

Retail Equity Research

HCL Technologies Limited

IT Services

BSE CODE: 532281

NSE CODE: HCLTECH

Bloomberg CODE: HCLT:IN

SENSEX: 37,930

BUY

12M Investment period

Rating as per Large Cap

CMP Rs. 652

TARGET Rs. 726

RETURN 11% ↑

(Closing: 21-07-20)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

Decent topline growth with margin expansion

HCL Technologies Limited provides software development, business process outsourcing, information technology and infrastructure services. The company is spread across 49 countries with 150,000+ employees and its client base, including 250 of the fortune 500 companies.

- Q1FY21 Net Sales witnessed 8.6% YoY growth (+1.0% YoY constant currency growth) to Rs. 17,842cr. EBIT margin expanded to 20.7% with EBIT reported at Rs. 3,692cr (+30.2% YoY) due to optimizations in cost management, forex and automation.
- The company signed 11 net new transformational deals, led by key industry verticals (telecommunication, financial services, life sciences and healthcare).
- As a result, PAT increased to Rs. 2,931cr (+31.4% YoY) with very strong cash conversion (\$1,329mn net cash as of June 30th).
- Given current upside potential, we reiterate our BUY rating on the stock with a revised target price of Rs. 726 based on 15x FY22E adj. EPS.

Revenue fares better, bottom-line improves further on YoY basis

Q1FY21 revenues stood at Rs. 17,842cr (+8.6% YoY, +1.0% on CC terms) backed by a strong growth in the Products and Platforms vertical (+92.2% YoY to Rs. 2,460cr). IT and business services revenue inched up 1.3% YoY to Rs. 12,521cr, having taken a hit in sectors like manufacturing, media, retail, energy, travel and hospitality. While, on the other hand, life sciences, health care, financial services and telecom performed well leading to an increase in pipeline projects by 40%. Engineering and R&D services witnessed 2.8% YoY growth to Rs. 2,861cr (-5.1% YoY in CC terms) having been impacted due to aero, auto and office automation segments.

Margin Expansion in Q1FY21

Adoption of accounting standard changes translated to higher EBITDA owing to the increase in depreciation and amortization expense in Q1FY21. Furthermore, current WFH situation led to reduction in other expenses, while an increase in other operating income helped expand the EBIT margin by 343 basis points on YoY basis. EBIT rose 30.2% YoY to Rs. 3,692cr, with EBIT margin coming in at 20.7%. PAT came in at Rs. 2,931cr (vs. Rs. 2,230cr in Q1FY20).

Key concall highlights

- HCL signed 11 new deals during the quarter; revised guidance of 1.5% to 2.5% CQGR revenue growth (in CC terms) and EBIT margin at 19.5% to 20.5% for FY21.
- Cash generation and conversion continues to be very robust with Operating cash flow at USD 819mn/Ni conversion at 211.9%.
- 96% employees continued to WFH; IT services attrition down to 14.6% YoY,
- Company announced intent to acquire Cisco's SON Technology to better support its clientele in the telecommunications industry. Company also expanded its partnership with Broadcom to include Symantec Enterprise Division so as to further strengthen its security consulting and services capabilities.
- HCL commenced operations in Sri Lanka; to provide clients with services in the areas of Application, System Integration and Infrastructure Services.

Valuation

We expect earnings to grow at 9% CAGR over FY20-22E due to resilience in HCL's operating model, portfolio mix of services/product and strong talent pool to handle client expectations in this pandemic. Hence, we reiterate our BUY rating on the stock with revised target price of Rs. 726 based on 15x FY22E adj. EPS.

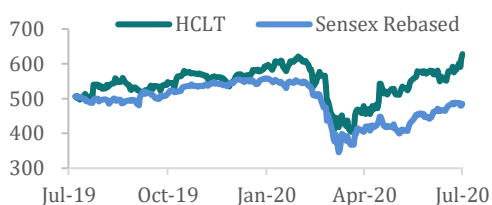
Company Data

Market Cap (cr)	Rs. 175,949
Enterprise Value (cr)	Rs. 174,268
Outstanding Shares (cr)	271.4
Free Float	40.0%
Dividend Yield	0.8%
52 week high	Rs. 662
52 week low	Rs. 376
6m average volume	1.7
Beta	0.5
Face value	Rs. 2

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	60.0	60.3	60.3
FII's	27.7	26.4	25.6
MFs/Insti	8.5	9.2	10.1
Public	2.4	2.5	2.5
Others	1.5	1.6	1.5
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	40.2%	10.4%	28.2%
Absolute Sensex	18.2%	-9.9%	-2.4%
Relative Return*	21.9%	20.3%	30.6%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	70,676	76,838	84,178
Growth (%)	17.0	8.7	9.6
EBITDA	17,316	19,537	21,380
EBITDA Margin (%)	24.5	25.4	25.4
Adj. PAT	11,057	11,575	13,122
Growth (%)	9.3	4.7	13.4
Adj. EPS	40.8	42.7	48.4
Growth (%)	10.8	4.7	13.4
P/E	10.7	15.2	13.4
P/B	2.3	2.9	2.4
EV/EBITDA	6.9	8.9	8.0
ROE (%)	21.6	18.8	17.9
D/E	0.1	0.1	0.1

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Revenue	17,842	16,427	8.6	18,587	(4.0)
EBITDA	4,757	3,570	33.2	4,858	(2.1)
EBITDA margins	26.7	21.7	500bps	26.1	60bps
Depreciation	1,065	735	44.9	996	6.9
EBIT	3,692	2,835	30.2	3,862	(4.4)
Interest	125	87	43.7	124	0.8
Other Income	295	183	61.2	147	100.7
Exceptional Items	-	-	-	-	-
PBT	3,862	2,931	31.8	3,885	(0.6)
Tax	927	701	32.2	713	30.0
Share of profit from Associate	-	-	-	-	-
Minority Interest	4	-	n.m.	-	n.m.
Reported PAT	2,931	2,230	31.4	3,172	(7.6)
Adjustments	-	-	-	-	-
Adj. PAT	2,931	2,230	31.4	3,172	(7.6)
No. of shares	271.4	271.3	0.0	271.3	0.0
Adj. EPS (Rs.)	10.8	8.2	31.4	11.7	(7.6)

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs. cr	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	77,915	85,433	76,838	84,178	(1.4)	(1.5)
EBITDA	18,964	20,591	19,537	21,380	3.0	3.8
Margins (%)	24.3	24.1	25.4	25.4	110bps	130bps
Adj. PAT	12,168	13,370	11,575	13,122	(4.9)	(1.9)
Adj. EPS	44.9	49.3	42.7	48.4	(4.9)	(1.9)



PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	50,569	60,427	70,676	76,838	84,178
% change	6.3	19.5	17.0	8.7	9.6
EBITDA	11,246	13,926	17,316	19,537	21,380
% change	7.1	23.8	24.3	12.8	9.4
Depreciation	1,383	2,073	3,420	4,347	4,299
EBIT	9,863	11,853	13,896	15,190	17,081
Interest	69	174	505	520	587
Other Income	1,230	943	589	825	1,072
PBT	11,024	12,622	13,980	15,495	17,566
% change	4.6	14.5	10.8	10.8	13.4
Tax	2,302	2,502	2,923	3,920	4,444
Tax Rate (%)	20.9	19.8	20.9	25.3	25.3
Reported PAT	8,721	10,120	11,057	11,575	13,122
Adj*	-	-	-	-	-
Adj PAT	8,721	10,120	11,057	11,575	13,122
% change	1.3	16.0	9.3	4.7	13.4
No. of shares (cr)	280.5	275.2	271.3	271.3	271.3
Adj EPS (Rs.)	31.1	36.8	40.8	42.7	48.4
% change	3.2	18.3	10.8	4.7	13.4
DPS (Rs.)	6.0	4.0	5.0	5.0	5.0
CEPS (Rs.)	36.0	44.3	53.4	58.7	64.2

CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	10,104	12,193	14,477	15,922	17,421
Non-cash adj.	(1,010)	(2,249)	1,023	(1,478)	81
Changes in W.C	(766)	(973)	(2,141)	(408)	(2,092)
C.F. Operation	8,328	8,971	13,359	14,036	15,410
Capital exp.	(5,321)	(3,434)	(1,829)	(4,106)	(6,162)
Change in inv.	2,800	2,882	(4,595)	(4,951)	(5,312)
Other invest.CF	238	(2,521)	(5,950)	(800)	(346)
C.F - Investment	(2,283)	(3,073)	(12,374)	(9,857)	(11,819)
Issue of equity	(3,500)	(4,000)	-	-	-
Issue/repay debt	(148)	3,623	(246)	(25)	(22)
Dividends paid	(1,691)	(1,099)	(1,357)	(1,357)	(1,357)
Other finance.CF	(375)	14	(1,565)	52	53
C.F - Finance	(5,714)	(1,462)	(3,168)	(1,331)	(1,326)
Chg. in cash	331	4,436	(2,183)	2,848	2,264
Closing cash	1,699	5,934	4,848	7,696	9,960

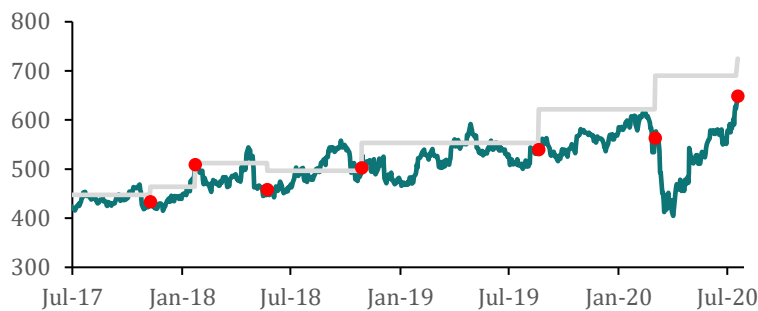
BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	1,699	5,934	4,848	7,696	9,960
Accounts Receivable	9,639	11,706	14,131	14,599	16,836
Inventories	172	91	91	89	102
Other Cur. Assets	13,048	11,991	19,350	24,743	30,590
Investments	303	85	77	81	85
Gross Fixed Assets	8,774	10,326	12,192	16,034	21,926
Net Fixed Assets	4,560	5,293	8,142	7,640	9,235
CWIP	320	235	400	397	395
Intangible Assets	14,193	17,595	29,348	29,612	29,881
Def. Tax (Net)	1,837	2,455	2,317	3,215	3,644
Other Assets	2,252	3,190	4,202	4,189	4,177
Total Assets	48,023	58,575	82,906	92,261	104,906
Current Liabilities	10,065	11,575	21,885	20,934	21,737
Provisions	700	821	1,048	1,079	1,112
Debt Funds	626	4,237	5,887	5,862	5,839
Other Liabilities	246	473	2,665	2,746	2,814
Equity Capital	278	271	543	543	543
Reserves & Surplus	36,108	41,095	50,724	60,942	72,707
Shareholder's Fund	36,386	41,366	51,267	61,485	73,250
Minority Interest	-	103	154	154	154
Total Liabilities	48,023	58,575	82,906	92,261	104,906
BVPS (Rs.)	130	150	189	227	270

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	22.2	23.0	24.5	25.4	25.4
EBIT margin (%)	19.5	19.6	19.7	19.8	20.3
Net profit mgn.(%)	17.2	16.7	15.6	15.1	15.6
ROE (%)	24.0	24.5	21.6	18.8	17.9
ROCE (%)	26.6	25.9	24.2	22.5	21.6
W.C & Liquidity					
Receivables (days)	69.6	70.7	73.0	69.4	73.0
Inventory (days)	6.3	2.9	2.7	2.6	2.7
Payables (days)	33.6	41.6	34.8	35.9	37.0
Current ratio (x)	2.4	2.4	1.6	2.1	2.4
Quick ratio (x)	1.6	1.8	1.1	1.4	1.6
Turnover & Leverage					
Gross asset T.O (x)	6.1	6.3	6.3	5.4	4.4
Total asset T.O (x)	1.1	1.1	1.0	0.9	0.9
Int. coverage ratio (x)	142.9	68.1	27.5	29.2	29.1
Adj. debt/equity (x)	0.0	0.1	0.1	0.1	0.1
Valuation					
EV/Sales (x)	2.7	2.4	1.7	2.3	2.0
EV/EBITDA (x)	12.0	10.6	6.9	8.9	8.0
P/E (x)	15.6	14.7	10.7	15.2	13.4
P/BV (x)	3.7	3.6	2.3	2.9	2.4

Recommendation Summary



Dates	Rating	Target
16-May-17	HOLD	448
10-Nov-17	HOLD	464
24-Jan-18	HOLD	512
25-May-18	HOLD	497
30-Oct-18	BUY	553
22-Aug-19	BUY	622
4-Mar-20	BUY	690
21-Jul-20	BUY	726

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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