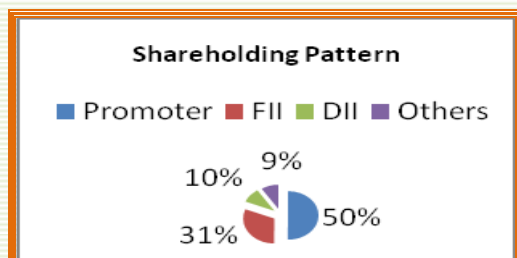


<b>Sector</b>	<b>Computer</b>
<b>Recommendation</b>	<b>Buy</b>
<b>CMP-</b>	<b>Rs 110.10</b>
<b>Target Price-</b>	<b>Rs 150</b>
<b>Potential upside -</b>	<b>30%</b>
<b>Tenure-</b>	<b>6 Months</b>
<b>Bloomberg- BSE-- NSE-</b>	<b>HCLI: IN HCLINFO HCL-INSYS</b>

**Date:-** 15<sup>th</sup> January,2011

**Stock Info:**

**Weekly H/L-** 114/105  
**Monthly H/L-** 118.20/98.10  
**52 Weeks H/L-** 167/83.50



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## HCL Infosystems Ltd

### Industry outlook:

The domestic IT market is expected to grow at 13.0% in 2010 to touch Rs 1,07,655 crore, while the data centre services market in the country is forecast to grow at a compound annual growth rate (CAGR) of 22.7 per cent between 2009 and 2011, to touch close to US\$ 2.2 billion by the end of 2011. India data centre services market in 2009 was estimated at US\$ 1.39 billion.

India domestic IT-ITeS market to grow at rate of 15.0% in 2010 to achieve revenues of Rs 1,20,666 crore as compared to Rs 1,04,906 crore in 2009.

### Investment Rationale:

**HCL Infosystems Ltd is the leading company in IT industry.**

- HCL Infosystems Ltd is acquiring 20% equity in Techmart Telecom. In which co. will be providing consultancy and operational services.
- The company has diversified business in software services eg., Education .Railway, Defence, Telecom Banks etc.
- HCL Infosystems ends the quarter with an all time high Systems Integration Order Book of over Rs. 4000 crores.

The company bagged the order of Rs 400 million by department of education, Himachal Pradesh govt to set up information and communication technology laboratories.

## ***Company profile:***

*HCL Infosystems Limited manufactures computer systems and specializes in the provision of IT solutions and related services. The Company provides a variety of services, including IT consultancy, software development, system integration, SAP consultancy, system support, network implementation and facilities management.*

## ***Financial Performance: Quarterly Results:***

*Net Sales of Rs.2873 crs for quarter ending on 30-Sept, 2010 against Rs. 2983 crs for the quarter ending on 30-Sept, 2009. Net Profit / (Loss) of Rs. 54.1 crs for the quarter ending on 30-Sept, 2010 against Rs. 65 crs for the quarter ending on 30-Sept, 2009.*

### ***Exhibit:-1***

<b>Income Statement</b>					
<b>(in Cr.)</b>	<b>10-Sep</b>	<b>10-Jun</b>	<b>10-Mar</b>	<b>9-Dec</b>	<b>9-Sep</b>
<b>Revenue</b>	<b>2,873.33</b>	<b>3,166.46</b>	<b>2,810.03</b>	<b>3,019.01</b>	<b>2,983.95</b>
Other Income	12.85	13.73	6.68	8.04	4.01
Total Income	2,886.18	3,180.19	2,816.71	3,027.05	2,987.96
Expenditure	-2,786.17	-3,061.47	-2,705.18	-2,932.83	-2,909.22
Interest	-12.89	-11.58	-8.65	-8.79	-8.42
PBDT	87.12	107.14	102.88	85.43	70.32
Depreciation	-7.32	-6	-5.74	-5.32	-4.67
PBT	79.8	101.14	97.14	80.11	65.65
<b>Net Profit</b>	<b>54.1</b>	<b>71.64</b>	<b>66.76</b>	<b>57.5</b>	<b>65.65</b>
<b>EPS</b>	<b>2.48</b>	<b>3.28</b>	<b>3.06</b>	<b>2.79</b>	<b>3.83</b>
<b>OPM %</b>	<b>3.48</b>	<b>3.75</b>	<b>3.97</b>	<b>3.12</b>	<b>2.64</b>
<b>NPM %</b>	<b>1.88</b>	<b>2.26</b>	<b>2.38</b>	<b>1.9</b>	<b>2.2</b>

## ***Annual results:***

*Net revenue of the Company was Rs 11979.45 crores as against Rs 12203.07 crores in the previous year. The consolidated profit before tax was Rs 261.55 crores as against Rs 260.44 crores in the previous year.*

**Exhibit:-2**

<b>Income Statement</b>					
<b>(in Cr.)</b>	<b>2009 - 10</b>	<b>2008 - 09</b>	<b>2007 - 08</b>	<b>2006 - 07</b>	<b>2005 - 06</b>
<b>Revenue</b>	<b>11,979.45</b>	<b>12,203.07</b>	<b>12,411.44</b>	<b>11,648.12</b>	<b>2,294.70</b>
Other Income	32.46	14.87	39.94	48.73	5.86
Total Income	12,011.91	12,217.94	12,451.38	11,696.85	2,300.56
Expenditure	-11,584.09	-11,782.15	-11,960.80	-11,243.76	-2,157.72
Interest	-37.44	-44.66	-39.76	-10.55	-4.57
PBDT	390.38	391.13	450.82	442.54	138.27
Depreciation	-21.73	-17.27	-16.35	-12.55	-6.75
PBT	368.65	373.86	434.47	429.99	131.52
Tax	-107.1	-113.42	-129.72	-112.14	-18.3
<b>Net Profit</b>	<b>261.55</b>	<b>260.44</b>	<b>304.75</b>	<b>317.85</b>	<b>113.22</b>
<b>EPS</b>	<b>12.86</b>	<b>15.21</b>	<b>17.88</b>	<b>18.82</b>	<b>6.74</b>
OPM %	3.57	3.57	3.95	3.89	6.22
NPM %	2.18	2.13	2.46	2.73	4.93

**Peer Group Comparison:****Exhibit:-3**

<b>Company Name</b>	<b>D/E</b>	<b>NPM(%)</b>	<b>EPS</b>	<b>P/E(x)</b>	<b>BV</b>	<b>P/BV(x)</b>	<b>EV/EBIDTA</b>	<b>EV/NET SALES</b>	<b>ROE(%)</b>
CMC Ltd.	0	18.8	85.5	27.7	314.6	7.5	22.4	5.2	27.2
HCL Infosystems Ltd.	0.3	2.2	12.0	7.9	88.1	1.1	4.1	0.2	13.6
Moser Baer India Ltd.	1.3	-1.8	-2.2	-26.1	100.6	0.6	4.2	1.4	-2.1
Tata Elxsi Ltd.	0.2	12.7	15.4	17.5	55.9	4.8	12.6	2.3	27.5

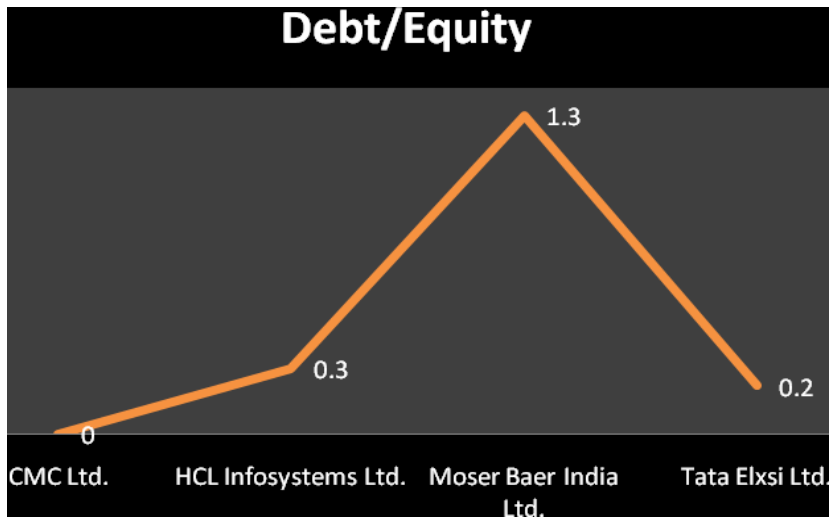
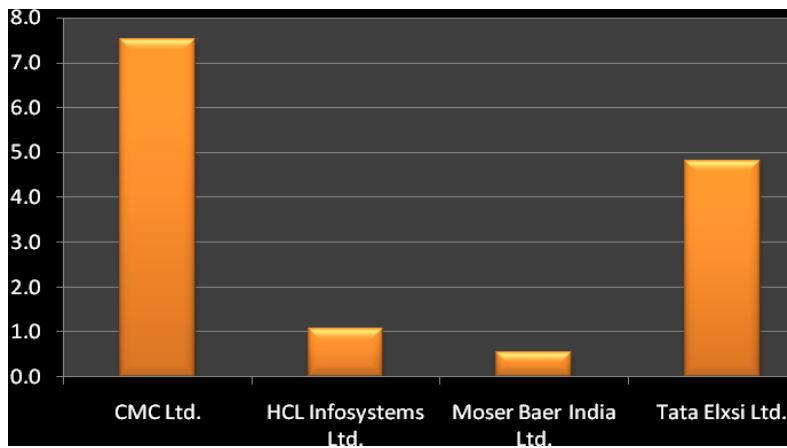
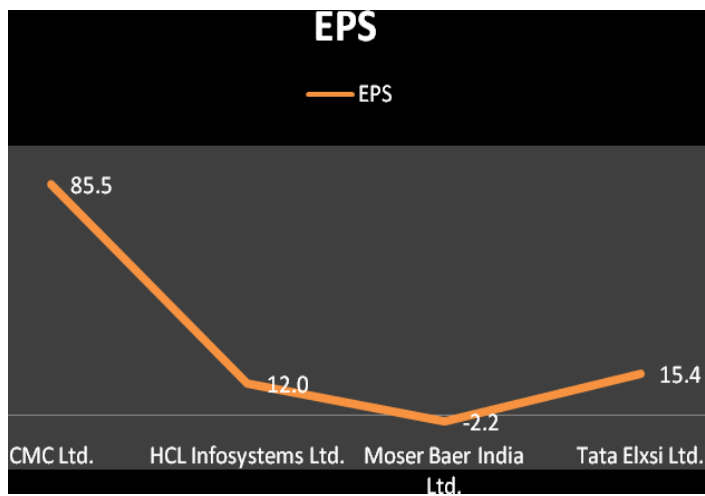
**Valuation Outlook:**

On the basis of relative valuation, the enterprise value of the company is Rs 2223 cr and stock is currently trading at Rs 108.90 of PE 7.9(x) with EPS 12.

➤ Stock is trading at 1.1 times of book value (BV) Rs 88.1 per share and ROE is 13.6%. giving attractive return among peer group companies.

➤ We expect earnings to grow at a CAGR of 35% for next 3 years

We recommend a **Buy** on the stock with target Rs 150 medium-term/long-term investment horizon.

*Exhibit:-4**Exhibit:-5***P/BV***Exhibit:-6*

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