

Industry
Bloomberg
BSE CODE

TECHNOLOGY
HCLT IN
532281

Impressive margin execution, 2Q to start seeing growth

RATING	BUY
CMP	512
Price Target	593
Potential Upside	16%
Rating Change	↔
Estimate Change	↓
Target Change	↓

STOCK INFO	
52wk Range H/L	624/375
Mkt Capital (Rs Cr)	136918
Free float (%)	40%
Avg. Vol 1M (,000)	232
No. of Shares (Cr)	271
Promoters Pledged %	0

Fig in Rs Cr

FINANCIAL	FY18	FY19	FY20
Net Sales	50,569	60,427	70,676
EBITDA	11,246	13,926	17,316
EBIT	1,383	2,073	3,420
PAT	8,722	10,120	11,057
EPS (Rs)	31	37	41
EPS growth (%)	4%	19%	9%
ROE (%)	24	24	22
ROCE (%)	27	26	25
BV	131	154	189
P/B (X)	4	4	3
P/E (x)	15	15	13

4QFY20 Result Update

- HCLTECH reported a mixed set of numbers in 4Q result. Revenue for the quarter grew 0.8%/13.5% QoQ /YoY cc to USD 2534 (in line with our estimates) while remained flat QoQ in USD terms.
- In rupee term, Revenue stood at Rs 18587 crore, a growth of 16.3%YoY. Organic growth during the quarter was at 6% YoY cc while rest came from inorganic growth YoY cc.
- EBIT for the quarter came at Rs 3862 crore, a growth of 4.7%QoQ. Margin stood at 20.9% surpassing our estimates and expanded 63bps QoQ.
- The movement in margins was primarily led currency which benefitted 53bps, Better productivity in ITES segment further added 22bps while higher amortization cost in P&P segment offset some growth (12bps).
- ETR for 4Q stood at 18.4%vs 20. 1% last quarter primarily owing to onetime benefit during the quarter.
- PAT stood at Rs3172 crore, a growth of 7.7% QoQ owing to lower ETR and healthy margin (Mode-2 margin expansion).

Moderate growth in IT&BS segment while P&P remained flat

The company reported a moderate growth in IT&BS segment which grew 6.2%YoY while ERS grew 10. 2%YoY. In QoQ ERS was soft and declined 1.8%QoQ cc due to Covid 19 impact. Even P&P which had sequentially grown 16.8% in 3Q remained flat in 4Q and declined 0.1% QoQ cc.

Mode wise, Mode 2 contributed to growth by growing 7.1% QoQ in cc terms led by demand in digital and cloud while Mode 3 declined 1% QoQ in cc terms .

Highest ordering booking in 4Q

Despite the headwinds in 4Q, the company saw the highest booking quarter for FY20, a significant increase from 3Q. The company signed 14 transformational deal taking the total to 53 deals in FY20. The company managed to close 90% of deal win which were expected in 4Q. The Company expect the revenue trajectory from 2Q as large deals ramp ups (Stanley, Black & Decker)

Stability in P&P revenues

The company has strong volume in this segment supported by geographical diversification, business criticality and sustainable operational margin. The company have launched new releases across its products-AppScan, BigFix, Unica and DRYICE. The company expects from renewal point sees strong Volume in FY21 and has minimal impact due to Covid. Operational margins to be above 30% range gives stability to the company

View and valuation

HCLTECH reported a moderate quarter from the revenue perspective which grew 0.8%QoQ (in line)while margin came as a surprise and expanded 63bps to 20.9% which was one of the highest in the last 5 years. Order booking remain strong and company signed 14 transformation deal during the quarter. Organic growth mainly come from ITBS segment while ERS remained soft sequentially due to Covid 19. Even product and platforms remained flat for the quarter. Going forward, Post Covid we expect HCLTECH to outperform among Tier 1 led by strong deal pipelines and ramps ups resulting in healthy growth in organic revenues. Even renewal on track will support growth in products & platforms business. Management also expects P&P to have minimal impact of Covid 19. Further, we also expect margins to improve gradually as the company gets more digital and cloud work(mode 2). However in 1Q, we expect revenue to see some impact due to reduction in volume based billings, Hold in New project from existing, price discount and payment extension. Post result, we continue to like the stock and maintain our BUY stance on the stock with a target price of Rs 593.

Key Risks to our rating and target

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

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4QFY20 Results

Strong margin execution

Fig in Rs Cr

FINANCIALS	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY%	QoQ%	FY19	FY20	YoY%
Net Sales	15,990	16,427	17,527	18,135	18,587	16.2%	2.5%	60427	70676	17.0%
Other Income	200	183	102	157	147	-26.5%	-6.4%	943	589	-37.5%
Employee Exp	7,713	8,398	8,647	8,800	9,083	17.8%	3.2%	29,283	34,928	19.3%
Other Expenses	4,198	4,183	4,294	4,278	4,141	-1.4%	-3.2%	5,761	6,196	7.6%
EBITDA	3,594	3,570	4,259	4,629	4,858	35.2%	4.9%	13926	17316	24.3%
Depreciation	545	735	747	942	996	82.8%	5.7%	2,073	3,420	65.0%
EBIT	3,049	2,835	3,512	3,687	3,862	26.7%	4.7%	11,853	13,896	17.2%
Interest	69	87	136	158	124	79.7%	-21.5%	174	505	190.2%
PBT	3,180	2,931	3,478	3,686	3,885	22.2%	5.4%	12,622	13,980	10.8%
Tax	630	701	827	742	713	13.2%	-3.9%	2,502	2,923	16.8%
PAT	2,550	2,230	2,651	2,944	3,172	24.4%	7.7%	10,120	11,057	9.3%

Concall Highlights

• Update on Covid 19

- The company was among the first few which kick started the business continuity planning from 26th Jan. Thus had very little impact from the supply side in 4Q.
- As of today, 96% of HCL employees are in WFH mode; 2.5% employees are working from offices in client locations and 1.5% was the supply driven billing loss. Even this loss is mitigated significantly this week.
- The company has also introduced flexible hour policy for WFH employees

• Order booking update

- 4Q saw the highest booking quarter for FY20, a significant increase from 3Q. The company signed 14 transformational deal taking the total to 53 deals in FY20. Big part of 14 deal were signed in Jan and in early February
- However the momentum became slow towards the end of the march.
- The company managed to close 90% of deal win which were expected in 4Q.
- All the 13 transformational deals won in 4Q are not on hold (all in transitional phase). The Company will see revenue coming in from these in 2Q. 1Q will see weakness as most of deal will be preparing.
- All renewal plans are on track. The company is seeing increasing pipeline now from March 31

• Demand Environment and outlook

◦ Short term outlook

- In the short term, the supply side has stabilized for the company, delay in onboarding will have insignificant impact and issues to access the lab have now been resolved. This company will be 100% operational either through WFH or work from the office.
- In demand side, the company works with a lot of customers through volume based billings and as customers have put their employees on furloughs, there will be reduction in volume based to billings and will result in contractual things.
- Discretionary spend in segment with B2B or B2C, spend is not getting deferred but segment with pure B2B there is some deferral in discretionary spend.
- New projects from Existing customers are put on hold. The company is also seeing some price discount requests by some large clients but it's a temporary phenomenon (1 or 2 quarter).
- Payment term extension from 30 to 90 requested by some small portion of customers.
- The company is seeing top impacted verticals will be manufacturing (sub verticals like auto and aerospace) and Media and Entertainment .No essential retail is another segment which will see major impact .
- The company sees Telecom and FS as low impact verticals. In FS, vendor consolidation will play out in the long term. Telecom continues to remain strong. Life science verticals, the company sees its intact. In Technology vertical which is a large part of HCL will continue to see momentum.

• Medium term

- The company expects digital transformation to accelerate in few quarters which was earlier expected to happen in 2 years.
- The customer interaction will all through will be digital channels, monetizing the content, brand royalty is reducing.
- Cloud consumption is expected to double.
- Cybersecurity will become top of mind proposition. Some Emerging opportunities are expected in Engineering services, 5G itself will make a lot of virtual work possible.
- Healthcare will see major scale up in the medium. Management expect Telecom and technology vertical will also have strong market opportunities. Retail, travel and hospitality primarily these businesses will have to redefine themselves and redefinition will happen with new technologies.
- In Financial service, digital channels will significantly accelerate in medium term.

Revenue Mix

STRONG YOY GROWTH ACROSS MOST SEGMENTS

VERTICALS (USD MN)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	QoQ%	YoY%
Financial Services	483	476	481	480	557	549	537	-2.3%	11.6%
Manufacturing	760	802	825	917	875	915	938	2.5%	13.8%
Retail & CPG	271	286	228	225	249	262	259	-1.0%	13.9%
Telecommunication	225	214	196	189	209	229	211	-7.8%	7.7%
Lifesciences & Healthcare	210	225	296	303	321	310	318	2.5%	7.3%
Public Services	151	203	253	248	273	277	282	1.8%	11.6%

Revenue by Geography

MODERATE GROWTH IN US WHILE OTHERS REMAINED SOFT

GEOGRAPHY (USD MN)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	QoQ%	YoY%
US	1381	1418	1433	1600	1601	1597	1612	1.0%	12.52%
Europe	562	621	677	612	701	743	730	-1.7%	7.87%
RoW	155	161	169	149	184	203	198	-2.5%	17.66%

Mode performance

STRONG GROWTH INMODE 2 WHILE MODE3 REMAINED ROBUST

BUSINESS LINES	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	QoQ%	YoY%
Mode 1	1512	1561	1606	1662	1665	1679	1656	-1.4%	3.1%
Mode 2	336	377	430	444	455	462	488	5.6%	13.5%
Mode 3	251	263	242	258	365	402	400	-0.5%	65.3%

Exhibit: Revenue trend

Mode 2 contributes to growth in 4Q, organic growth of 6% in 4QFY20.

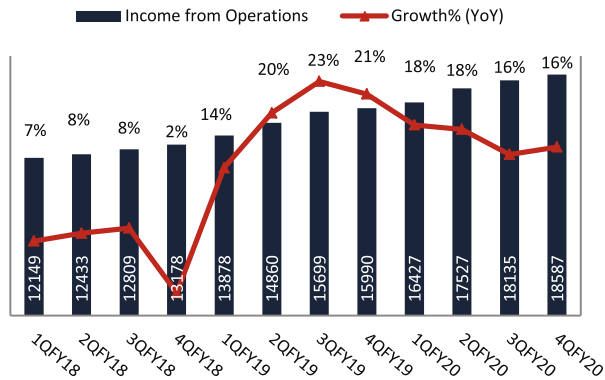


Exhibit: Transformational deal

53 transformational deal signings in FY20.

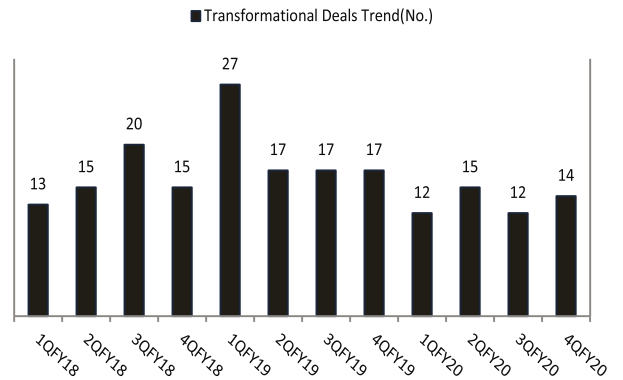


Exhibit: Margin Trend

Strong margin execution in 4Q, FY20 surpassed the guidance.

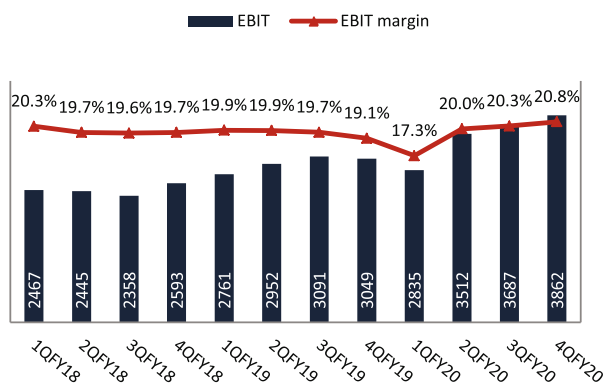
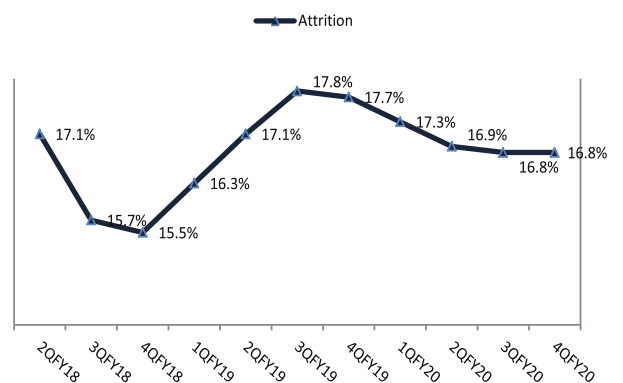


Exhibit: Attrition trend

Attrition declined during the quarter however still remain under control.



Operational Details

INDUSTRY REVENUE (%)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
IT and Business services	75.3%	N/A	74.0%	75.8%	75.3%	71.4%	70.2%	70.6%
Engineering and R&D services	16.9%	N/A	17.1%	16.6%	16.9%	16.9%	16.7%	16.3%
Products & Platforms	7.8%	8.7%	8.9%	7.6%	7.8%	11.7%	13.1%	13.1%

GEOGRAPHY (%)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Americas	64.5%	65.8%	64.4%	62.9%	67.7%	64.4%	62.8%	63.4%
Europe	28.1%	26.8%	28.2%	29.7%	25.9%	28.2%	29.2%	28.7%
RoW	7.5%	7.4%	7.3%	7.4%	6.3%	7.4%	8.0%	7.8%

REVENUE BY VERTICAL	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Financial Services	23.8%	23.0%	21.6%	21.1%	20.3%	22.4%	21.6%	21.1%
Manufacturing	36.5%	36.2%	36.4%	36.2%	38.8%	35.2%	36.0%	36.9%
Lifesciences & Healthcare	12.8%	12.9%	13.0%	10.0%	9.5%	10.0%	10.3%	10.2%
Public Services	10.5%	10.7%	9.7%	8.6%	8.0%	8.4%	9.0%	8.3%
Retail & CPG	9.1%	10.0%	10.2%	13.0%	12.8%	12.9%	12.2%	12.5%
Telecommunication, Media, Publishing & Entertainment	7.3%	7.2%	9.2%	11.1%	10.5%	11.0%	10.9%	11.1%

CONTRACT TYPE	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Fixed Price Projects	62.0%	61.8%	63.3%	63.7%	63.5%	66.5%	67.8%	68.3%
Time & Materia	38.0%	38.2%	36.7%	36.3%	36.5%	33.5%	32.2%	31.7%

AVERAGE RATES	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
USD - INR	67.5	70.8	71.48	70.19	70.19	70.52	71.24	73.08
GBP - USD	1.34	1.3	1.28	1.31	1.31	1.23	1.3	1.27
EUR - USD	1.18	1.16	1.14	1.13	1.13	1.1	1.11	1.1
SEK - USD	0.11	0.11	0.11	0.11	9.2	9.66	9.54	9.79
AUD - USD	0.75	0.73	0.72	0.71	0.71	0.68	0.68	0.64

CLIENTS (LTM)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
100 Million dollar +	9	9	10	10	12	13	15	15
50 Million dollar+	32	31	29	29	29	30	32	30
40 Million dollar +	40	N/A	N/A	N/A	N/A	N/A	N/A	N/A
30 Million dollar +	56	N/A	N/A	N/A	N/A	N/A	N/A	N/A
20 Million dollar +	87	90	95	95	93	93	94	96
10 Million dollar +	162	165	164	166	172	171	167	171
5 Million dollar +	267	269	276	283	293	299	302	308
1 Million dollar +	571	575	597	623	633	667	712	791

Operational Details

CLIENT CONTRIBUTION	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Top 5 Clients	17.0%	17.3%	17.4%	17.0%	16.6%	16.5%	15.2%	15.1%
Top 10 Clients	24.6%	24.8%	24.8%	24.1%	23.9%	24.0%	22.4%	22.0%
Top 20 Clients	34.2%	34.2%	34.1%	33.4%	34.2%	34.6%	33.0%	32.1%

PEOPLE METRICS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Total Employee Count	124121	127875	132328	137965	143900	147123	149173	150423
Technical	113404	116910	121273	126717	132384	135957	137725	139302
Support	10717	10965	11055	11248	11516	11166	11448	11121
Gross Addition	12558	11683	13191	14249	16332	13430	11502	10278
Attrition - IT Services (LTM)	16.3%	17.1%	17.8%	17.7%	17.3%	16.9%	16.8%	16.3%

Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Share Capital	139	140	281	282	285	278	542	543
Reserves	13,020	19,402	23,943	27,012	32,664	36,108	41,095	50,724
Networth	13,159	19,542	24,224	27,294	32,950	36,386	41,637	51,267
Debt	925	406	523	952	445	380	3,701	4,693
Other Non Current Liab	920	930	825	841	923	1,192	1,830	4,907
Total Capital Employed	14,084	19,949	24,748	28,246	33,395	36,766	45,338	55,960
Net Fixed Assets (incl CWIP)	7,246	7,975	8,827	10,561	9,180	12,274	14,062	19,088
Non Current Investments	-	-	107	321	34	303	85	77
Other Non Cur Asst	2,519	2,675	3,264	3,602	10,086	10,888	14,706	22,673
Non Current Assets	2,519	2,675	3,371	3,922	10,120	11,191	14,791	22,750
Inventory	232	122	158	264	276	172	91	91
Debtors	4,497	5,683	6,539	7,682	8,301	9,639	11,706	14,131
Current investments	627	606	763	535	1,146	2,357	2,220	6,989
Short-term loans and advances	1,572	1,590	2,189	3,340	2,528	3,410	1,312	3,422
Cash & Bank	3,577	8,807	9,786	9,285	9,044	4,018	7,872	4,976
Other Curr Assets	2,129	2,521	3,613	5,075	5,175	4,962	6,521	8,654
Current Assets	12,634	19,330	23,047	24,860	26,470	24,558	29,722	38,420
Creditors	401	468	625	700	801	918	1,305	1,166
Provisions	1,723	1,462	1,734	1,804	473	530	586	706
Other Curr Liab	5,221	7,105	7,231	7,442	1,722	1,325	1,810	3,889
Others Financial liabilities	-	-	-	-	7,545	6,606	6,950	14,340
Current tax liabilities (net)	-	-	-	-	739	686	924	1,069
Curr Liabilities	7,345	9,036	9,590	9,945	11,280	10,065	11,575	21,885
Net Current Assets	5,288	10,294	13,457	14,915	15,190	14,493	18,147	16,535
Total Assets	22,399	29,980	35,245	39,344	45,769	48,023	58,575	82,906

Income Statement

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Revenue from Operation	25581	32144	36701	30781	47568	50569	60427	70676
Change (%)	23%	26%	14%	-16%	55%	6%	19%	17%
EBITDA	5,661	8,035	8,473	6,540	10,385	11,246	13,926	17,316
Change (%)	53%	42%	5%	-23%	59%	8%	24%	24%
Margin (%)	22%	25%	23%	21%	22%	22%	23%	25%
Depr & Amor.	637	681	404	393	828	1,383	2,073	3,420
EBIT	5,024	7,354	8,069	6,148	9,556	9,863	11,853	13,896
Int. & other fin. Cost	106	115	91	74	89	69	174	505
Other Income	351	677	1,139	895	1,073	1,217	943	589
EBT	5,270	7,917	9,117	6,969	10,541	11,011	12,622	13,980
Exp Item	-	-	-	-	-	-	-	-
Tax	1,225	1,410	1,815	1,364	1,936	2,302	2,502	2,923
Minority Int & P/L share of Ass.	(4)	2	40	56	2	13	-	-
Reported PAT	4,040	6,510	7,342	5,661	8,606	8,722	10,120	11,057
Adjusted PAT	4,040	6,510	7,342	5,661	8,606	8,722	10,120	11,057
Change (%)	66%	61%	13%	-23%	52%	1%	16%	9%
Margin(%)	16%	20%	20%	18%	18%	17%	17%	16%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
ROE	0	0	0	0	0	0	0	0
ROCE	36	37	33	22	29	27	26	25
Asset Turnover	3	3	2	1	2	2	2	2
Current Ratio	2	2	2	3	2	2	3	2
Debtor Days	64	65	65	91	64	70	71	73
Book Value Per Share	94	140	86	97	115	131	154	189
Payable Days	6	5	6	8	6	7	8	6
Earnings Per Share	29	46	26	20	30	31	37	41
P/E	14	15	19	20	14	15	15	13
Price / Book Value	4	5	6	4	4	4	4	3
EV/EBITDA	9	11	15	16	11	12	10	8
EV/Sales	2	3	4	3	2	3	2	2

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
PBT	5270	7917	9117	6969	10543	11024	12622	13980
(inc)/Dec in Working Capital	-149	-244	-1188	-1456	321	-635	-1282	-1282
Non Cash Op Exp	635	228	-615	-317	139	1430	2151	2151
Int Paid (+)	0	0	0	0	0	0	0	0
Tax Paid	-1264	-1445	-1774	-1400	-2007	-2356	-2621	-2558
others	0	0	0	0	0	0	0	0
CF from Op. Activities	4492	6457	5539	3796	8995	8328	8971	13359
(inc)/Dec in FA & CWIP	-619	-720	-1208	-917	-1278	-5344	-3465	-1866
Free Cashflow	3873	5737	4331	2879	7717	2984	5506	11493
(Pur)/Sale of Inv	-4771	-7852	-8205	-6869	-11666	-20027	-24220	-35420
others	-7744	-13412	-11427	-9940	-16761	-27654	-30758	-49660
CF from Inv. Activities	-2354	-4840	-2014	-2154	-3817	-2283	-3073	-12374
inc/(dec) in NW	34	34	10	1	0	0	0	0
inc/(dec) in Debt	48	73	582	52	197	0	1404	933
Int. Paid	-114	-184	-24	0	-8	-19	-14	-12
Div Paid (inc tax)	-769	-1173	-2824	-2697	-4068	-2031	-1321	-1625
others	-344	73	151	-151	-143	-234	-49	680
CF from Fin. Activities	-2086	-1308	-3140	-2237	-4533	-5714	-1462	-3168
Inc(Dec) in Cash	52	309	385	-595	645	331	4436	-2183
Add: Opening Balance	669	719	953	1319	676	1368	1498	5943
Closing Balance	721	1027	1339	724	1321	1699	5934	3760

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