

Greshma Research (IT Sector)

5th Feb 2013

Our Top Pick in Large Cap

HCL Technologies Ltd (CMP: Rs. 671)

- During December quarter 2012, HCL Tech reported revenues at US\$1,154 mn up by 3.7% QoQ which was ahead of street expectations and reported the PAT of Rs. 9.4 bn up by 9.4% QoQ. The company positively surprised on the margin front despite wage hikes. EBITDA grew by 46% YoY & 4.9% QoQ, while EBITDA margins improved by 408 bps YoY & 40 bps QoQ to 22.6%. EBIT grew by 49.8% YoY & 5.3% QoQ, while EBIT margins improved by 400 bps YoY & 43 bps QoQ at 19.8%. This improvement was led by efficiency gains & utilization improvement. Lower SGA expenses supported the Y-o-Y expansion in margins.
- At CMP Rs.671 the stock is trading at P/E multiple of 12.7x at its FY14E EPS of Rs.54. We advise investors to buy the stock for the target price of Rs.810 valuing the company at 15x of its FY14E EPS. HCL Tech has announced 12 large deals with US\$ 1bn worth TCW and indicated that it continues to see good traction in continental Europe/Financial services with more than 80% new deals coming from Fortune 500 and Global 2000 clients.

Our Top Pick in Mid Cap

NIIT Technologies Ltd (CMP: Rs.262)

- During Q3 FY13 NIIT Tech reported revenue growth of 2.9% QoQ to Rs 5,144m and 4.4% on constant currency basis. EBITDA margin contracted by 115bps to 15.8%, mainly due to softness in GIS, Insurance business and Transition costs associated with a large engagement.
- At CMP Rs.262 the stock is trading at P/E multiple of 6.8x at its FY14E EPS of Rs.38. We advise investors to buy the stock for the target price of Rs.340 valuing the company at 9x of its FY14E EPS. NIIT Tech's margin performance has been impacted adversely by cost overruns in some GIS projects and sluggishness in the NIIT Insurance business. Management expects an improvement in margins ahead driven by increase in profitability at GIS as well as pick up in Insurance vertical. Order book of the company stood at \$242 mn executable over next 12 months while during the quarter there was an order intake of \$83 mn. We believe NIIT Tech has made investments in the business and now is the time to reap.

PARTICULARS		TCS	WIPRO	INFOSYS	HCL TECH
Face Value	Rs	1	2	5	2
Market Cap	Rs m	21,40,220	9,84,085	15,70,207	3,06,430
Net Sales	Rs m	4,88,938	3,71,878	3,37,340	2,08,306
Gross profit margin	%	29.5	18.4	31.8	17.6
Profit after tax	Rs m	1,04,134	56,045	83,320	24,227
Net profit margin	%	21.3	15.1	24.7	11.6
Earnings per share	Rs	53	23	146	35
Dividends per share	Rs	25	6	47	4
Dividend yield (eoy)	%	2.3	1.5	1.7	0.9
Book value per share	Rs	151	110	548	142
Shares outstanding (eoy)	m	1,957	2,457	571	693
P/E ratio	x	20.6	17.6	18.8	12.6
Return on assets	%	25.2	13.2	21.9	14.4
Return on equity	%	35.3	20.7	26.6	24.6

Large Cap

(Arranged in
Descending
Order of
“Net Sales”)

Source: Company, Greshma
Research (Year End Numbers
{2012})

PARTICULARS		MPHASIS	MINDTREE	POLARIS	NIIT TECH	KPIT	HEXAWARE
Face Value	Rs	10	10	5	10	2	2
Market Cap	Rs m	77,421	16,054	17,211	13,447	14,858	21,415
Net Sales	Rs m	55,253	19,152	16,454	15,765	15,000	14,505
Gross profit margin	%	19.6	15.3	12.9	17	14.6	19.7
Profit after tax	Rs m	7,923	2,185	2,025	1,972	1,453	2,670
Net profit margin	%	14.8	11.4	12.3	12.5	9.7	18.4
Earnings per share	Rs	38	54	20	33	8	9
Dividends per share	Rs	17	4	5	8	1	4
Dividend yield (eoy)	%	4.7	1	2.6	3.5	0.8	5.5
Book value per share	Rs	209	236	104	155	40	35
Shares outstanding (eoy)	m	210	41	99	60	178	293
P/E ratio	x	9.5	7.3	8.5	6.8	10.2	8
Return on assets	%	13.4	16.8	14.3	15	11.4	18.8
Return on equity	%	18	22.8	19.6	21.4	20.4	26.3

Mid Cap

(Arranged in
Descending
Order of
“Net Sales”)

Source: Company,
Greshma Research
(Year End
Numbers {2012})

PARTICULARS		HCL TECH	WIPRO	INFOSYS	TCS
Face Value	Rs	2	2	5	1
Avg Mkt Cap	Rs m	3,06,430	9,84,085	15,70,207	21,40,220
Net Sales	Rs m	2,08,306	3,71,878	3,37,340	4,88,938
Gross profit margin	%	17.6	18.4	31.8	29.5
Profit after tax	Rs m	24,227	56,045	83,320	1,04,134
Net profit margin	%	11.6	15.1	24.7	21.3
Earnings per share	Rs	35	23	146	53
Dividends per share	Rs	4	6	47	25
Dividend yield (eoy)	%	0.9	1.5	1.7	2.3
Book value per share	Rs	142	110	548	151
Shares outstanding (eoy)	m	693	2,457	571	1,957
P/E ratio	x	12.6	17.6	18.8	20.6
Return on assets	%	14.4	13.2	21.9	25.2
Return on equity	%	24.6	20.7	26.6	35.3

**HCL
Technologies
Ltd,
lowest PE ratio
in Large Cap**

*Source: Company, Greshma
Research (Year End Numbers
{2012*

PARTICULARS		NIIT TECH	MINDTREE	HEXAWARE	POLARIS	MPHASIS	KPIT
Face Value	Rs	10	10	2	5	10	2
Avg Mkt Cap	Rs m	13,447	16,054	21,415	17,211	77,421	14,858
Net Sales	Rs m	15,765	19,152	14,505	16,454	55,253	15,000
Gross profit margin	%	17	15.3	19.7	12.9	19.6	14.6
Profit after tax	Rs m	1,972	2,185	2,670	2,025	7,923	1,453
Net profit margin	%	12.5	11.4	18.4	12.3	14.8	9.7
Earnings per share	Rs	33	54	9	20	38	8
Dividends per share	Rs	8	4	4	5	17	1
Dividend yield (eoy)	%	3.5	1	5.5	2.6	4.7	0.8
Book value per share	Rs	155	236	35	104	209	40
Shares outstanding (eoy)	m	60	41	293	99	210	178
P/E ratio	x	6.8	7.3	8	8.5	9.5	10.2
Return on assets	%	15	16.8	18.8	14.3	13.4	11.4
Return on equity	%	21.4	22.8	26.3	19.6	18	20.4

NIIT Technologies Ltd, lowest PE ratio in Mid Cap

Source: Company, Greshma Research (Year End Numbers {2012

Industry Overview

- The Indian IT/ITES industry earned revenue of around US\$ 89 bn during FY12. Out of this, exports accounted for 68% of the industry's revenue.
- In terms of industry, BFSI contributed to 41.2% of the IT/ITES sector's export revenues followed by Telecom, which contributed roughly 19%. All other industries taken together contributed to 39.8% of the IT/ITES sector's revenue.
- The USA still accounts for roughly 60% of the export revenue followed by the UK and Continental Europe, which together contributes roughly 29%. Other regions such as Asia Pacific is catching up, registering a growth of roughly 18% for exports made to this region.
- At the end of FY12, total outstanding capex in the IT/ITES industry stood at more than Rs 1,765 bn spread over 437 projects.
- Indian IT Industry can look into newer markets like Asia, Africa and China where penetration is lower as compared US and Europe.

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