

HCL TECHNOLOGIES LTD

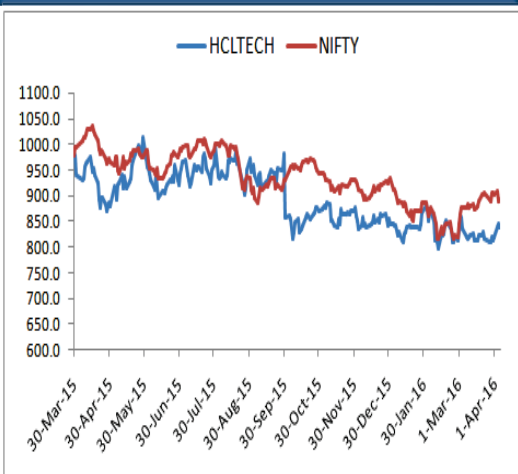
Result Update	
CMP	820
Target Price	920
Previous Target Price	920
Upside	12%
Change from Previous	-

Market Data	
BSE Code	532281
NSE Symbol	HCLTECH
52wk Range H/L	1,058.20 /747.40
Mkt Capital (Rs Cr)	1,21,924.05
Av. Volume	36429
Nifty	7614

Stock Performance			
	1Month	3 Month	1Year
Absolute	3%	2%	-14%
Rel.to Nifty	1%	1%	-5%

Share Holding Pattern-%			
	2QFY16	1QFY16	4QFY15
Promoters	60.4	60.6	60.6
Public	39.6	39.4	39.4
Others	-	-	-
Total	100.0	100.0	100.0

Company Vs NIFTY



The company announced the 100% acquisition of Geometric (except the 58% stake in Geometric's JV – 3DPLM Software Solutions) in an all-stock deal worth US\$ 192mn. HCL Tech will issue 10 equity shares in lieu of every 43 shares in Geometric. The acquired business generates USD140mn revenue with 15% EBIDTA margin and 9% PAT margin as per the company's last quarterly report. The acquisition gives HCL Tech access to Geometric 60 clients broadly in auto and engineering space. Currently, 19% of HCLT's revenues are derived from engineering services. The deal aims to strengthen product lifecycle management (PLM) consultancy and engineering services portfolio. We have Buy rating on the stock with price target of Rs. 920/share.

The deal is likely to reduce dilutive EPS marginally by 20-30 bps

Geometric provides engineering services, PLM consultancy, embedded system solutions and digital technology solutions to more than 60 clients in the US and Europe, primarily in the automotive and industrial engineering segments. All of Geometrics (2,606 employees spread across 13 delivery centres) will be absorbed by HCL Tech. The acquisition is likely to add 2% of HCL Tech's overall revenues. In 3QFY16, the company's average margin was 20.5% versus 13.5% for Geometric. The EPS dilutive is likely to decline marginally by 20-30 bps due to this deal.

Previous recent acquisition

HCL Tech recently announced the acquisition of Volvo's external IT business, which registered LTM revenue of USD190m. Furthermore, Geometrics lends access to another set of top clientele that can further augment growth. In fact, HCL Tech's potential to enhance its large client base appears the strongest on paper.

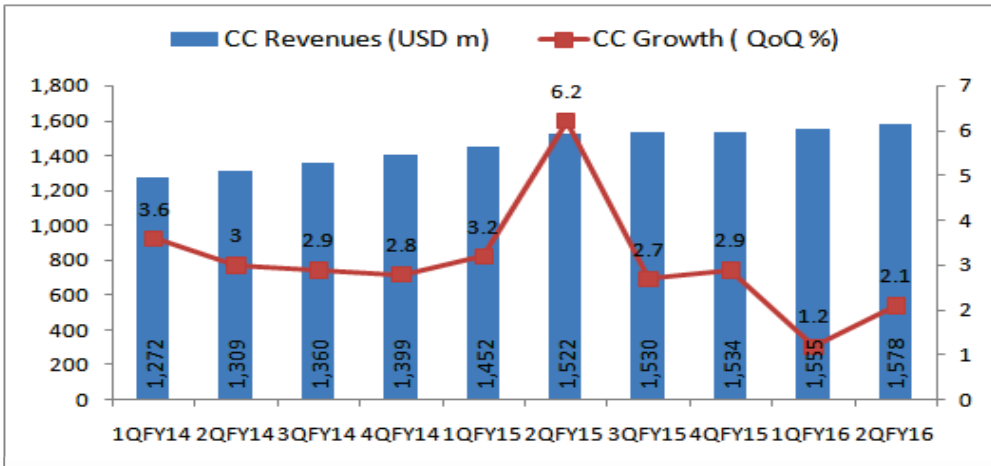
Quarterly Performance

In previous quarter (2QFY16), the company posted better than expected result with sales growth of 1.4% qoq to US\$1,566mn. In constant currency terms, revenue grew 2.1% qoq. The key geography which drove sales was Americas, which was grown by 5.5% qoq while Europe and ROW posted a dip of 2.4% qoq and 3.4% qoq, respectively. On the operating front, the EBITDA margin came in at 21.5% up by 58bp qoq. Consequently, the PAT came at a growth of 5.3% qoq to 1,920cr. On the productivity front, the blended utilization came in at 84.7% versus 83.6% in 1QFY2016, while the attrition rate came in at 6.4% versus 7.1% in 1QFY2016.

Financials	FY12	FY13	FY14	FY15	FY16E
Sales	21037	25932	32821	37841	42356
EBITDA	3695	5661	8035	8473	9039
Net Profit	2423	4040	6510	7342	7504
OPM	17.6%	21.8%	24.5%	22.4%	21.3%
NPM	12%	16%	20%	19%	18%

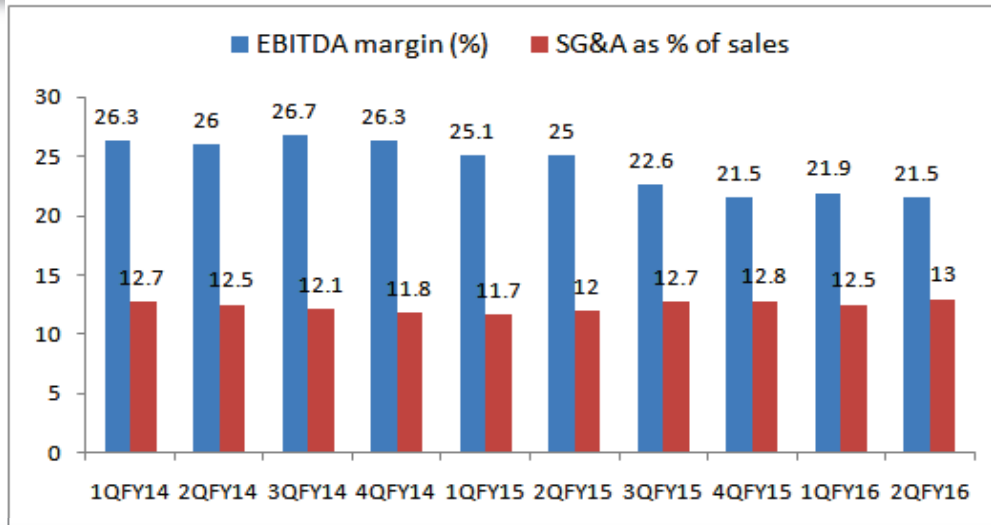
(Source: Company/Eastwind)

CC USD revenue growth of 2.1% QoQ:

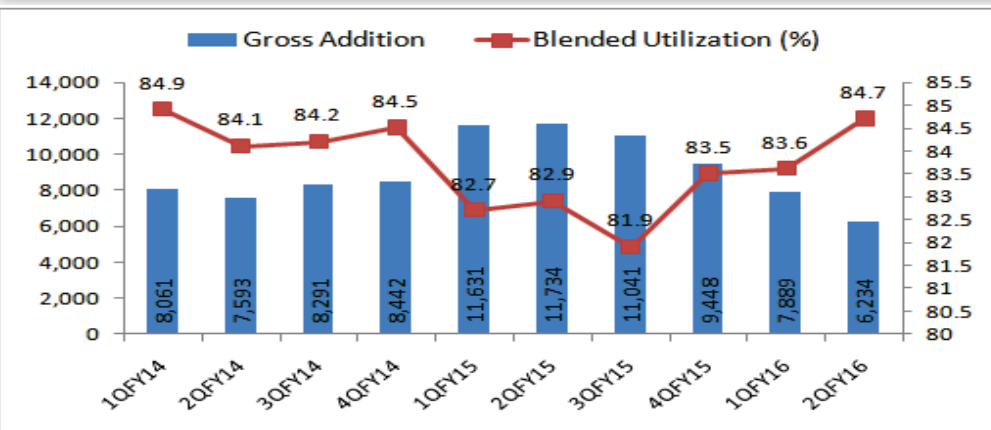


Constant currency revenue growth was 2.1% QoQ CC but after adjusting for contribution from inorganic activity, growth was 1.7% QoQ CC.

Margins bottomed out at current levels:



Gross additions continue declining:



On the productivity front, the blended utilization came in at 84.7% versus 83.6% in 1QFY2016, while the attrition rate came in at 6.4% versus 7.1% in 1QFY2016.

Financials Snap Shot

	INCOME STATEMENT					RATIOS			
	FY13	FY14	FY15	FY16E		FY13	FY14	FY15	FY16E
Revenue	25581	32144	36701	41337	EPS	23.9	34.9	58.0	93.0
Other Income	351	677	1139	1018	Book Value	111.1	141.9	188.8	279.2
Total Revenue	25932	32821	37841	42356	DPS	7.5	11.6	11.6	18.6
COGS	959	1029	1271	27038	Payout (incl. Div. Tax.)	31%	33%	20%	20%
GPM	0	0	0	1	Valuation(x)				
Other Expenses	6386	8173	9231	0	P/E	20.6	13.6	13.4	16.1
EBITDA	5661	8035	8473	9039	Price / Book Value	4.4	3.4	4.1	5.4
EBITDA Margin (%)	22%	25%	23%	22%	Dividend Yield (%)	1.52%	2.43%	1.49%	1.24%
Depreciation	637	681	404	573	Profitability Ratios				
EBIT	5024	7354	8069	8466	RoE	22%	25%	31%	33%
Interest	106	115	91	0	RoCE	21%	29%	36%	37%
PBT	5270	7917	9117	9484	Turnover Ratios				
Tax	1225	1410	1815	1980	Asset Turnover (x)	1.1	1.1	1.1	1.1
Tax Rate (%)	23%	18%	20%	21%	Debtors (No. of Days)	60.6	67.9	64.2	64.5
Reported PAT	4040	6510	7342	7504	Inventory (No. of Days)	116.3	134.9	88.1	43.4
Dividend Paid	808	1303	2824	2438	Creditors (No. of Days)	6.4	8.2	5.7	5.3
No. of Shares	70	70	141	141	Net Debt/Equity (x)	0.22	0.11	0.06	0.01

Source: Eastwind/Company

Source: Eastwind/Company

	BALANCE SHEET								
	FY13	FY14	FY15	FY16E		FY13	FY14	FY15	FY16E
Share Capital	139	140	281	313	OP/(Loss) before Tax	5270	7917	9117	7024
Reserves	13020	19402	23943	29009	Depreciation	637	681	404	441
Net Worth	13159	19542	24224	29322	Direct Taxes Paid	(1264)	(1445)	(1774)	(1520)
Long term Debt	797	201	168	50	Operating profit before w	5905	8146	8502	7465
Short term Debt	129	206	355	415	CF from Op. Activity	4492	6457	5539	2272
Deferred Tax	0	0	0	0	Purchase of Non Current investments				
Total Capital Employed	13956	19743	24392	29372	Capital expenditure on fix	(619)	(720)	(1208)	0
Net Fixed Assets	7246	7975	8827	8946	CF from Inv. Activity	(2354)	(4840)	(2014)	(8984)
Capital WIP	494	531	552	579	Repayment of Long Term	(619)	(34)	(17)	0
Debtors	4497	5683	6539	10244	Interest Paid				
Cash & Bank Balances	3577	8807	9786	15296	Divd Paid (incl Tax)	(808)	(1303)	(2824)	(2438)
Trade payables	401	468	625	569	CF from Fin. Activity	(2086)	(1308)	(3140)	(2496)
Total Provisions	1923	1657	1944	2020	Inc/(Dec) in Cash	52	309	385	(9207)
Net Current Assets	5288	10294	13457	21193	Add: Opening Balance	677	721	1027	9786
Total Assets	22399	29980	35245	44440	Closing Balance	721	1027	1339	579

Source: Eastwind/Company

Source: Eastwind/Company