

Market statistics

Current stock price (₹)	623
Shares O/S (cr.)	271.3
Mcap (₹ cr)	169,183
52W H/L (₹)	652/376
Bloomberg	HCLT IN

Shareholding pattern

Promoters	60.33
Domestic Institution	10.00
Foreign Institution	25.62
Non-institution	4.05
of which more than 1%	

We maintain BUY on HCL Technologies, based on revenue growth visibility (reflected in guidance for FY21) and a stable operating profile supported by P&P business. Key positive attributes include the following: (1) Integrated applications & IMS large deal flow and consolidation opportunities (overall 11 transformational deal signings in 1Q); (2) HCLT's prowess in cloud infra business is a strong competitive advantage with enterprises accelerating cloud adoption and higher annuity streams supported by P&P upside; (3) recovery in ER&D, led by semiconductor, telecom & hi-tech, consumer electronics sub-segments, and waning supply-side impediments, (4) BFSI outperformance supported by Temenos partnership ahead (+550bps QoQ outperformance in 1Q).

Margin beat estimates: HCL Tech reported largely in-line revenue performance, while EBIT margin and net profit beat our estimates. Cc revenue declined 7.2% QoQ, owing to supply-side constraints (1/3rd impact from COVID) and reduction of revenue from offshoring of a large deal. IT and business services (down 7.8% QoQ cc) and ER&D (down 9% QoQ cc) were the key drags on revenues owing to exposure to troubled verticals and asset heavy industries. EBIT margin contracted 36bps QoQ to 20.5%, beating our estimates, owing to increased amortisation (-67bps), higher R&D expenditure (-12bps), revenue decline (-70bps), partially offset by INR depreciation (+76bps) and reduction in travel expenses (+40bps).

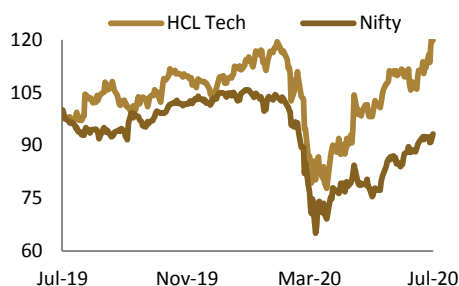
Strong deal closures: The deal closures have been decent in Q1FY21. HCL Tech signed 11 new transformational deals, led by key industry verticals including telecommunication, financial services, manufacturing, life sciences and healthcare. The company's bookings TCV (net new deals) is higher on YoY basis and the renewals were also robust in Q1. The company won a large consolidation opportunity in Europe and the revenue from this opportunity will ramp-up gradually over next few quarters. HCL Tech's management indicated that the deal pipeline has increased 40% QoQ.

Reinstated guidance, expect positive QoQ growth for Q2-Q3-Q4FY21: Management indicated business impact due to COVID-19 remained lower vis-a-vis anticipation at the start. HCLT guided for a 1.5-2.5% QoQ on revenue growth for Q2-Q3-Q4FY21. It translates to (-)3.3% to (-)0.8% revenue decline in FY21. On the margin front, the management expects EBIT margin to be in ~19.5-20.5% for FY21 (19.6% in FY20). Confidence of QoQ growth stems on the back of strong deal wins, healthy deal pipeline, traction for infra business (cloud migration projects), higher demand for HCL software products with limited impact from COVID-19 and increasing spending on digital transformation works. Management sees stability in lifesciences and healthcare, financial service, technology and telecom verticals - performed well during Q1FY21.

Strong cash conversion allays fears: Net cash balance stood to US\$1.33bn at the end of Q1FY21. DSO days was down a day to 65 days. The operating cash flow (OCF) stood at US\$819mn while the free cash-flow (FCF) stood at US\$757mn. This resulted in OCF/net income conversion being at 212% and FCF/EBITDA being at 126% in Q1FY21.

Valuation: We have revised our earnings estimates upward for FY21/FY22E, to factor in better-than-expected margin performance in Q1FY21 and commentary on stabilization of demand-side impact. At CMP, the stock trades at 14.7x/13.3x of its FY21/FY22E earnings. The company has impressed with consistent wins of large deals, strong FCF generation and good margin defense. We maintain our Buy rating on HCL Tech on account of its continuous large deal wins; market share wins in its large clients, beneficiary in vendor consolidation.

HCL Tech vs Nifty



Capital efficiency & valuations

Particulars	FY20	FY21E	FY22E
RoE (%)	21.2	18.7	17.7
EPS (₹)	40.8	42.4	46.9
CEPS (₹)	51.2	55.8	61.4
P/E (x)	10.7	14.7	13.3
P/BV (x)	2.3	2.7	2.3
EV/EBITDA (x)	6.8	8.4	7.3
Income growth (%)	17.0	3.1	9.2
EBITDA growth (%)	19.5	11.0	10.2
PAT growth (%)	9.3	4.1	10.6

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**Exhibit 1: Quarterly details**

₹ mn	1QFY20	4QFY20	1QFY21	QoQ (%)	YoY (%)	Comments
Revenues (in US\$mn)	2,364	2,543	2,356	(7.4)	(0.3)	
Revenues	164,250	185,900	178,410	(4.0)	8.6	Revenues were down 7.2% in cc terms.
- Operating costs	130,250	138,700	132,750	(4.3)	1.9	
EBITDA	34,000	47,200	45,660	(3.3)	34.3	
EBITDA margin (%)	20.7	25.4	25.6	20bps	489bps	Was higher-than-expected due INR depreciation and reduction in travel expenses
- Interest expense	-	-	-	-	-	
- Depreciation	5,950	8,390	9,060	8.0	52.3	
+ Other income, net (incl forex)	1,280	(130)	2,050	NA	60.2	
PBT	29,330	38,680	38,650	(0.1)	31.8	
- Taxes	7,050	7,070	9,290	31.4	31.8	
Effective tax rate (%)	24.0	18.3	24.0	576bps	-	- Tax rate to remain in the range of ~23-24%
PAT	22,280	31,610	29,360	(7.1)	31.8	
Net margin (%)	13.6	17.0	16.5	(55)bps	289bps	
Reported profits	22,200	31,530	29,230	(7.3)	31.7	

Source: Company

Exhibit 2: Change in estimates

₹ mn	FY21E			FY22E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	9,815	9,692	(1.3)	10,707	10,610	(0.9)
Revenue	716,481	728,718	1.7	781,633	795,735	1.8
EBITDA margin (%)	24.0	25.4	140bps	24.4	25.7	130bps
EPS (₹)	39.2	42.4	8.2	43.3	46.9	8.3

Source: Trust Research

Geography wise Revenues: Regionally, North America reported cc revenue decline of 6.9% QoQ. The revenues of Europe and RoW decreased by 8.5% and 5.1% QoQ on cc terms respectively.

Exhibit 3: Geographical wise Performance

Geographical mix	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
US	64.5	65.8	64.4	62.9	67.7	64.4	62.8	63.4	63.7
Europe	28.1	26.8	28.2	29.7	25.9	28.2	29.2	28.7	28.3
RoW	7.4	7.4	7.4	7.4	6.4	7.4	8.0	7.9	8.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Exhibit 4: Services Mix

Offerings	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Application services	34.0	33.1	32.0	32.6	NA	NA	NA	NA	NA
Engineering and R&D services	24.5	25.5	25.5	23.9	NA	NA	NA	NA	NA
Infrastructure services	36.2	36.0	37.5	38.9	NA	NA	NA	NA	NA
BPO services	5.3	5.4	5.0	4.6	NA	NA	NA	NA	NA
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, Trust Research



Vertical performance: IT and business services revenue declined 7.8% in cc owing to significant revenue decline from the directly impacted verticals such as manufacturing, retail, travel, hospitality and media. Lifesciences and healthcare, financial service, technology and telecom performed quite well during the quarter.

Exhibit 5: Vertical mix

Offerings	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Financial Services	23.8	23.0	21.6	21.1	20.3	22.4	21.6	21.1	22.4
Manufacturing	36.5	36.2	36.4	36.2	38.8	35.2	36.0	36.9	35.3
Telecommunications, Media, Publishing & Entertainment	7.3	7.2	9.2	8.6	8.0	8.4	9.0	8.3	7.6
Retail & CPG	9.1	10.0	10.2	10.0	9.5	10.0	10.3	10.2	10.0
Life Sciences & Healthcare	12.8	12.9	13.0	13.0	12.8	12.9	12.2	12.5	13.7
Public Services	10.5	10.7	9.6	11.1	10.6	11.1	10.9	11.0	11.0
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, Trust Research

Human Resources: Headcount saw a net of 136 employees leave (gross 7,005 employees joined) to take the total base to 150,287.

Exhibit 6: Employee strength

Employees	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Total employee count	124,121	127,875	132,328	137,965	143,900	147,123	149,173	150,423	150,287
Technical	113,404	116,910	121,273	126,717	132,384	135,957	137,725	139,302	138,888
Support	10,717	10,965	11,055	11,248	11,516	11,166	11,448	11,121	11,399
Gross Addition	12,558	11,683	13,191	14,249	16,332	13,430	11,502	10,278	7,005

Source: Company

Client Concentration: The Company lost 1/3 clients QoQ each in the US\$50mn+/US\$20mn+ taking clients to 29 and 93 respectively.

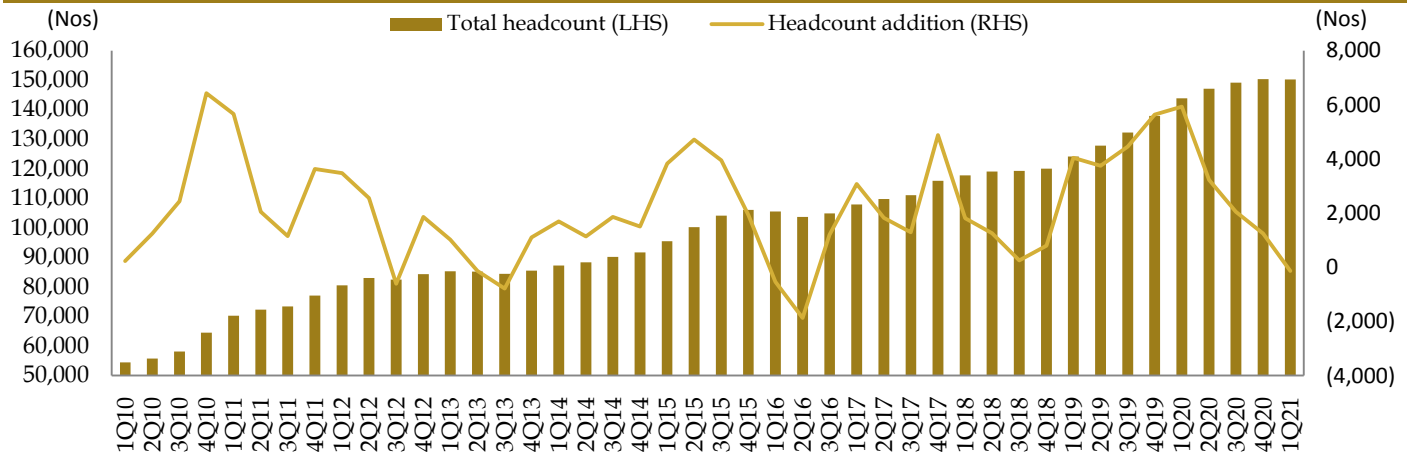
Exhibit 7: Client details

Client metrics	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
100 million dollar +	9	9	10	10	12	13	15	15	15
50 million dollar +	32	31	29	29	29	30	32	30	29
20 million dollar +	87	90	95	95	93	93	94	96	93
10 million dollar +	162	165	164	166	172	171	167	171	173
5 million dollar +	267	269	276	283	293	299	302	308	320
1 million dollar +	571	575	597	623	633	667	712	791	848
Top 5 clients (LTM)	17.0	17.3	17.4	17.0	16.6	15.6	15.2	15.1	13.9
Top 10 clients (LTM)	24.6	24.8	24.8	24.1	23.9	23.1	22.4	22.0	20.9
Top 20 clients (LTM)	34.2	34.2	34.1	33.4	34.2	33.7	33.0	32.1	30.8

Source: Company

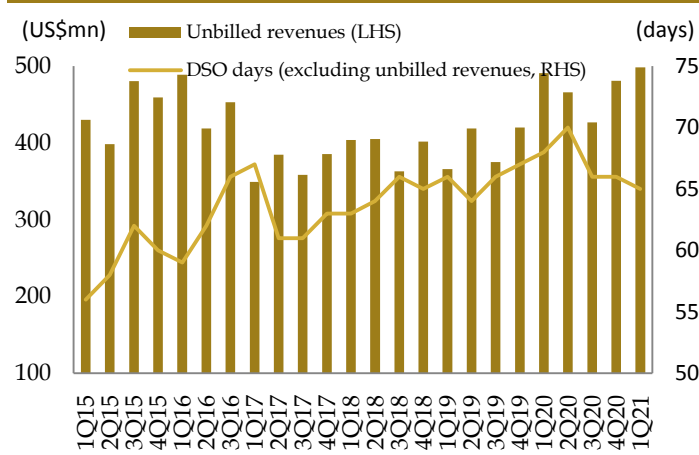


Exhibit 8: Utilization can be used as a lever, Employee details: 136 employees left this quarter



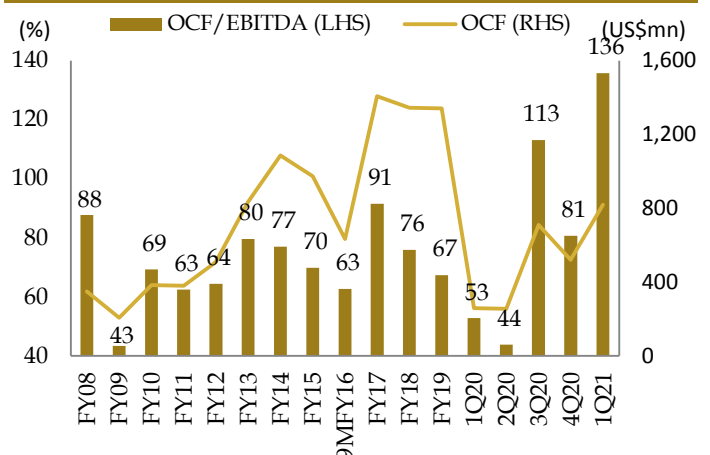
Source: Company, Trust

Exhibit 9: DSO down to 65 days, Unbilled rev. higher



Source: Company, Trust

Exhibit 10: OCF/EBITDA was strong this quarter



Source: Company, Trust

Products and Platform revenue: A decline of 2.1% cc was less compared to IT and business unit and ERD services. Over the last 12 months, HCL Tech completed over 16,500 sales transactions across 11,000 unique customers and onboarded more than 2,400 partners and reseller. The company released new products across portfolio. HCL Tech added 250+ new customers during last one year including 100+ in last quarter alone. The transition remains on track. COVID-19 impact has been very limited in this P&P segment, supported by building relationships beyond contract with customers, diversification across industries and geographies and new demand ecommerce, digital experience and security. Management remains cautiously optimistic for the P&P business segment. Over the last three quarters, the run-rate of incremental revenue in P&P business is around US\$600mn in cc terms. This is tracking well with the company’s earlier guidance of US\$625mn first 12 months.

Engineering and R&D services: Revenue declined 9% QoQ in cc terms, owing to significant revenue loss from directly impacted segments like aerospace, automobiles and office automation. The revenue decline also includes the revenue decline from the offshoring of large deals during the quarter.

Strong deal pipeline: HCL Tech’s management indicated that the deal pipeline has increased 40% QoQ during the quarter. Management sees a healthy deal pipeline in lifesciences, financial services, technology, energy and auto segments. Two broad themes such as (1) momentum in cost transformation and vendor consolidation deal (especially in energy and auto) and (2) acceleration in digital transformation (cloud, digital work place and cyber security) are playing out. The management witnessed a good deal creation activity in existing clients, which will create opportunities for the company.



Financials

Income Statement (₹ mn)

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Revenues	505,700	604,280	706,780	728,718	795,735
Op. Expenses	391,300	464,590	539,850	543,400	591,597
EBITDA	114,400	139,690	166,930	185,318	204,138
Other Income	11,110	8,050	1,790	2,800	3,250
Depreciation	14,520	21,480	28,400	36,367	39,567
EBIT	110,990	126,260	140,320	151,751	167,821
Interest	-	-	-	-	-
PBT	110,990	126,260	140,320	151,751	167,821
Tax	23,170	24,810	29,380	36,434	40,277
PAT	87,820	101,450	110,940	115,317	127,544
Minority + Extra Ord. Item	-	220	320	130	130
Adj Pat	87,820	101,230	110,620	115,187	127,414

Valuations Summary

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Per share (₹)					
EPS	31.5	37.3	40.8	42.4	46.9
CEPS	36.8	45.2	51.2	55.8	61.4
BVPS	132.2	155.7	192.3	229.7	268.2
DPS	4.0	4.0	6.0	8.0	9.0
Payout (%)	14.9	12.7	16.4	18.8	19.2
Valuation (x)					
P/E	15.4	14.6	10.7	14.7	13.3
P/BV	3.7	3.5	2.3	2.7	2.3
EV/EBITDA	11.1	10.1	6.8	8.4	7.3
Dividend Yield (%)	0.8	0.7	1.4	1.3	1.4
Return ratio (%)					
EBITDA Margin	22.6	23.1	23.6	25.4	25.7
PAT Margin	17.4	16.8	15.7	15.8	16.0
ROAE	23.9	24.0	21.2	18.7	17.7
ROACE	29.8	27.3	24.5	22.8	21.8
Leverage Ratios (x)					
Total D/E	0.0	0.1	0.1	0.1	0.1
Net Debt/Equity	(0.3)	(0.2)	(0.2)	(0.3)	(0.4)
Current ratio	2.2	2.3	1.5	0.3	0.2
Growth Ratios (%)					
Income growth	8.2	19.5	17.0	3.1	9.2
EBITDA growth	11.0	22.1	19.5	11.0	10.2
PAT growth	3.8	15.3	9.3	4.1	10.6
Turnover Ratios					
F.A. Turnover (x)	9.8	10.4	11.3	11.0	11.9
Debtors Days	72	77	75	76	78
Payable days	96	95	152	148	150

Balance Sheet (₹ mn)

Year End-March	FY18	FY19	FY20E	FY21E	FY22E
Sources of Funds					
Equity Share Capital	2,784	2,713	5,426	5,426	5,437
Reserves & Surplus	365,384	419,527	516,714	610,199	713,146
Total Shareholders Fund	368,168	422,240	522,140	615,625	718,583
Non-current liabilities	4,371	39,860	50,920	50,920	50,920
Long term Borrowings	4,371	39,860	50,920	50,920	50,920
Total Current Liabilities	111,812	126,860	259,090	265,001	288,505
Current Liabilities	99,143	111,480	208,890	215,871	235,018
Other cur liabilities & Prov	12,669	15,380	50,200	49,129	53,487
Total Liabilities	484,351	588,960	832,150	931,545	1,058,008
Assets					
Non-current Assets	238,801	291,790	440,982	490,864	496,805
Fixed assets	51,847	58,010	62,440	66,370	66,803
Non-current investments	144,057	176,950	320,450	364,599	364,599
Other non-current assets	42,897	56,830	58,092	59,895	65,403
Current assets	245,550	297,170	391,168	440,682	561,203
Current investments	80,838	54,620	54,620	54,620	54,620
Accounts Receivables, net	96,394	117,060	135,547	149,737	163,507
Unbilled Receivables	26,181	29,040	38,728	39,930	43,602
Cash & bank balances	16,939	59,290	117,737	150,476	249,332
Other current assets	25,198	37,160	44,537	45,919	50,142
Total Assets	484,351	588,960	832,150	931,545	1,058,008

Cash flow Statement

Year End-March	FY18	FY19	FY20E	FY21E	FY22E
PBT	110,990	126,260	140,320	151,751	167,821
Depreciation	14,520	21,480	28,400	36,367	39,567
Others	-	(220)	(320)	(130)	(130)
CF before W.cap	125,510	147,520	168,400	187,988	207,258
Inc/dec in W.cap	26,426	34,372	(95,417)	12,667	3,670
Op CF after W.cap	99,084	113,148	263,817	175,321	203,588
Less Taxes	23,170	24,810	29,380	36,434	40,277
Net CF From Operations	75,914	88,338	234,437	138,887	163,311
Inc/(dec) in F.A + CWIP	19,557	27,643	32,830	40,297	40,000
Acquisitions	24,257	36,199	57,614	44,149	-
(Pur)/sale of Investments	(3,018)	6,675	85,886	-	-
CF from Invst Activities	(40,796)	(70,517)	(176,330)	(84,446)	(40,000)
Loan Raised/(repaid)	(1,046)	35,489	11,060	-	-
Equity Raised	(17,186)	1,905	7,401	(0)	12
Dividend	13,112	12,864	18,121	21,702	24,467
CF from Fin Activities	(31,344)	24,530	340	(21,702)	(24,456)
Net inc/(dec) in cash	3,774	42,351	58,447	32,739	98,856
Op. bal of cash	13,165	16,939	59,290	117,737	150,476
Cl. balance of cash	16,939	59,290	117,737	150,476	249,332

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