HCL Technologies Ltd- Catch me if u can....

surprised the street once again with a better numbers;

HCL tech delivered yet another quarter of strong performance with strong sales and Margin growth. Company witnessed 2.4% sales growth led by Infrastructure Management Services (IMS), growing in 8% sequentially. PAT growth by 5% sequentially.

Company registered a strong growth in Infrastructure (IMS) segment because of better deal momentum, which contributes 30% of its sales, posted growth by 8% (QoQ) and 53%(YoY). While, Infy reported 4.6%(QoQ), and 37%(YoY) in IMS segments (contributes only 7.2% of sales).

On geographical front, it's US (contributes 57% of Sales) and Europe (contributes 29% of sales) revenue increased by 3% and 4% respectively, while revenue growth from RoW (contributes 14% of sales) was down by 2% on QoQ basis.

On USD term, HCL Tech reported revenue growth by 3.2% and PAT growth by 8.6% on QoQ basis.

Margin pick-up: Company's EBITDA margin was flat at 22.6%. While, PAT margin have improved for 7 straight quarters at 15.9% and are up by 51.5 % (600bps) along with a robust 14.6% US dollar constant currency growth for the 12 month period ended March 31, 2013.

Company's EBIT Margin flat at 19.9% on QoQ basis, Management expects some pressure on margin front in near term. Post earning, Company has given a guidance of 18-19% range of EBIT Margin for medium term.

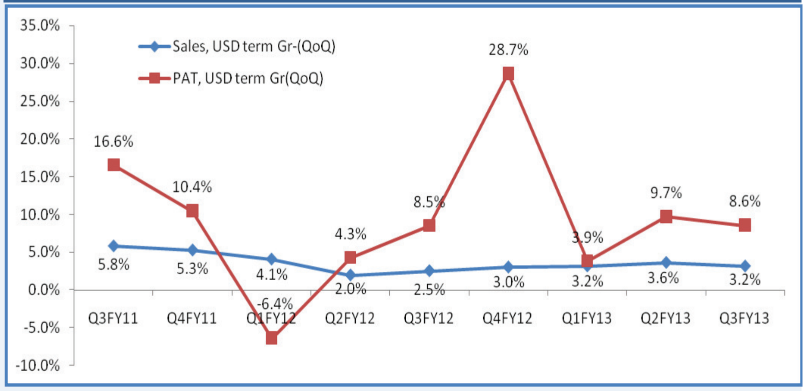
Client Metrics: Company added 37 clients during the quarters, lowest clients' addition in past 10 quarters. On net basis, only 3 clients have added during the quarter. All new clients are small (below $30mn category). Somehow, Company has maintained its earnings from top, top-10, and top-20 clients at 15.5%, 24% and 33% respectively. Company's DSO days decreases to 53 against 54days (Q2FY13).

Headcount Metrics: <u>For the second straight quarter, the company reported a drop in its overall headcount, indicating that it may be using this as a lever to optimize costs.</u> At the end of this quarter, HCL had 84,403 employees on its rolls, which is around 1,000 less than its employee headcount reported in the previous quarter. <u>Besides, the company also said it has decided not to go for campus hiring this year, and its immediate priority would be to onboard the campus recruits of 2012 batch who were given LoI last year.</u>

During the quarter, company has increased its utilization rate at offshore locations (excluding trainees) from 77.6% to 80%. Still, Infy is struggling to maintain at 73% on LTM basis.

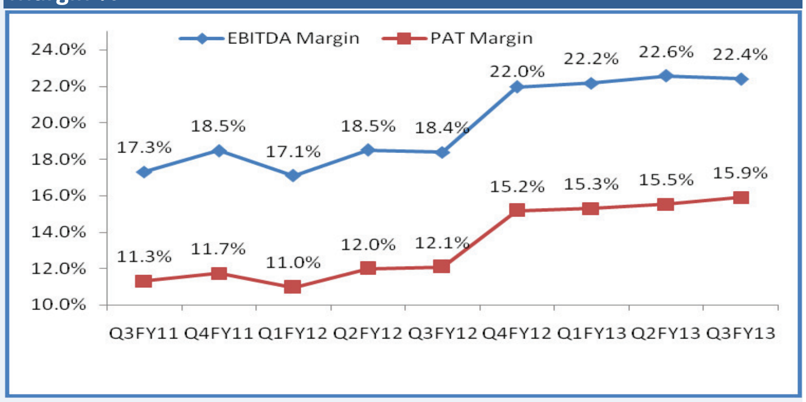
<u>Utilization of market opportunities and opportunity of deal renewal (rebid) would provide a new shape and face to the company;</u> focus on diversity and localizing footprints has enhanced the global acceptability of company. Company's good momentum on Infrastructure and strong order book pipeline ever before make so visible to investors. We can expect toning down of the anti-outsourcing rhetoric. At a CMP of Rs 751, stock trades at 11.7x of FY14E earnings, HCL tech has been our best preferred stock for the last 2 yrs. We retain BUY on the stock with a target price of Rs 825.

Sales Growth and PAT Growth(%) -USD term



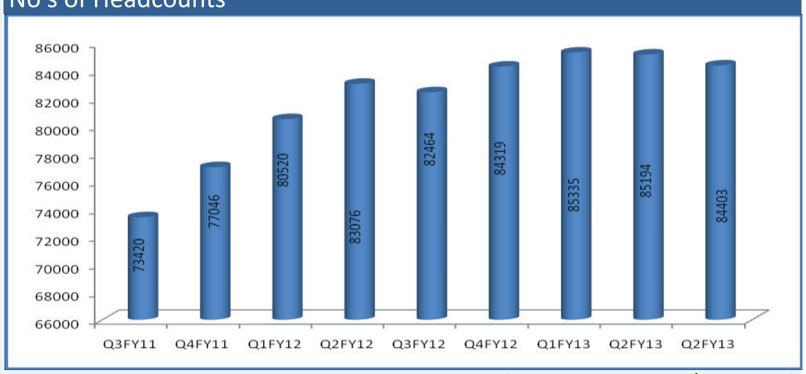
(Source: Company/Eastwind)

Margin-%



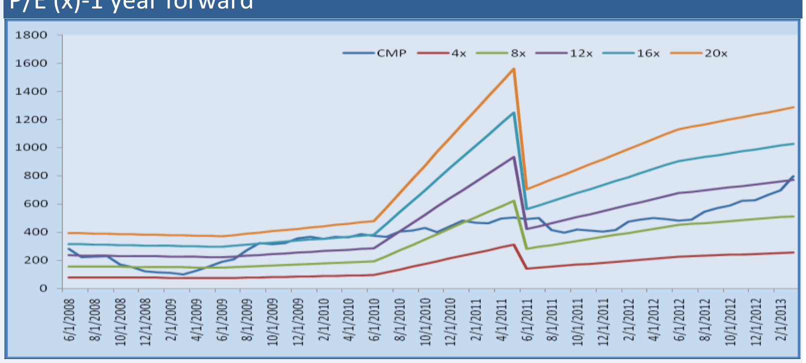
(Source: Company/Eastwind)

No's of Headcounts



(Source: Company/Eastwind)

P/E (x)-1 year forward



Source: Company/Eastwind