	<b>69,148</b>	<b>94,088</b>	<b>126,195</b>	<b>136,345</b>
Capital expenditure	(10,104)	(17,407)	(19,785)	(21,974)	(25,252)
Chg in investments	(19,126)	20,843	0	0	0
Other investing activities	(25,930)	(22,100)	0	0	0
<b>Cash flow from inv. (b)</b>	<b>(55,161)</b>	<b>(18,663)</b>	<b>(19,785)</b>	<b>(21,974)</b>	<b>(25,252)</b>
<b>Free cash flow (a+b)</b>	<b>19,708</b>	<b>50,485</b>	<b>74,304</b>	<b>104,221</b>	<b>111,093</b>
Equity raised/(repaid)	54	0	0	0	0
Debt raised/(repaid)	(3,960)	(310)	0	0	0
Chg in Minorities int.	0	0	0	0	1
Dividend (incl. tax)	(19,594)	(45,832)	(32,294)	(32,294)	(32,294)
Other financing activities	0	1	2	2	3
<b>Cash flow from fin. (c)</b>	<b>(23,500)</b>	<b>(46,141)</b>	<b>(32,292)</b>	<b>(32,292)</b>	<b>(32,290)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(3,792)</b>	<b>4,343</b>	<b>42,011</b>	<b>71,929</b>	<b>78,802</b>

**Key Ratios**

Year ended 31 Mar	FY10	FY11	FY12E	FY13E	FY14E
OPM (%)	26.5	28.1	28.0	26.9	26.0
Net margin (%)	22.9	23.4	22.5	21.3	21.3
Dividend yield (%)	0.8	2.0	1.4	1.4	1.4
Net debt/Equity (x)	(0.4)	(0.3)	(0.3)	(0.4)	(0.5)
Net Working Capital (days)	46	57	63	60	64
Asset turnover (x)	1.1	1.1	1.2	1.1	1.0
ROCE (%)	35.8	39.1	40.6	36.2	32.2
RoE (%)	32.6	34.5	34.2	29.8	27.2
EV/Net sales (x)	7.8	6.3	4.6	3.8	3.1
EV/EBITDA (x)	26.9	20.9	15.5	13.0	11.1
PER (x)	33.8	26.7	20.9	18.6	16.0
Price/Book (x)	10.9	9.0	7.0	5.5	4.3

**Avg PER**



Company Update  
Sector: IT Services  
BSE Sensex: 15,971

**Wipro**

Maintain **REDUCE**  
CMP **Rs407**  
TP **Rs420**

## “Restructuring to benefit but macro-environment unsuitable”

27 December 2011

**Telecom sector still sluggish** – The Telecom sector may be bottomed out but still not out of woods. The dependence on this vertical is slightly higher for Wipro compared to peers.

**Restructuring exercise on track; employee attrition likely to taper down** – The restructuring exercise started a couple of quarters back after the new CEO took over. The hindrances of key employee exits are behind us and the new key positions are filled with experienced employees. Overall employee attrition is also expected to cool off. The difference in the revenue performance compared to its peers is expected to be narrowed down during next year as Wipro links sales performance to client relationships and the vertical wise P&L responsibility.

**FY13 revenue growth likely not to be significantly behind peers** –Restructuring and focus on emerging verticals is likely to result in better revenue growth, thus resulting in lower difference in revenue growth in FY13 compared to FY11 and FY12.

**Margin levers utilised** – Wipro is currently operating at relatively higher utilisation (76% including trainees and ~81% excluding trainees) and pricing is not expected to increase under the current weak macro environment. There is also a little scope for improvement in fixed price projects. However, it has low offshore revenue proportion which can be increased as clients also look for more offshoring.

### Outlook and Recommendation

Wipro has restructured and trying to catch up to be in-line with peers. The increased expectation on revenue growth is justified but the profitability is not expected to be better excluding the positive impact of rupee depreciation. We increase the target PER multiple from 15.5 to 16 due to expectation of improved operating performance. However, we expect low upside to the stock price from the current levels. We maintain ‘Reduce’ recommendation on the stock with a target price of Rs420 based on 16x FY13E EPS of Rs26.2.

**Rohit Kumar Anand**

rohit.anand@pinc.co.in  
+9122 6618 6372

**Niraj Garhyan**

niraj.garhyan@pinc.co.in  
+91-22-6618 6382

### STOCK DATA

Market cap	Rs998bn
Book Value per share	Rs98
Shares O/S (F.V. Rs1)	2452mn
Free Float	25%
Avg Trade Value (6 months)	Rs649mn
52 week High/Low	4967310
Bloomberg Code	WPRO IN
Reuters Code	WIPR.BO

### PERFORMANCE (%)

	1M	3M	12M
Absolute	9.9	19.5	(16.2)
Relative	8.0	20.1	5.1

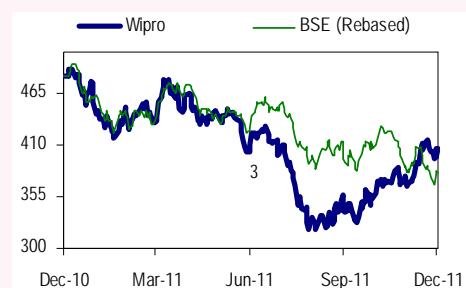
### KEY FINANCIALS (Rs mn)

	FY10	FY11	FY12E	FY13E	FY14E
Net Sales	271,957	310,542	377,985	438,048	494,715
YoY Gr.(%)	6.8	14.2	21.7	15.9	12.9
Op. Profit	52,227	57,223	65,174	73,206	79,423
Op. Marg.(%)	19.2	18.4	17.2	16.7	16.1
Adj. Net Profit	45,931	52,977	57,631	64,682	73,675
YoY Gr.(%)	30.4	15.3	8.8	12.2	13.9

### KEY RATIOS

Dil. EPS (Rs)	18.7	21.6	23.5	26.2	29.9
ROCE (%)	23.5	21.1	19.4	18.5	16.7
RoE (%)	22.8	22.1	18.9	17.8	16.6
PER (x)	21.7	18.8	17.3	15.5	13.6
EV/ Net Sales (x)	3.6	3.0	2.4	2.0	1.6
EV/EBDITA (x)	16.1	14.4	12.0	10.2	8.6

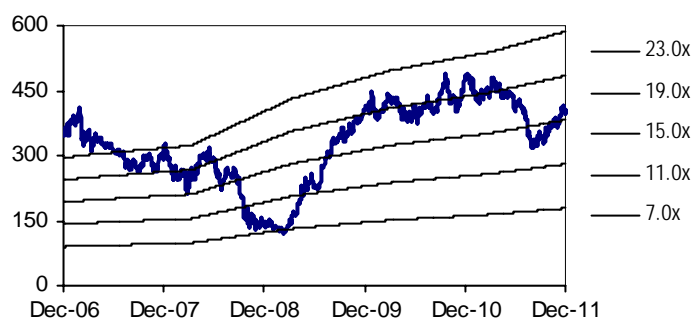
### RELATIVE PERFORMANCE



Income Statement					
Year ended 31 Mar (Rs mn)	FY10	FY11	FY12E	FY13E	FY14E
Net sales	271,957	310,542	377,985	438,048	494,715
Growth (%)	6.8	14.2	21.7	15.9	12.9
Gross profit	85,658	97,734	114,125	129,464	143,039
Other operating charges	25,600	32,300	38,780	44,334	48,804
EBITDA	60,058	65,434	75,345	85,129	94,236
Growth (%)	14.9	9.0	15.1	13.0	10.7
Depreciation	7,831	8,211	10,171	11,924	14,813
Other income	3,369	6,652	7,060	10,292	16,570
EBIT	52,227	57,223	65,174	73,206	79,423
Interest paid	0	0	0	0	0
PBT (before E/o items)	54,880	62,387	70,779	80,541	92,602
Tax provision	9,294	9,714	13,448	16,108	19,277
E/o Income / (loss)	345	304	300	250	350
Net profit	45,586	52,673	57,331	64,432	73,325
Adjusted net profit	45,931	52,977	57,631	64,682	73,675
Growth (%)	30.4	15.3	8.8	12.2	13.9
Diluted EPS (Rs)	18.7	21.6	23.5	26.2	29.9
Diluted EPS Growth (%)	33.4	15.3	8.7	11.7	13.9

Balance Sheet					
Year ended 31 Mar (Rs mn)	FY10	FY11	FY12E	FY13E	FY14E
Equity capital	34,722	35,850	35,850	35,850	35,850
Reserves & surplus	161,390	203,830	269,097	328,235	408,818
Shareholders' funds	196,112	239,680	304,947	364,085	444,668
Minorities interests	437	691	691	691	691
Total Debt	26,009	30,454	30,454	30,454	30,454
Capital Employed	222,558	270,825	336,092	395,230	475,814
Net fixed assets	120,383	134,669	146,583	156,385	166,633
Cash & Cash Eq.	64,878	61,141	104,895	148,376	217,899
Net other Current Assets	33,266	70,555	80,153	86,009	86,822
Investments	2,345	2,993	2,993	2,993	2,993
Net Deferred Tax Assets	1,686	1,467	1,467	1,467	1,467
Total assets	222,558	270,825	336,091	395,230	475,814

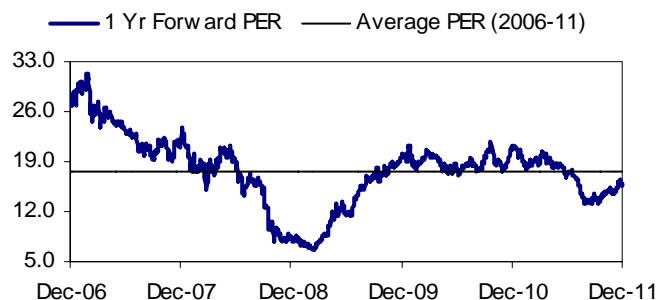
**P/E Band**



Cash Flow Statement					
Year ended 31 Mar (Rs mn)	FY10	FY11	FY12E	FY13E	FY14E
Profit After Tax	45,931	53,321	57,631	64,682	73,675
Depreciation	7,831	8,211	10,171	11,924	14,813
Total tax paid	0	0	0	1	2
Chg in working capital	(6,485)	(21,378)	(9,598)	(5,857)	(812)
Other operating activities	6,584	6,098	6,724	8,054	19,277
Cash flow from oper. (a)	53,861	46,252	64,928	78,804	106,955
Capital expenditure	(12,979)	(12,211)	(18,899)	(21,902)	(25,230)
Chg in investments	(340,891)	(474,476)	0	0	0
Other investing activities	320,055	469,448	0	0	0
Cash flow from inv. (b)	(33,815)	(17,239)	(18,899)	(21,902)	(25,230)
Free cash flow (a+b)	20,046	29,013	46,029	56,902	81,725
Equity raised/(repaid)	0	0	0	1	2
Debt raised/(repaid)	7,329	(10,122)	0	0	0
Chg in Minorities int.	0	0	0	1	2
Dividend (incl. tax)	(6,823)	(15,585)	(13,420)	(13,420)	(12,200)
Other financing activities	0	0	0	1	2
Cash flow from fin. (c)	506	(25,707)	(13,420)	(13,417)	(12,194)
Net chg in cash (a+b+c)	20,552	3,306	32,609	43,485	69,531

Key Ratios					
Year ended 31 Mar	FY10	FY11	FY12E	FY13E	FY14E
OPM (%)	19.2	18.4	17.2	16.7	16.1
Net margin (%)	16.9	17.1	15.2	14.8	14.9
Dividend yield (%)	1.2	1.5	1.4	1.4	1.2
Net debt/Equity (x)	0.0	(0.2)	(0.3)	(0.4)	(0.4)
Net Working Capital (days)	45	83	77	72	64
Asset turnover (x)	0.8	0.8	0.8	0.8	0.8
ROCE (%)	23.5	21.1	19.4	18.5	16.7
RoE (%)	22.8	22.1	18.9	17.8	16.6
EV/Net sales (x)	3.6	3.0	2.4	2.0	1.6
EV/EBITDA (x)	16.1	14.4	12.0	10.2	8.6
PER (x)	21.7	18.8	17.3	15.5	13.6
Price/Book (x)	5.1	4.2	3.3	2.7	2.2

**Avg PER**



Company Update  
 Sector: IT Services  
 BSE Sensex: 15,971

## HCL Tech

Maintain BUY  
 CMP Rs388  
 TP Rs470

### “Deal renewals and emerging technologies to drive long term growth”

27 December 2011

#### IT budgets expected to be flat; deal renewals to drive the growth

In light of the current macroeconomic environment, HCL Tech expects overall IT budgets to be flat for CY12. The company believes that the growth would be driven by Indian IT vendors grabbing a larger share of the mega deals coming up for renewal over the next couple of years. Positioning of HCL Tech as a total IT outsourcing partner along with cost efficiencies due to higher offshoring would give it a competitive edge over the global peers.

#### Continue to win large deals, mostly in renegotiations

HCL Tech has signed a 5 year deal with AstraZeneca for managing its data centres across 60 global locations. Apart from the hosting, migration and collaboration services, the company would deliver transformational projects like server virtualisation and implementation of hybrid cloud.

#### Run-the-Business doing well; thrust on emerging technologies

While offerings like IMS and custom applications are doing well, growth in Enterprise application services is expected to be subdued. The company is looking for acquisitions in the areas of Analytics & Cloud Computing in Nordic Europe, France & Germany.

#### Utilisation, offshoring & rupee depreciation to support margins

HCL Tech has scope for further improvement in utilisation levels and increasing the share of offshore revenues. Along with these factors, depreciation of rupee would provide margin benefits. As per Q1FY12, the company has hedged USD713mn which includes hedges for around 40% of inflows for one year.

#### Outlook and Recommendation

HCL Tech by leveraging its strength in Run-the-Business offerings would be able to tide over the slowdown expected in discretionary spending. Also, the company is very well positioned to grab higher share of deal renewals from the incumbent vendors. We maintain 'BUY' recommendation on the stock with a target price of Rs470 based on 13x FY13E EPS of Rs36.1.

#### Rohit Kumar Anand

rohit.anand@pinc.co.in  
 +9122 6618 6372

#### Niraj Garhyan

niraj.garhyan@pinc.co.in  
 +91-22-6618 6382

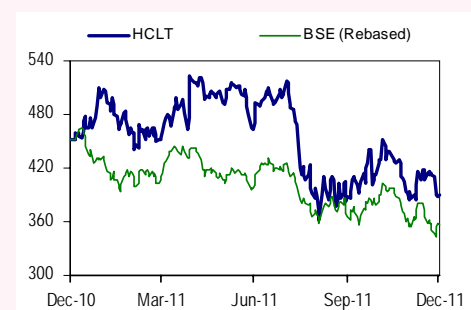
#### STOCK DATA

Market cap	Rs271bn
Book Value per share	Rs121
Shares O/S (F.V. Rs1)	701mn
Free Float	40%
Avg Trade Value (6 months)	Rs524mn
52 week High/Low	528/360
Bloomberg Code	HCLT IN
Reuters Code	HCLT.BO

#### PERFORMANCE (%)

	1M	3M	12M
Absolute	0.3	0.5	(14.3)
Relative	(1.5)	1.0	7.4

#### RELATIVE PERFORMANCE



#### KEY FINANCIALS (Rs mn)

	FY10	FY11	FY12E	FY13E	FY14E
Net Sales	125,650	160,342	205,582	232,628	265,992
YoY Gr.(%)	19.6	27.6	28.2	13.2	14.3
Op. Profit	25,729	27,488	37,268	38,599	43,035
Op. Marg.(%)	20.5	17.1	18.1	16.6	16.2
Adj. Net Profit	13,029	17,095	23,997	25,289	29,209
YoY Gr.(%)	2.0	31.2	40.4	5.4	15.5

#### KEY RATIOS

Dil. EPS (Rs)	18.9	24.5	34.3	36.1	41.7
ROCE (%)	19.8	20.0	24.3	21.4	20.6
RoE (%)	18.5	20.3	24.5	21.5	20.9
PER (x)	20.1	15.5	11.1	10.5	9.1
EV/ Net Sales (x)	2.0	1.6	1.2	1.1	0.9
EV/EBDITA (x)	8.3	7.9	5.9	5.6	4.9

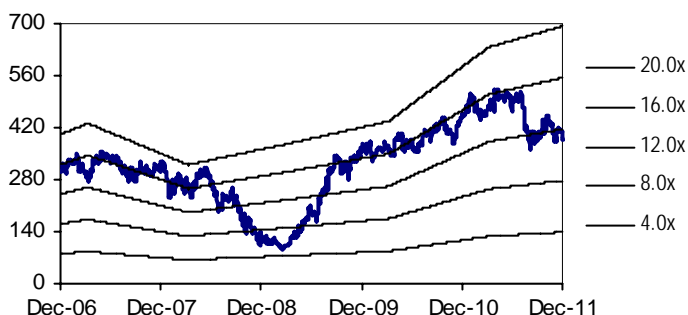
Income Statement					
Year ended 30 Jun (Rs mn)	FY10	FY11	FY12E	FY13E	FY14E
Net sales	125,650	160,342	205,582	232,628	265,992
<i>growth (%)</i>	19.6	27.6	28.2	13.2	14.3
Gross profit	43,693	51,202	67,368	73,027	81,703
Other operating charges	17,964	23,714	30,100	34,429	38,668
EBITDA	25,729	27,488	37,268	38,599	43,035
<i>growth (%)</i>	15.9	6.8	35.6	3.6	11.5
Depreciation	5,010	4,976	6,126	6,899	8,095
Other income	(5,289)	(562)	642	1,143	2,507
EBIT	20,719	22,512	31,141	31,700	34,940
Interest paid	-	-	-	-	-
PBT (before E/o items)	15,430	21,950	31,784	32,843	37,447
Tax provision	2,403	4,854	7,787	7,554	8,238
E/o Income / (loss)	2	1	-	-	-
Net profit	13,027	17,096	23,997	25,289	29,209
Adjusted net profit	13,029	17,095	23,997	25,289	29,209
<i>growth (%)</i>	2.0	31.2	40.4	5.4	15.5
Diluted EPS (Rs)	18.9	24.5	34.3	36.1	41.7
<i>Diluted EPS Growth (%)</i>	-0.3	29.9	39.7	5.4	15.5

Cash Flow Statement					
Year ended 30 Jun (Rs mn)	FY10	FY11	FY12E	FY13E	FY14E
Profit After Tax	13,026	16,896	23,997	25,289	29,209
Depreciation	4,997	4,912	5,551	6,514	7,714
Total tax paid	0	0	0	1	2
Chg in working capital	1,449	(4,514)	(7,762)	(3,701)	(1,583)
Other operating activities	0	0	575	385	381
Cash flow from oper. (a)	19,472	17,294	22,360	28,488	35,723
Capital expenditure	(6,116)	(7,685)	(10,793)	(11,166)	(12,502)
Chg in investments	0	0	0	0	0
Other investing activities	0	0	0	0	0
Cash flow from inv. (b)	(6,116)	(7,685)	(10,793)	(11,166)	(12,502)
Free cash flow (a+b)	13,356	9,609	11,567	17,322	23,221
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	0	0	0	0	0
Chg in Minorities int.	0	0	0	0	0
Dividend (incl. tax)	(3,149)	(5,122)	(2,749)	(2,749)	(3,436)
Other financing activities	0	0	0	1	2
Cash flow from fin. (c)	(3,149)	(5,122)	(2,749)	(2,748)	(3,434)
Net chg in cash (a+b+c)	10,208	4,487	8,819	14,574	19,788

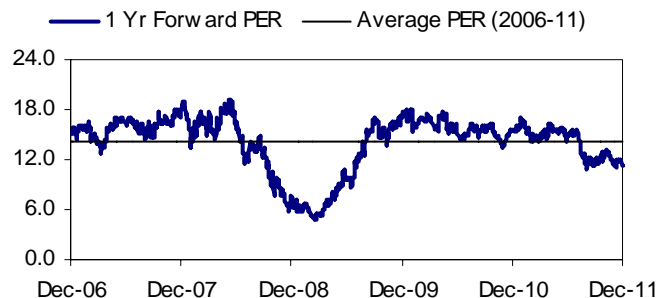
Balance Sheet					
Year ended 30 Jun (Rs mn)	FY10	FY11	FY12E	FY13E	FY14E
Equity capital	70,368	84,345	97,793	117,659	139,761
Reserves & surplus	0	0	0	0	1
Shareholders' funds	70,368	84,345	97,793	117,659	139,762
Minorities interests	0	0	0	0	0
Total Debt	34,018	28,127	30,188	30,188	30,188
Capital Employed	104,386	112,472	127,981	147,847	169,950
Net fixed assets	71,248	74,435	77,875	82,142	86,549
Cash & Cash Eq.	4,686	5,198	9,505	21,402	37,516
Net other Current Assets	27,745	30,059	37,821	41,522	43,105
Investments	707	2,780	2,780	2,780	2,780
Net Deferred Tax Assets	0	0	0	0	0
Total assets	104,386	112,472	127,981	147,847	169,950

Key Ratios					
Year ended 30 Jun	FY10	FY11	FY12E	FY13E	FY14E
OPM (%)	20.5	17.1	18.1	16.6	16.2
Net margin (%)	10.4	10.7	11.7	10.9	11.0
Dividend yield (%)	1.0	1.9	1.0	1.0	1.3
Net debt/Equity (x)	0.4	0.3	0.2	0.2	0.2
Net Working Capital (days)	81	68	67	65	59
Asset turnover (x)	0.9	1.1	1.2	1.2	1.1
ROCE (%)	19.8	20.0	24.3	21.4	20.6
RoE (%)	18.5	20.3	24.5	21.5	20.9
EV/Net sales (x)	2.0	1.6	1.2	1.1	0.9
EV/EBITDA (x)	8.3	7.9	5.9	5.6	4.9
PER (x)	20.1	15.5	11.1	10.5	9.1
Price/Book (x)	3.9	3.2	2.8	2.3	1.9

**P/E Band**



**Avg PER**



## T E A M

### EQUITY DESK

Sadanand Raje	Head - Institutional Sales Technical Analyst	<a href="mailto:sadanand.raje@pinc.co.in">sadanand.raje@pinc.co.in</a>	91-22-6618 6366
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### RESEARCH

Vineet Hetamasaria, CFA	<b>Head of Research, Auto, Cement</b>	<a href="mailto:vineet.hetamasaria@pinc.co.in">vineet.hetamasaria@pinc.co.in</a>	91-22-6618 6388
Nikhil Deshpande	Auto, Auto Ancillary, Cement	<a href="mailto:nikhil.deshpande@pinc.co.in">nikhil.deshpande@pinc.co.in</a>	91-22-6618 6339
Tasmai Merchant	Auto, Auto Ancillary, Cement	<a href="mailto:tasmai.merchant@pinc.co.in">tasmai.merchant@pinc.co.in</a>	91-22-6618 6377
Vinod Nair	Construction, Power, Capital Goods	<a href="mailto:vinod.nair@pinc.co.in">vinod.nair@pinc.co.in</a>	91-22-6618 6379
Ankit Babel	Capital Goods, Engineering	<a href="mailto:ankit.b@pinc.co.in">ankit.b@pinc.co.in</a>	91-22-6618 6551
Hitul Gutka	Power	<a href="mailto:hitul.gutka@pinc.co.in">hitul.gutka@pinc.co.in</a>	91-22-6618 6410
Subramaniam Yadav	Construction	<a href="mailto:subramaniam.yadav@pinc.co.in">subramaniam.yadav@pinc.co.in</a>	91-22-6618 6371
Madhura Joshi	Power	<a href="mailto:madhura.joshi@pinc.co.in">madhura.joshi@pinc.co.in</a>	91-22-6618 6395
Satish Mishra	Fertiliser, Oil & Gas	<a href="mailto:satish.mishra@pinc.co.in">satish.mishra@pinc.co.in</a>	91-22-6618 6488
Urvashi Biyani	Fertiliser, Oil & Gas	<a href="mailto:urvashi.biyani@pinc.co.in">urvashi.biyani@pinc.co.in</a>	91-22-6618 6334
Naveen Trivedi	FMCG	<a href="mailto:naveent@pinc.co.in">naveent@pinc.co.in</a>	91-22-6618 6384
Rohit Kumar Anand	IT Services	<a href="mailto:rohit.anand@pinc.co.in">rohit.anand@pinc.co.in</a>	91-22-6618 6372
Niraj Garhyan	IT Services	<a href="mailto:niraj.garhyan@pinc.co.in">niraj.garhyan@pinc.co.in</a>	91-22-6618 6382
Namrata Sharma	Media	<a href="mailto:namrata.sharma@pinc.co.in">namrata.sharma@pinc.co.in</a>	91-22-6618 6412
Sakshee Chhabra	Media	<a href="mailto:sakshee.chhabra@pinc.co.in">sakshee.chhabra@pinc.co.in</a>	91-22-6618 6516
Bikash Bhalotia	Metals, Mining	<a href="mailto:bikash.bhalotia@pinc.co.in">bikash.bhalotia@pinc.co.in</a>	91-22-6618 6387
Harleen Babber	Metals, Mining	<a href="mailto:harleen.babber@pinc.co.in">harleen.babber@pinc.co.in</a>	91-22-6618 6389
Dipti Vijaywargi	Metals, Mining	<a href="mailto:dipti.vijaywargi@pinc.co.in">dipti.vijaywargi@pinc.co.in</a>	91-22-6618 6393
Sushant Dalmia, CFA	Pharma	<a href="mailto:sushant.dalmia@pinc.co.in">sushant.dalmia@pinc.co.in</a>	91-22-6618 6462
Poonam Sanghavi	Pharma	<a href="mailto:poonam.sanghavi@pinc.co.in">poonam.sanghavi@pinc.co.in</a>	91-22-6618 6709
Suman Memani	Real Estate, Mid caps	<a href="mailto:suman.memani@pinc.co.in">suman.memani@pinc.co.in</a>	91-22-6618 6479
Abhishek Kumar	Real Estate, Mid caps	<a href="mailto:abhishek.kumar@pinc.co.in">abhishek.kumar@pinc.co.in</a>	91-22-6618 6398
C Krishnamurthy	Technical Analyst	<a href="mailto:krishnamurthy.c@pinc.co.in">krishnamurthy.c@pinc.co.in</a>	91-22-6618 6747

### SALES

Rajeev Gupta	Equities	<a href="mailto:rajeev.gupta@pinc.co.in">rajeev.gupta@pinc.co.in</a>	91-22-6618 6486
Ankur Varman	Equities	<a href="mailto:ankur.varman@pinc.co.in">ankur.varman@pinc.co.in</a>	91-22-6618 6380
Himanshu Varia	Equities	<a href="mailto:himanshu.varia@pinc.co.in">himanshu.varia@pinc.co.in</a>	91-22-6618 6342
Shailesh Kadam	Derivatives	<a href="mailto:shaileshk@pinc.co.in">shaileshk@pinc.co.in</a>	91-22-6618 6349
Ganesh Gokhale	Derivatives	<a href="mailto:ganeshg@pinc.co.in">ganeshg@pinc.co.in</a>	91-22-6618 6347

### DEALING

Mehul Desai	Head - Sales Trading	<a href="mailto:mehul.desai@pinc.co.in">mehul.desai@pinc.co.in</a>	91-22-6618 6303
Amar Margaje		<a href="mailto:amar.margaje@pinc.co.in">amar.margaje@pinc.co.in</a>	91-22-6618 6327
Ashok Savla		<a href="mailto:ashok.savla@pinc.co.in">ashok.savla@pinc.co.in</a>	91-22-6618 6321
Sajjid Lala		<a href="mailto:sajjid.lala@pinc.co.in">sajjid.lala@pinc.co.in</a>	91-22-6618 6337
Raju Bhavsar		<a href="mailto:rajub@pinc.co.in">rajub@pinc.co.in</a>	91-22-6618 6322
Hasmukh D. Prajapati		<a href="mailto:hasmukhp@pinc.co.in">hasmukhp@pinc.co.in</a>	91-22-6618 6325

### SINGAPORE DESK

Amul Shah		<a href="mailto:amul.shah@sg.pinc.co.in">amul.shah@sg.pinc.co.in</a>	65-6327 0626
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### DIRECTORS

Gaurang Gandhi		<a href="mailto:gaurangg@pinc.co.in">gaurangg@pinc.co.in</a>	91-22-6618 6400
Hemang Gandhi		<a href="mailto:hemangg@pinc.co.in">hemangg@pinc.co.in</a>	91-22-6618 6400
Ketan Gandhi		<a href="mailto:ketang@pinc.co.in">ketang@pinc.co.in</a>	91-22-6618 6400

### COMPLIANCE

Rakesh Bhatia	Head Compliance	<a href="mailto:rakeshb@pinc.co.in">rakeshb@pinc.co.in</a>	91-22-6618 6400
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Rating Objective		
Rating	Large Caps	Mid Caps
	M.Cap > USD1bn	M.Cap <= USD1bn
Return %		
<b>BUY</b>	<b>More than 15</b>	<b>More than 20</b>
<b>Accumulate</b>	<b>5 to 15</b>	<b>10 to 20</b>
<b>Reduce</b>	<b>(-)5 to +5</b>	<b>0 to 10</b>
<b>Sell</b>	<b>Below (-)5</b>	<b>Less than 0</b>



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