

HCL TECHNOLOGIES LTD

Result Update

CMP	839
Target Price	885
Previous Target Price	-
Upside	5%
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	7436

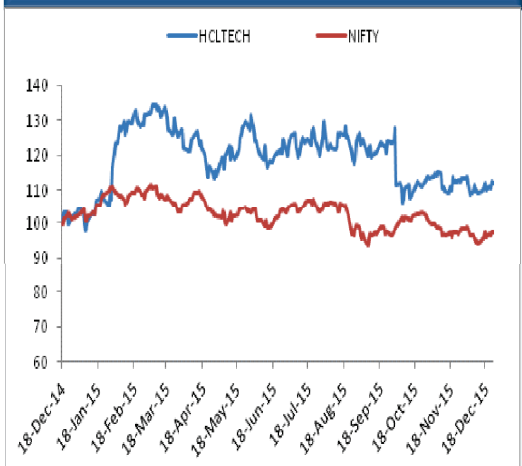
Stock Performance

	1Month	3 Month	1Year
Absolute	-0.69	-7.3	11.5
Rel.to Nifty	-1.6	-7.5	16.4

Share Holding Pattern-%

	2QFY16	1QFY16	4QFY15
Promoters	60.6	60.6	60.6
FII	28.4	28.9	29.6
DII	5.0	4.5	3.7
Others	6.1	6.0	6.1

Company Vs NIFTY



Valuation :

HCLTech's decent growth momentum, fair utilization, cost effective measures, healthy deal pipeline and utilization of new market opportunities through vendor's consolidation would provide a new shape to the company in near future. Company is facing challenges in digital and continued weakness in matrices. HCLTECH net headcount is decline. But company won decent deal from various client.

At a CMP of Rs 839, stock trades at 8.43x FY16E earnings, We are rated "Neutral" view on the stock with a target price of Rs 885 .

Q3FY16_Result Update

HCLTECH reported revenue growth at 2.4% QoQ , INR 10341 Crore and constant-currency (CC) revenue growth of 2.1% QoQ. EBIT margins declined 60bps 20% due to furloughs and work discontinue of Chennai floods. Going forward, EBIT margin target is 21-22% due to multiple IMS deals. PAT came in at 1920 crore at 5.3% QoQ. The day's sales outstanding (DSO) (Excluding unbilled receivable) increased by 62 days from 59 days in Q1FY2016.

Operating highlights

Among the geography , America grew by 5.5% QoQ in constant currency. Apart from US, other geography growth was disappointing , Europe declined by 2.4% and ROW declined by 3.4%. Among verticals in constant currency term, Financial Services grew by 1.9% (QoQ) , manufacturing declined by 1.3% QoQ, Lifesciences & Healthcare grew by 0.3%, Public Services grew by 8.4% , Retail & CPG grew by 10.3%, Telecommunications, Media, Publishing & Entertainment grew by 3.4%. In service verticals, Application service, Infrastructure Services and Business Services reported a decent growth of 2%, 3.4%, 8% respectively in constant currency. Engineering and R&D Services declined by 1.5% QoQ.

Hiring and Employee Metrics:

HCLTECH alleviates employee in Q3FY16 around 1875 with total overall headcount around 103696. The technical headcount was reduced by 1889 and support employee slightly added 14 headcount. The attribution rate was just up by 16.7% Vs 16.3% (QoQ) in IT services and declined from 7.1% to 6.4% in business services. Utilization rate improved by 84.7% against 83.6% (QoQ).

Financials	FY11	FY12	FY13	FY14	FY15
Sales	15730	20831	25581	32144	37062
EBITDA	2456	3695	5661	8035	87,02
Net Profit	1647	2423	4040	6510	72,60
EBIDTA%	15.6%	17.7%	22.1%	25.0%	23.5%
ROE%	22%	25%	31%	33%	31.7%

(Source: Company/Eastwind)

Client Metrics :

Client metrics for the company continued to remain healthy with the company adding 19 customer which grew by 4.3% YoY. News client will contribute greater than 9 million revenue in forward. One client in the US\$50mn+revenue bracket, and 7 clients in the US\$10mn revenue bracket , 3 client in the US\$ 5mn revenue bracket and 8 client in the US\$1+ mn.

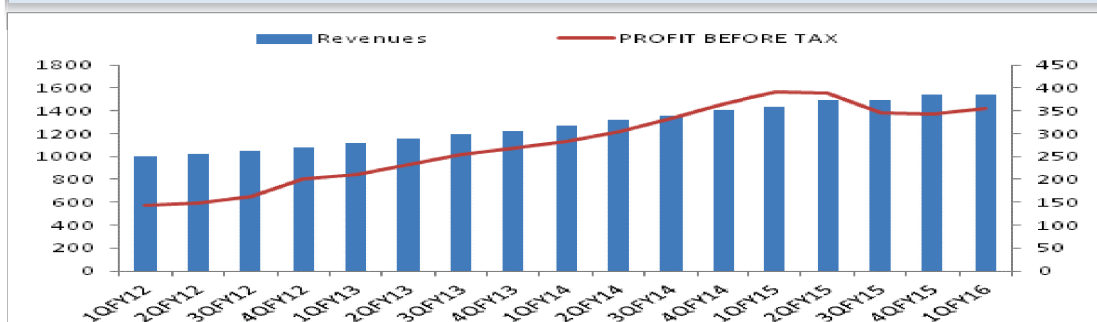
Deal :

HCLTECH won 8 transformational deals with total contract value of \$1+ billion. Company has signed a multi-year infrastructure services deal with a leading global medical devices company to provide global datacenter services and implement its proprietary cloud-based automation solution.

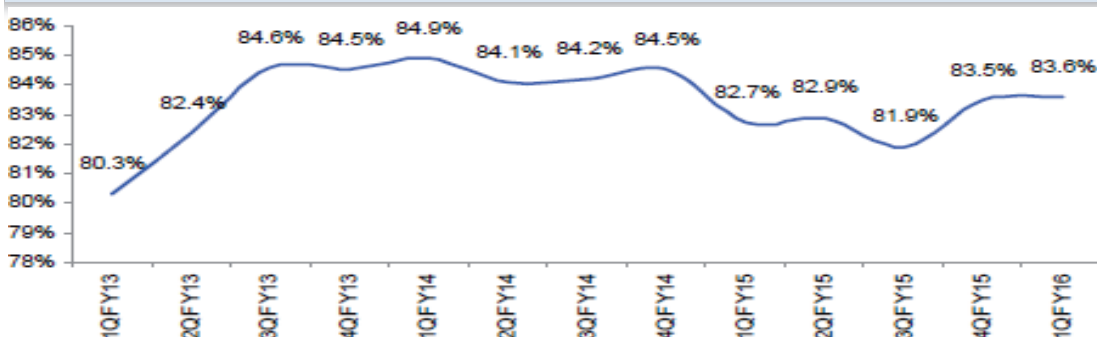
Key takeaways from Conference call

- > Company will maintained margins guidance of 21-22% for near to medium term, though need strong improvement in the next two quarters to achieve close to 21-22% band.
- > The management indicated that revenue growth in 2Half will be better than that in 1Half. The company has strong deals pipeline, and indicated at strong order book position.
- > HCLTECH signed a Lol with Swedish commercial vehicles major Volvo to buy its external IT business for US\$138mn . The has been progressing well. The revenue is likely to happen 1QFY17 onwards.

Revenue & PAT Trend :



Utilization Trend:



Financials Snap Shot

INCOME STATEMENT					RATIOS				
	FY11	FY12	FY13	FY14		FY11	FY12	FY13	FY14
Revenue	15730	20831	25581	32144	EPS	23.9	34.9	58.0	93.0
Other Income	300	207	351	677	Book Value	111.1	141.9	188.8	279.2
Total Revenue	16030	21037	25932	32821	DPS	7.5	11.6	11.6	18.6
COGS	522	612	959	1029	Payout (incl. Div. Tax.)	31%	33%	20%	20%
GPM	0	0	0	0	Valuation(x)				
Other Expenses	4163	5419	6386	8173	P/E	20.6	13.6	13.4	16.1
EBITDA	2456	3695	5661	8035	Price / Book Value	4.4	3.4	4.1	5.4
EBITDA Margin (%)	16%	18%	22%	25%	Dividend Yield (%)	1.52%	2.43%	1.49%	1.24%
Depreciation	460	549	637	681	Profitability Ratios				
EBIT	1996	3146	5024	7354	RoE	22%	25%	31%	33%
Interest	160	143	106	115	RoCE	21%	29%	36%	37%
PBT	2135	3210	5270	7917	Turnover Ratios				
Tax	488	783	1225	1410	Asset Turnover (x)	1.1	1.1	1.1	1.1
Tax Rate (%)	23%	24%	23%	18%	Debtors (No. of Days)	60.6	67.9	64.2	64.5
Reported PAT	1647	2423	4040	6510	Inventory (No. of Days)	116.3	134.9	88.1	43.4
Dividend Paid	518	803	808	1303	Creditors (No. of Days)	6.4	8.2	5.7	5.3
No. of Shares	69	69	70	70	Net Debt/Equity (x)	0.22	0.11	0.06	0.01
Souce: Eastwind/Company					Souce: Eastwind/Company				

BALANCE SHEET									
	FY11	FY12	FY13	FY14		FY11	FY12	FY13	FY14
Share Capital	138	139	139	140	OP/(Loss) before Tax	2135	3210	5270	7917
Reserves	7514	9696	13020	19402	Depreciation	460	549	637	681
Net Worth	7652	9835	13159	19542	Direct Taxes Paid	(329)	(766)	(1264)	(1445)
Long term Debt	1656	1077	797	201	Operating profit before work	2643	4150	5905	8146
Short term Debt	19	449	129	206	CF from Op. Activity	1763	2553	4492	6457
Deferred Tax	0	0	0	0	Purchase of Non Current investments				
Total Capital Employed	9308	10912	13956	19743	Capital expenditure on fixed	(785)	(909)	(619)	(720)
Net Fixed Assets	5802	7032	7246	7975	CF from Inv. Activity	(690)	(1026)	(2354)	(4840)
Capital WIP	556	578	494	531	Repayment of Long Term Bo	(147)	(699)	(619)	(34)
Debtors	2611	3876	4497	5683	Interest Paid				
Cash & Bank Balances	1612	1948	3577	8807	Divd Paid (incl Tax)	(518)	(803)	(808)	(1303)
Trade payables	277	469	401	468	CF from Fin. Activity	(1054)	(1239)	(2086)	(1308)
Total Provisions	973	1627	1923	1657	Inc/(Dec) in Cash	19	288	52	309
Net Current Assets	2611	3074	5288	10294	Add: Opening Balance	471	524	677	721
Total Assets	13901	18291	22399	29980	Closing Balance	524	677	721	1027
Souce: Eastwind/Company					Souce: Eastwind/Company				