

Q3FY14 Result Update
Accumulate

Sector	IT
CMP (Rs)	598
FY15E Target Price (Rs)	692
Volume (BSE+NSE)*	78,249
Shares (mn)	20.59
Market Cap (Rs bn)	12.3
52 Week H/L (Rs)	634/219
Free Float (%)	31.88
Bloomberg Code	HGSL IN
Reuters Code	HGSL.BO

*Three month average

Share Holding Pattern (31/12/2013)

Particulars	Shares (mn)	% Holding
Promoters	14.03	68.12
FII's	3.24	15.71
DII's	0.00	0.02
Others	3.32	16.15
Total	20.59	100.00

Source : BSE

Financial Highlights

(Rs mn)	FY13	FY14E	FY15E
Sales	19,834	25,389	28,506
Growth	27.6%	28.0%	12.3%
EBITDA Margin	11.3%	13.0%	13.3%
PAT	959	1,707	2,034
EPS (Rs)	46.6	82.9	98.8
P/E (x)	12.8	7.2	6.1
EV/EBITDA (x)	5.7	3.7	2.9
RoE	8.1%	13.2%	14.3%

Source : Company Data, QS Research

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Strong Performance – Recommend Accumulate

Q3FY14 results of Hinduja Global Solutions (HGS) were above our estimates. During Q3FY14, sales increased by 26% YoY to Rs 6.6bn and PAT increased by 115% to Rs 428mn. The robust performance was primarily driven by strong growth from its US, Canada and Philippines operations and better utilization of its delivery centers.

Q3FY14 Result Highlights

- ❖ Sales up by 26.0% YoY to Rs 6.6bn (2.3% above our estimates of Rs 6.4bn).
- ❖ EBITDA margins expanded by 375bps YoY to 14.0% (151bps above our estimates of 12.5%)
- ❖ PAT increased by 114.6% to Rs 428mn (11.5% above our estimates of Rs 384mn).

15.5% Volume growth in Q3FY14: During Q3FY14, HGS reported ~15.5% YoY organic volume growth on account of improved economic environment in its key market, North America. Overall YoY sales growth of 26% during Q3FY14, was primarily driven by operations from Canada (up 44% YoY) Philippines (Up 37% YoY) and USA (up 29% YoY). On the back of strong sales pipeline and robust demand for its services, the management anticipates sales growth momentum to sustain in Q4FY14 and FY15.

Margins rebound: During Q3FY14, HGS reported gross margins of 34% (up 183bps YoY) and EBITDA margins of 14% (up 375bps YoY). Margins expansions were primarily driven by higher utilization of its delivery centers and operating leverage benefit. Going forward the management anticipates margins to remain stable despite possibility of incurring some ramp up costs in the Philippines operations.

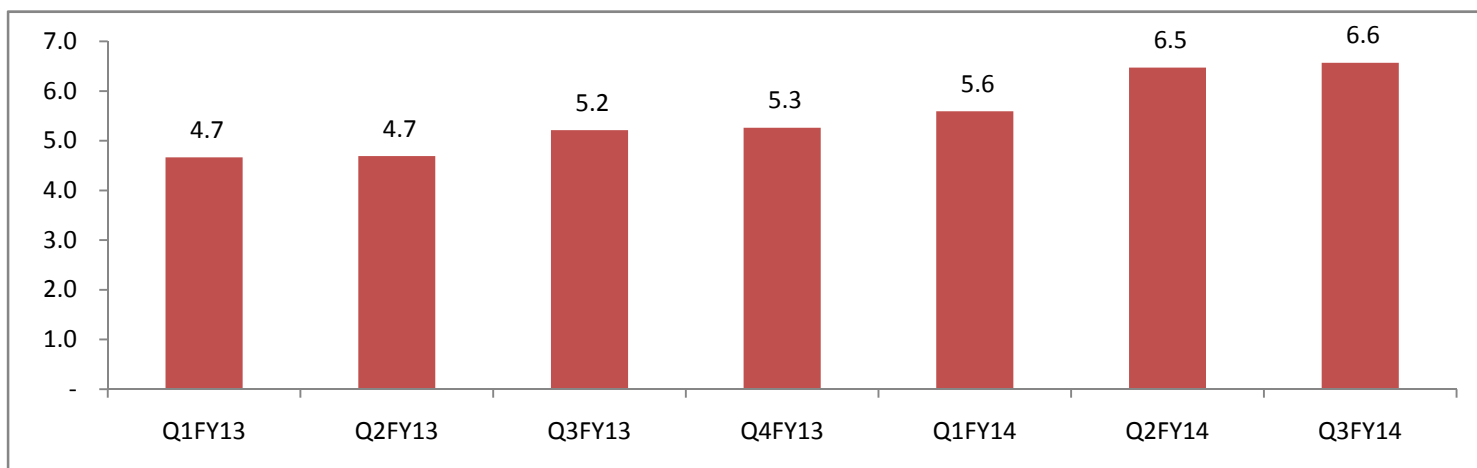
Upgrade FY15 EPS estimates by 10.9%: To factor in better than expected performance by HGS in 9MFY14 and encouraging growth outlook for FY15, we revise our FY14/15 sales and profit estimates upward by 2.5%/4.1% and 4.8%/10.9% respectively.

Recommend Accumulate: At Rs 598, HGS quotes at a PE of 6.1x FY15E. We assign an Accumulate rating on the stock with a revised target of Rs 692 (PER of 7x FY15E earnings, corresponds to 3.4x FY15 EV/EBITDA).

Q3FY14 Sales up by 26% to Rs 6.6bn

During Q3FY14, HGS sales increased by 26% YoY to Rs 6.6bn on the back of ~15.5% YoY organic volume growth reported by the Company on account of improved economic environment in its key market, North America. From business segment view point, sales growth during Q3FY14, was primarily driven by the operations in Canada (up 44% YoY) Philippines (up 37% YoY) and USA (up 29% YoY). On the back of strong sales pipeline and robust demand for its services, management anticipates sales growth momentum to sustain in Q4FY14 and FY15.

Quarterly Sales Trend

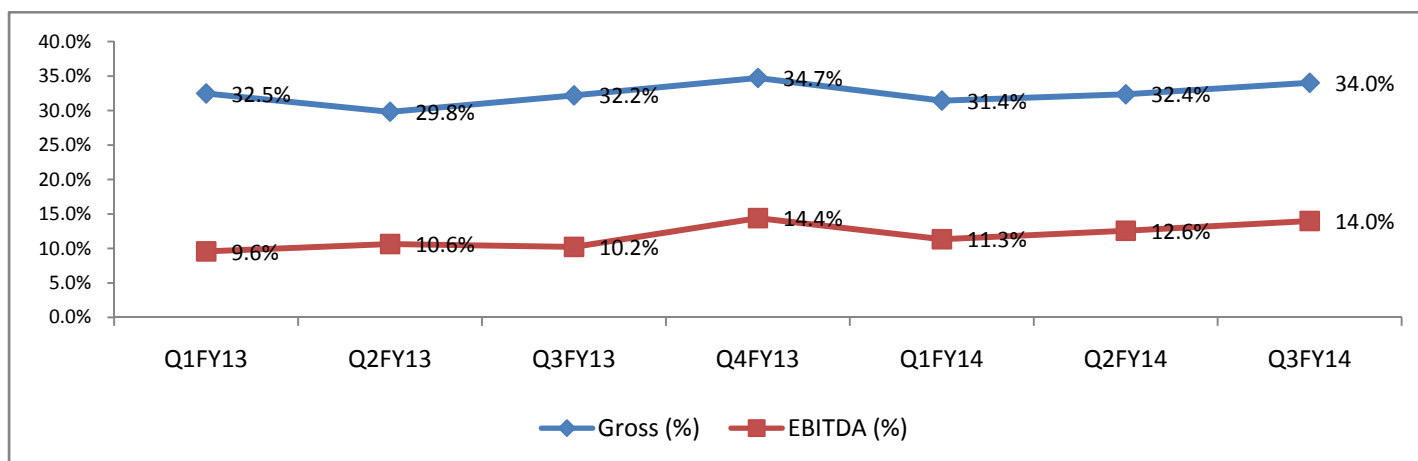


Source: Company Reports

EBITDA Margins expanded by 375 bps to 14% in Q3FY14

During Q3FY14, HGS reported 183bps YoY improvement in its gross margins to 34% and 375bps YoY improvement in its EBITDA margins to 14%. Margins expansion were primarily driven by higher utilization of its delivery centers (~ up to 85%) and operating leverage benefit (SGA cost grew by 15% Vs 26% sales growth in Q3FY14). Going forward management anticipates margins to remain stable despite possibility of incurring some ramp up cost in the Philippines operations.

Quarterly Margin Trend

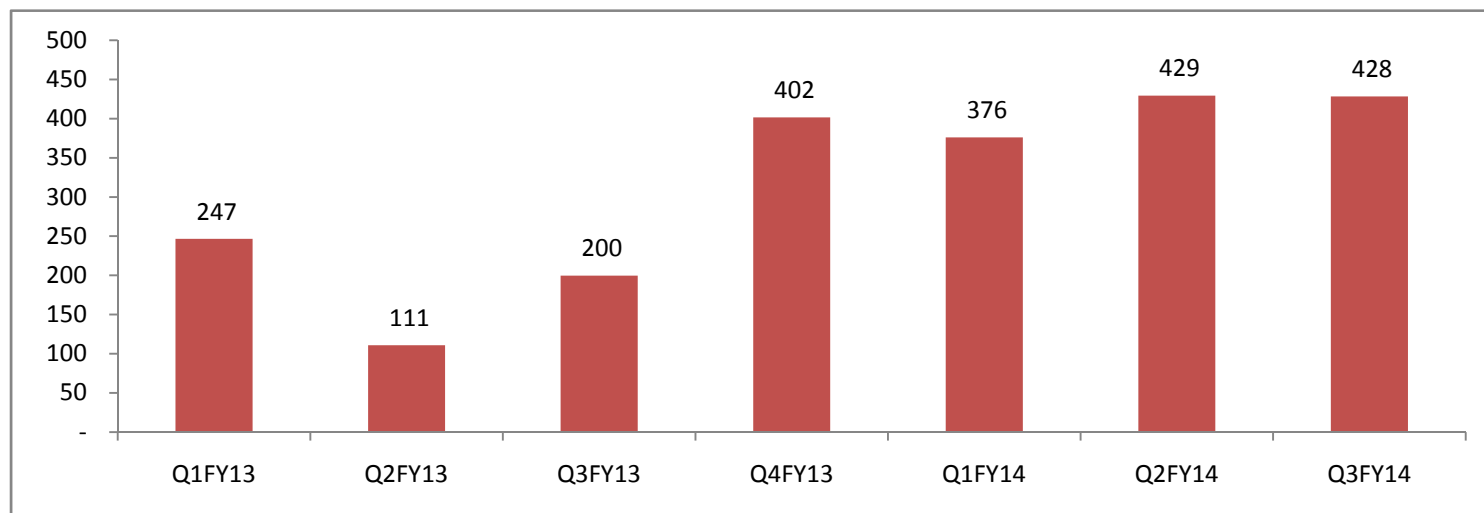


Source: Company Reports

PAT increased by 115 % to Rs 428mn

For Q3FY14, HGS reported 114.6% YoY increase in PAT to Rs 428mn. This was primarily driven by 26% sales growth and 375bps EBITDA margin expansion that HGS reported during the quarter.

Quarterly PAT Trend



Source: Company Reports

Q3FY14- Key Highlights for HGS

- During the quarter, HGS added new clients in the BFSI and consumer verticals in US. It also added consumer electronics client in the US, to be serviced from the Philippines starting from Q4FY15.
- The company has signed a contract with a UK Government department. Revenues from the same are likely to accrue from FY15.
- For its Philippines operations, HGS has received a pilot project from a client in the Healthcare vertical for provider data maintenance and telephonic case management. It has further started two new centers at Alabang (Philippines) from January 2014.
- The Company has added 526 seats in its Bangalore facility to service growing demand in its Healthcare vertical.
- HGS has 135 active clients as on 31st December 2013 (excluding payroll processing clients). Clients contributing quarterly revenues more than Rs 100mn increased from 12 to 15 as compared to in Q3 FY13.
- Currently, the Company has total headcount of 25,676 employees (India-59%, Philippines - 17%, US-10%, Canada-11% and Europe -3%).

Revise sales and profit estimates upwards

To factor in better than expected performance by HGS in 9MFY14 and encouraging growth outlook for FY15, we revise our FY14/15 sales and profit estimates upward by 2.5%/4.1% and 4.8%/10.9% respectively.

Revised Estimates

Particulars (Rs mn)	FY14E	FY15E
Sales (New)	25,389	28,506
Sales (Old)	24,764	27,390
Change	2.5%	4.1%
PAT (New)	1707	2034
PAT (Old)	1,629	1,834
Change	4.8%	10.9%

Source: QS Estimates

Outlook and Valuations

We expect HGS to report 20% sales CAGR and 46% profit CAGR over FY13-15E. The Company is likely to post EPS of Rs 82.9 and Rs 98.8 in FY14 and FY15 respectively. Almost net debt free status with ~35% dividend payout makes HGS an attractive play for investment. At Rs 598, HGS quotes at a PE of 6.1x FY15E. On the back of recent run up in the stock price, we assign an Accumulate rating on the stock with revised target of Rs 692 (PER of 7x FY15E earnings, corresponds to 3.4x FY15 EV/EBITDA).

Quarterly Results

(Rs Mn)	Q3FY14	Q3FY13	y-o-y change	Q2FY14	q-o-q change	9MFY14	9MFY13	y-o-y change
Net Sales	6,569.3	5,212.5	26.0%	6,472.6	1.5%	18,633.6	14,571.8	27.9%
Employee Cost	4,333.3	3,533.7	22.6%	4,377.6	-1.0%	12,544.4	9,977.7	25.7%
SGA	1,317.6	1,145.7	15.0%	1,281.2	2.8%	3,723.1	3,115.0	19.5%
Total Expenditure	5,650.8	4,679.4	20.8%	5,658.8	-0.1%	16,267.4	13,092.7	24.2%
EBITDA	918.5	533.1	72.3%	813.7	12.9%	2,366.2	1,479.1	60.0%
Depreciation	231.7	208.9	10.9%	235.9	-1.8%	660.9	595.5	11.0%
EBIT	686.9	324.2	111.8%	577.9	18.9%	1,705.3	883.6	93.0%
Interest	107.6	118.2	-8.9%	98.0	9.9%	296.3	334.9	-11.5%
Other Income	38.6	115.4	-66.6%	103.0	-62.5%	324.1	261.4	24.0%
PBT	617.8	321.5	92.2%	582.9	6.0%	1,733.1	810.1	113.9%
Tax	189.5	121.9	55.5%	153.4	23.5%	499.2	253.1	97.2%
PAT	428.3	199.6	114.6%	429.4	-0.3%	1,233.9	556.9	121.6%
Extraordinary Items	112.6	-		-		112.6	(52.9)	-313%
Reported PAT	540.9	199.6	171.0%	429.4	26.0%	1,346.5	504.0	167%
EPS (Rs)	20.8	9.7	114.6%	20.9	-0.3%	59.9	27.0	122%
Margins	Q3FY14	Q3FY13	y-o-y change (bps)	Q2FY14	q-o-q change (bps)	9MFY14	9MFY13	y-o-y change (bps)
Gross	34.0%	32.2%	183	32.4%	167	32.7%	31.5%	115
EBITDA	14.0%	10.2%	375	12.6%	141	12.7%	10.2%	255
PAT	6.5%	3.8%	269	6.6%	-11	6.6%	3.8%	280
Tax Rate	30.7%	37.9%	-724	26.3%	435	28.8%	31.3%	-245

Per Employee Metrics

(Rs mn)	Q1FY13	Q2FY13	Q3FY13	Q4FY13		Q1FY14	Q2FY14	Q3FY14
Sales	0.20	0.20	0.23	0.92		0.94	1.05	1.04
Employee Cost	0.54	0.57	0.61	0.59		0.65	0.71	0.69
EBITDA	0.08	0.09	0.09	0.13		0.11	0.13	0.15
PAT	0.04	0.02	0.03	0.07		0.06	0.07	0.07

Source: Company Reports, QS Estimates

Resource and Delivery Trend

	Q1FY13	Q2FY13	Q3FY13	Q4FY13		Q1FY14	Q2FY14	Q3FY14
Number of Employees	23,069	22,883	23,258	23,100		24,433	24,669	25,676
Number of Seats	22,286	22,444	22,985	23,036		23,920	24,827	24,401
Onshore Sales	66%	66%	64%	64%		64%	66%	66%
Offshore Sales	34%	34%	36%	36%		36%	34%	34%

Source: Company Reports

Sales by Delivery Centers

(Rs mn)	Q1FY13	Q2FY13	Q3FY13	Q4FY13		Q1FY14	Q2FY14	Q3FY14
USA	1,317	1,303	1,452	1,286		1,527	1,819	1,869
India (International)	714	747	1,054	964		967	1,072	1,088
Philippines	702	681	691	760		852	968	950
Canada	882	900	1,043	1,117		1,208	1,480	1,499
Europe	557	570	583	633		552	598	617
India (Domestic)	495	491	389	502		486	536	546
Total	4,667	4,692	5,212	5,262		5,592	6,473	6,569
Growth (YoY)								
USA	39%	32%	20%	9%		16%	40%	29%
India (International)	32%	29%	55%	28%		35%	44%	3%
Philippines	29%	16%	5%	13%		21%	42%	37%
Canada	NA	65%	12%	20%		37%	64%	44%
Europe	52%	36%	1%	3%		-1%	5%	6%
India (Domestic)	29%	7%	-26%	11%		-2%	9%	40%
Total	68%	31%	14%	14%		20%	38%	26%
Contribution								
USA	28%	28%	28%	24%		27%	28%	28%
India (Domestic)	11%	10%	7%	10%		9%	8%	8%
India (International)	15%	16%	20%	18%		17%	17%	17%
Canada	19%	19%	20%	21%		22%	23%	23%
Philippines	15%	15%	13%	14%		15%	15%	14%
Europe	12%	12%	11%	12%		10%	9%	9%
Total	100%	100%	100%	100%		100%	100%	100%

Source: Company Reports

Revenue by Verticals

(Rs mn)	Q1FY13	Q2FY13	Q3FY13	Q4FY13		Q1FY14	Q2FY14	Q3FY14
Telecom & Technology	1,372	1,491	1,589	1,651		1,801	2,155	2,134
Health Insurance	1,115	1,102	1,328	1,383		1,561	1,715	1,801
Consumer Electronics	800	810	908	850		867	1,080	1,046
BFSI	390	398	435	446		458	504	501
Media	338	334	346	379		394	456	488
Chemicals & Biotech	215	171	169	169		178	208	175
Others	436	385	437	384		333	355	424
Total	4,666	4,691	5,212	5,262		5,592	6,473	6,569
Growth YoY								
Telecom & Technology	83%	41%	17%	16%		31%	45%	34%
Health Insurance	52%	36%	36%	37%		40%	56%	36%
Consumer Electronics	41%	31%	4%	4%		8%	33%	15%
BFSI	168%	45%	10%	15%		17%	27%	15%
Media	362%	24%	-7%	68%		17%	37%	41%
Chemicals & Biotech	22%	-21%	-27%	-53%		-17%	22%	4%
Others	29%	17%	18%	0%		-24%	-8%	-3%
Total	68%	31%	14%	14%		20%	38%	26%
Contribution								
Telecom & Technology	29%	32%	30%	31%		32%	33%	32%
Health Insurance	24%	23%	25%	26%		28%	26%	27%
Consumer Electronics	17%	17%	17%	16%		16%	17%	16%
BFSI	8%	8%	8%	8%		8%	8%	8%
Media	7%	7%	7%	7%		7%	7%	7%
Chemicals & Biotech	5%	4%	3%	3%		3%	3%	3%
Others	9%	8%	8%	7%		6%	5%	6%
Total	100%	100%	100%	100%		100%	100%	100%

Source: Company Reports

Income Statement

(Y/E March) (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Net Sales	10,730.7	15,543.1	19,834.3	25,389.1	28,506.1
Growth	20.3%	44.8%	27.6%	28.0%	12.3%
Employee Cost	6,866.3	10,347.9	13,412.0	17,000.4	19,136.1
Admin Expenses	2,309.0	3,354.2	4,185.1	5,078.0	5,588.1
Total Expenses	9,175.3	13,702.0	17,597.1	22,078.4	24,724.2
EBITDA	1,555.3	1,841.0	2,237.2	3,310.7	3,781.8
Margin	14.5%	11.8%	11.3%	13.0%	13.3%
Depreciation	452.2	612.9	772.5	900.5	1,027.2
EBIT	1,103.2	1,228.1	1,464.7	2,410.2	2,754.6
Interest	93.2	292.2	436.6	397.6	313.2
Other Income	291.2	288.2	332.8	392.3	423.4
PBT	1,301.2	1,224.1	1,360.8	2,404.9	2,864.9
(-) Tax	228.0	163.4	402.3	697.4	830.8
PAT	1,073.2	1,060.8	958.6	1,707.5	2,034.1
Extraordinary Items	-	-	(52.9)	112.6	-
Reported Profit	1,073.2	1,060.8	905.7	1,820.1	2,034.1

Balance Sheet

(Y/E March) (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Equity Capital	205.9	205.9	205.9	205.9	205.9
Reserves	9,782.4	11,088.7	12,148.8	13,330.1	14,650.2
Net Worth	9,988.3	11,294.6	12,354.7	13,536.0	14,856.1
Total borrowings	1,510.5	6,746.7	4,500.9	3,800.9	3,300.9
Deferred Tax Liability	177.4	188.0	242.0	242.0	242.0
Total Liabilities	11,676.3	18,229.3	17,097.7	17,578.9	18,399.1
Gross Block	4,689.8	5,690.2	6,169.3	7,243.0	8,057.1
Less: Acc. Depreciation	2,431.0	2,589.3	3,179.2	4,079.6	5,106.8
Net Block	2,258.8	3,100.9	2,990.2	3,163.4	2,950.3
Work in Progress	33.9	3.0	23.0	23.0	23.0
Goodwill	1,480.8	5,778.3	6,442.1	6,442.1	6,442.1
Investments	13.3	64.0	76.9	76.9	76.9
Net Current Assets	7,889.5	9,283.0	7,565.5	7,873.5	8,906.7
Total Assets	11,676.3	18,229.3	17,097.7	17,578.9	18,399.1

Key Ratios

(Y/E March) (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Growth					
Sales	20.3%	44.8%	27.6%	28.0%	12.3%
EBITDA	-4.5%	18.4%	21.5%	48.0%	14.2%
PAT	-13.7%	-1.2%	-9.6%	78.1%	19.1%
Margins					
Gross	36.0%	33.4%	32.4%	33.0%	32.9%
EBITDA	14.5%	11.8%	11.3%	13.0%	13.3%
PAT	10.0%	6.8%	4.8%	6.7%	7.1%
Per Share Ratio					
EPS (Rs)	52.1	51.5	46.6	82.9	98.8
Book Value (Rs)	485.1	548.6	600.1	657.4	721.5
DPS (Rs)	20.0	20.0	20.0	26.5	29.6
Valuation Ratios					
P/E (x)	11.5	11.6	12.8	7.2	6.1
EV/EBITDA (x)	4.9	6.4	5.7	3.7	2.9
P/B (x)	1.2	1.1	1.0	0.9	0.8
Yield	3.3%	3.3%	3.3%	4.4%	5.0%
Return Ratios					
ROE	11.0%	10.0%	8.1%	13.2%	14.3%
ROCE	10.4%	9.0%	7.9%	12.1%	13.0%
Liquidity Ratios					
Debt-Equity (x)	0.2	0.6	0.4	0.3	0.2
Current Ratio (x)	5.2	3.9	3.1	2.8	3.0
Efficiency Ratios					
Gross Asset Turnover	2.5	3.0	3.3	3.8	3.7
W/C % of Sales	15.8%	13.4%	17.7%	15.5%	15.4%

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