

# HCL Technologies (HCLT.BO)

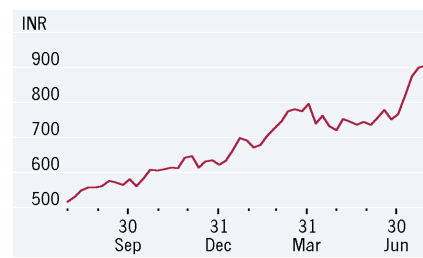
## Buy: Delivers Another Good Quarter

- Estimate Change
- Target Price Change

- **Raise TP to Rs1,030** — HCLT continued its good execution with another quarter of good growth, margin expansion and cashflow generation – profits came in significantly above consensus. Factoring in the 4Q beat and our revised INR assumptions, we raise FY14-FY15E EPS by ~12-14% and raise our TP to Rs.1,030 (multiple unchanged at 15x Sept 14E earnings). HCLT remains one of our top picks in the sector.
- **4Q was another steady quarter** — Revenues of \$1,228 mn, were up ~3% qoq/~14% yoy (Citi: \$1,209mn; consensus: \$1,224mn). Constant currency growth of ~4% was driven by Americas (~3%) and Europe (9.6%). EBITDA margin at ~23.5%, up ~110 bps qoq surprised positively yet again (Citi: 22.3%). HCLT continues to win market share; deal wins at \$1bn+ TCV for third qtr in a row.
- **Strong cash generation** — FY13 saw FCF of ~\$730mn (yield of 7%+), up ~125% yoy. Q4 cash flow from operations at \$336mn is up ~35% yoy. While there is some quarterly volatility, conversion at ~70% of EBITDA (in FY13) is healthy in the sector context. HCLT has announced dividend of Rs12/sh for FY13 (final dividend of Rs.6/sh), above our expectations. ROE (FY13) of 30%+ is at a multi-year high.
- **Some concerns to be addressed for rerating** — (a) Software services revenues grew ~2% in cc (adjusting for sale of Capital Stream). Growth visibility needs to improve given that the segment has lagged growth in the recent past and decline in headcount (~400 in Q4) does not inspire much confidence at historically high utilizations. (b) Quarterly annualized attrition (IT services) remains high at ~20%.
- **Other key takeaways** — (1) Roshni Nadar Malhotra joins HCL Technologies Board as a Non-Executive Director, (2) BPO revenues grew ~3% qoq with flattish margins, (3) Looking to focus on emerging segments (Lifesciences/healthcare and public services) in addition to momentum segments (financial services, manufacturing) to expand the addressable market, (4) Deal pipeline remains strong with H2 expected to be better on deal momentum, (5) Seeing increasing penetration of SaaS.

<b>Buy</b>	<b>1</b>
Price (31 Jul 13)	Rs905.60
Target price	Rs1,030.00
	from Rs895.00
Expected share price return	13.7%
Expected dividend yield	1.7%
<b>Expected total return</b>	<b>15.4%</b>
Market Cap	Rs631,085M
	US\$10,377M

### Price Performance (RIC: HCLT.BO, BB: HCLT IN)



### Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
30 Jun	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2011A	16,028	22.94	30.2	39.5	7.3	20.7	0.8
2012A	24,554	35.03	52.7	25.9	5.8	25.6	1.3
2013E	40,252	57.06	62.9	15.9	4.4	32.2	1.3
2014E	47,049	66.66	16.8	13.6	3.4	28.7	1.7
2015E	53,002	75.09	12.7	12.1	2.7	25.5	1.9

Source: Powered by dataCentral

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### See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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HCLT.BO: Fiscal year end 30-Jun						Price: Rs905.60; TP: Rs1,030.00; Market Cap: Rs631,085m; Recomm: Buy					
Profit & Loss (Rsm)	2011	2012	2013E	2014E	2015E	Valuation ratios	2011	2012	2013E	2014E	2015E
Sales revenue	158,555	210,312	257,336	300,530	338,638	PE (x)	39.5	25.9	15.9	13.6	12.1
Cost of sales	-113,732	-146,905	-172,238	-202,870	-231,008	PB (x)	7.3	5.8	4.4	3.4	2.7
Gross profit	44,823	63,407	85,098	97,659	107,630	EV/EBITDA (x)	23.6	15.4	10.1	8.3	7.1
Gross Margin (%)	28.3	30.1	33.1	32.5	31.8	FCF yield (%)	1.3	2.6	6.3	5.2	5.8
EBITDA (Adj)	26,299	39,545	57,623	65,849	72,417	Dividend yield (%)	0.8	1.3	1.3	1.7	1.9
EBITDA Margin (Adj) (%)	16.6	18.8	22.4	21.9	21.4	Payout ratio (%)	33	34	21	23	23
Depreciation	-4,919	-5,641	-6,726	-7,541	-8,323	ROE (%)	20.7	25.6	32.2	28.7	25.5
Amortisation	0	0	0	0	0	Cashflow (Rsm)					
EBIT (Adj)	21,380	33,904	50,897	58,307	64,093	EBITDA	26,299	39,545	57,623	65,849	72,417
EBIT Margin (Adj) (%)	13.5	16.1	19.8	19.4	18.9	Working capital	-4,836	-6,410	3,843	-5,866	-5,079
Net interest	-544	-1,170	1,571	4,022	6,327	Other	-4,808	-8,180	-12,216	-15,608	-17,506
Associates	0	0	1	0	0	Operating cashflow					
Non-op/Except	0	0	0	0	0	Capex	-8,598	-8,251	-9,234	-11,000	-13,000
Pre-tax profit	20,836	32,734	52,469	62,329	70,420	Net acq/disposals	1,244	-7,526	-178	0	0
Tax	-4,808	-8,180	-12,217	-15,280	-17,418	Other	-3,324	-1,364	-166	0	0
Extraord./Min.Int./Pref.div.	0	0	0	0	0	Investing cashflow					
Reported net profit	16,028	24,554	40,252	47,049	53,002	Dividends paid	-6,002	-9,706	-9,757	-12,222	-13,851
Net Margin (%)	10.1	11.7	15.6	15.7	15.7	Financing cashflow					
Core NPAT	16,028	24,554	40,252	47,049	53,002	Net change in cash	-2,902	2,335	23,627	27,360	33,207
Per share data						Free cashflow to s/holders					
Reported EPS (Rs)	22.94	35.03	57.06	66.66	75.09		8,057	16,704	40,016	33,375	36,831
Core EPS (Rs)	22.94	35.03	57.06	66.66	75.09						
DPS (Rs)	7.50	12.00	12.00	15.00	17.00						
CFPS (Rs)	23.84	35.60	69.81	62.87	70.60						
FCFPS (Rs)	11.53	23.83	56.72	47.29	52.18						
BVPS (Rs)	123.31	155.24	205.70	264.99	332.23						
Wtd avg ord shares (m)	684	691	695	696	696						
Wtd avg diluted shares (m)	699	701	705	706	706						
Growth rates											
Sales revenue (%)	26.2	32.6	22.4	16.8	12.7						
EBIT (Adj) (%)	7.7	58.6	50.1	14.6	9.9						
Core NPAT (%)	31.9	53.2	63.9	16.9	12.7						
Core EPS (%)	30.2	52.7	62.9	16.8	12.7						
Balance Sheet (Rsm)											
Cash & cash equiv.	22,409	25,450	49,812	78,084	112,191						
Accounts receivables	34,065	53,440	61,767	69,986	78,861						
Inventory	0	0	0	0	0						
Net fixed & other tangibles	22,165	24,775	27,283	30,742	35,419						
Goodwill & intangibles	41,878	49,404	49,582	49,582	49,582						
Financial & other assets	25,718	36,207	42,037	43,944	46,042						
<b>Total assets</b>	<b>146,235</b>	<b>189,276</b>	<b>230,481</b>	<b>272,339</b>	<b>322,095</b>						
Accounts payable	33,763	49,394	65,423	69,684	75,577						
Short-term debt	0	0	0	0	0						
Long-term debt	21,240	19,222	6,960	2,960	0						
Provisions & other liab	6,887	13,346	15,151	15,151	15,151						
<b>Total liabilities</b>	<b>61,890</b>	<b>81,962</b>	<b>87,534</b>	<b>87,795</b>	<b>90,728</b>						
Shareholders' equity	84,345	107,314	142,945	184,542	231,364						
Minority interests	0	0	0	0	0						
<b>Total equity</b>	<b>84,345</b>	<b>107,314</b>	<b>142,945</b>	<b>184,542</b>	<b>231,364</b>						
<b>Net debt</b>	<b>-1,169</b>	<b>-6,228</b>	<b>-42,852</b>	<b>-75,124</b>	<b>-112,191</b>						
Net debt to equity (%)	-1.4	-5.8	-30.0	-40.7	-48.5						

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For definitions of the items in this table, please click [here](#).

## Key Highlights

- **Revenues ahead** — Q4 Revenues of \$1,228 mn, were up ~3.1% qoq (Citi: \$1,209mn; Consensus: \$1,224mn). Constant currency growth of ~4% was broad-based across Americas (~3%) and Europe (9.6%). Growth was led by Infrastructure services (+8.6%). Software services revenue was up 0.6%.
- **Margins surprise positively yet again** — EBITDA margin at ~23.5%, up ~110 bps qoq surprised positively yet again (Citi: 22.3%). The revenue/margin beat, along with higher exchange gains, boosted PAT (after non-cash charge) to ~Rs12bn (vs. Citi at Rs10.2bn).

Figure 1. Results Summary

Rs m	4Q12	3Q13	4Q13	QoQ	YoY
<b>Revenue (\$ m)</b>	<b>1,080</b>	<b>1,191</b>	<b>1,228</b>	<b>3.1%</b>	<b>13.7%</b>
<b>Revenue</b>	<b>59,191</b>	<b>64,246</b>	<b>69,442</b>	<b>8.1%</b>	<b>17.3%</b>
Cost of revenue	38,367	41,129	43,931	6.8%	14.5%
Gross profit	20,824	23,117	25,511	10.4%	22.5%
Gross margin	35.2%	36.0%	36.7%	76bp	156bp
Operating expenses	7,815	8,725	9,223	5.7%	18.0%
<b>EBITDA</b>	<b>13,009</b>	<b>14,392</b>	<b>16,288</b>	<b>13.2%</b>	<b>25.2%</b>
<b>EBITDA margin</b>	<b>22.0%</b>	<b>22.4%</b>	<b>23.5%</b>	<b>105bp</b>	<b>148bp</b>
Depreciation & amortization	1,524	1,634	1,678	2.7%	10.1%
EBIT	11,485	12,758	14,611	14.5%	27.2%
EBIT margin	19.4%	19.9%	21.0%	118bp	164bp
Net other income	-423	888	782	-11.9%	-284.9%
Profit before tax	11,062	13,646	15,392	12.8%	39.1%
Income tax expense	2,525	3,249	3,299	1.5%	30.7%
Income from operations	8,537	10,397	12,096	16.3%	41.7%
Affiliates/Minority	4	1	0	-100.0%	-100.0%
Option Charge (net of tax)	-128	-207	-118	-43.0%	-7.8%
<b>Net profit</b>	<b>8,413</b>	<b>10,191</b>	<b>11,978</b>	<b>17.5%</b>	<b>42.3%</b>
EPS - basic	12.33	14.96	17.37	16.1%	40.9%
<b>EPS - diluted</b>	<b>12.15</b>	<b>14.72</b>	<b>17.13</b>	<b>16.4%</b>	<b>41.0%</b>

Source: Company Reports

Figure 2. Segmental Performance

	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
<b>HCL Tech - consolidated</b>									
Revenue (Rs m)	43,035	46,513	52,452	52,156	59,191	60,910	62,738	64,246	69,442
Change - qoq	5.5%	8.1%	12.8%	-0.6%	13.5%	2.9%	3.0%	2.4%	8.1%
EBITDA margin	18.5%	17.1%	18.5%	18.4%	22.0%	22.2%	22.6%	22.4%	23.5%
Change - qoq	116bp	-138bp	141bp	-11bp	359bp	20bp	40bp	-18bp	105bp
<b>IT services</b>									
Revenue (Rs m)	30,349	32,927	37,797	37,183	41,886	41,995	42,140	42,263	44,570
Change - qoq	4.6%	8.5%	14.8%	-1.6%	12.6%	0.3%	0.3%	0.3%	5.5%
EBITDA margin	19.5%	18.0%	19.6%	19.4%	23.3%	23.5%	23.8%	23.3%	24.4%
Change - qoq	118bp	-153bp	160bp	-13bp	383bp	19bp	31bp	-45bp	103bp
<b>Infrastructure services</b>									
Revenue (Rs m)	10,557	11,429	12,272	12,515	14,693	16,175	17,828	19,215	21,876
Change - qoq	10.8%	8.3%	7.4%	2.0%	17.4%	10.1%	10.2%	7.8%	13.8%
EBITDA margin	19.7%	18.1%	19.2%	17.8%	21.0%	21.0%	21.5%	21.9%	23.3%
Change - qoq	60bp	-158bp	113bp	-143bp	322bp	4bp	44bp	45bp	136bp
<b>BPO services</b>									
Revenue (Rs m)	2,130	2,157	2,383	2,458	2,612	2,740	2,769	2,769	2,997
Change - qoq	-4.2%	1.3%	10.5%	3.1%	6.3%	4.9%	1.1%	0.0%	8.2%
EBITDA margin	-2.0%	-1.6%	-2.1%	5.6%	6.8%	9.2%	11.5%	11.6%	11.3%
Change - qoq	118bp	40bp	-56bp	775bp	120bp	242bp	225bp	11bp	-35bp

Source: Company Reports

- **Strong cash generation** — FY13 saw FCF of ~\$730mn (yield of 7%+), up ~125% yoy. Q4 cash flow from operations at \$336mn is up ~35% yoy. While there is some quarterly volatility (HCLT makes opportunistic payments to avail cash discounts), conversion at ~70% of EBITDA is healthy in the sector context.

Figure 3. Indian IT Services – Cash conversion

	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	Cumulative (12 quarters)
<b>CFO/EBITDA</b>													
Infosys	68%	69%	50%	78%	84%	72%	71%	72%	86%	89%	82%	79%	75%
TCS	61%	82%	57%	52%	41%	49%	66%	59%	63%	76%	73%	42%	60%
HCL Tech	8%	57%	74%	97%	15%	70%	53%	105%	28%	96%	66%	117%	70%
<b>CFO/PAT</b>													
Infosys	91%	91%	64%	98%	110%	96%	88%	93%	105%	111%	94%	100%	95%
TCS	79%	101%	72%	66%	57%	68%	87%	77%	79%	99%	94%	55%	78%
HCL Tech	14%	90%	114%	151%	24%	118%	85%	159%	43%	141%	92%	157%	106%
<b>Cash flow from Operations (\$ mn)</b>													
Infosys	341	363	256	377	454	441	409	385	451	483	419	418	4,797
TCS	367	531	387	353	304	390	515	473	513	650	631	377	5,489
HCL Tech	10	80	118	173	26	132	103	248	70	251	177	336	1,723
<b>EBITDA (\$ mn)</b>													
Infosys	499	527	512	486	542	609	578	536	523	544	514	527	6,396
TCS	599	647	682	677	734	801	781	795	811	854	862	907	9,152
HCL Tech	131	141	158	178	171	189	193	237	247	261	267	288	2,461
<b>PAT (\$ mn)</b>													
Infosys	374	397	402	384	411	458	463	416	431	434	444	418	5,032
TCS	465	525	538	538	534	575	590	611	649	659	669	683	7,035
HCL Tech	72	89	104	114	107	112	121	156	162	178	193	214	1,620

Source: Company Reports, Citi Research \*\*All calculations on company reported financials

- **Key Verticals** — Financial services (up 5.8% in cc) and Manufacturing (+4.7%) led growth. Management indicated that while Telecom grew 5.9% qoq, this quarter was an anomaly and that broader trends in the vertical continue to be weak. Trends from other verticals like Media and healthcare were also steady.

Figure 4. Revenue Metrics

	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
<b>Service Offering</b>									
Enterprise Application	20.9%	19.8%	20.3%	20.7%	20.8%	19.9%	19.0%	19.0%	17.7%
Engineering and R&D	17.8%	18.6%	18.9%	18.5%	18.6%	18.1%	17.6%	17.1%	17.3%
Custom Application	31.8%	32.4%	32.8%	32.1%	31.3%	31.0%	30.6%	29.7%	29.2%
Infrastructure services	24.5%	24.6%	23.4%	24.0%	24.8%	26.6%	28.4%	29.9%	31.5%
BPO	4.9%	4.6%	4.5%	4.7%	4.4%	4.5%	4.4%	4.3%	4.3%
<b>Geography</b>									
Americas	54.4%	55.8%	58.8%	56.7%	56.6%	57.0%	56.9%	57.1%	57.0%
Europe	27.1%	26.6%	26.8%	27.6%	28.0%	27.9%	28.5%	28.9%	30.5%
ROW	18.5%	17.5%	14.4%	15.7%	15.5%	15.1%	14.6%	14.0%	12.5%
<b>Verticals</b>									
Financial Services	26.0%	25.1%	25.3%	24.0%	23.8%	24.1%	25.8%	25.0%	25.3%
Manufacturing	28.0%	29.0%	29.5%	29.0%	28.4%	27.6%	27.2%	28.4%	28.8%
Telecom	9.1%	8.5%	8.0%	8.6%	8.0%	7.5%	7.1%	7.1%	7.3%
Retail & CPG	7.9%	8.5%	8.8%	8.6%	8.6%	9.2%	9.0%	8.9%	8.6%
Media, Publishing & Entertainment (MPE)	7.1%	6.8%	6.4%	6.7%	6.7%	7.0%	7.0%	6.7%	6.7%
Lifesciences & Healthcare	7.9%	7.6%	8.6%	9.1%	10.8%	12.0%	11.9%	11.3%	11.3%
Public Services	8.3%	8.0%	6.4%	6.8%	7.2%	6.9%	7.0%	7.7%	8.0%
Others	5.7%	6.6%	6.9%	7.2%	6.4%	5.7%	4.8%	4.8%	4.0%

Source: Company Reports

Figure 5. Client Metrics

	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
<b>Client relationships</b>									
US\$1m clients	332	349	362	386	397	401	418	422	428
US\$5m clients	126	135	144	152	164	173	178	187	186
US\$10m clients	73	79	84	92	96	98	98	98	102
US\$20m clients	35	37	42	44	45	49	50	51	51
US\$30m clients	22	23	23	25	25	29	29	29	30
US\$40m clients	10	11	12	14	14	14	15	15	18
US\$50m clients	9	9	9	10	10	10	10	10	11
US\$100m clients	1	1	3	4	5	5	5	5	5
<b>Client concentration</b>									
Top 5 Clients	15.4%	15.3%	15.8%	16.0%	16.4%	16.2%	15.7%	15.4%	15.4%
Top 10 Clients	24.6%	24.1%	24.2%	24.3%	24.7%	24.5%	24.2%	24.0%	23.8%
Top 20 Clients	35.3%	34.2%	33.9%	33.9%	34.1%	33.6%	33.3%	32.8%	33.0%

Source: Company Reports

Figure 6. Execution Metrics

	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Total manpower	77,046	80,520	83,076	82,464	84,319	85,335	85,194	84,403	85,505
Net addition	3,626	3,474	2,556	-612	1,855	1,016	-141	-791	1,102
<b>A. Software services</b>									
Total manpower	50,218	53,271	54,624	54,703	55,447	55,266	53,943	52,305	51,900
Delivery	44,991	47,950	49,223	49,284	49,739	49,453	48,098	46,503	46,213
Support	5,227	5,321	5,401	5,419	5,708	5,813	5,845	5,802	5,687
<b>B. BPO services</b>									
Total manpower	10,561	10,199	11,021	9,990	9,644	9,714	9,968	10,177	10,593
Delivery	9,677	9,378	10,106	9,111	8,733	8,798	8,992	9,314	9,714
Support	884	821	915	879	911	916	976	863	879
<b>C. Infrastructure services</b>									
Total manpower	16,267	17,050	17,431	17,771	19,228	20,355	21,283	21,921	23,012
Delivery	14,953	15,685	16,043	16,343	17,722	18,903	19,867	20,547	21,645
Support	1,314	1,365	1,388	1,428	1,506	1,452	1,416	1,374	1,367
<b>Efforts - IT services</b>									
Billed	106,006	110,245	115,613	118,918	121,101	124,070	124,613	125,072	126,883
- offshore	77,333	80,171	83,831	88,318	88,762	92,104	92,518	92,865	94,703
- onsite	28,673	30,074	31,782	30,600	32,339	31,966	32,095	32,207	32,179
Unbilled	25,396	25,808	27,691	25,251	30,879	28,434	27,616	24,199	24,146
Trainees	5,020	10,357	10,268	10,592	4,444	5,078	3,145	1,480	152
<b>Utilization - IT services</b>									
Offshore	72.5%	69.7%	69.6%	72.2%	72.4%	74.2%	75.6%	79.0%	80.6%
Offshore ex trainees	76.1%	76.5%	76.1%	79.0%	75.1%	77.4%	77.6%	80.0%	80.7%
Onsite	96.2%	96.0%	95.9%	94.4%	95.7%	95.3%	97.3%	97.0%	95.4%
<b>Revenue Mix - IT services</b>									
- offshore	42.7%	42.3%	42.1%	43.8%	42.8%	44.3%	44.9%	44.6%	45.4%
- onsite	57.3%	57.7%	57.9%	56.2%	57.2%	55.7%	55.1%	55.4%	54.6%
<b>Attrition</b>									
IT services - LTM	16.3%	15.8%	15.3%	14.4%	13.7%	13.4%	13.6%	14.3%	15.1%
BPO - quarterly	9.2%	8.5%	6.1%	6.4%	7.9%	7.6%	8.7%	7.9%	6.9%
Infrastructure services - LTM	17.0%	16.4%	17.0%	17.0%	15.0%	14.3%	13.8%	14.0%	14.5%

Source: Company Reports

- **Change in estimates** — We incorporate the 4Q beat and our revised INR assumptions. We also make marginal changes to our growth/margin assumptions, and raise FY14-FY15E EPS by ~12-14%.
- **Maintain Buy, Raise TP to Rs1,030** — We raise our TP to Rs.1,030 (multiple unchanged at 15x Sept 14E earnings). HCL Tech remains one of our top picks in the sector. The company continued its good execution with another quarter of good growth, margin expansion and cashflow generation – profits came in significantly above consensus.

Figure 7. Change in Estimates

Change in Estimates	FY13E	FY14E	FY15E
<b>Revenues (Rs mn)</b>			
Current	257,336	300,530	338,638
Previous	255,614	291,164	325,637
Change (%)	0.7%	3.2%	4.0%
<b>EBITDA Margin (%)</b>			
Current	22.7%	22.2%	21.7%
Previous	22.4%	20.6%	20.5%
Change (bp)	32 bp	158 bp	113 bp
<b>EPS (Rs)</b>			
Current	57.06	66.66	75.09
Previous	54.51	58.71	67.00
Change (%)	4.7%	13.5%	12.1%

Source: Citi Research Estimates

Figure 8. HCL Tech – 1 year forward PE chart



Source: I/B/E/S, Citi Research Estimates

## HCL Technologies

### Company description

HCL Technologies (HCLT) is the fifth-largest Indian IT services company. Founded in 1991, HCLT focused on Technology and R&D outsourcing before diversifying into enterprise applications. In the infrastructure business, it has been gradually shifting focus from domestic sales to global services. In BPO, it boasts strong ties with British Telecom. The company leverages off its extensive offshore infrastructure and its global network to deliver solutions across verticals including Banking, Insurance, Retail, Consumer, Aerospace, Automotive, Semiconductors, Telecom and Life Sciences. HCLT has over 500 clients across verticals and a workforce of ~85,000.

### Investment strategy

We rate HCLT shares as Buy (1). HCLT has been at the forefront of pursuing large deals. A significant presence across IT Services, BPO and IMS has helped HCLT qualify for multi-year outsourcing deals. IMS, R&D and BPO service offerings should enable it to post strong revenue growth, although BPO is still in restructuring mode. The Axon acquisition has helped HCLT in filling up the gap in Enterprise Services, where HCLT was lagging its peers. We forecast ~13% revenue (\$ terms) and ~15% EPS CAGRs over FY13-15E. Consistent quarterly performance and strong deal wins should help in its sustained rerating.

### Valuation

Our target price is Rs1,030 based on ~15x Sep'14E EPS. This is higher than the mid-point of the 5-20x band that the stock has traded in over the past three years. We believe a higher multiple is justified given HCLT's improved positioning in the sector (in terms of sale and capabilities), better service portfolio (post Axon acquisition). We believe PE remains the most appropriate valuation measure given HCLT's profitable track record.

### Risks

The key risks to our investment thesis on HCL Tech are: (1) any significant appreciation of the rupee against the USD/EUR/GBP; (2) a sharp slowdown in the US/global economy; (3) acquisition-related risks; (4) the strategy of pursuing large deals could have negative margin implications; (5) immigration reform is a sectoral risk. If any of these risk factors has a greater downside impact than we anticipate, the share price will likely have difficulty attaining our target price.

## Appendix A-1

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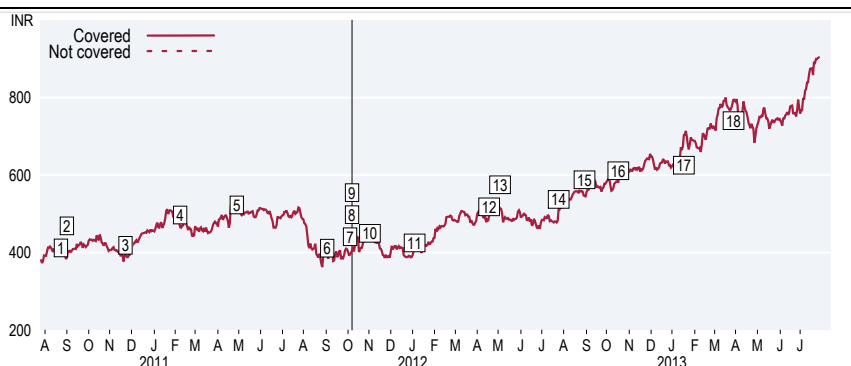
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#### Ratings and Target Price History Fundamental Research

Analyst: Surendra Goyal, CFA



Date	Rating	Target Price	Closing Price
1 24-Aug-10	*1L	*495.00	408.50
2 1-Sep-10	1L	*480.00	386.55
3 23-Nov-10	1L	*510.00	394.95
4 8-Feb-11	1L	*560.00	465.50
5 28-Apr-11	1L	*595.00	512.45
6 2-Sep-11	1L	*505.00	397.35

\* Indicates change

Date	Rating	Target Price	Closing Price
7 5-Oct-11	1L	*510.00	395.10
8 7-Oct-11	Stock rating system changed		
9 7-Oct-11	*1	510.00	404.65
10 2-Nov-11	1	*515.00	438.20
11 4-Jan-12	1	*550.00	418.10
12 18-Apr-12	1	*570.00	495.55

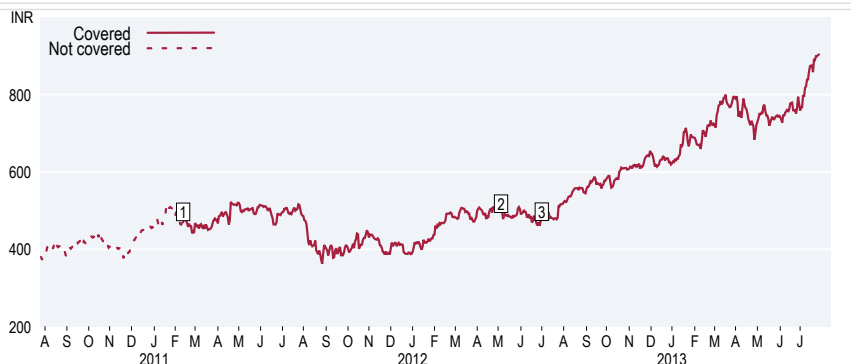
Date	Rating	Target Price	Closing Price
13 3-May-12	1	*585.00	514.10
14 25-Jul-12	1	*615.00	513.75
15 30-Aug-12	1	*650.00	546.30
16 17-Oct-12	1	*680.00	580.30
17 17-Jan-13	1	*820.00	703.30
18 28-Mar-13	1	*895.00	795.95

Rating/target price changes above reflect Eastern Standard Time

### HCL Technologies (HCLT.BO)

#### Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Surendra Goyal, CFA



Date	Rating	Target Price	Closing Price
1 11-Feb-11	*ADD MP	-	469.95

\* Indicates change

Date	Rating	Target Price	Closing Price
2 4-May-12	*REM MP	-	512.85

Date	Rating	Target Price	Closing Price
3 30-Jun-12	*N	-	476.20

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% of companies in each rating category that are investment banking clients	53%	50%	45%	58%	51%	49%

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