

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

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## Appendix 1

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#### Ratings Guide

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

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|   | Buy | Hold | Sell |
|---|-----|------|------|
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