

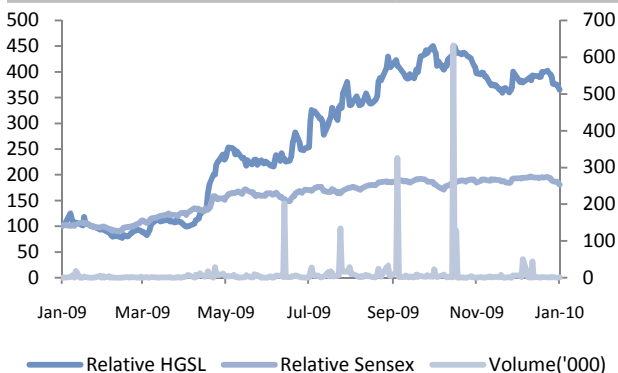


Profit is the Answer

## Hinduja Global Solutions Ltd

Quarterly Result Update

<b>CMP</b>	Rs 445
<b>Recommendation</b>	BUY
<b>Date</b>	29 <sup>th</sup> January'10
<b>Target</b>	(Reduced)Rs 585
<b>Company Information</b>	
<b>BSE Code</b>	532859
<b>NSE Code</b>	HGSL
<b>Bloomberg Code</b>	HGSL.BO
<b>Market Cap (Rs. Cr)</b>	970
<b>Free Float</b>	33.03
<b>52-wk Hi/Lo (Rs)</b>	603/92
<b>Avg. daily volume (1 year)</b>	10545
<b>Face Value</b>	10
<b>Latest Shareholding Pattern</b>	
<b>Promoters</b>	66.97
<b>Institutional Investors</b>	21.27
<b>-MF/UTI</b>	3.69
<b>-FIs/Banks</b>	0.03
<b>-FIIs</b>	17.55
<b>Non Institution</b>	11.76



### Q3'FY10 Highlights

❑ **Revenue increases 1.8% YoY:** Revenue for Q3'10 had increased by 1.8% YoY but dipped sequentially due to 3.4% Rupee appreciation. Revenue in \$ terms had increased by 2.1% sequentially. Health Insurance was the best performing vertical in terms of revenue growth (15% YoY), followed by BFSI which grew 9% YoY. HGSL did not see any surge in volumes from North American clients. The volume pick up from this region was marginally less than expected. India-domestic revenues continued to face pricing pressures due to competitive pressures in the industries. Export revenues continue to grow smartly and sequential growth has been impacted by currency fluctuation.

❑ **EBITDA rises 11.9% YoY:** EBITDA had increased by 11.9% YoY but declined 7.8% sequentially. EBITDA margin has been impacted a bit this quarter as HGSL had undertaken upfront costs on hiring for new facilities in Tier 3 cities and training for new business. Margins were also down due to more focus on volume guaranteed agreements at a slightly discounted price.

❑ **PAT increases by 41% YoY:** PAT had increased by 41% YoY but declined 20% sequentially.

❑ **Huge cash balance of 648Cr - waiting to get utilized:** HGSL has a huge cash and cash equivalents Rs. 649 crores which works out to nearly Rs. 315 per share. The debt on the balance sheet amounts to Rs. 154.51 crores resulted in net cash of Rs 494.5 Crs. We haven't include this cash into our valuation. However we strongly believe that for the company to achieve its revenue target of Rs 2250 Crs by FY12 (from ~ 800 Crs in FY09) it needs an acquisition driven catalyst.

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in Rs Cr.	Dec'09	Dec'08	YoY (%)	Sep'09	QoQ (%)	9MFY'10	9MFY'09
<b>Revenue</b>	222.54	218.60	1.8	225	-1.09	669	579.3
<b>EBITDA</b>	41.86	37.4	11.93	45.4	- 7.8	129	100.2
<b>EBITDA%</b>	18.8	17.1	170 bps	20.2	-140 bps	19.3	17.3
<b>PAT</b>	30.2	21.5	40.5	37.78	- 20.1	104.1	57.7
<b>NPM %</b>	13.6	9.84	376 bps	16.8	- 320 bps	15.6	9.96
<b>EPS</b>	14.66	10.44		18.4		50.5	28

	Sales (in Cr)	Sales Growth (%)	EPS	EBITDA (%)	PAT(%)	P/E (x)	EV/EBITDA	P/BV (x)
<b>FY09</b>	798	25	45.9	17.9	11.8	9.76	3.29	1.13
<b>FY10E</b>	934	17	68	19.5	15	6.6	2.58	0.95
<b>FY11E</b>	1141	22.2	77.54	18.0	14	5.78	2.29	0.87

During this quarter, HGSL won an order of 150 seats from a leading telecom client, that offshored additional work to Manila. This client was already serviced from its North America geography. An existing U.S. healthcare client has planned for additional 300 seats of which 200 seats are expected to be serviced in Manila and 100 seats from India. HGSL has also won incremental seats from an existing U.S. consumer electronics clients. For the existing facility in Manila which has a capacity of 1,000 seats; 700 seats are currently in use. And a 100 seats are being used for training purposes. HGSL has also received commitments for another 150 seats and the centre should be filled up by the end of FY10. This gives good revenue visibility for the next few quarters.

## Valuation & Recommendation

We have revised our revenue forecast in FY10 and FY11 to Rs 934 Crs and Rs 1141 respectively. This has been done to reflect the increased competition in the domestic BPO market. Even the big IT players are now a days streamlining their BPO services with their IT offerings. This also add to the pressure. In the recently concluded conference call the company states that they will sift some of their centers from Tier-1 cities to Tier-2/3 cities to save operational cost . We expect , in this way they will hold on to their margins in near term, but we are seeing margins to decline in the long run due to replication of the business model by other small and big players. To sustain all theses headwinds and maintain the growth , HGSL need to take inorganic route. This can also act as a trigger to the stock price going forward.

We are revising our target price from Rs 690 earlier to Rs 585 which is 7.5x of FY11 expected earnings. The stock is currently trading at PEx of 6.6 which looks attractive compared to its peers. We are re-iterating "BUY" call on the stock.

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