HCL Technologies-(Up)Beat on all counts

Beats the street with strong Sales and Margin growth in Q2FY13;

Joining the party like other 2 large players (Infosys and TCS) in signaling a pickup in outsourcing, HCL Tech surprises the street with strong Sales and Margin growth in Q2FY13. Company witnessed 3% sales growth driven by Infrastructure and Financial Services, both growing in excess of 10% sequentially. PAT was up by 4.6% (QoQ).

On geographical front, it's US (contributes 57% of Sales) and Europe (contributes 28% of sales) revenue increased by 3% and 5% respectively, while revenue growth from RoW (contributes 15% of sales) was muted on QoQ basis.

On horizontal metrics, Company's Infrastructure services, which contributes 28.4% on sales reported a terrific growth of 10% (QoQ), Custom Application Services contributes 31% of sales, reported 2 % (QoQ) sales growth. While, Enterprise Application Services registered 2% (QoQ) decline. Except Telecom Services in vertical metrics, all have reflected very good growth. Revenue from Financial Services (contributes 26% of sales) up by 10%, Manufacturing (contributes 27% of sales) up by 2% and Healthcare (contributes 12% of sales) increased by 2% sequentially.

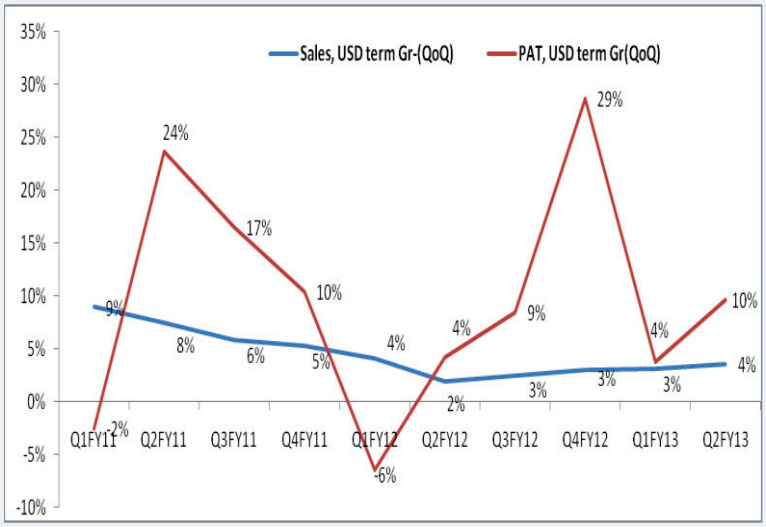
On USD term, HCL Tech reported revenue growth by 3.6% and PAT growth by 9.7% on QoQ basis. During the quarter, Company reported better volume growth of 3% with 1% pricing growth better than other frontline IT companies (TCS and Infosys).

Company's EBITDA margin increased by 60bps to 22.6% and PAT margin improved for the sixth straight quarter to 15.4% sequentially. Interestingly, company's operating margins and net margin improved by 400 bps and 300bps year-on-year.

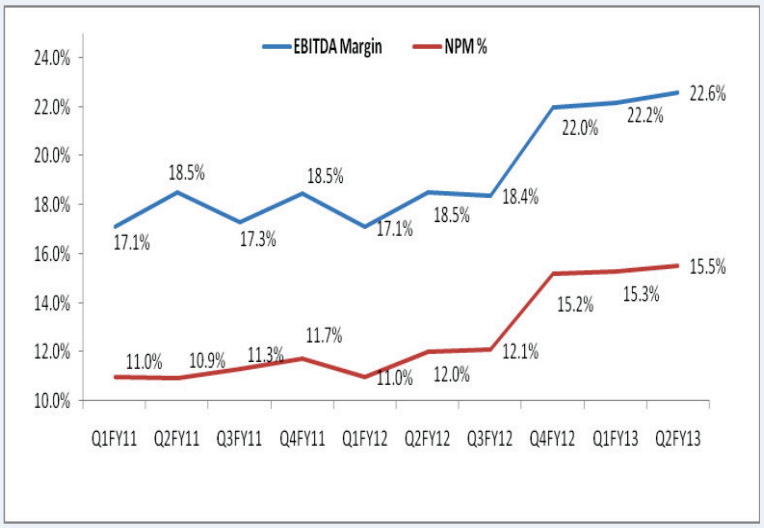
Clients Metrics: During the second quarter, HCL has won 12 multi-year, multi-million dollar deals with F500/G2000 corporations from Americas and Europe, 6 of which are large integrated engagements. Company has added 39 clients to 544. Most of its clients were added in below $20mn client's category. Company's top 5 clients contribution decreased to 15.7% from 16.2%, top 10 to 24.2% from 24.5%, and top 20 clients contribution decreased to 33.3% and 33.6%. Company's DSO days decreases from 54 against 59days (Q1FY13).

Headcount Metrics: During the quarter, Overall headcounts increased by 1845 to 85194. 87% of the gross additions during the quarter were laterals, v/s 80% in the previous quarter (ex BPO). Attrition rate in software services was unchanged at 13.6% and in BPo segment increased to 8.3% from 7.3% in Q1FY13. Offshore Utilization (Excluding trainees) inched up to 77.6% against the 77.4% (Q1FY13), and Onshore Utilization improved to 97.3% from 95.3% (Q1FY13).

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. We can expect toning down of the anti-outsourcing rhetoric. At a CMP of Rs 703, stock trades at 15.3x of FY13E earnings, HCL tech has been our best preferred stock for the last 2 yrs. We retain BUY on the stock and upgrade our target price from Rs700 to Rs 825.



(Source: Company/Eastwind)



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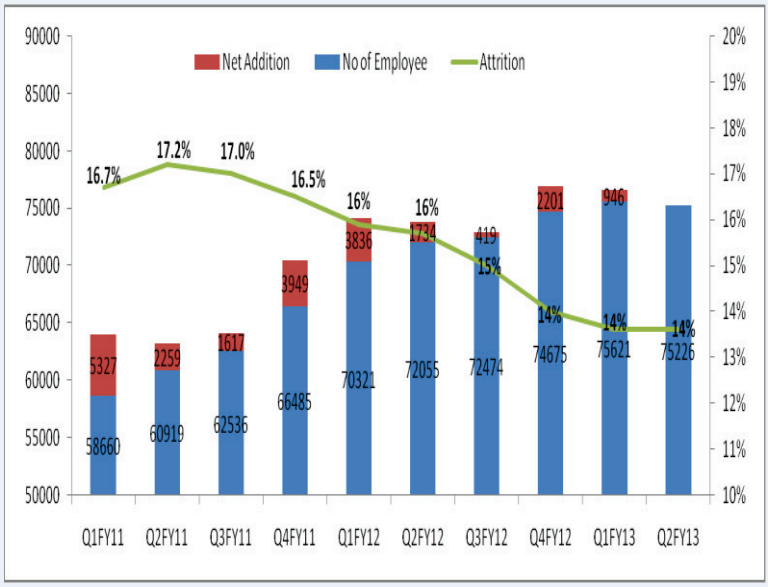

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