

HCL TECHNOLOGIES LTD

29-Dec-15

Result Update

CMP	865
Target Price	920
Previous Target Price	-
Upside	6%
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	7925

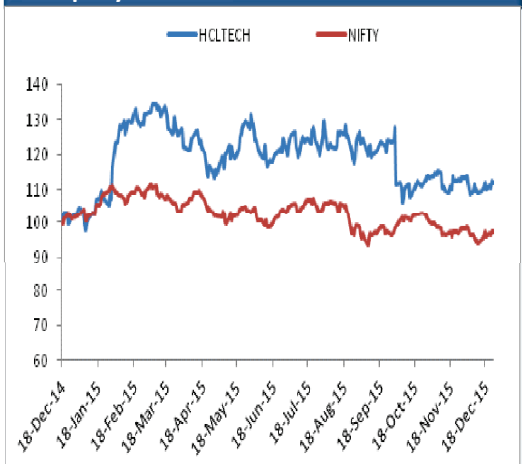
Stock Performance

	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 :

We expect HCL Tech to post a USD and INR revenue CAGR of 13.0% and 13.2%, respectively, over FY2015–17E. Given the, order book position, which is 10% higher than the highest and stock valuations, which we believe are attractive given operating ROE's higher than 35%. At a CMP of Rs 865 , it trades at 1.69x times of FY16E earnings. We retain our "BUY" view on the stock with a target price of target price of Rs 920

Q2FY16 Result Update

HCL Technologies (HCL Tech) posted a 0.5% sequential growth in USD revenues to US\$1,545mn. On constant currency (CC), the company posted a 1.2% qoq rise in sales. On the operating front, EBIT margins is at 20.5% and V/s 20.2% in 4QFY2015, a QoQ contraction of ~111bp. However, after adjusting for a provision of US\$18.4mn for a client, the EBIT margin came in at 19.6%. Consequently, the Adj. PAT came in at `1,726cr a dip of 3.2% QoQ . DSO have decreased one day QoQ to 59.

Operating highlights

Europe strong, Strong growth in Engg. R&D; and Life Sciences & Public Services: Revenue from US, Europe and APAC grew by 0.7% (0.7% @cc), 4.8% (5.6% @cc), and -12.3% (- 8.4% @cc) QoQ respectively. In terms of services, IMS, Application Services and Engg R&D, grew by - 0.1% (+0.9% @cc), - 0.7% (0.1% @cc) and 3.2% (3.6% @cc) QoQ respectively. In terms of verticals, Telecom, Life Sciences and Public Services grew by 1.5% (1.0% @cc), 3.8% (4.3% @cc) and 3.6% (4.9% @cc) QoQ respectively. Vertical-wise, health care (+3.8% QoQ USD, 4.3% CC) and public services (+3.6% QoQ USD, 4.9% CC) outperformed the company average.

Recent Event :

HCLTech has acquired Volvo's external IT business, which had LTM revenue of USD190m, and purchase consideration for the same is USD138m. Company has also won a five-year contract to manage Volvo's infrastructure operations and services. ~2,600 personnel will be given the offer to move to HCLT. Volvo expects to save USD105m through this exercise, a part of its efficiency program to reduce the group's costs by USD1.2b. The acquisition is likely to be integrated into HCLT's numbers in 4QFY16

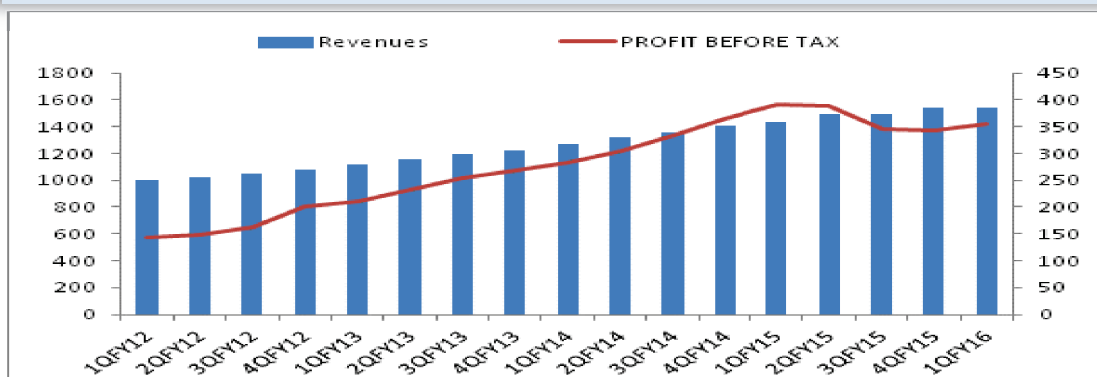
Financials	FY11	FY12	FY13	FY14
Sales	15730	20831	25581	32144
EBITDA	2456	3695	5661	8035
Net Profit	1647	2423	4040	6510
EBIDTA%	15.6%	17.7%	22.1%	25.0%
P/E	20.6	13.6	13.4	16.1

(Source: Company/Eastwind)

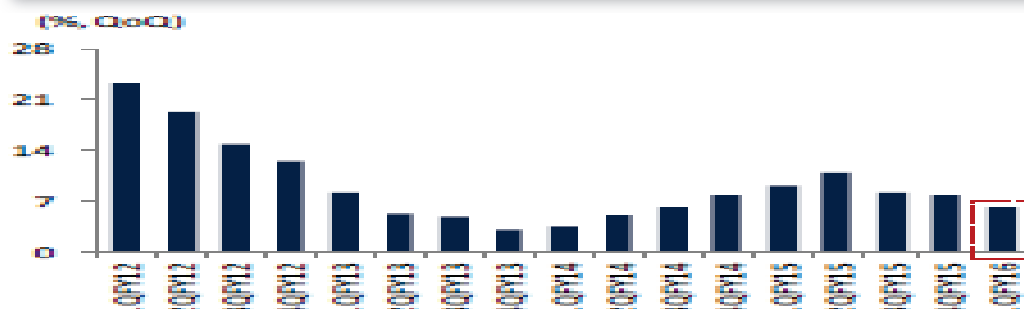
Key takeaways from Conference call

- > Management commentary on business environment was upbeat; expects improving deal pipeline, especially from Europe
- > The Orderbook is 10% higher than peak orderbook . The management expectations is the strong second half in FY16
- > Management continues to expect 21-22% EBIT margins in the medium term, on investments in the digital space (to build capabilities for future growth).
- > Demand is strong in the re-bid market and first-time outsourcers.

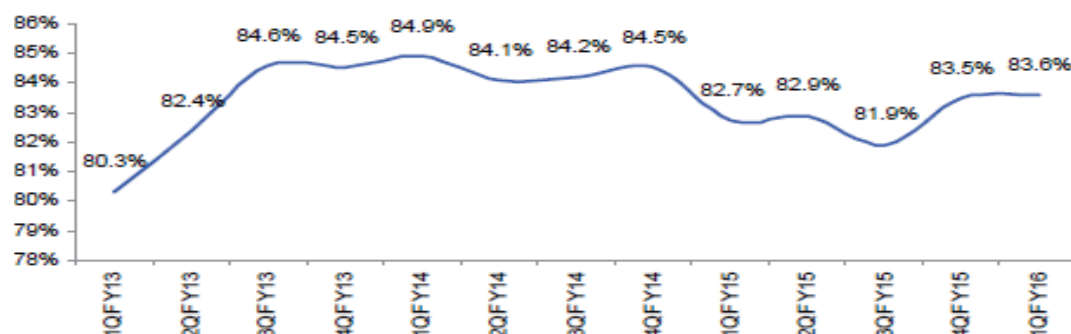
Revenue & PAT Trend :



Volume Growth 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
Source: Eastwind/Company					Source: 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 w	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 fix	(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	(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
Source: Eastwind/Company					Source: Eastwind/Company				