30 July 2010

HCL Technologies

4QFY10 – Strong performance; maintain Buy

Rating: **Buy**
Target Price: Rs425
Share Price: Rs379

- **Volume growth in 4Q positive.** HCL Tech's dollar revenue grew 7.6%; its margin slipped 112bp on higher wage costs, while profit was higher owing to lower tax expense, partly offset by higher forex loss. Core software services saw volumes growing 10.5%, significantly ahead of peers. We retain our target price of Rs425 and reiterate Buy.
- **4QFY10 – Healthy quarter.** Core software services grew 9.4% qoq (10.7% in constant currency) and while IMS grew 8.9%. BPO was down 13% qoq (as indicated by management). The top-5, top-10 and top-20 clients showed qoq growth of 5.8%, 6.4% and 6% respectively, in constant currency terms. The US was up 11.3% qoq and Europe grew 4.2% in constant currency.
- **Key trend.** Life Sciences, Retail, Hitech and Financial Services were key growth drivers in the industry segment. The company added 6,428 employees this quarter (11% of its workforce).
- **Estimates.** We maintain our EPS estimates for FY10/11/12, after factoring in higher volume growth and lower margin on account of salary hikes and investment in the business.
- **Valuation.** We maintain our target multiple of 17x FY11e earnings. In the past, the stock has traded at 28% discount to Infosys.

Key data	HCLT IN / HCLT.BO
52-week high/low	R449/Rs232
Sensex/Nifty	17992/5409
3-m average volume	US$11.5m
Market cap	Rs256bn/ US$5.5bn
Shares outstanding	679m
Free float	34.7%
Promoters	65.3%
Foreign Institutions	21.3%
Domestic Institutions	5.2%
Public	8.2%

Quarterly results

Year end 30 Jun	4QFY09	4QFY10	% yoy	FY09	FY10	% yoy
Sales (Rsm)	29,085	34,254	17.8	106,125	125,650	18.4
EBITDA (Rsm)	6,441	6,381	(0.9)	23,281	25,728	10.5
EBITDA margin (%)	22.1	18.6	(352)bps	21.9	20.5	(146)bps
Interest (Rsm)	-	-	-	-	-	-
Depreciation (Rsm)	1,197	1,131	(5.5)	4,491	5,009	11.5
Other income (Rsm)	(1,002)	(1,578)	NM	(3,499)	(5,302)	NM
PBT (Rsm)	4,242	3,672	(13.4)	15,291	15,417	0.8
Tax (Rsm)	935	254	(72.8)	2,545	2,404	(5.5)
Tax rate (%)	22.0	6.9	(1512)bps	16.6	15.6	(105)bps
PAT (Rsm)	3,307	3,418	3.4	12,746	13,013	2.1

Source: Company, Anand Rathi Research

Financials

Year end 30 Jun	FY11e	FY12e
Sales (Rsm)	152,628	180,473
Net profit (Rsm)	16,995	21,040
EPS (Rs)	24.9	30.7
Growth (%)	29.7	23.3
PE (x)	15.2	12.4
PBV (x)	3.0	2.5
RoE (%)	22.3	22.7
RoCE (%)	18.9	21.0
Dividend yield (%)	1.1	1.3
Net gearing (%)	15.6	2.0

Source: Anand Rathi Research

Appendix 1

Analyst Certification
The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report.

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Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US$1bn) and Mid/Small Caps (<US$1bn) as described in the Ratings Table below.

Ratings Guide

	Buy	Hold	Sell
Large Caps (>US$1bn)	>20%	5-20%	<5%
Mid/Small Caps (<US$1bn)	>30%	10-30%	<10%

Anand Rathi Research Ratings Distribution (as of 20 July 10)

	Buy	Hold	Sell
Anand Rathi Research stock coverage (114)	66%	14%	20%
% who are investment banking clients	8%	0%	0%

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