

Industry
Bloomberg
BSE CODE

TECHNOLOGY
HCLT IN
532281

Mixed quarter; Lower end guidance revised

RATING	ACCUMULATE
CMP	599
Price Target	668
Potential Upside	12%
Rating Change	↔
Estimate Change	↓
Target Change	↔

STOCK INFO	
52wk Range H/L	602/467
Mkt Capital (Rs Cr)	162494
Free float (%)	40%
Avg. Vol 1M (,000)	98
No. of Shares (Cr)	271
Promoters Pledged %	0

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
Net Sales	60,427	70,660	78,121
EBITDA	13,926	16,896	18,648
EBIT	11,853	13,530	15,305
PAT	10,120	10,574	11,999
EPS (Rs)	37	39	44
EPS growth (%)	19%	4%	13%
ROE (%)	34	31	31
ROCE (%)	29	27	26
BV	154	183	218
P/B (X)	4	3	3
P/E (x)	15	15	14

3QFY20 Result Update

- HCLTECH reported mix set of numbers in 3QFY20 result. Revenue for the quarter grew 16.4%YoY in cc terms to USD2543 (below our estimates by 2%) While PAT grew 13%YoY to Rs 2944, beating our estimates of Rs 2743 crore; primarily led by lower tax rate.
- Organic growth during the quarter was just under 10% YoY and 0.3%QoQ.
- EBIT for the quarter was at Rs 3687 crore, a growth of 19.3%YoY. EBIT margin stood at 20.2% which is 28bps improvement. The margin expansion was largely attributable by higher growth from HCL software segment (22bps) and rest came from IT and other businesses, while E&RD reduced a bit during the quarter. 60 bps wage hike was completely offset by 60 bps benefit from operational efficiency.
- Company reported a double digit growth in 5 out of 7 verticals (some of them are in 30% range). Life science and healthcare delivered a high single digit growth of 8.9%YoY while manufacturing, E&U, Public services has delivered a stellar growth in 3Q. In geographies, all the geographies grew double digit growth YoY (US, Europe and Row) basis While Row led the growth with 27.3%YoY growth.
- The company crossed USD10 billion dollars annualized run rate during the quarter.

Solid growth in P&P, while E&RD impacted by furloughs

The company delivered outstanding performance in its HCL software business which helped the product and platforms segment to grow by 16.8% sequentially in constant currency. This business scaled up aggressively and added close to 4600 customer across all part of the global. 3Q saw higher time taken by client and higher furloughs impacting the E&RD business. Despite that engineering business grew 12.8% and 0.7% sequentially in cc terms. IT and services business grew 10.4%YoY and was almost constant sequentially in cc terms. IT and business had furlough impact and also dropping some accounts impacted the growth.

Deal wins to pick up from 4Q

The company continued to see good traction in the market. However in 3Q experienced a dip in bookings which was primarily due to timing issue and client have taken little longer to decide. Booking is little lower than last quarter. But qualified pipeline is all term high and management is confident of a higher conversion of pipeline to booking in 4Q.

Lower end guidance revised

At the beginning of the year, the company had guided of 14% to 16% and further increasing to 16% to 17%. The company now revised its lower end of the guidance with 16.5% to 17%, out of which inorganic growth will come at 6% and rest organic guidance 10.5% to 11%. On Ebit side the company revised it to 19 to 19.5% for FY20.

View and valuation

HCLTECH has reported a moderate growth in both its revenue and margins in 3QFY20. Organic revenue grew just under 10%YoY mainly impacted by higher furloughs and strategic dropping some accounts while margin stayed at 20% range largely driven by higher margin business (HCL software segment). HCL software supported the product and platforms which grew 16.8% sequentially offsetting some drag from Organic business. Going ahead, we believe the HCLTECH will clock industry leading growth of ~15.8%YoY in FY20 driven by strong organic growth with continued deals ramp up. Also inorganic growth is expected to inch up supported by more client addition (4600 added during the quarter).

On margin, despite higher amortization and R&D spend, we expect HCLTECH to achieve midpoint of the guidance in FY20 on account continued expansion in HCL software business (higher margin business).

Post result, we have fine tuned our revenue estimates by -0.8%/-1.3% for FY20/21E and PAT estimates by 2%/-0.6% seeing a bit lower booking. Thus we largely maintain our target price of Rs 668 and recommend Accumulate.

Key Risks to our rating and target

- Slow growth in order book and weakness in IMS.
- Continued drag on organic growth.

RESEARCH ANALYST

NIHARIKA OJHA

niharika@narnolia.com
+91-22-62701230

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3QFY20 Results

Mixed performance

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	15,699	15,990	16,427	17,527	18,135	15.5%	3.5%	50569	60427	19.5%
Other Income	134	200	183	102	157	17.2%	53.9%	1,217	943	-22.5%
Employee Exp	7,605	7,713	8,398	8,647	8,800	15.7%	1.8%	24,729	29,283	18.4%
Other Expenses	3,979	4,198	4,183	4,294	4,278	7.5%	-0.4%	4,619	5,761	24.7%
EBITDA	3,632	3,594	3,570	4,259	4,629	27.5%	8.7%	11246	13926	23.8%
Depreciation	541	545	735	747	942	74.1%	26.1%	1,383	2,073	49.9%
EBIT	3,091	3,049	2,835	3,512	3,687	19.3%	5.0%	9,863	11,853	20.2%
Interest	55	69	87	136	158	187.3%	16.2%	69	174	152.2%
PBT	3,170	3,180	2,931	3,478	3,686	16.3%	6.0%	11,011	12,622	14.6%
Tax	565	630	701	827	742	31.3%	-10.3%	2,302	2,502	8.7%
PAT	2,605	2,550	2,230	2,651	2,944	13.0%	11.1%	8,722	10,120	16.0%

Concall Highlights

- 3QFY20 performance:** The company annualized run rate has crossed USD10 billion dollars during the quarter .Revenue grew 16.4%YoY in 3Q with strong operating margin above 20%EBIT again. Organic growth was just under 10% YoY and 0.3%sequential.
- Margin performance:** EBIT for the quarter is 20.2% which is 28bps improvement. The company witnessed a headwind of 6bps .The margin expansion was largely attributable by higher growth from HCL software segment (22bps) and rest came from IT and other businesses , while E&RD reduced a bit during the quarter.60 bps wage hike was completely offset by 60 bps benefit from operational efficiency.
- Segmental update**
 - The company delivered outstanding performance in its HCL software business which helped the product and platforms segment to grow by 16.8% sequentially .This business scaled up aggressively and added close to 4600 customer across all part of the global including some geographies were HCL didn't had presence.15000 transaction took placed in 3Q.The company did 1800 partners and reseller in 3Q.The company is close to run rate with was expect after acquisition.
 - 3Q saw higher time taken by client and higher furloughs impact in E&RD business .Despite that engineering business grew 12.8% and 0.7%sequentially in cc terms.
 - IT and services business grew 10.4%YoY and was almost constant sequentially in cc terms. IT and business has furlough impact and also wiping of non strategic engagement (dropping some accounts) which were hanging on margins.
- Mode wise performance:** The company's mode 2 & mode 3 revenues now contributes 34% of the revenues Mode 2 grew 23.5%YoY While Mode 3 grow55%+ YoY. Furloughs impact was more in Mode 1 and Mode 2 businesses. However sharp increase in Mode 2 margin is not taken as sustainable, couple of quarter more to see the margin predictability. The management is confident of momentum to continue in core service going ahead.
- Verticals and Geographies:** 5 out of 7 verticals grew double digit growth in 3Q (some of them are in 30% range).Life science and healthcare delivered a high single digit growth while manufacturing, E&U, Public services has delivered a stellar growth in 3Q.In geographies, all the geographies grew double digit growth YoY (US, Europe and Row) basis While Row led the growth with 27.3%YoY growth.
- Acquisition update:** The Company closed the Sankalp acquisition to enhance leadership in the Semiconductors and Industrial IoT spaces.
- Deal wins:** The company continued to see good traction in the market .However in 3Q experienced a dip in bookings which primarily is the timing issue and client have taken little longer to decide .Booking is little lower than last quarter. But qualified pipeline is all term high, and management is confident of a higher conversion of pipeline to booking in 4Q.
- Outlook:** Last year saw a billion dollar booking however was not there in current fiscal. But the booking was good,Management is seeing the pipeline currently at its peak and company remain positive about the conversions that will happen in coming quarters .4Q will see good booking which will help the FY21 .
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Revenue Mix

STRONG GROWTH ACROSS MOST SEGMENTS

VERTICALS (USD MN)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	QoQ%	YoY%
Financial Services	489	483	476	481	480	557	549	-1.4%	15.5%
Manufacturing	750	760	802	825	917	875	915	4.6%	14.2%
Retail & CPG	263	271	286	228	225	249	262	5.4%	-8.5%
Telecommunication	216	225	214	196	189	209	229	9.6%	7.1%
Lifesciences & Healthcare	187	210	225	296	303	321	310	-3.3%	38.1%
Public Services	150	151	203	253	248	273	277	1.4%	36.8%

Revenue by Geography

STRONG GROWTH IN EUROPE WHILE US REMAINED SOFT

GEOGRAPHY (USD MN)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	QoQ%	YoY%
US	1326	1381	1418	1433	1600	1601	1597	-0.2%	12.61%
Europe	578	562	621	677	612	701	743	5.9%	19.57%
RoW	154	155	161	169	149	184	203	10.6%	26.55%

Mode performance

MODE 2 AND MODE3 REMAINED ROBUST

BUSINESS LINES	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	QoQ%	YoY%
Mode 1	1507	1512	1561	1606	1662	1665	1679	0.8%	7.56%
Mode 2	321	336	377	430	444	455	462	2%	22.55%
Mode 3	227	251	263	242	258	365	402	10%	52.85%

Exhibit: Revenue trend

Products & Platform driving growth in 3Q.

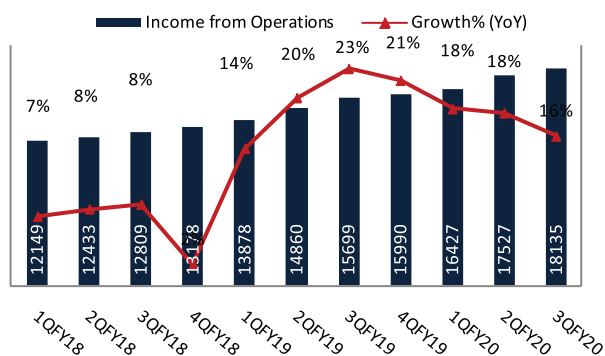


Exhibit: Transformational deal

39 transformational deal signings in 9MFY20.

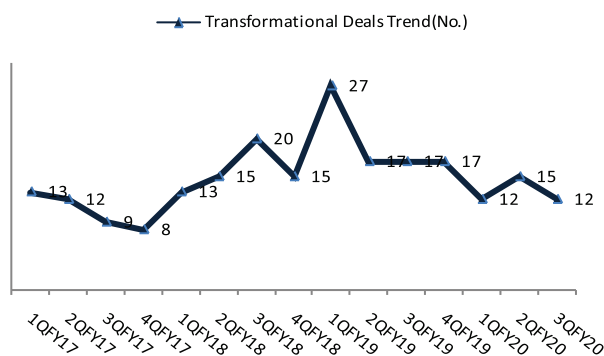


Exhibit: Margin Trend

Strong margin execution in 3Q, FY20 guidance revised to 19-19.5%.

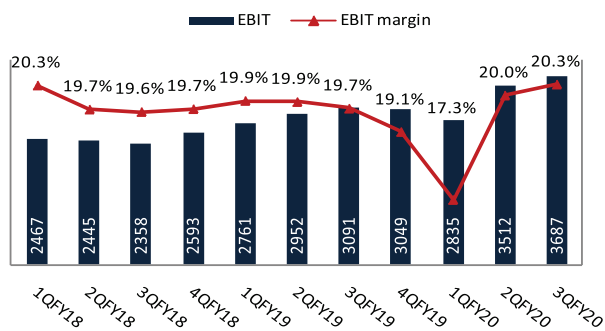
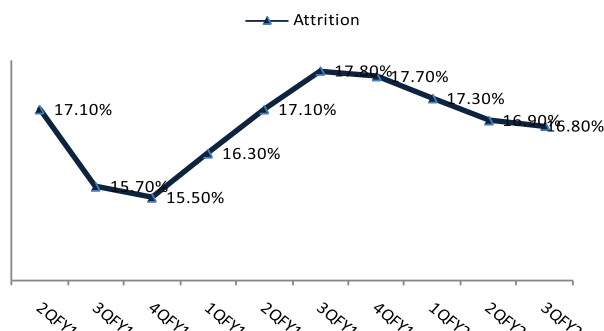


Exhibit: Attrition trend

Attrition inched up during the quarter however still remain under control.



Operational Details

INDUSTRY REVENUE (%)	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
IT and Business services	74.0%	75.8%	75.3%	71.4%	70.2%
Engineering and R&D services	17.1%	16.6%	16.9%	16.9%	16.7%
Products & Platforms	8.9%	7.6%	7.8%	11.7%	13.1%

GEOGRAPHY (%)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Americas	61.6%	64.5%	65.8%	64.4%	62.9%	67.7%	64.4%	62.8%
Europe	30.0%	28.1%	26.8%	28.2%	29.7%	25.9%	28.2%	29.2%
RoW	8.5%	7.5%	7.4%	7.3%	7.4%	6.3%	7.4%	8.0%

REVENUE BY VERTICAL	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Financial Services	25.0%	23.8%	23.0%	21.6%	21.1%	20.3%	22.4%	21.6%
Manufacturing	36.0%	36.5%	36.2%	36.4%	36.2%	38.8%	35.2%	36.0%
Lifesciences & Healthcare	11.5%	12.8%	12.9%	13.0%	10.0%	9.5%	10.0%	10.3%
Public Services	10.6%	10.5%	10.7%	9.7%	8.6%	8.0%	8.4%	9.0%
Retail & CPG	9.6%	9.1%	10.0%	10.2%	13.0%	12.8%	12.9%	12.2%
Telecommunication, Media, Publishing & Entertainment	7.4%	7.3%	7.2%	9.2%	11.1%	10.5%	11.0%	10.9%

CONTRACT TYPE	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Fixed Price Projects	61.6%	62.0%	61.8%	63.3%	63.7%	63.5%	66.5%	67.8%
Time & Materia	38.4%	38.0%	38.2%	36.7%	36.3%	36.5%	33.5%	32.2%

AVERAGE RATES	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
USD - INR	64.7	67.5	70.8	71.48	70.19	70.19	70.52	71.24
GBP - USD	1.4	1.34	1.3	1.28	1.31	1.31	1.23	1.3
EUR - USD	1.23	1.18	1.16	1.14	1.13	1.13	1.1	1.11
SEK - USD	0.12	0.11	0.11	0.11	0.11	9.2	9.66	9.54
AUD - USD	0.78	0.75	0.73	0.72	0.71	0.71	0.68	0.68

CLIENTS (LTM)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
100 Million dollar +	8	9	9	10	10	12	13	15
50 Million dollar+	28	32	31	29	29	29	30	32
40 Million dollar +	40	40	N/A	N/A	N/A	N/A	N/A	N/A
30 Million dollar +	58	56	N/A	N/A	N/A	N/A	N/A	N/A
20 Million dollar +	87	87	90	95	95	93	93	94
10 Million dollar +	160	162	165	164	166	172	171	167
5 Million dollar +	264	267	269	276	283	293	299	302
1 Million dollar +	561	571	575	597	623	633	667	712

Operational Details

CLIENT CONTRIBUTION	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Top 5 Clients	16.3%	17.0%	17.3%	17.4%	17.0%	16.6%	16.5%	15.2%
Top 10 Clients	23.8%	24.6%	24.8%	24.8%	24.1%	23.9%	24.0%	22.4%
Top 20 Clients	33.7%	34.2%	34.2%	34.1%	33.4%	34.2%	34.6%	33.0%

PEOPLE METRICS	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY19	3QFY20
Total Employee Count	120081	124121	127875	132328	137965	143900	147123	149173
Technical	109565	113404	116910	121273	126717	132384	135957	137725
Support	10516	10717	10965	11055	11248	11516	11166	11448
Gross Addition	8476	12558	11683	13191	14249	16332	13430	11502
Attrition - IT Services (LTM)	15.5%	16.3%	17.1%	17.8%	17.7%	17.3%	16.9%	16.8%

Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	140	281	282	285	278	542	542	542
Reserves	19,402	23,943	27,012	32,664	36,108	41,095	49,066	58,463
Networth	19,542	24,224	27,294	32,950	36,386	41,637	49,608	59,005
Debt	406	523	952	445	380	3,701	4,199	4,199
Other Non Current Liab	930	825	841	923	1,192	1,830	1,830	1,830
Total Capital Employed	19,949	24,748	28,246	33,395	36,766	45,338	53,807	63,204
Net Fixed Assets (incl CWIP)	7,975	8,827	10,561	9,180	12,274	14,062	17,843	19,423
Non Current Investments	-	107	321	34	303	85	85	85
Other Non Cur Asst	2,675	3,264	3,602	10,086	10,888	14,706	14,706	14,706
Non Current Assets	2,675	3,371	3,922	10,120	11,191	14,791	14,791	14,791
Inventory	122	158	264	276	172	91	106	118
Debtors	5,683	6,539	7,682	8,301	9,639	11,706	13,688	15,134
Current investments	606	763	535	1,146	2,357	2,220	2,220	2,220
Short-term loans and advances	1,590	2,189	3,340	2,528	3,410	1,312	1,534	1,696
Cash & Bank	8,807	9,786	9,285	9,044	4,018	7,872	10,908	17,322
Other Curr Assets	2,521	3,613	5,075	5,175	4,962	6,521	6,852	7,093
Current Assets	19,330	23,047	24,860	26,470	24,558	29,722	35,308	43,582
Creditors	468	625	700	801	918	1,305	1,526	1,687
Provisions	1,462	1,734	1,804	473	530	586	685	758
Other Curr Liab	7,105	7,231	7,442	1,722	1,325	1,810	2,117	2,340
Others Financial liabilities	-	-	-	7,545	6,606	6,950	6,950	6,950
Current tax liabilities (net)	-	-	-	739	686	924	924	924
Curr Liabilities	9,036	9,590	9,945	11,280	10,065	11,575	12,202	12,659
Net Current Assets	10,294	13,457	14,915	15,190	14,493	18,147	23,106	30,923
Total Assets	29,980	35,245	39,344	45,769	48,023	58,575	67,942	77,796

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	32144	36701	30781	47568	50569	60427	70660	78121
Change (%)	26%	14%	-16%	55%	6%	19%	17%	11%
EBITDA	8,035	8,473	6,540	10,385	11,246	13,926	16,896	18,648
Change (%)	42%	5%	-23%	59%	8%	24%	21%	10%
Margin (%)	25%	23%	21%	22%	22%	23%	24%	24%
Depr & Amor.	681	404	393	828	1,383	2,073	3,366	3,342
EBIT	7,354	8,069	6,148	9,556	9,863	11,853	13,530	15,305
Int. & other fin. Cost	115	91	74	89	69	174	539	632
Other Income	677	1,139	895	1,073	1,217	943	628	1,115
EBT	7,917	9,117	6,969	10,541	11,011	12,622	13,619	15,789
Exp Item	-	-	-	-	-	-	-	-
Tax	1,410	1,815	1,364	1,936	2,302	2,502	3,045	3,789
Minority Int & P/L share of Ass.	2	40	56	2	13	-	-	-
Reported PAT	6,510	7,342	5,661	8,606	8,722	10,120	10,574	11,999
Adjusted PAT	6,510	7,342	5,661	8,606	8,722	10,120	10,574	11,999
Change (%)	61%	13%	-23%	52%	1%	16%	4%	13%
Margin(%)	20%	20%	18%	18%	17%	17%	15%	15%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	40	34	22	32	32	34	31	31
ROCE	43	36	24	31	28	29	27	26
Asset Turnover	3	2	1	2	2	2	2	2
Current Ratio	2	2	3	2	2	3	3	3
Debtor Days	65	65	91	64	70	71	71	71
Book Value Per Share	140	86	97	115	131	154	183	218
Payable Days	5	6	8	6	7	8	8	8
Earnings Per Share	46	26	20	30	31	37	39	44
P/E	15	19	20	14	15	15	15	14
Price / Book Value	5	6	4	4	4	4	3	3
EV/EBITDA	11	15	16	11	12	10	9	8
EV/Sales	3	4	3	2	3	2	2	2

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	7917	9117	6969	10543	11024	12622	13619	15789
(inc)/Dec in Working Capital	-244	-1188	-1456	321	-635	-1282	-1282	-1282
Non Cash Op Exp	228	-615	-317	139	1430	2151	2151	2151
Int Paid (+)	0	0	0	0	0	0	0	0
Tax Paid	-1445	-1774	-1400	-2007	-2356	-2502	-3045	-3789
others	0	0	0	0	0	0	0	0
CF from Op. Activities	6457	5539	3796	8995	8328	9974	12016	13939
(inc)/Dec in FA & CWIP	-720	-1208	-917	-1278	-5344	-3861	-7147	-4922
Free Cashflow	5737	4331	2879	7717	2984	6113	4869	9017
(Pur)/Sale of Inv	-7852	-8205	-6869	-11666	-20027	137	0	0
others	-13412	-11427	-9940	-16761	-27654	-7449	-14294	-9844
CF from Inv. Activities	-4840	-2014	-2154	-3817	-2283	-3724	-7147	-4922
inc/(dec) in NW	34	10	1	0	0	0	0	0
inc/(dec) in Debt	73	582	52	197	0	682	-724	0
Int. Paid	-184	-24	0	-8	-19	-14	0	0
Div Paid (inc tax)	-1173	-2824	-2697	-4068	-2031	-2603	-2603	-2603
others	73	151	-151	-143	-234	-49	682	-724
CF from Fin. Activities	-1308	-3140	-2237	-4533	-5714	-3317	-2105	-2603
Inc(Dec) in Cash	309	385	-595	645	331	2933	2764	6414
Add: Opening Balance	719	953	1319	676	1368	1699	5934	8970
Closing Balance	1027	1339	724	1321	1699	4632	8698	15384

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

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