



## HCL Technologies Q2FY12 result update—Inline results

**CMP:** Rs.425

**Target Price:** Rs.500

**Recommendation:** BUY

### Stock Info

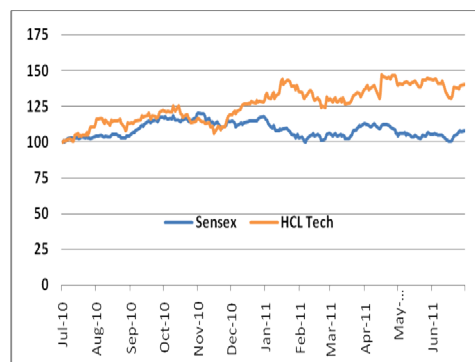
BSE Group	A
BSE Code	532281
NSE Symbol	HCL TECH
Bloomberg	HCLT IN
Reuters	HCLT.BO
BSE Sensex	16466
NSE Nifty	4967

### Market Info

Market Capital	Rs.29351 cr
Equity Capital	Rs.137.6 cr
Avg. Trading Vol. (NSE Qtly)	88289
52 Wk High/ Low	528/360
Face Value	2

### Shareholding Pattern (%) (30<sup>th</sup>, Sept. 2011)

Promoters	64.3
Domestic Institutions	6.7
Foreign Institutions	22.2
Non Promoters Corp.	3.2
Public & Others	3.7
Govt. Holdings	-



18<sup>th</sup> January, 2012

Generating Wealth. Satisfying Investors.

### Key Highlights

■ **Result on expected line:** HCL Tech posted their Q2FY12 result which was broadly inline with our expectation. Total revenue came at Rs.5245.2cr—up by 12.8% QoQ, while net profit came at Rs.572.7cr—up by a whopping 15.3% QoQ. In US\$ terms, total revenue came at \$1022mn (up by 3.7% QoQ). Volume growth was also robust at 4.9% (onsite 5.7%, offshore 4.6%) considering that the December quarter is seasonally weaker. A higher onsite volume growth is an indication of the start of new projects. Pricing however saw a decline of ~1%. The company's bottomline was impacted by a forex loss of Rs.75.8cr due to the sharp rupee depreciation.

■ **Margin boosted by currency:** On account of INR depreciation of ~10% during the quarter, HCL margin received a boost of ~260 bps. The management reinvested ~110bps of these benefits into the company in the form of increments, bonuses, partial salary hike, milestone related payouts, etc. Thus, its EBIDTA saw an uptick of only 140 bps QoQ. The company also took in 2556 net employees a majority of which were freshers which brought down the company's utilisation rate by a ~30bps and affected margins.

■ **Strong show by all service lines barring Infra:** Among its service offerings, it was positively surprising to see Enterprise Application Service posting the strongest growth of 4.8% while Infrastructure posted a negative growth of 2.9% on a sequential basis. The management attributes this to the sharp rupee depreciation which made it unviable to carry on some India-centric projects. They however assure that Infra will come back on the growth path in the coming quarters. The other two service lines namely Engg. And R&D and Custom Application Service posted growth of 3.4% QoQ each.

■ **Robust client addition:** HCL's deal signing momentum continued with it winning 18 multi-year multi-million deals during the quarter whose TCV exceeded \$1bn. It was further heartening to see HCL increasing its top 5 and top 10 client's revenue by 7.7% and 4.9% respectively. HCL's client mining expertise was evident when it managed to push two of its existing clients to \$100mn+ category taking the total to 3. In total, it added 57 new clients in Q2FY12 taking its total client base to 516. The company indicated that it has been able to gain foothold in some of the big Fortune 500 companies on account of vendor consolidation and churning and expects further success on this front. We believe it really can't be denied that HCL might be compromising on pricing front to gain these clients. We however believe that once the tide turns and the global economy picks up, HCL will be able to improve upon its current pricing losses.

■ **Expects to gain from churn in IT projects:** HCL's management reiterated that ~\$50bn worth of deals is coming for renewal in CY'12 and they are well positioned to grab a number of these deals.

### Valuation:

We are upping our estimates on account of factoring in a higher INR/\$ rate than we had expected before. However, taking into account a riskier economic scenario and weaker market sentiment, we lower our target multiple to 15x from 16x earlier for our FY12EPS of Rs.33.4 per share. We thus maintain our target price of Rs.500 and maintain a 'BUY' call on the stock.

### Financials:

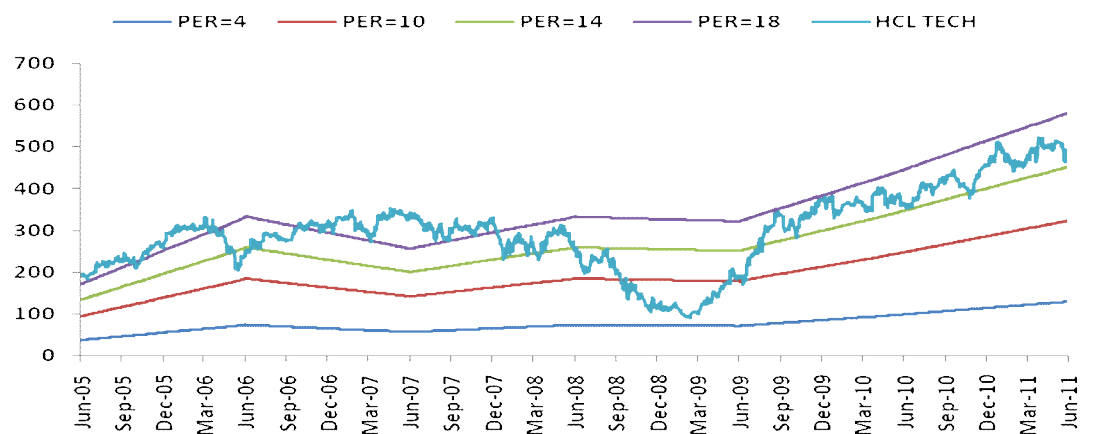
Y/E June, (Rs.in Cr)	FY10	FY11	FY12E	FY13E
<b>Net Revenue</b>	<b>12630.3</b>	<b>16034.2</b>	<b>20881.6</b>	<b>23690.2</b>
<i>Growth %</i>	<i>17.1</i>	<i>27.0</i>	<i>30.2</i>	<i>13.4</i>
<b>Net Profit</b>	<b>1309.4</b>	<b>1709.4</b>	<b>2299.6</b>	<b>2647.2</b>
<i>Growth %</i>	<i>(4.6)</i>	<i>30.6</i>	<i>34.5</i>	<i>15.1</i>
<b>EPS</b>	<b>19.1</b>	<b>24.9</b>	<b>33.4</b>	<b>38.4</b>
<b>P/E(x)</b>	<b>22.2</b>	<b>17.0</b>	<b>12.7</b>	<b>11.1</b>
<b>P/BV(x)</b>	<b>4.7</b>	<b>3.8</b>	<b>3.2</b>	<b>2.6</b>
<b>EV/EBITDA(x)</b>	<b>11.8</b>	<b>10.8</b>	<b>7.7</b>	<b>6.8</b>



**Latest Quarterly Result**

Rs. in cr (Y/E June)	Q2FY12	Q2FY11	YoY% chng.	Q1FY12	QoQ%chng.
<b>Revenues</b>	<b>5245.2</b>	<b>3888.4</b>	<b>34.9%</b>	<b>4651.3</b>	<b>12.8%</b>
Direct Costs	3514.1	2661.3	32.0%	3187.1	10.3%
<b>Gross Profits</b>	<b>1731.1</b>	<b>1227.1</b>	<b>41.1%</b>	<b>1464.2</b>	<b>18.2%</b>
SG & A	760.9	592.4	28.4%	669.3	13.7%
<b>EBITDA</b>	<b>970.2</b>	<b>634.7</b>	<b>52.9%</b>	<b>794.9</b>	<b>22.1%</b>
Depreciation	127.8	106.2	20.3%	117.8	8.5%
Amortisation	11.6	17.7	-34.5%	13.1	-11.5%
<b>EBIT</b>	<b>830.8</b>	<b>510.8</b>	<b>62.6%</b>	<b>664.0</b>	<b>25.1%</b>
Foreign Exchange Gains / (loss)	-75.8	-13.4	465.7%	-17.9	323.5%
Other Income, net	8.8	5.4	63.0%	23.8	-63.0%
<b>PBT</b>	<b>763.8</b>	<b>502.8</b>	<b>51.9%</b>	<b>669.9</b>	<b>14.0%</b>
Provision for Tax	191.1	103.1	85.4%	172.8	10.6%
<i>Effective tax rate</i>	<i>25.0%</i>	<i>20.5%</i>		<i>25.8%</i>	
<b>Net Income</b>	<b>572.7</b>	<b>399.7</b>	<b>43.3%</b>	<b>496.8</b>	<b>15.3%</b>
<b>Earnings per share</b>					
<i>Basic</i>	<i>8.3</i>	<i>5.9</i>	<i>41.9%</i>	<i>7.2</i>	<i>15.3%</i>
<i>Diluted</i>	<i>8.2</i>	<i>5.7</i>	<i>42.8%</i>	<i>7.1</i>	<i>15.3%</i>

**PE Band**





Profit & Loss Statement (Consolidated)				
Y/E June (Rs Cr)	FY10	FY11	FY12E	FY13E
<b>Revenue</b>	<b>12630.3</b>	<b>16034.2</b>	<b>20881.6</b>	<b>23690.2</b>
Direct Costs	8238.9	10914.0	14101.2	16310.0
<b>Gross profits</b>	<b>4391.4</b>	<b>5120.2</b>	<b>6780.4</b>	<b>7380.2</b>
SGA	1805.7	2371.4	3025.2	3340.0
<b>EBIDTA</b>	<b>2585.7</b>	<b>2748.8</b>	<b>3755.2</b>	<b>4040.2</b>
Depreciation	391.4	429.8	503.6	540.0
Amortisation	111.9	68.1	48.7	48.0
<b>EBIT</b>	<b>2082.4</b>	<b>2250.9</b>	<b>3202.9</b>	<b>3452.2</b>
Forex ex. gains/loss	-477.3	-81.8	-188.7	0.0
Other income,net	-53.7	25.7	59.6	80.0
<b>PBT</b>	<b>1551.4</b>	<b>2194.8</b>	<b>3073.8</b>	<b>3532.2</b>
Provision for tax	242	485.4	773.9	885.0
<i>Effective tax rate %</i>	<i>15.6</i>	<i>22.1</i>	<i>25.2</i>	<i>25.1</i>
Min.int.	0.0	0.0	0.3	0.0
<b>Net Income</b>	<b>1309.4</b>	<b>1709.4</b>	<b>2299.6</b>	<b>2647.2</b>
EPS	19.1	30.6	34.5	15.1

Balance sheet (Consolidated)				
Y/E June (Rs Cr)	FY10	FY11	FY12E	FY13E
<b>Shareholder's fund:</b>				
Share capital	135.8	137.7	137.7	137.7
Reserves & Surplus	6153.1	7514.3	9129.6	11141.1
Min.interest	3.7	3.7	3.7	3.7
Total Loans	2724.2	2187.3	1722.7	1109.9
<b>Total Liabilities</b>	<b>9016.8</b>	<b>9843.9</b>	<b>10994.7</b>	<b>12393.5</b>
<b>Application of funds:</b>				
Gross Block	7061.6	7829.8	9312.0	10659.9
Less Acc. Depreciation	2221.9	2583.9	3087.6	3627.6
<i>Net Block</i>	<i>4839.6</i>	<i>5245.8</i>	<i>6224.4</i>	<i>7032.3</i>
CWP	609.1	609.4	609.4	609.4
Investment	831.7	737.5	737.5	735.7
Deferred Tax asset	375.7	363.3	363.3	363.3
Inventories	65.2	166.4	107.8	122.2
Sundry debtors	2521.1	2611.3	4004.7	4543.2
Cash & bank balance	1580.4	1729.6	2258.6	2890.1
Other current assets	946.2	1291.4	1400.0	1525.0
Loans and advances	833.8	1146.1	1160.0	1260.0
Current Liabilities	2979.9	3063.0	5080.9	5829.6
Provisions	606.0	993.6	790.0	860.0
<i>Net current assets</i>	<i>2360.6</i>	<i>2888.1</i>	<i>3060.1</i>	<i>3651.1</i>
<b>Total Asset</b>	<b>9016.8</b>	<b>9843.1</b>	<b>10994.7</b>	<b>12393.5</b>

Cash Flow Statement (Consolidated)				
Y/E June (Rs Cr)	FY10	FY11	FY12E	FY13E
Profit before tax & min. int.	1472.4	2135.1	3073.8	3532.2
Depreciation & Amortisation	418.1	459.7	497.9	552.3
Other items	65.1	48.6	-23.9	41.2
(Inc.)/Dec. in WC	170.6	-552.0	356.9	40.6
Direct Tax	-335.1	-328.5	-773.9	-885.0
<b>Net cash provided by operating activities</b>	<b>1791.2</b>	<b>1762.9</b>	<b>3130.9</b>	<b>3198.8</b>
(Inc)/ Dec in FA	-646.8	-785.1	-1482.2	-1347.9
Other items	-367.3	94.5	-	-
<b>Cash inflow/ (outflow) from Investing activities</b>	<b>-1014.1</b>	<b>-690.6</b>	<b>-1482.2</b>	<b>-1347.9</b>
Proceeds from secured loans	1243.5	12.3	-	-
Repayment of secured loans	-2488.9	-171.9	-464.6	-612.7
Dividends paid including tax	-315.2	-517.9	-517.9	-517.9
Other items	832.8	-376.7	-137.8	-88.8
<b>Cash flow from financing activities</b>	<b>-727.8</b>	<b>-1054.3</b>	<b>-1120.4</b>	<b>-1219.4</b>
Effect of exchange rates	29.8	33.6	-	-
<b>Net inc. in cash &amp; cash eqv.</b>	<b>49.2</b>	<b>18.1</b>	<b>528.3</b>	<b>631.5</b>
Cash & cash eqv. at the beginning of the year	404.3	483.3	534.9	1063.2
Cash at the end of year	483.3	534.9	1063.2	1694.7
<b>Closing Cash incl. fix deposits greater than 3 months</b>	<b>1580.4</b>	<b>1729.6</b>	<b>2258.6</b>	<b>2890.1</b>

Key Ratios				
Y/E June ( Rs Cr)	FY10	FY11	FY12E	FY13E
<b>Performance Ratios</b>				
EBIDTA %	20.5	17.1	17.9	17.1
Net Profit %	10.4	10.7	15.3	14.6
Sales per share (SPS)	183.8	232.7	303.0	343.8
Price/SPS	2.3	1.8	1.4	1.2
Dividend %	200	200	200	200
Cash per share	22.9	25.1	32.8	41.9
Assets Turnover	1.4	1.6	1.9	1.9
<b>Du Pont Analysis</b>				
PAT / Net Sales	10.4	10.7	11.0	11.2
Net Sales / Assets	1.4	1.6	1.9	1.9
Assets / Equity	1.4	1.3	1.2	1.1
ROE %	20.8	22.4	24.8	23.5
<b>Valuation Ratios</b>				
Diluted EPS	18.7	24.5	32.9	37.9
Cash EPS	26.3	32.0	41.4	46.9
P/E	22.2	17.0	12.7	11.1
P/BV	4.7	3.8	3.2	2.6
EV/ EBIDTA	11.8	10.8	7.7	6.8
EV/ Sales	2.4	1.9	1.4	1.2
ROCE	23.1	22.9	29.1	27.9

**Arihant Research Desk**

E. research@arihantcapital.com  
T. 022-42254830

**Head Office**

3<sup>rd</sup> Floor, Krishna Bhavan,  
67 Nehru Road, Vile Parle (East),  
Mumbai - 400057  
Tel: (91-22) 42254800  
Fax: (91-22) 42254880

**Registered Office**

E-5 Ratlam Kothi  
Indore - 452003, (M.P.)  
Tel: (91-731) 3016100  
Fax: (91-731) 3016199

**Stock Rating Scale**

	<b>Absolute Return</b>
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
REDUCE	<5

**Disclaimer:**

This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

**ARIHANT capital markets Ltd.**

3<sup>rd</sup> Floor Krishna Bhavan, 67 Nehru Road, Vile Parle (E) Mumbai - 400057  
Tel. 022-42254800 Fax. 022-42254880

[www.arihantcapital.com](http://www.arihantcapital.com)