

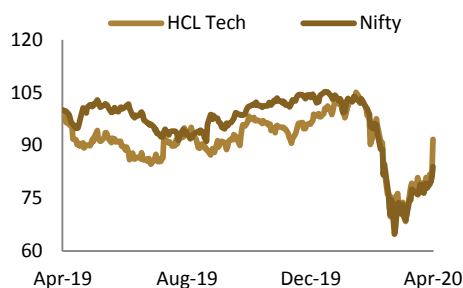
Market statistics

Current stock price (₹)	512
Shares O/S (cr.)	271.3
Mcap (₹ cr)	138,885
52W H/L (₹)	624/376
Bloomberg	HCLT IN

Shareholding pattern

Promoters	59.98
Domestic Institution	8.42
Foreign Institution	27.66
Non-institution	3.94
of which more than 1%	

HCL Tech vs Nifty



Capital efficiency & valuations

Particulars	FY20	FY21E	FY22E
RoE (%)	21.2	17.6	16.8
EPS (₹)	40.8	39.2	43.3
CEPS (₹)	51.2	51.7	56.9
P/E (x)	10.7	11.2	10.1
P/BV (x)	2.3	2.0	1.7
EV/EBITDA (x)	6.8	6.4	5.3
Income growth (%)	17.0	1.4	9.1
EBITDA growth (%)	19.5	2.9	11.1
PAT growth (%)	9.3	(3.6)	10.3

ANALYST

Naushil Shah

+91-22 4224 5125

naushil.shah@trustgroup.co.in

HCL Technologies reported a strong quarter. HCLT reported revenues of US\$2,543mn, flat QoQ (in USD terms, up 0.8% in cc terms). Margin was helped by healthy margins in Software Services and lower-than-expected wage costs. For FY21, HCLT has stopped providing annual guidance owing to uncertainties around COVID-19, as expected. We maintain our Buy rating on HCL Tech given the deal wins (14 transformational deals), strong bookings, better execution and strategy of augmenting offerings by acquiring IPs. FY20 has turned out to be a strong one for HCLT, as the company reported 10.7% cc organic growth – ahead of TCS (7.1%) and Infosys (9.8%).

Margin beat estimates: HCL Tech delivered in-line revenue growth, while margin beat our estimates. Cc revenue grew 0.8%/13.5% QoQ/YoY, led by strong growth in Mode-2 service revenues (7.1% QoQ in cc terms). Mode-1 and Mode-3 service revenues declined 0.4% and 1%. Revenue growth was impacted owing to 1.5% supply driven billing loss. Revenue was flat at US\$2,543mn. EBIT margin improved by 64bps QoQ to 20.9% led by INR tailwinds (53bps) and operational efficiencies (22bps). This was partially offset by higher amortisation cost (up10 bps). ~96% of its employees have shifted to WFH model.

Suspended guidance, expect dip in revenues in Q1FY21 and gradual recovery in 2HFY21. The management has stopped providing annual guidance owing to uncertainties around COVID-19, as expected. HCLT expects revenue would decline significantly in Q1FY21 (though refrained to provide any guidance) owing to some supply-side disruption (non-availability of approval from clients, lockdown mandates, ramp-up of new projects & difficulties in onboarding new employees), reduction in volume based billing, deferral of discretionary spend, delay in new project decision making and requests from price discounts/extension for payment terms (especially from small sized customers). However, it believes that the decline in revenue would moderate in Q2FY21 followed by a gradual recovery from 2HFY21.

Order bookings: Order bookings in Q4FY20 remained highest in FY20 and management expects ramp-up of these deals would start from Q2FY21. Further, strong traction in demand from managed services on cloud platforms to avoid capex, workplace transformation, emergence of new business models for deeply impacted verticals (retail, consumer services, travel and hospitality, etc) and higher adoption of digital technologies among BFSI clients would create new growth opportunities for the company. HCL Tech signed 14 transformational deals in Q4FY20. Management highlighted that total TCVs of deals in Q4FY20 was remained highest among the remaining three quarters of FY20. HCLT expects organic revenue growth momentum would continue to remain strong.

Strong cash conversion allays fears: Net cash balance increased to US\$1.36bn at the end of Q4FY20 from US\$1.1bn in Q3FY20. DSO days remained flat at 66 days in Q4FY20. The operating cash flow (OCF) stood at US\$521mn while the free cash-flow (FCF) stood at US\$452mn. This resulted in OCF/net income conversion being at 112% and FCF/EBITDA being at 63% in FY20.

Valuation: HCL Tech delivered 16.7% YoY cc revenue growth, which remained within the guided range of 16.5-17%. The growth was driven by strong 27.6% and 45.3% growth in Mode 2 and Mode 3 services. HCL Tech signed 53 transformative deals during the year and US\$100+mn clients increased by 5. 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.

**Exhibit 1: Quarterly details**

₹ mn	4QFY19	3QFY20	4QFY20	QoQ (%)	YoY (%)	Comments
Revenues (in US\$mn)	2,278	2,543	2,543	-	11.7	
Revenues	159,900	181,350	185,900	2.5	16.3	Revenues were up 0.8% in cc terms.
- Operating costs	123,930	136,650	138,700	1.5	11.9	
EBITDA	35,970	44,700	47,200	5.6	31.2	
EBITDA margin (%)	22.5	24.6	25.4	74bps	289bps	Was higher-than-expected due to healthy margin in Software serv. & lower-than-expected wage cost
- Interest expense	-	-	-	-	-	
- Depreciation	5,580	8,000	8,390	4.9	50.4	
+ Other income, net (incl forex)	1,520	670	(130)	NA	NA	Includes a forex loss of ₹360mn, compared to a gain of ₹130mn
PBT	31,910	37,370	38,680	3.5	21.2	
- Taxes	6,150	6,910	7,070	2.3	15.0	
Effective tax rate (%)	19.3	18.5	18.3	(21)bps	(99)bps	Tax rate to remain in the range of ~23%
PAT	25,760	30,460	31,610	3.8	22.7	
Net margin (%)	16.1	16.8	17.0	21bps	89bps	
Reported profits	25,680	30,380	31,530	3.8	22.8	

Source: Company

Exhibit 2: Change in estimates

₹ mn	FY21E			FY22E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	11,038	9,815	(11.1)	12,216	10,707	(12.4)
Revenue	777,668	716,481	(7.9)	855,127	781,633	(8.6)
EBITDA margin (%)	23.9	24.0	10bps	24.2	24.4	15bps
EPS (₹)	43.8	39.2	(10.5)	48.7	43.3	(11.1)

Source: Trust Research

Geography wise Revenues: Regionally, North America reported cc revenue increase of 1.3% QoQ. The revenues of Europe and RoW decreased/increased by 0.1% and 0.9% QoQ on cc terms respectively.

Exhibit 3: Geographical wise Performance

Geographical mix	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
US	61.6	64.5	65.8	64.4	62.9	67.7	64.4	62.8	63.4
Europe	30.0	28.1	26.8	28.2	29.7	25.9	28.2	29.2	28.7
RoW	8.4	7.4	7.4	7.4	7.4	6.4	7.4	8.0	7.9
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	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Application services	34.7	34.0	33.1	32.0	32.6	NA	NA	NA	NA
Engineering and R&D services	24.1	24.5	25.5	25.5	23.9	NA	NA	NA	NA
Infrastructure services	37.3	36.2	36.0	37.5	38.9	NA	NA	NA	NA
BPO services	3.9	5.3	5.4	5.0	4.6	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: Out of the seven verticals, technology & services, public services, lifesciences & healthcare and retail & CPG reported a cc revenue growth of 7.2%, 2.9%, 2.3% and 0.3% on a QoQ basis, respectively. However, telecommunication, media and publishing, financial services and manufacturing verticals' revenue declined by 6.6%, 1.1% and 0.2% on QoQ basis, respectively.

Exhibit 5: Vertical mix

Offerings	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Financial Services	25.0	23.8	23.0	21.6	21.1	20.3	22.4	21.6	21.1
Manufacturing	36.0	36.5	36.2	36.4	36.2	38.8	35.2	36.0	36.9
Telecommunications, Media, Publishing & Entertainment	7.4	7.3	7.2	9.2	8.6	8.0	8.4	9.0	8.3
Retail & CPG	9.6	9.1	10.0	10.2	10.0	9.5	10.0	10.3	10.2
Life Sciences & Healthcare	11.5	12.8	12.9	13.0	13.0	12.8	12.9	12.2	12.5
Public Services	10.5	10.5	10.7	9.6	11.1	10.6	11.1	10.9	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 1,250 employees join (gross 10,278 employees joined) to take the total base to 150,423.

Exhibit 6: Employee strength

Employees	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Total employee count	120,081	124,121	127,875	132,328	137,965	143,900	147,123	149,173	150,423
Technical	109,565	113,404	116,910	121,273	126,717	132,384	135,957	137,725	139,302
Support	10,516	10,717	10,965	11,055	11,248	11,516	11,166	11,448	11,121
Gross Addition	8,476	12,558	11,683	13,191	14,249	16,332	13,430	11,502	10,278

Source: Company

Client Concentration: The Company lost/added 2 clients QoQ each in the US\$50mn+/US\$20mn+ taking clients to 30 and 96 respectively.

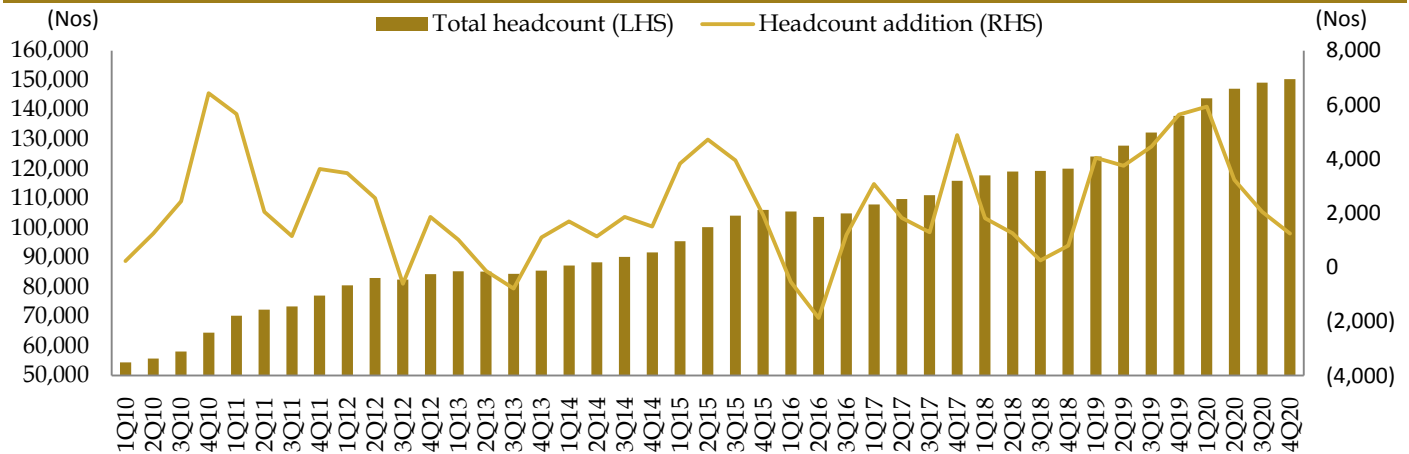
Exhibit 7: Client details

Client metrics	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
100 million dollar +	8	9	9	10	10	12	13	15	15
50 million dollar +	28	32	31	29	29	29	30	32	30
20 million dollar +	87	87	90	95	95	93	93	94	96
10 million dollar +	160	162	165	164	166	172	171	167	171
5 million dollar +	264	267	269	276	283	293	299	302	308
1 million dollar +	561	571	575	597	623	633	667	712	791
Top 5 clients (LTM)	16.3	17.0	17.3	17.4	17.0	16.6	15.6	15.2	15.1
Top 10 clients (LTM)	23.8	24.6	24.8	24.8	24.1	23.9	23.1	22.4	22.0
Top 20 clients (LTM)	33.7	34.2	34.2	34.1	33.4	34.2	33.7	33.0	32.1

Source: Company

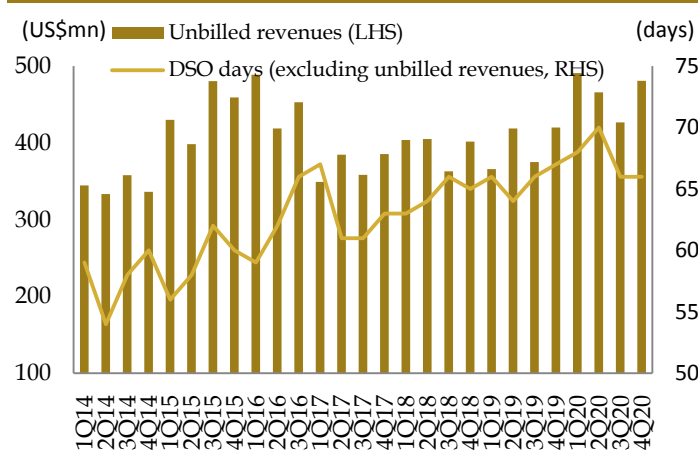


Exhibit 8: Utilization can be used as a lever, Employee addition: 1,250 employees joined this quarter



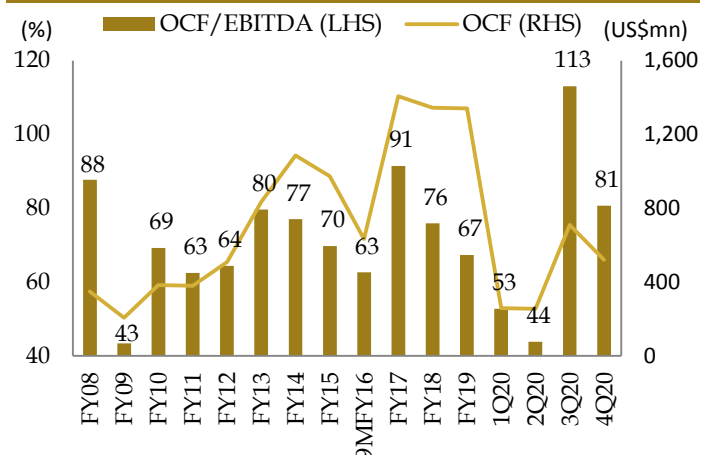
Source: Company, Trust

Exhibit 9: DSO flat at 66 days, Unbilled rev. higher



Source: Company, Trust

Exhibit 10: OCF/EBITDA was strong this quarter



Source: Company, Trust

Service line performance: IT and business services (contributes 70.6% of total revenues) revenue grew 1.6% QoQ on cc terms, while Engineering and R&D Services (ERS) revenue declined 1.8% QoQ owing to supply disruption in the view of the COVID-19 outbreak across the globe. Products and platforms (P&P) revenue remained flat sequentially. On margins front, EBIT margin for IT and business services improved 120bps QoQ to 19%, while EBIT margin for ERS and P&P declined by 180bps and 30bps QoQ respectively.

HCL software update: HCL software products completed around 5500 sales transactions for the quarter and onboarded more than 2,000 partners for FY20. Management sees minimal impact in the wake of COVID-19

Management comments: 1) The company has to pay US\$800mn to IBM, as the pending payment for the acquisition of select products. With cash reserves of US\$2bn, it does not appear to be any issue. 2) Management mentioned that order book is 12% higher YoY and the pipeline is robust. Most of the deals won in Q4FY20 will ramp up by Q2FY21. Ramp up of the deals already won, is happening at the usual rate. 3) Manufacturing (Auto & Aero), Entertainment (theme parks, events), Non-essential retail and Hospitals are most impacted verticals due to Covid-19. BFSI, Telecom are less impacted while Pharma, Insurance and Hitech remain strong for HCL Tech.



Financials

Income Statement (₹ mn)

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Revenues	505,700	604,280	706,780	716,481	781,633
Op. Expenses	391,300	464,590	539,850	544,741	590,820
EBITDA	114,400	139,690	166,930	171,740	190,813
Other Income	11,110	8,050	1,790	500	950
Depreciation	14,520	21,480	28,400	33,786	36,986
EBIT	110,990	126,260	140,320	138,454	154,777
Interest	-	-	-	-	-
PBT	110,990	126,260	140,320	138,454	154,777
Tax	23,170	24,810	29,380	31,844	37,147
PAT	87,820	101,450	110,940	106,610	117,631
Minority + Extra Ord. Item	-	220	320	-	-
Adj Pat	87,820	101,230	110,620	106,610	117,631

Valuations Summary

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Per share (₹)					
EPS	31.5	37.3	40.8	39.2	43.3
CEPS	36.8	45.2	51.2	51.7	56.9
BVPS	132.2	155.7	192.3	223.5	258.4
DPS	4.0	4.0	6.0	8.0	9.0
Payout (%)	14.9	12.7	16.4	20.4	20.8
Valuation (x)					
P/E	15.4	14.6	10.7	11.2	10.1
P/BV	3.7	3.5	2.3	2.0	1.7
EV/EBITDA	11.1	10.1	6.8	6.4	5.3
Dividend Yield (%)	0.8	0.7	1.4	1.5	1.7
Return ratio (%)					
EBITDA Margin	22.6	23.1	23.6	24.0	24.4
PAT Margin	17.4	16.8	15.7	14.9	15.0
ROAE	23.9	24.0	21.2	17.6	16.8
ROACE	29.8	27.3	24.5	21.0	20.6
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)	(0.2)	(0.3)
Current ratio	2.2	2.3	1.5	1.6	1.9
Growth Ratios (%)					
Income growth	8.2	19.5	17.0	1.4	9.1
EBITDA growth	11.0	22.1	19.5	2.9	11.1
PAT growth	3.8	15.3	9.3	(3.6)	10.3
Turnover Ratios					
F.A. Turnover (x)	9.8	10.4	11.3	10.6	11.1
Debtors Days	72	77	75	91	83
Payable days	96	95	152	146	151

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	601,622	694,785
Total Shareholders Fund	368,168	422,240	522,140	607,047	700,223
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	265,654	288,126
Current Liabilities	99,143	111,480	208,890	216,404	234,709
Other cur liabilities & Prov	12,669	15,380	50,200	49,251	53,417
Total Liabilities	484,351	588,960	832,150	923,622	1,039,268
Assets					
Non-current Assets	238,801	291,790	440,982	490,928	499,297
Fixed assets	51,847	58,010	62,440	67,440	70,454
Non-current investments	144,057	176,950	320,450	364,599	364,599
Other non-current assets	42,897	56,830	58,092	58,889	64,244
Current assets	245,550	297,170	391,168	432,694	539,971
Current investments	80,838	54,620	54,620	54,620	54,620
Accounts Receivables, net	96,394	117,060	135,547	176,666	171,317
Unbilled Receivables	26,181	29,040	38,728	39,259	42,829
Cash & bank balances	16,939	59,290	117,737	117,000	221,952
Other current assets	25,198	37,160	44,537	45,148	49,254
Total Assets	484,351	588,960	832,150	923,622	1,039,268

Cash flow Statement

Year End-March	FY18	FY19	FY20E	FY21E	FY22E
PBT	110,990	126,260	140,320	138,454	154,777
Depreciation	14,520	21,480	28,400	33,786	36,986
Others	-	(220)	(320)	-	-
CF before W.cap	125,510	147,520	168,400	172,240	191,763
Inc/dec in W.cap	26,426	34,372	(95,417)	36,495	(14,791)
Op CF after W.cap	99,084	113,148	263,817	135,745	206,554
Less Taxes	23,170	24,810	29,380	31,844	37,147
Net CF From Operations	75,914	88,338	234,437	103,900	169,407
Inc/(dec) in F.A + CWIP	19,557	27,643	32,830	38,786	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)	(82,935)	(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	(737)	104,952
Op. bal of cash	13,165	16,939	59,290	117,737	117,000
Cl. balance of cash	16,939	59,290	117,737	117,000	221,952

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