HCL Technologies Ltd.

HCL Technologies delivered another excellent quarter with 1QFY13 numbers., with 4.5% QoQ volume growth, sustained operating margin and 12 large deal wins being the key positives. Sales grew by 3% (QoQ) on the back of several new deal wins and growth across its key geographies led by 4% revenue growth from USA (contributes 57% of sales) and 3% from Europe (contributes 29% of sales) on sequential basis. Among the horizontal matrix, Infrastructure services (contributes 27% of sales) and BPO services (contributes 5% of sales) reported strong revenue growth with 10% and 5% (QoQ), while Engineering and R&D Services (contributes 20% of sales) posted muted growth.

In US dollar terms, revenue was up by 3% and PAT rose 4% ***(Figure: 1.1),*** EBITDA Margin flat at 22% and PAT Margin increased by 100bps to 15% on sequential basis ***(Figure:1.2).***

Company's EBITDA margin was flat at 22% compare to 4Q FY12 and improved 510 bps on YoY basis driven by lower impact of wage hikes and positive impact of dollar appreciation against INR during the 1QFY13, PAT margin was also flat to 15.3% on sequential basis and edged up by 430bpa YoY. Company's PAT growth was up by 3% (QoQ).

During the quarter, company added 38 new clients with five-fold increase in 100mn+ clients and active clients unchanged to 536 compare to Q4 FY12. Most of these new clients stand below $20mn clients section. It won 12 multi-year multi-million dollar deals during the quarter, across manufacturing, financial services and consumer services verticals. It has been chosen by a top 5 global pharmaceutical company for a multi-year, multiservice support. Company has been maintaining its Debtors Sales Outstanding days at below 60days by 7quarters;

Overall headcount increased by 1016 employees during the quarter to 85335 employees ***(Figure: 1.3).*** 80% of the gross additions during the quarter were laterals, v/s 63% in the previous quarter (ex BPO). Attrition rate in software services was 13.4%, v/s 13.7% in 4QFY12. Offshore Utilization (Excluding trainees) inched up to 77.4% against the 75.1% (4QFY12), while Onshore Utilization remained steady at 95.3%.

Utilization of market opportunities and new capabilities would provide a new shape and face to the company; focus on diversity and localizing footprints has enhanced the global acceptability of company. Company's order book in pipeline is bigger than ever before and working capital is declining consistently. Company continued to demonstrate its ability to navigate through economic turbulence.

With host of issues plaguing the Indian IT industry including stagnant pricing strategy and some regulatory amendments related to Outsourcing norms and Visa issues by US new senate, HCL Tech Continues to maintain the fastest growth trajectory in IT service space. Further, with US Presidential elections out of the way, we can expect toning down of the anti-outsourcing rhetoric. At a CMP of Rs 613, stock trades at 13x of FY13E earnings, HCL tech has been our best preferred stock for the last 1 yr. We retain BUY on the stock with price target of Rs 700.

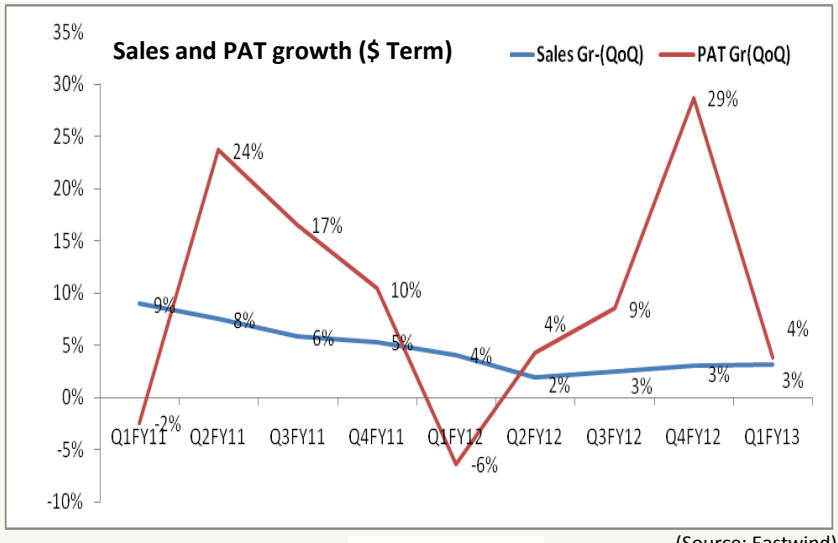

Figure: 1.1

(Source: Eastwind)

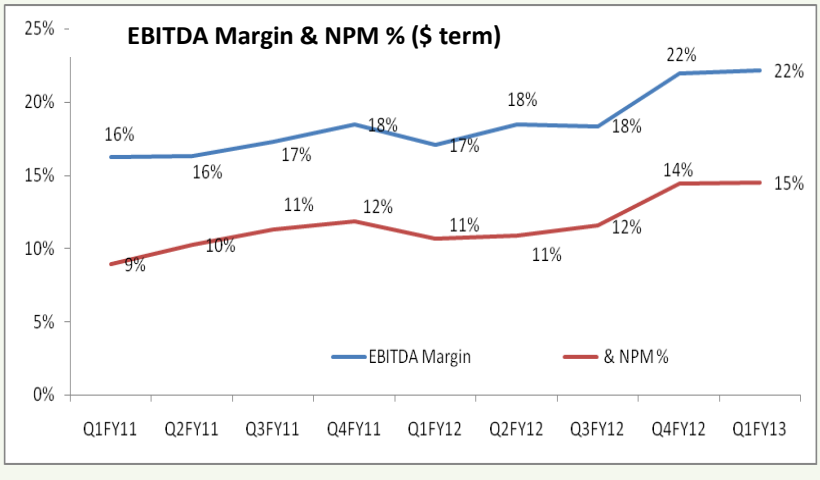

Figure: 1.2

(Source: Eastwind)

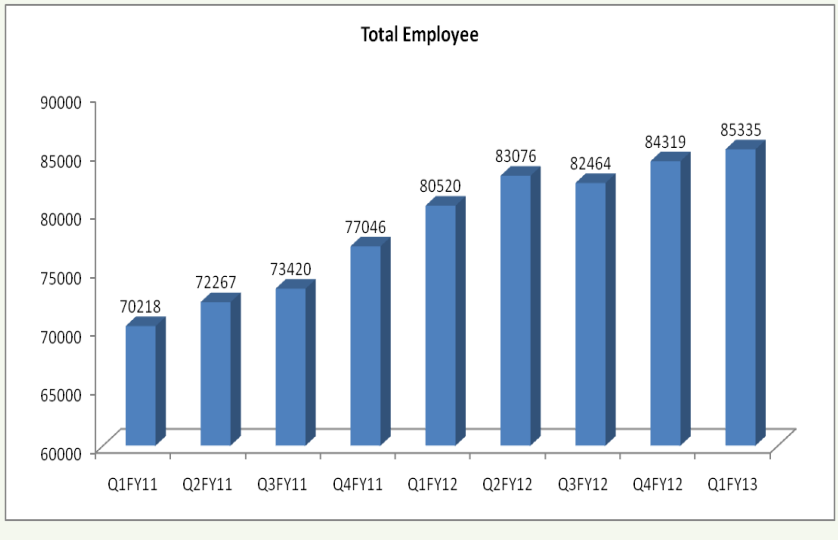

Figure: 1.3

(Source: Eastwind)