

Initiating Coverage
February 3, 2011

HCL Technologies Ltd.



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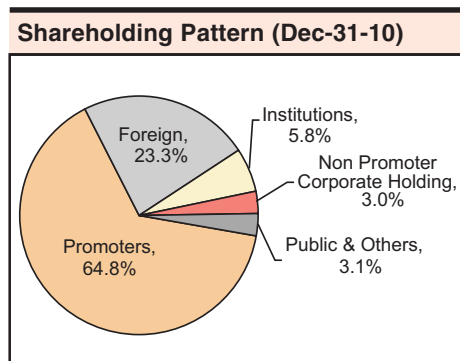
HCL Technologies Ltd.

Close, but no cigar...

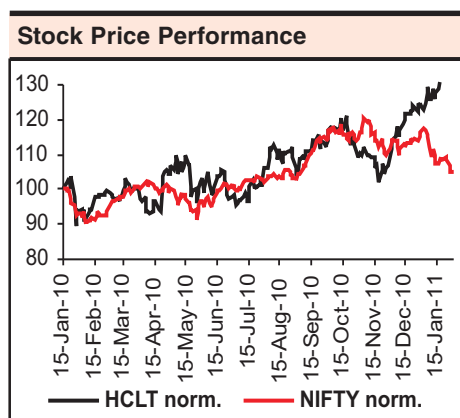
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Key Stock Data	
Sector	Information Technology
CMP	₹498.2
52-wk High / Low:	₹517.2/317.6
Market Cap	₹338.18bn (\$7421.88mn)
Avg 6m daily vol.	866209
NSE Nifty	5432.0
Reco	Buy
TP	₹584

Stock Codes	
Bloomberg Code	HCLT.IN
Reuters Code	HCLT.BO
BSE Code	532281
NSE Code	HCLTECH
Face Value	₹2 per share



Price Performance (%)	
	(%)
1 Mth	8.0%
3 Mths	20.4%
6 Mths	24.1%
1 Yr	37.3%



HCL Technologies Ltd. (HCLT), incorporated in 1991, is a Gurgaon based IT and ITeS company, employing 70000+ employees, serving more than 300 clients in various industries across the globe. The company has exhibited robust 30% CAGR in operations spanning 5 years.

The company primarily focuses on software and applications alongwith Infrastructure, BPO and Engineering & R&D services and, is well known for its employee-friendly HR policies. Following, is a brief summary of our investment thesis;

Sustainability -not a concern; deserves valuation premium vis-à-vis peers

With supply-side concerns plaguing the domestic IT sector, HCLT is well-positioned to tap and retain key-talent compared to peers. The company is well known for its "Theory-Y" HR philosophy. In recent quarters, the company has established 'the talent magnet' track record and we expect similar performance, in future.

Additionally, the company has been reporting broad-based q-o-q growth across verticals. Currently the largest industry segment, Manufacturing, comprises less than 30% revenues. Accordingly, we consider the business to be well-diversified w.r.t. peers and capable of withstanding sudden changes in economic cycles.

Finally, with ~40% fixed price revenue-contribution, the company has satisfactorily addressed concerns related to long term growth.

Additional headwinds seen on package, custom-implementations fronts

Apart from the fastest growing Infrastructure (RIMS) segment, the company boasts of one of the largest SAP practice, on a global scale, metamorphosed post AXON-acquisition. Further, HCLT is well-positioned to leverage its reach, domain expertise and quality-product-portfolio to build on discretionary and transformational spends, which have gained significant industrywide-momentum during the last three quarters.

Huge scope for exercising margin levers

We see 'margin expansion'-options on the table. The management has hinted at employee-pyramid rationalisation and lower SG&A costs going forward. But, HCLT's dismal track record of operations cannot be disregarded and, concerns continue, unabated.

(continued...)

Key financials*

(₹Cr)

For y.e. Jun. 30	2009	2010	2011E	2012E
Net operating income	10608.40	12565.00	15598.83	19176.89
EBITDA	2323.90	2572.90	2513.93	3564.05
PAT	1782.20	1301.50	1461.28	2290.33
EBITDA margin	21.9%	20.5%	16.1%	18.6%
EPS (₹)	26.59	19.17	21.53	33.74
BV (₹)	73.75	92.65	108.79	134.10
PAT margin	16.8%	10.4%	9.4%	11.9%
RoANW	36.1%	23.2%	19.7%	27.8%

Source: Company, E: Keynote Capitals Institutional Research Estimates (\$1=₹46)
*Financials constructed from quarterly numbers

Previously, during 2009-10, HCLT was aggressively cross-hiring, coupled with elevated SG&A-activity. Going forward, SG&A cost-structure will improve on account of comfortable deal position. However, wage levers remain contingent on medium-long term growth rates.

Valuation

At CMP HCLT's common stock is trading at 14.8x FY12E earnings. Considering the improved deal-position and robust business environment, we initiate coverage with a "buy" recommendation for target price of ₹584, arriving at 18.5x FY12E earnings for the unlevered firm.

Company background

Following the '.com bust' in 2000, HCLT has evolved from a .com focused applications firm to an end-to-end IT services company. In 2007, the management formulated the 'Blue Ocean' strategy for addressing growth concerns, by formally addressing large deals within a formal strategic framework.

Presently, the company employs a "holistic" technology base to meet its customer requirements; chips to applications to systems. From an operations perspective, HCLT houses, Custom Application Services (CAS), Enterprise Application Services (EAS), Infrastructure (RIMS), Engineering & R&D (Engg) and BPO departments, serving a well –diversified industry base sampled through 312 active clients, spread across the globe (see charts 1, 2, 3).

Chart 1

Need to build significant domain-expertise. This aint how an IT company should look these days

Service offerings

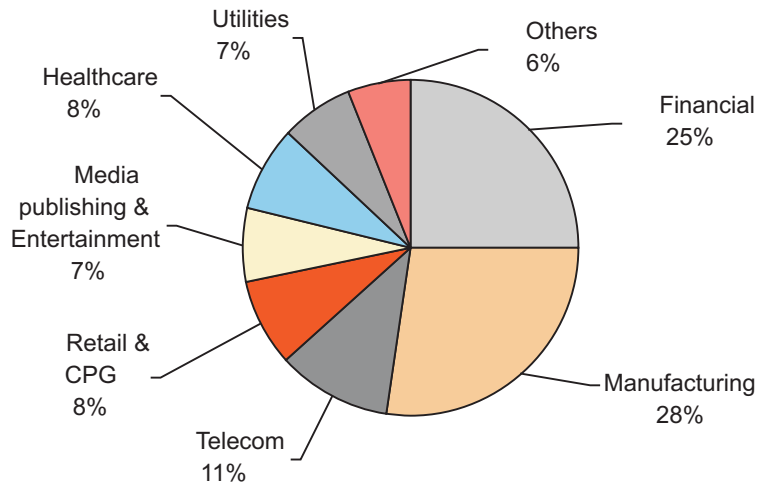
HCL Technologies Ltd.				
Consolidated IT ~93.7%				BPO Ordinary functional outsourcing; voice and non-voice. Going forward, will shift focus to non-voice. ~6.3%
Applications ~52%		RIMS IMS services like hosting, datacenter services and other support services like help-desk etc ~22.4%	Engg Deals in embedded logic, product development (incl. software) and other design issues ~18.9%	
EAS Driven by HCL-AXON. Package implementations: SAP and Oracle ~21.6%	CAS Customised products and indigenous IP ~30.7%			

Source: Company

Chart 2

Well diversified industry exposure

Industry presence

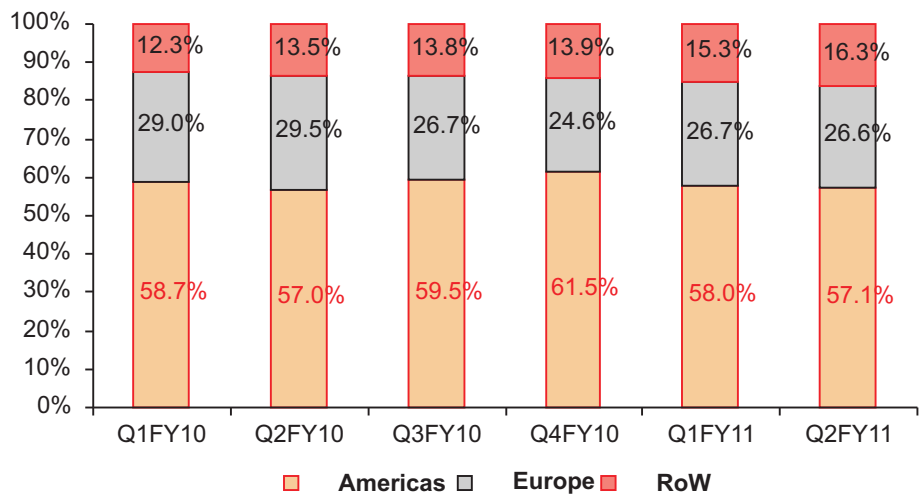


Source: Company

Chart 3

A-Pac and Europe viewed as growth-engines for intermediate term

Geographical spread



Source: Company

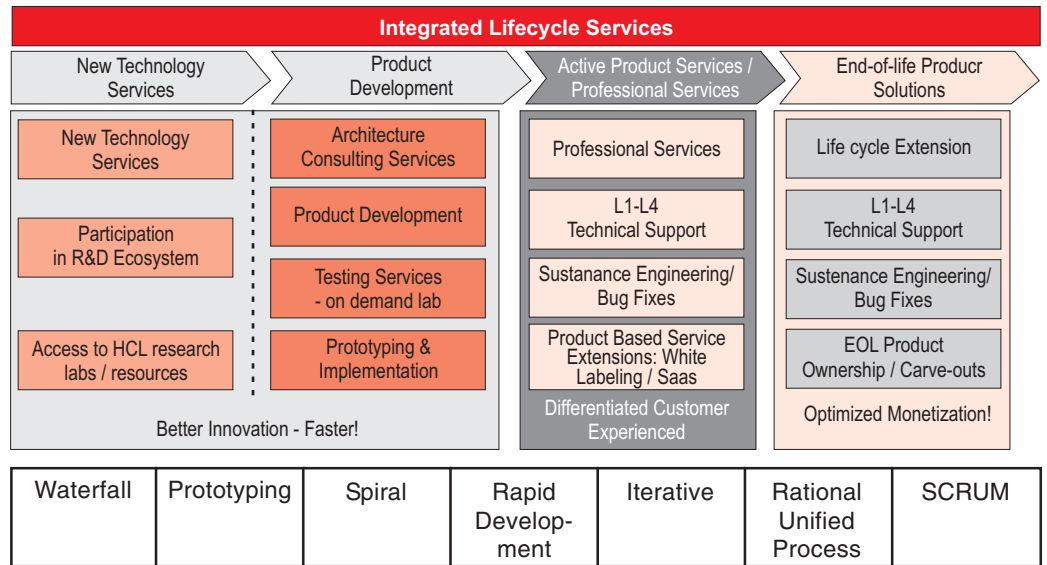
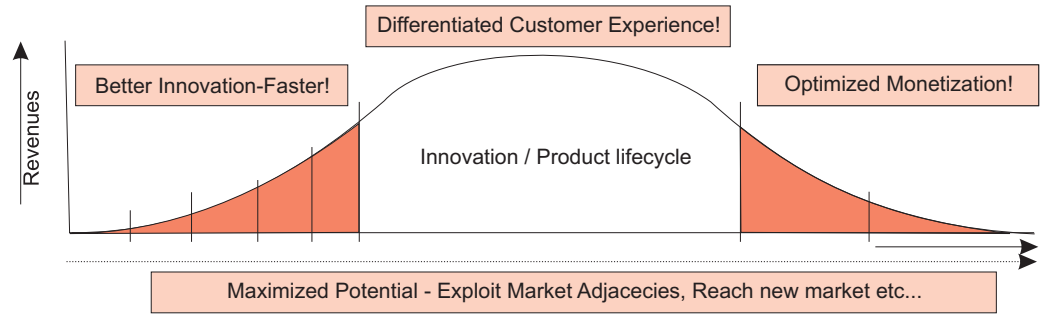
Business in depth

The company provides a full-suite of services through the 'Thinking IT' framework, which can be broadly categorized from software (incl. chips) to systems. On the application side, the company offers product development, customization and maintenance/support services spanning across all major industrial verticals.

The company employs a proven intellectual-framework and work-flow/operating procedures, acquired both, organically and otherwise, over a decorated history of operations, to ensure SLA-fulfillment in every circumstance.

Chart 4

Software development services

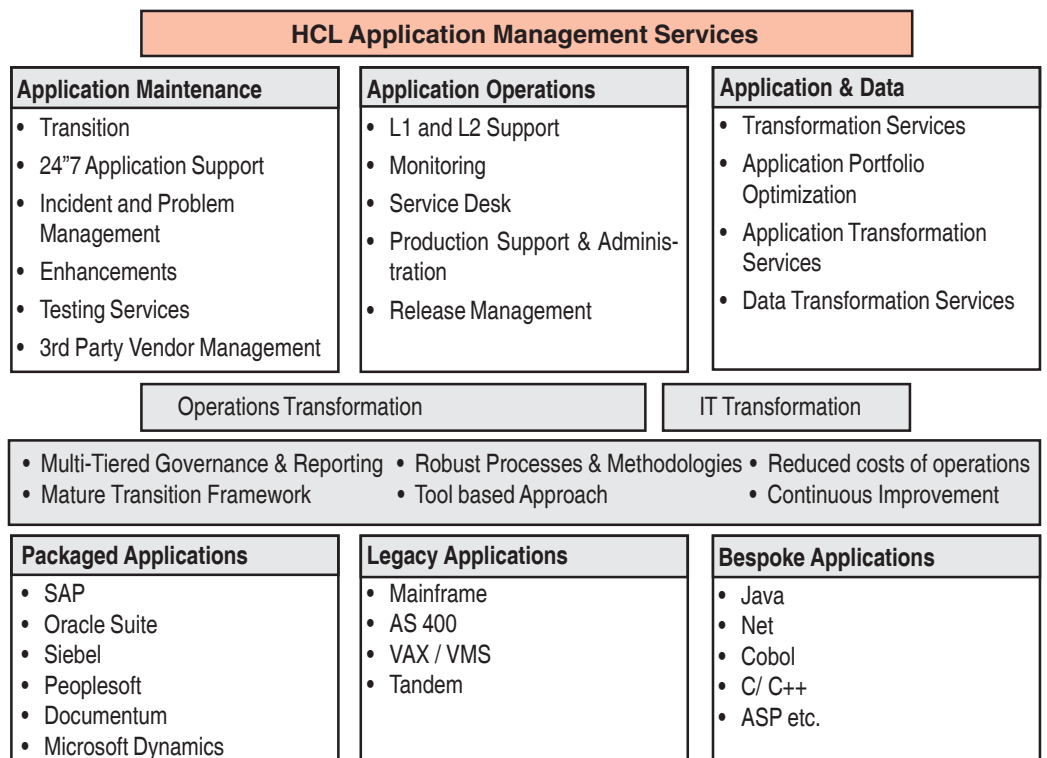


Source: Company

Chart 5

Excellent applications-track record. History can be traced from 'Neanderthal Age'

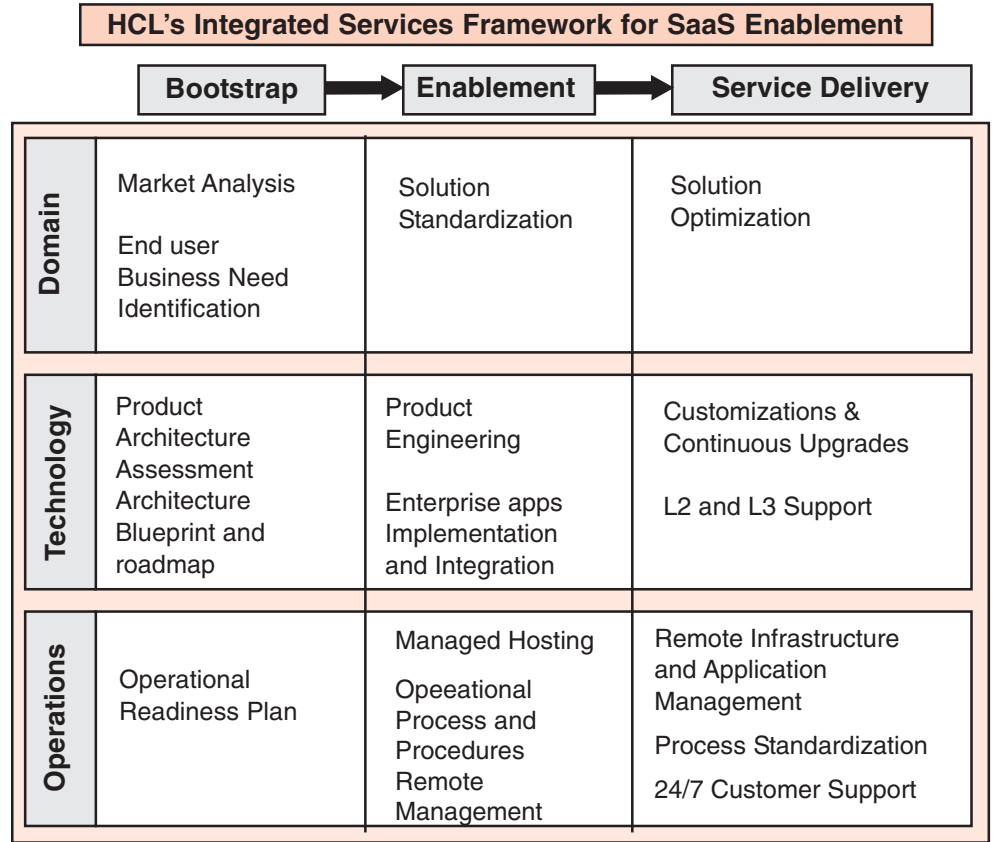
Application maintenance services



Source: Company

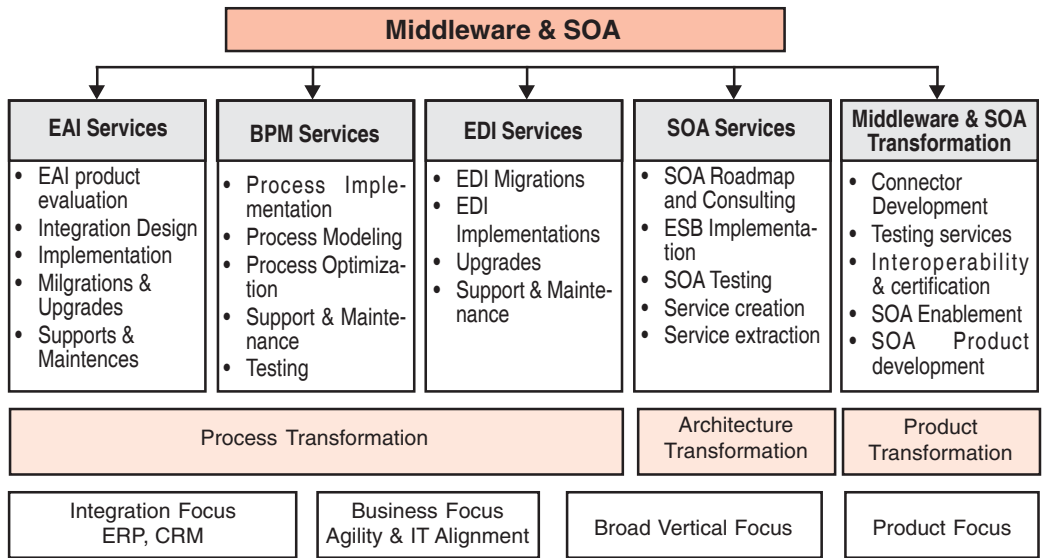
Chart 6

Software services delivery (SaaS)



Well balanced delivery model

Service Oriented Architecture (SOA)

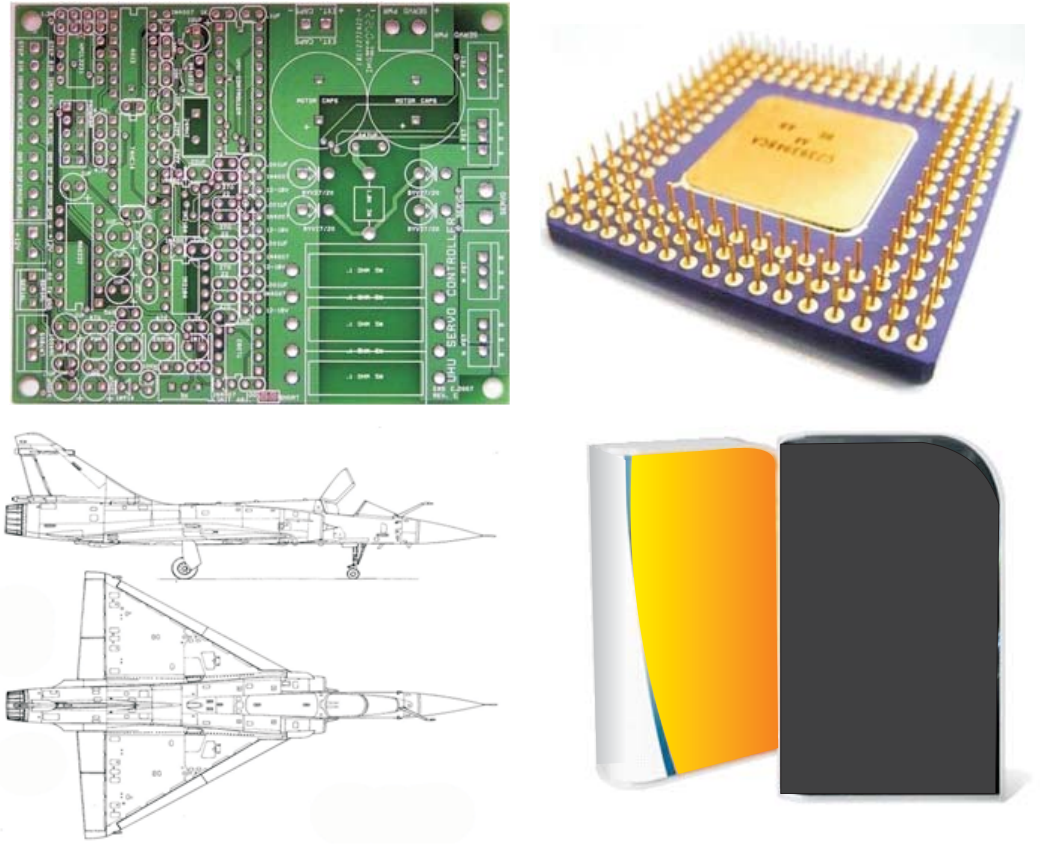


Source: Company

On the engineering side, the firm offers services in circuit-design, embedded, mechanical engineering and other software products.

Chart 7

Gamut of engineering services



Source: Company

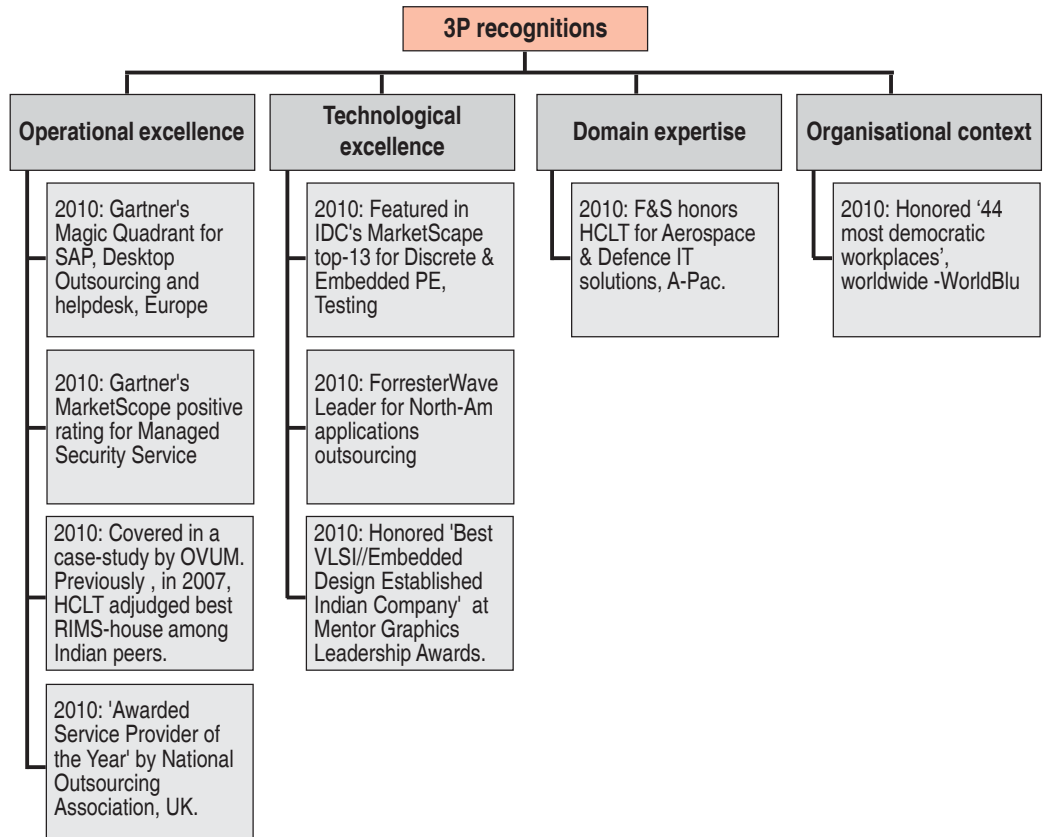
On the infrastructure front the company provides fully-packaged, infrastructure renting to helpdesk and other support services:

- End User Computing
- Data Center Transformation Services
- Network Services
- Information Security Services
- Integrated Operation Management Services
- Cross Functional Services
- Mainframe Services

Awards & Recognitions

Chart 8

Lack of domain expertise is a long-term concern

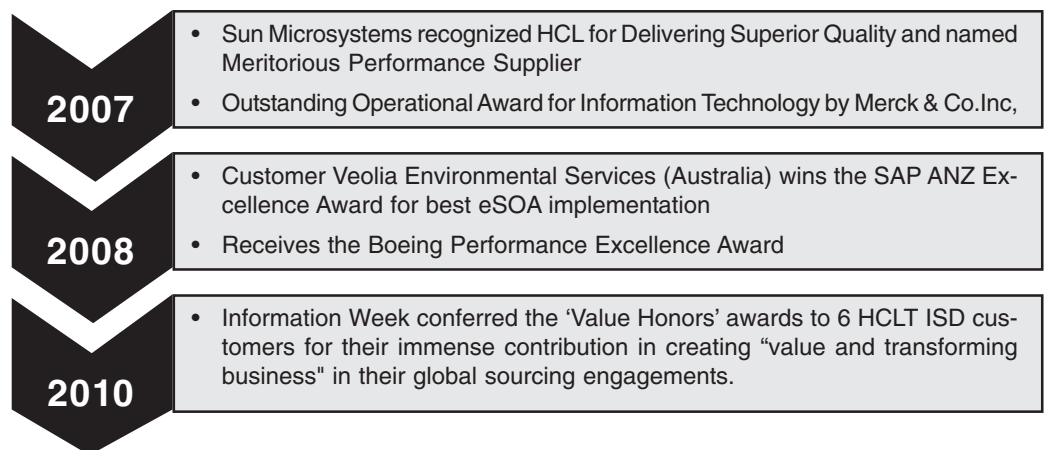


Source: Company

2P recognitions

Following are some official testimonies by HCLT's clients, lauding the firm's operational and technological strengths:

Chart 9



Source: Company

Business outlook.

We maintain positive outlook on the company, while duly emphasizing on its deal-pipeline and industry diversification. The company has weathered the 2008 turmoil and has continued its growth story unscathed. The following discussion forms the basis of our forecasts.

Sustainability concerns can be comfortably overlooked, considering the over-designed employee-pyramid. The company, currently, employs a significantly sub-optimal employee pyramid, as a result of aggressive lateral-hiring during the recovery years -2009-10. Going forward, with the imminent management crunch, due to measly industrywide sourcing during recession-hit 2008-09, we see HCLT in a relatively decoupled state compared to peers.

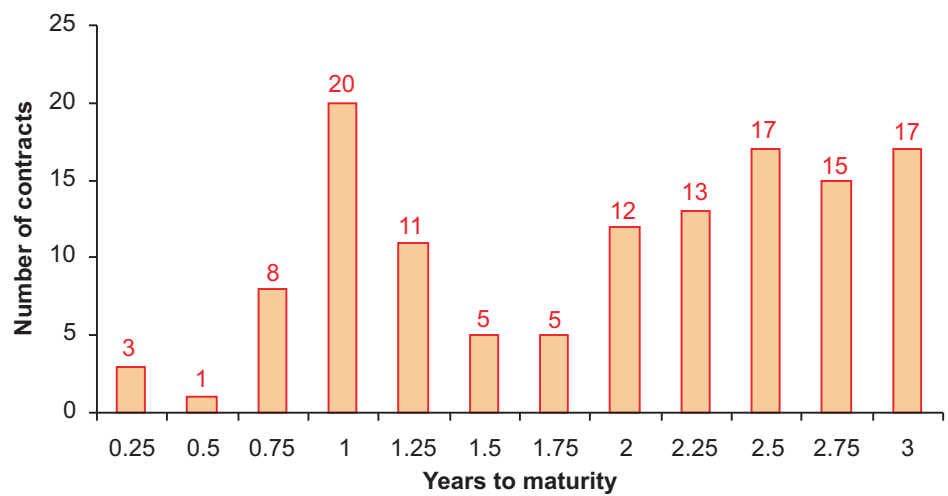
Deal pipeline

Addressable deal sizes in the pipeline have surpassed previous peaks, registered during H1FY09, by ~25%, effectively capturing \$1.3bn+ of outstanding contract value, across verticals. The median contract maturity works out to 2yrs (see chart 10), offering good revenue-visibility.

Chart 10

**"Blue-ocean" paying-off.
Contract maturity comfortably
renders 1+ year top-line
visibility**

Distribution of outstanding contract maturity (yrs)



Source: Company

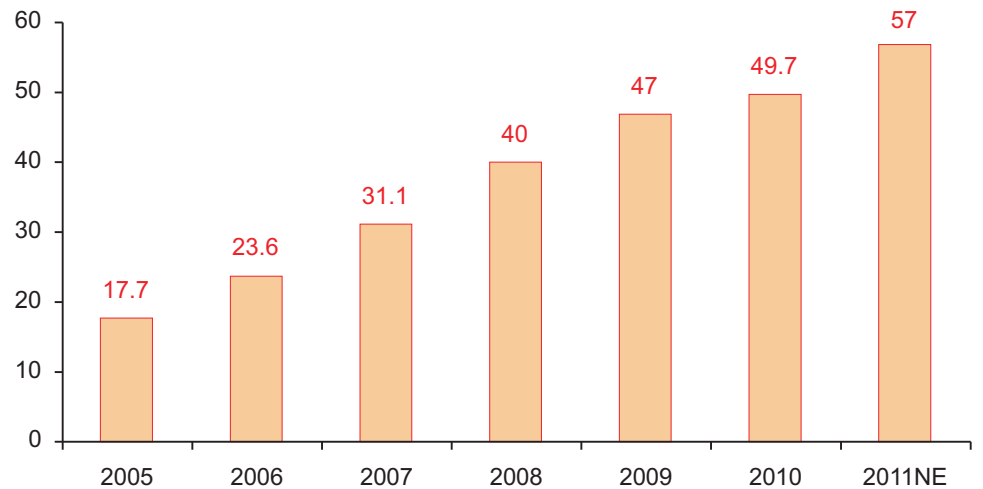
Domain-specific outlook... Manufacturing and BFSI showing good traction

Global IT spending will increase by 5.3% to \$3.4tn during 2010, according to Gartner, with computer hardware and IT services demonstrating the strongest growth (5.7%). This is in contrast to the 4.5% contraction witnessed last year when hardware sales were badly impacted, slumping by 12.5% and IT services and computer software saw declines of 4% and 2.5%, respectively. Further, software and telecoms will both benefit from increases of approximately 5.1%. (Source: Information Age, 17 May 2010).

From an Indian perspective, the IT sector has witnessed robust Q3CY10-growth, with big firms like TCS, Wipro and Infosys beating street-consensus, hands-down. Going forward, a large chunk of demand will be sourced from new license sales of Oracle, SAP implementations and other forms of discretionary spending for sustaining growth, as the new-year-2011 paints a hopeful picture of global economic health. Accordingly, NASSCOM estimates Indian IT exports at a whopping \$57bn during FY11 (see chart 11).

Chart 11

Quantum of Indian IT exports (\$bn)



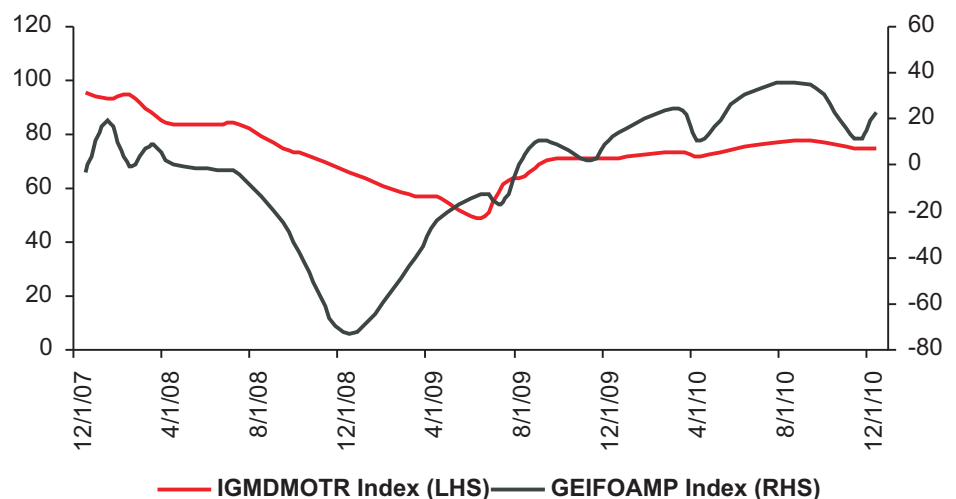
Source: NASSCOM NE: NASSCOM Estimates

Manufacturing outlook

With retreating recession-blues, the stage has been set for HCLT’s growth on the back of robust global manufacturing sector performance. Previously, in 2008-09 the manufacturing sector, particularly automobile manufacturers were plagued by declining orders, increasing inventories and mounting financial distress. However, the situation has changed of late and the confidence in the manufacturing sector has been restored to pre-2008 crisis levels (see charts 12, 13).

At the same time, the recession has deeply impacted corporate policies, resulting in increased focus on sustainability, intelligence and frugality. Organizations have restructured business units and realigned processes towards achieving a higher degree of customer-centric-ness while, adopting a demand driven agile approach. Consequently, for the manufacturing sector this translates into higher investments in technology enabled lean systems. Correspondingly, we see greater spending in the areas of ERP-implementation, process automation and optimization tools, which will significantly increase the demand for instrumentation, control logic and system integration tools,

Chart 12

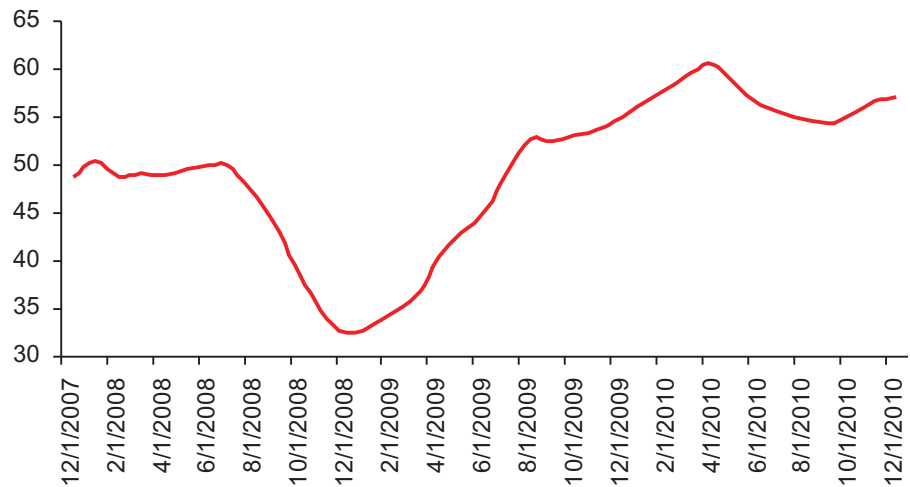


Source: Bloomberg
 IGMDMOTR: US Auto Index (monthly)
 GEIFOAMP: German Auto Index (monthly)

HCLT is nicely positioned to appropriate the manufacturing – bounceback, with ~30% revenues sourced from the manufacturing-sector

Chart 13

ISM PMI



Source: ISM

The shift towards frugality is evident post financial crisis. The commercial applicability of information technology (IT) which was initially restricted to productivity enhancement and ROI has been expanded to include cost –saving objectives, resulting in concentrated demand for control systems and operations management tools.

At the fore-front has been the recent spurt in PLM and MES tools, followed by a conscientious approach towards analytics by meaningful practice and implementation of ERP and SCM systems. Going forward, we expect this to extend from intelligent querying to process modeling and factory simulation for empowering and automating critical decisions at the enterprise level.

Sizing estimates suggest doubling of MES revenue during 2006-12, with Frost predicting ~6bn tied into MES and PLM set to achieve \$20bn while registering 9% CAGR during 2007-12.

On the semicon front, Gartner estimates 4.6% Y-o-Y growth with worldwide semicon revenues touching \$314bn during 2011. Correspondingly, we expect HCLT’s embedded and semiconductor division to grow by a CAGR of ~13-23% over the next three years, given its profound industrial network.

Industrial solutions

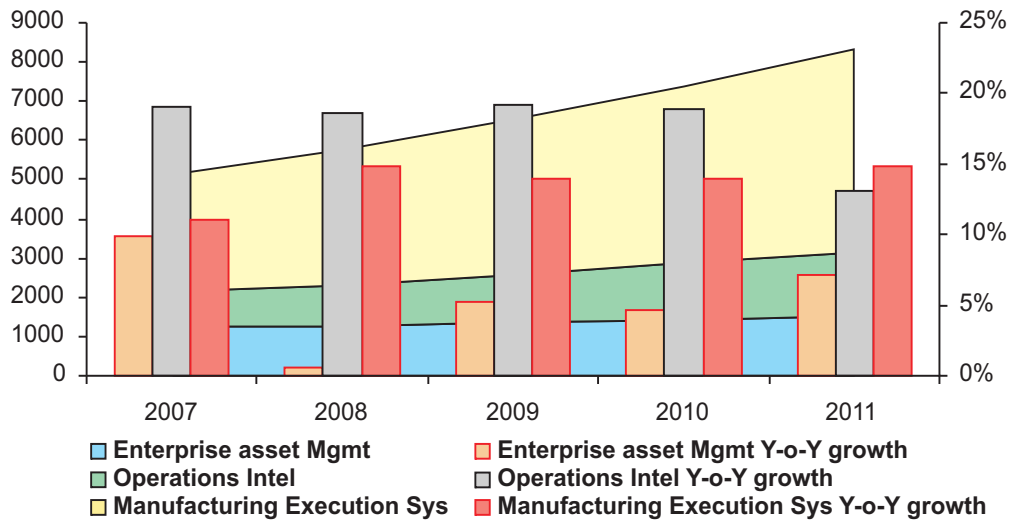
Various businesses have been benefitted by HCLT’s expertise in manufac-focused ERP implementations. HCLT has delivered stellar performance across all supply chain components for many manufacturing organizations.

AMR Research estimates the market for manufacturing operations solutions to grow at 13% five-year CAGR, reaching the \$8bn mark by 2011. Overall, the manufacturing operations solutions market can be subdivided into enterprise asset management, operations intelligence and MES, with MES accounting for a lion’s share (see chart 14). The total market is estimated to grow at 13% CAGR during 2006-11 with operations intelligence and MES accounting for 18% and 14% resp. while, Asia-Pacific emerges as a clear leader, with an adoption rate of 20% over 2006-11 (see chart 15). We expect this momentum to continue till 2013.

Chart 14

We see good traction in almost all service lines, with special attention towards EAS and CAS

Global market size operation management tools (\$mn)

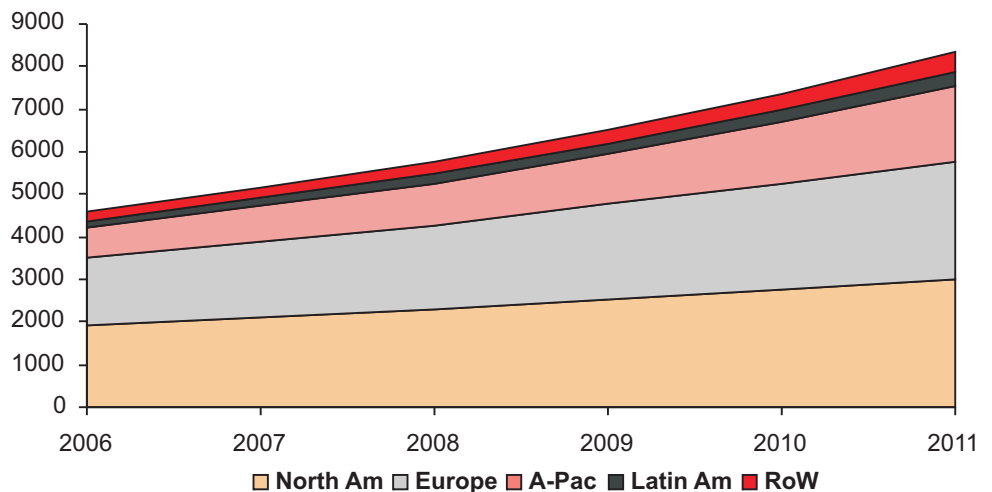


Source: AMR

Chart 15

HCLT's significant A-Pac exposure (~15%) will help sustain the tempo

Operations management tools revenues by geographies (\$mn)



Source: AMR

Given its global footprint, and acceleration abilities acquired through AXON, HCLT is well positioned to exploit the expected growth in manufacturing related IT solutions by leveraging its SAP practice and niche expertise in the manufacturing space. Accordingly, we estimate ~12-20% three year forward CAGR in enterprise solutions (EAS and CAS) for HCLT.

BFSI outlook

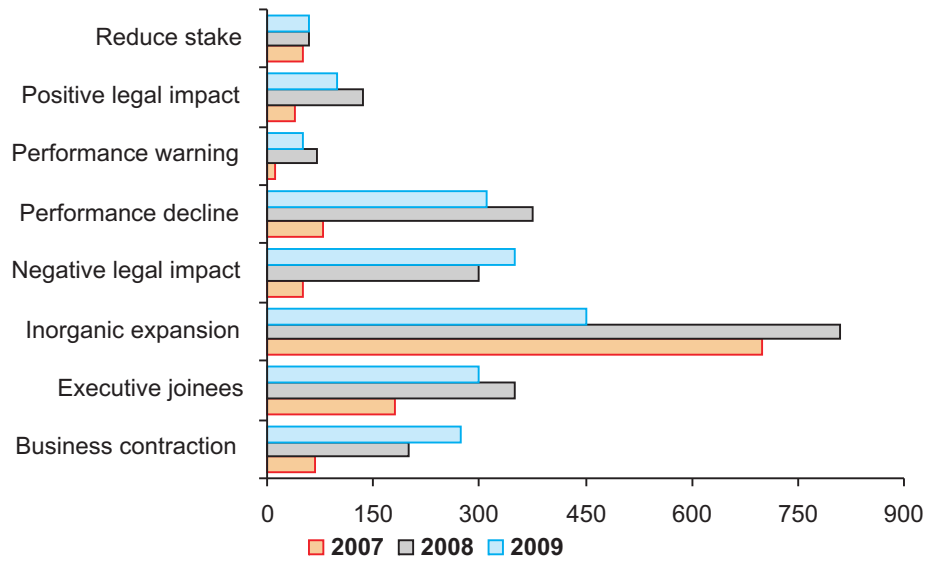
The company has registered 18.1% y-o-y growth in BFSI business during the year, effectively changing the business-mix. We believe that, BFSI vertical offers a sustainable passage of growth for HCLT, going forward. Our view has been further reinforced by HCLT's willingness to evaluate inorganic alternatives, given the acquisition of UK-based SAP-accelerator, AXON.

The environment is particularly ripe for deals in BFSI, with business events snowballing to critical proportions (see chart 16). This has been further aided by technological advances in virtualisation and cloud computing, offering significant cost advantages.

Chart 16

According to Everest Research (EAR-model), these events are precursors to new IT deals/contracts. HCLT seems to have taken the perfect approach, upping the SG&A-ante and striking the iron when it was hottest

Event frequency for a sample of 100 American BFSI institutions (2007-09)



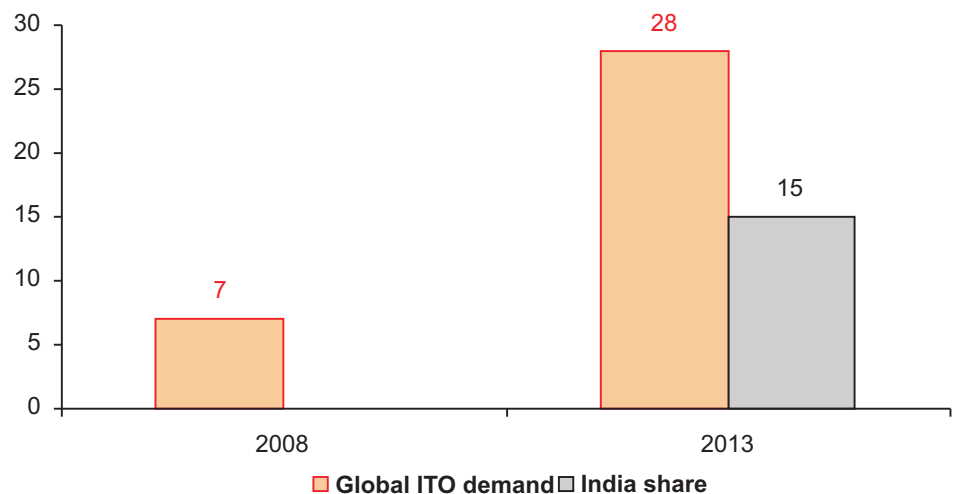
Source: Everest Research

Other high growth services... RIMS

IT Infrastructure Management Services are expected to offer a market opportunity of around \$500bn. Globally, the RIMS industry is likely to achieve a penetration of 25-27% by 2013; \$20-21bn increase over \$6-7bn revenues presently. Further, based on a global CIO survey, India emerges as “primary” offshore destination, the country will capture greater than 50% of the world market i.e. \$13-15bn 2013 revenues (Source: NASSCOM-McKinsey) (see chart 17).

Chart 17

RIMS potential w.r.t. Indian IT industry



Source: NASSCOM-McKinsey

Cloud compute... ready reckoner

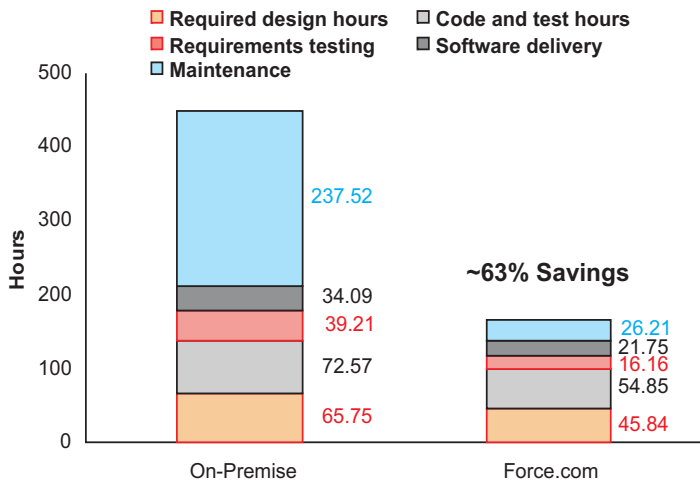
Most organizations tend to under-utilize in-house compute capacities, estimated at 15% (Source: white paper - “Capturing the Potential of Cloud” by IBM Global Business Services). Cloud computing can dynamically satisfy compute demand through multiple instances that can be remotely accessed from a terminal. The billing is based on compute

time per instance. This marks a paradigm shift in IT related cost-structure for organizations, whereby capex and licensing costs of proprietary software will be completely transformed into variable costs

and compute capacity can be invoked at will without constraints, making it useful especially for smaller firms. Other benefits related to external economies of scale include savings related to maintenance and IT personnel (see chart 18).

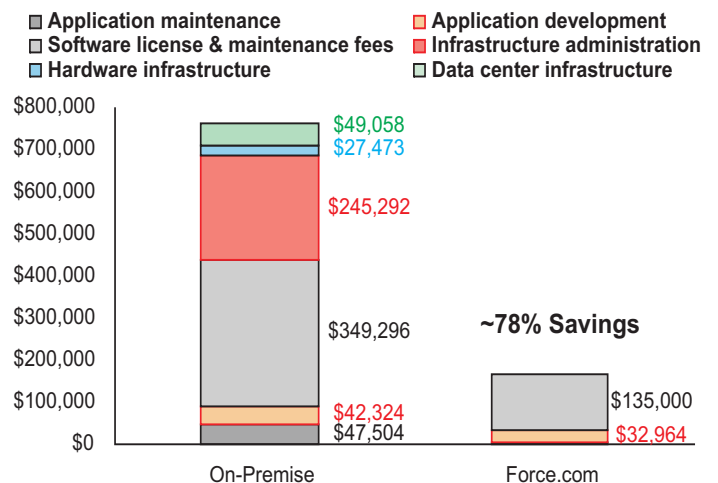
Chart 18

Time Savings



Development time (months)*	1.63	1.07
Maintenance over 5 years (hours)	237.52	26.21

Cost Savings



Cost for 100 users for 5 years	\$760,947	\$167,964
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* Development time = requirements, coding testing, verification and delivery
Source: Force.com savings calculator

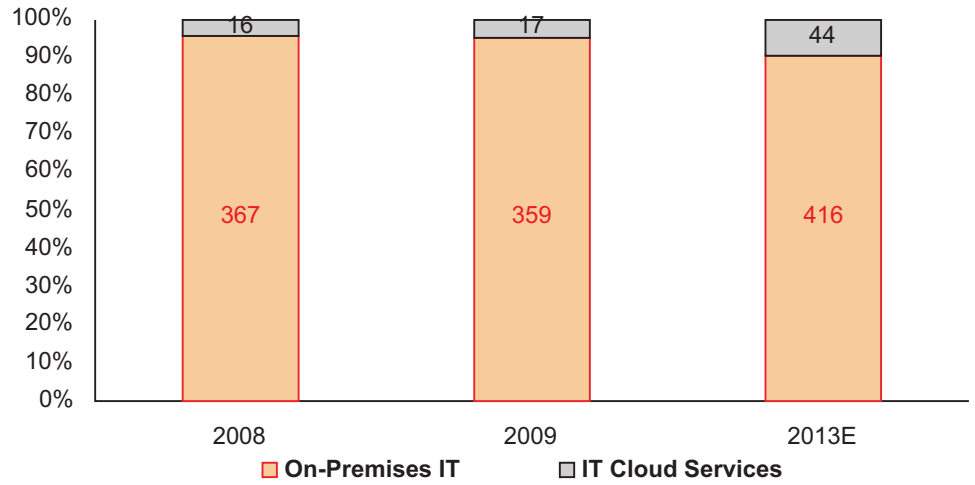
The potential applications of Cloud Compute are almost general purpose; going forward, the concept can completely displace the existing arrangement for both organizational as well as household computational requirements to a model wherein computational needs will be addressed as a public utility. Given adequate internet bandwidth, the Cloud can also be used for High Performance Compute (HPC), which most organizations are currently unable to support in the traditional arrangement. Beyond the apparent benefits, the Cloud has deep reaching economic consequences related to easing entry barriers in specific businesses involving digital content development (like animation, game development, design etc.) which rely on heavy computational requirements (both hardware and software). The Cloud also offers scalability benefits related to API standardization and will be instrumental as a change agent for transforming existing revenue models.

Estimated Demand for Cloud Compute

Initially, we expect application and database workloads to be moved to private clouds and infrastructure workloads to public clouds, with elevated activity in BFSI, healthcare and government sectors. The potential for cloud appears quite robust. Gartner predicts 20% of businesses will have zero IT assets by 2012. IBM expects growth at 26% CAGR in cloud services during FY10-13, with \$66bn tied into core services like Software as a Service (SaaS) by 2012. Total business size including Business Process as a Service (BPaaS) and support services can be well over \$100bn (see charts 19, 20).

Chart 19

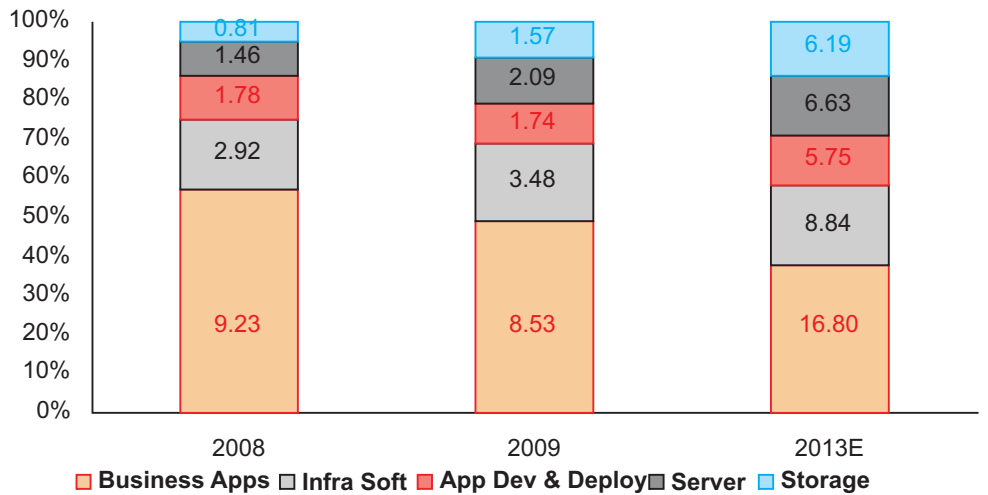
Cloud Compute Market Size Forecast (\$bn)



Source: IDC

Chart 20

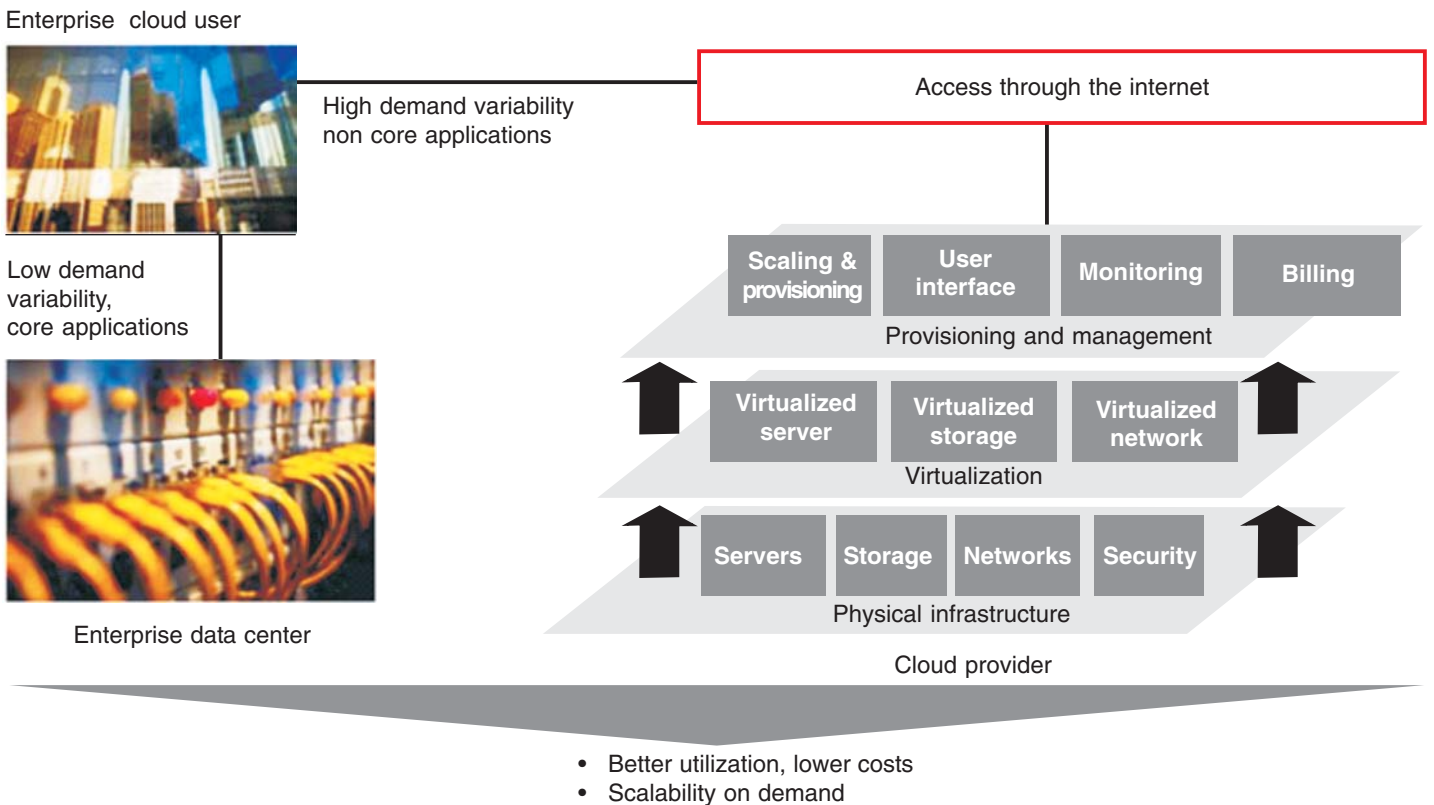
Global Cloud Compute Spend by Product/Service Type (\$bn)



Source: IDC

Chart 21

HCLT's cloud arsenal



Source: Company

Currently HCLT has 35+ clients in early adoption stage...

HCLT provides the entire spectrum of services incl. setting-up and migration to cloud under the Migration++ framework and, currently employs an IP-portfolio, Nimbo and Agora, for addressing provisioning and management needs, resp.

HCLT also hosts software and infrastructure services, focused at industrial belts/clusters. The downside risks to these projects have been capped through 3P-insurance contracts

New focus areas... Utilities

With a view to protect the environment from emissions and enhance energy security, most countries are improving electricity transmission (T&D) efficiencies through the adoption of smartgrids, with the US Govt allocating ~\$5bn for selective implementation. Expected to grow at a whopping 38% CAGR during 2009-13, smartgrids require substantial investment in system integration and, need to be empowered by analytics and optimization tools.

On the Advanced Metering Infrastructure (AMI) front, HCLT, currently a Smartgrid Task Force Member, India, has bagged a crucial domestic assignment on systems integration that, may decide the fate of HCLT's smartgrid foray. Pursuant to demonstrated exhibition capabilities, we believe the potential upsides to be significant, allowing HCLT to unlock a brand-new growth-engine.

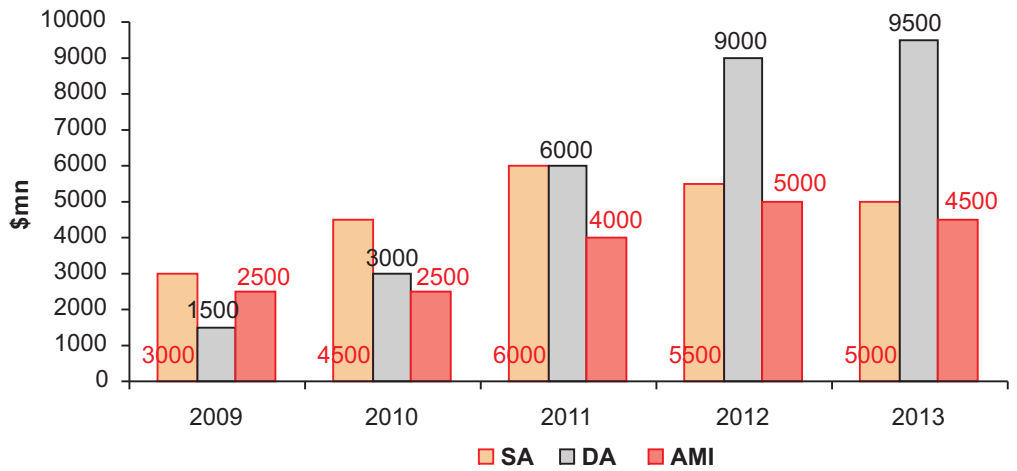
As of 2009, ~\$10bn is tied into smartgrids globally, with US accounting for ~\$5bn. Going forward, with policy thrust towards greener technology global smartgrid investments are expected to peak up to ~\$36 by 2013 and aggregating a capital stock of ~\$200bn by 2015. Among HCLT's smartgrid focus areas, DA will account for a substantially larger share of growth at ~57% four year CAGR followed by AMI and SA at four year CAGRs of ~26% and 19% respectively (see chart 22).

Chart 22

Expect peaking of smartgrid investments during, 2013. On the domestic front, HCLT has landed a crucial AMI systems integration assignment. We see good scope for a new growth-engine

Considered as a technology leader in this area (Pike), HCLT has one lab each, in India and US, dedicated to smartgrid solutions.

Smartgrid revenue by application, World Markets



Source: Pike Research

Client portfolio

The company serves a large client portfolio with comfortably diversified exposure (see chart 23), while appropriating more than 94% repeat business. Following is a demonstrative list of clients across industry-verticals.

Industrywise list of marquee clients

Client base -not a concern, further strengthens our argument for valuation premium w.r.t. peers

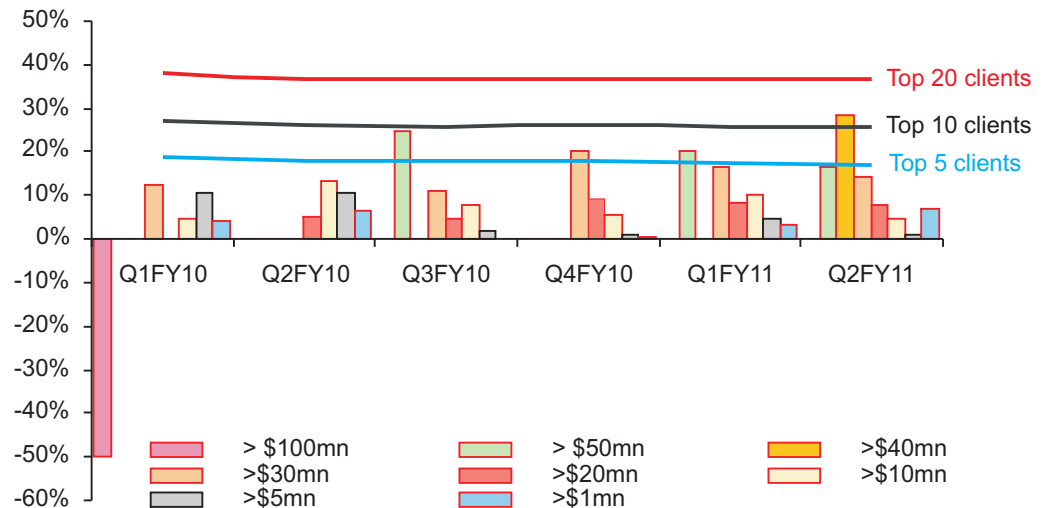
- Financial services : NASDAQ, Singapore Exchange, Equitable Life, American Family Insurance, Deutsche Bank, Bank of Ireland
- Manufacturing : Danfoss, XEROX, Sony Corp, AgilentTechnologies, Nokia Corp
- Telecom : Vodafone, Belgacom
- Retail & CPG : Dr Pepper Snapple Group, Coca-Cola
- Media, Publishing & Entertainment : Viacom, Advanstar
- Healthcare : Merck & Co Inc, Quest Diagnostics
- Utilitie : Malaysian Airlines,

Source: Company

Chart 23

Well diversified client exposure; in high-growth trajectory -icing on the cake

Client concentration



Source: Company

Cost levers

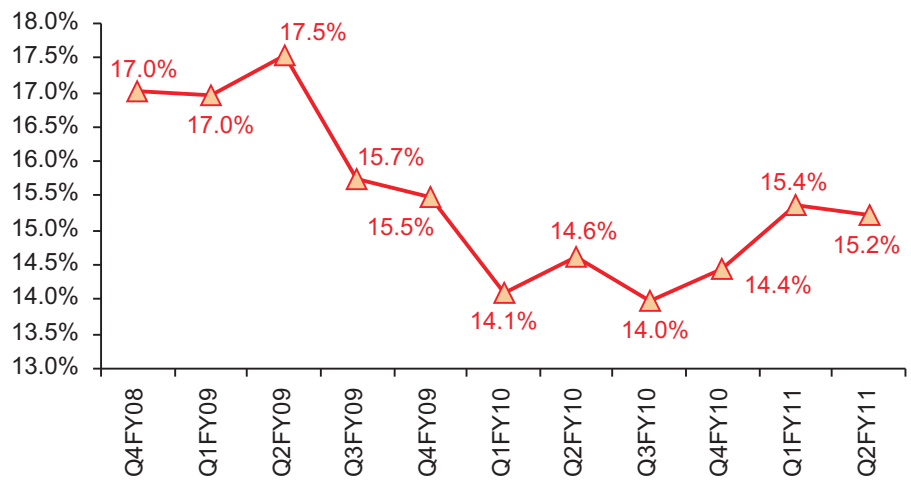
On the services side, HCLT has witnessed robust volume growth. The manpower addition has been aggressive, resulting in a bulky employee pyramid. We see immense scope for optimisation from pyramid-streamlining.

Further, during the recovery period -2010, HCLT has aggressively invested in SG&A (see chart 24), peaking at 17.5% of total revenues during Q2FY09. There has been a recent uptick, ~93bps q-o-q, during Q1FY11. However, with a healthy deal-pipeline, the management has guided for lower SG&A spend, going forward.

Chart 24

Comfortable deal pipeline, management may consider SG&A as possible margin lever, going forward.

Investments in SG&A (% revenues)



Source: Company

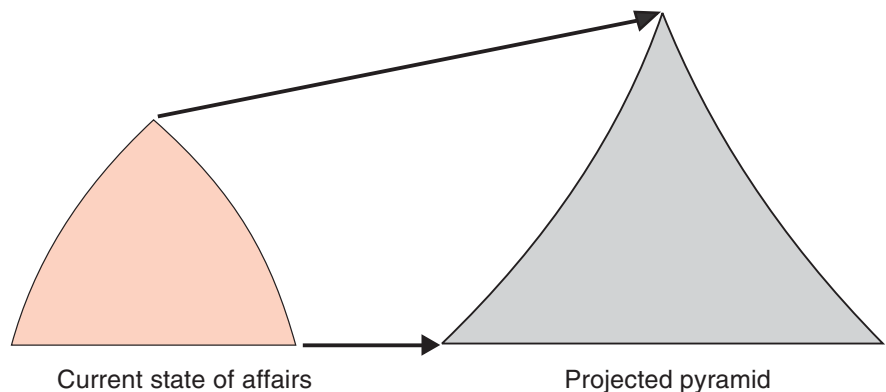
HR policy at HCLT

The firm is well known for its ‘employee first’ HR policy. Long term implications are positive, allowing the firm to command a ‘talent premium’, thus, effectively addressing supply-side concerns.

Recently, during the initial recovery phase, HCLT has been aggressively hiring, with laterals overshadowing freshers, across segments. The company is well positioned to sustain growth, and has significant headroom for margin expansion.

Chart 25

Employee pyramid at HCLT

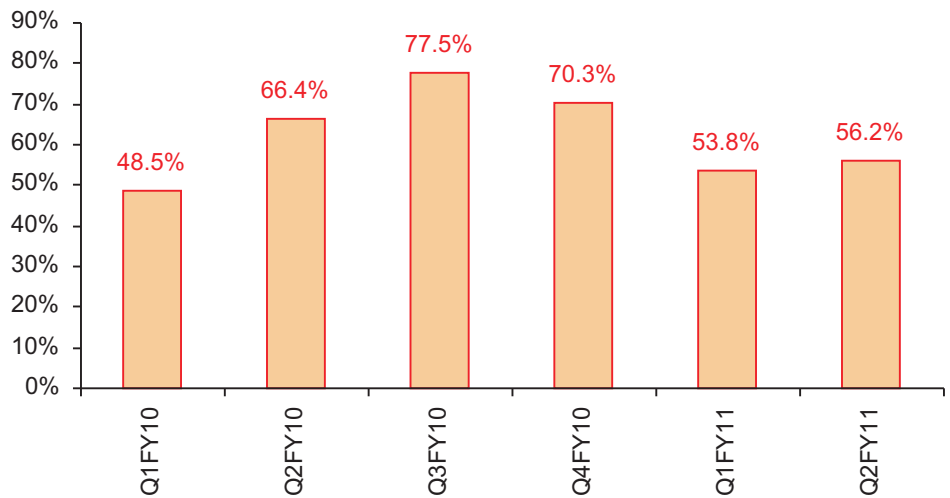


Source: Company

Chart 26

Sustainability -not an issue with HCLT. However, it remains to be seen how nicely can the management orchestrate margin control, going forward

Lateral/gross hiring schedule



Source: Company

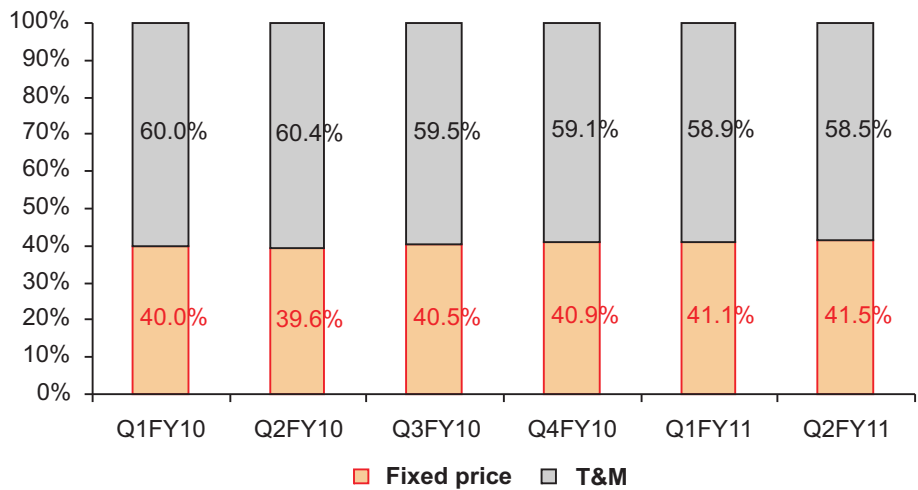
Demand levers

HCLT has held a steady Fixed:T&M mix over the last few quarters (see chart 27). The revenue model is generally driven by Service Level Agreements (SLAs) for most of the services, classic example being the core software services.

Chart 27

No glass ceilings here: Comfortable Fixed to T&M composition

Contract payoff-structure



Source: Company

Pricing .. software services

We see improved pricing, going forward, on account of channel enrichment. Pricing pressures are generally seen in sub-contracting engagements, which have been subsiding over last few quarters.

Other revenue models employed

A significant portion of RIMS- component is packaged as 'Infrastructure as a Service' (IaaS) or pseudo-IaaS, thus, satisfactorily decoupling revenues from headcount.

On the BPO front, the firm is migrating towards platform based services. The payoff structure being primarily linked with output. Currently the firm employs three lines of services; voice,

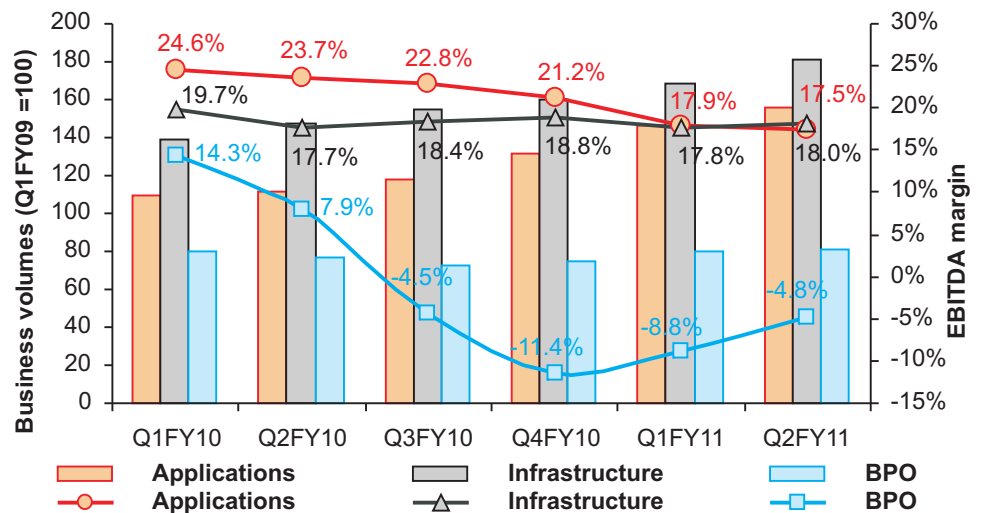
insurance claims and media. Assuming a balanced line the billing rate can be directly linked to number of workstations /employees

Engineering and R&D services provide for fixed price revenues and other license/Software as a Service (SaaS) revenues. The company has a portfolio of products on the infrastructure and end-user levels. Pertinent IPs have been acquired through, both, organic and inorganic means.

Chart 28

BPO is undergoing transformation from voice to platform-based delivery

Volume growth & profitability

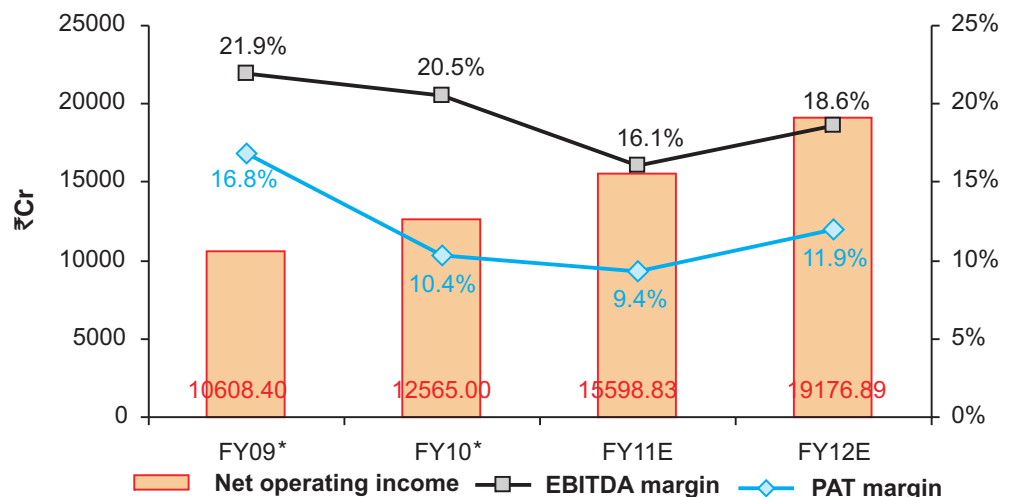


Source: Company

Chart 29

Compared to FY10 performance, we expect further decline in FY11 margins, factoring probable wage inflation and tax-rate expansion to ~24% by FY12

Financial projections



Source: Company E; Keynote Capitals Institutional Research Estimates (\$1=₹46)

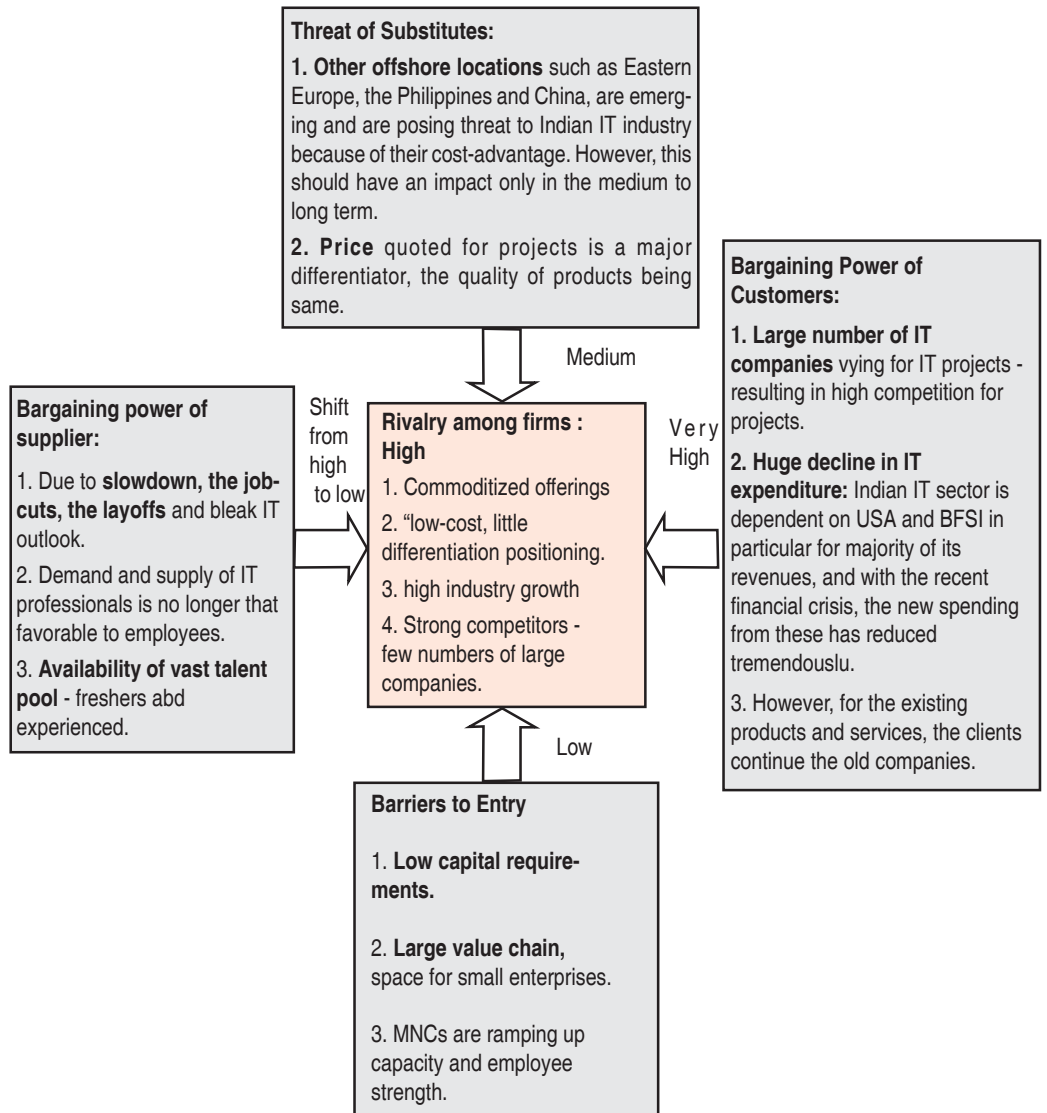
*Financials constructed from quarterly numbers

Significant acquisitions... synergies yet to be appropriated

- Q2FY09: AXON SAP-accelerator/(£438.5mn consideration)
 - Currently fields >\$1bn deal pipeline
 - Cross selling synergies yet to be fully realized.
- Q1FY09: Liberata Financial Services, Control Point Solutions
 - BPO under transition, net losses reported during Q4FY10-Q1FY11
- Q3FY08: Capital Stream: Lending Automation Systems (\$40mn consideration)

Chart 30

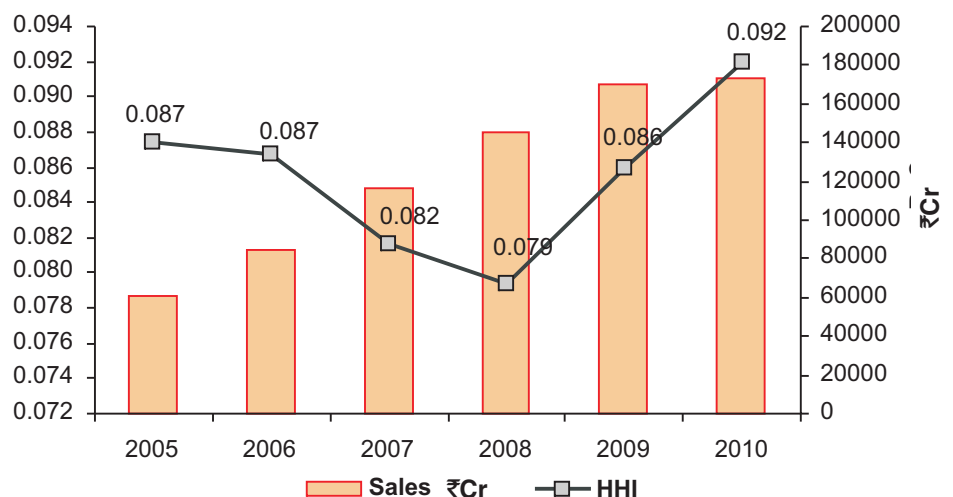
Porter's 5-forces analysis... attractiveness of the industry



Source: Strategic Analysis of Infosys, NMIMS Strategic Management Report, Ravi Rai et. al., 2009

Chart 31

Variation of Herfindahl Hirschman Index (HHI) (Indian vendors, 2005-10)

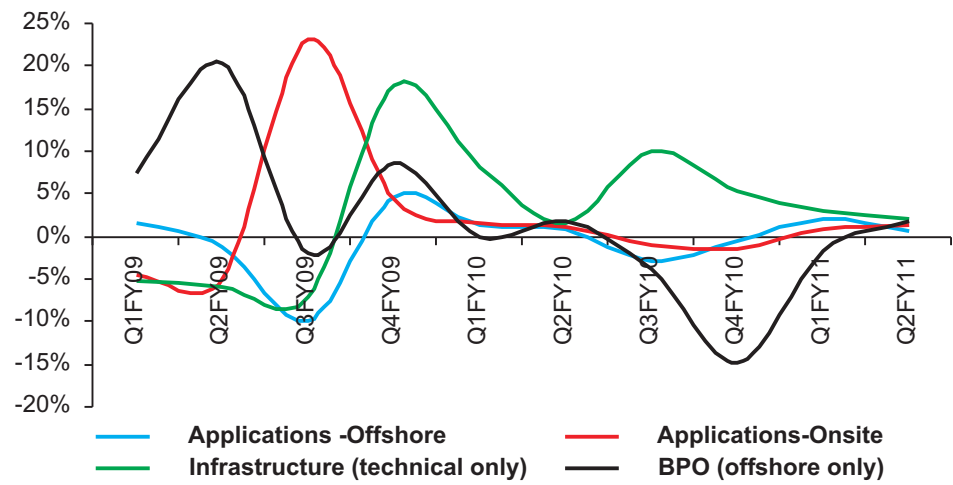


Source: Capitaline

Chart 32

Pricing volatility seen subsiding

Price movements HCLT (Q2FY10-Q2FY11)



Source: Company

Valuation

We have conservatively valued the unlevered-company at 18.5x FY12E earnings, which works out to a 23.3% premium to our ITeS universe (Mphasis being the only other company), owing to sustainability of HCLT’s business (see table below). Historically the stock has been trading at 11.0x 2yr-fwd earnings (see charts 33, 34). Compared to peers (see ‘Peer comparison’ below), we believe, that the stock is attractively priced, after factoring both growth and returns.

Valuation table

	FY09	FY10	FY11E	FY12E
EPS (₹)	26.59	19.17	21.53	33.74
EBITDA (₹Cr)	2323.90	2572.90	2513.93	3564.05
P/E (x)	18.7	26.0	23.1	14.8
EV/EBITDA (x)	14.7	13.3	13.6	9.6

Source: Company E: Keynote Capitals Institutional Research Estimates (\$1=₹46)

Peer comparison

		TCS	Infosys	Wipro	HCL Tech*	Mphasis*	Patni#	Hexaware#	Polaris	NIIT Tech
Revenues (₹Cr)	FY10	30028.92	22742.00	27212.90	12565.00	5036.56	3146.15	1038.56	1353.76	913.71
	FY11E	37306.03	27673.66	31335.32	15598.83	5924.63	3605.95	1243.45	1552.56	1213.90
	FY12E	46201.70	34047.42	37168.94	19176.89	7067.33	4056.36	1444.71	1812.08	1291.86
FY10-12E CAGR		24.0%	22.4%	16.9%	23.5%	18.5%	8.8%	11.6%	15.7%	18.9%
EPS (₹)	FY10	35.68	109.84	19.07	19.17	51.82	45.74	9.34	15.48	21.51
	FY11E	43.99	121.35	22.02	21.53	42.43	40.16	8.78	20.37	29.62
	FY12E	51.55	149.44	24.84	33.74	48.15	43.14	10.12	22.12	29.58
EBITDA (₹Cr)	FY10	8694.55	7911.00	6081.10	2572.90	1264.57	666.07	198.50	223.43	191.06
	FY11E	11096.45	9177.09	6693.91	2513.93	1174.35	691.69	150.26	230.71	240.82
	FY12E	13613.00	11256.73	7930.59	3564.05	1367.43	756.09	183.54	276.04	267.46
EV/EBITDA (x)	FY10	25.7	20.6	17.1	13.3	9.6	6.1	5.7	5.2	5.1
	FY11E	20.1	17.8	15.5	13.6	10.3	5.8	7.6	5.0	4.0
	FY12E	16.4	14.5	13.1	9.6	8.8	5.4	6.2	4.2	3.6
RoAA	FY10	27.9%	25.1%	15.3%	15.3%	38.3%	14.5%	12.2%	13.8%	15.4%
	FY11E	28.6%	28.7%	16.0%	14.4%	24.0%	11.6%	11.1%	18.5%	19.6%
	FY12E	27.3%	31.4%	15.7%	22.4%	22.3%	11.3%	10.0%	17.8%	15.9%
P/E (x)	FY10	33.1	28.1	23.0	26.0	12.5	10.2	11.4	10.9	9.0
	FY11E	26.9	25.5	19.9	23.1	15.3	11.6	12.2	8.3	6.5
	FY12E	22.9	20.7	17.6	14.8	13.5	10.8	10.6	7.6	6.5
EV(₹Cr)		223131.7	163055.0	103718.3	34133.7	12085.5	4046.2	1140.2	1164.7	967.7
MCap (₹Cr)		231429.11	177322.95	107360.82	33817.82	13678.56	6115.74	1550.05	1675.62	1135.50

Source: Respective companies

E: Bloomberg consensus, except, *: Keynote Capitals Institutional Research Estimates (\$1=₹46)

#: FY ended 31 Dec 2009

Chart 33

2yr forward EV bands*

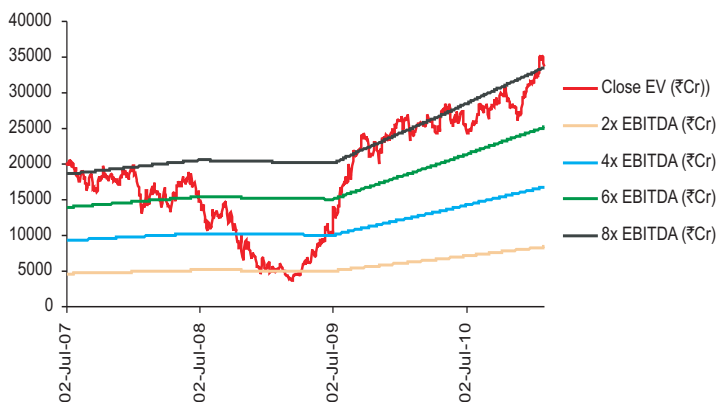
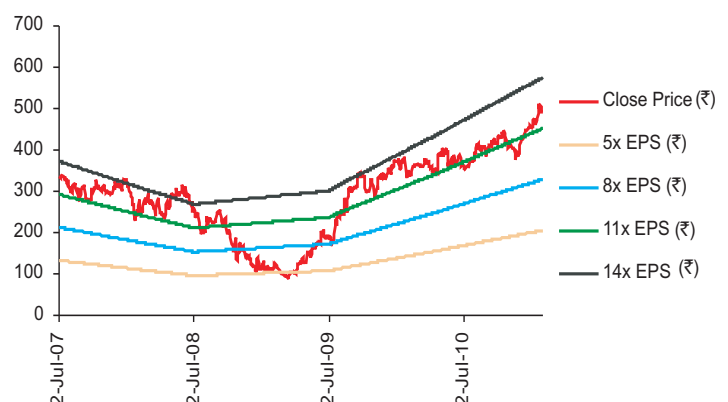


Chart 34

2yr forward price bands



Source: Capitaline, E: Keynote Capitals Institutional Research Estimates (\$1=₹46)

*: EV computed using FY-1 balance sheet numbers

Risks and concerns

Foreign exchange risks

Our estimates suggest not more than 82bps EBITDA margin contraction for every percentage point decrease in USD/INR exchange rates.

Protectionism

With more than 55% revenues from the Americas, we see sustainability concerns from protectionist-lobbies.

Financials

Profit & Loss statements*					(₹Cr)
For y.e. Jun. 30	2009	2010	2011E	2012E	
INCOME :					
Net operating income	10608.40	12565.00	15598.83	19176.89	
EXPENDITURE :					
Direct expenses	6548.40	8195.90	10729.06	12919.59	
SG&A	1736.10	1796.20	2355.84	2693.24	
Total expenditure	8284.50	9992.10	13084.90	15612.84	
EBITDA	2323.90	2572.90	2513.93	3564.05	
Other income	162.00	-54.30	127.30	164.25	
Interest	0.00	0.00	222.92	189.33	
Gross profit	2485.90	2518.60	2418.31	3538.97	
Depreciation & Amortisation	449.40	501.00	544.88	525.39	
Forex gains	-508.10	-475.70			
PBT	2036.50	1541.90	1873.43	3013.59	
Tax	254.30	240.40	412.16	723.26	
PAT	1782.20	1301.50	1461.28	2290.33	
Cost structure					
Direct expenses	61.7%	65.2%	68.8%	67.4%	
SG&A	16.4%	14.3%	15.1%	14.0%	

Source: Company E: Keynote Capitals Institutional Research Estimates (\$1=₹46)

*Financials constructed from quarterly numbers

Balance sheets					(₹Cr)
As at y.e. Jun. 30	2009	2010	2011E	2012E	
Shareholders' funds	4942.80	6288.83	7668.19	9898.45	
Minority interest	2.97	3.68			
Secured loans	2595.37	2345.90	2145.41	1785.41	
Unsecured loans	420.85	378.34	7.24	3.24	
Total debt	3019.19	2727.92	2152.65	1788.65	
Total liabilities	7961.99	9016.75	9820.84	11687.10	
APPLICATION OF FUNDS :					
Gross block+CWIP	7268.77	7670.73	8020.73	8370.73	
Less: accumulated depreciation	1863.87	2221.98	2766.86	3292.24	
Net block	5404.90	5448.75	5253.88	5078.49	
Investments	40.34	831.70	873.29	916.95	
Current assets, loans & advances					
Inventories	169.56	65.17	0.00	0.00	
Sundry debtors	2175.05	2521.06	3404.51	4185.43	
Cash and bank	1898.70	1580.37	2131.60	3771.27	
Loans and advances	1618.40	1780.00	2476.01	3043.95	
Total current assets	5861.71	5946.60	8012.11	11000.66	
Less : current liabilities and provisions					
Current liabilities	3278.00	2979.93	3699.44	4548.01	
Provisions	523.48	606.04	619.00	760.99	
Total current liabilities	3801.48	3585.97	4318.44	5309.00	
Net current assets	2060.23	2360.63	3693.67	5691.66	
Deferred tax assets	456.52	375.67			
Net deferred tax	456.52	375.67	0.00	0.00	
Total assets	7961.99	9016.75	9820.83	11687.09	

Source: Company E: Keynote Capitals Institutional Research Estimates (\$1=₹46)

Cash flow statements[#]
(₹Cr)

For y.e. Jun. 30	2009	2010	2011E	2012E
Cash flow from operating activity	1117.75	1791.18	1695.63	2482.48
Cash flow investing activity	-3472.56	-1014.11	-391.59	-393.66
Cash flow financing activity	2249.89	-727.84	-1036.21	-961.66
Cash at beginning of period	471.14	404.26	483.32	751.16
Exchange rate effects	38.04	29.83	0.00	0.00
Cash at end of period	404.26	483.32	751.16	1878.31

Source: Company E: Keynote Capitals Institutional Research Estimates
[#]excl. FDs and other LT investments

Financial ratios (for y.e. Jun. 30)*

Margin ratios	2009	2010	2011E	2012E
EBITDA	21.9%	20.5%	16.1%	18.6%
EBIT	17.7%	16.5%	12.6%	15.8%
PBT	19.2%	12.3%	12.0%	15.7%
PAT	16.8%	10.4%	9.4%	11.9%

Efficiency ratios	2009	2010	2011E	2012E
Average asset turnover (x)	1.3	1.5	1.5	1.9
RoANW	36.1%	23.2%	19.7%	27.8%
RoAA	22.4%	15.3%	14.4%	22.4%

Capital structure ratios	2009	2010	2011E	2012E
Average D/E	0.6	0.5	0.4	0.2

Operational ratios	2009	2010	2011E	2012E
Receivable days	94	88	95	95
Payable days	90	72	70	70
Cash Conversion Cycle (days)	4	16	25	25

Valuation ratios	2009	2010	2011E	2012E
EPS (₹)	26.59	19.17	21.53	33.74
EBITDA (₹Cr)	2323.90	2572.90	2513.93	3564.05
P/E (x)	18.7	26.0	23.1	14.8
EV/EBITDA (x)	14.7	13.3	13.6	9.6

Other ratios	2009	2010	2011E	2012E
Dividend payout	51.2%	26.8%	25.0%	25.0%

Source: Company E: Keynote Capitals Institutional Research Estimates (\$1=₹46)
*Financials constructed from quarterly numbers

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