

# HCL Technologies

BUY

CMP Rs956

Target Rs1,125

Upside 17.7%

## Result Highlights

- Overall, the result was below consensus expectation as it reported revenue of \$2,696mn (up 3% QoQ; up 2.5% QoQ in CC terms). In INR terms, it reported revenue of Rs 196.4bn (up 1.8% QoQ), impacted by INR appreciation during the quarter. It has witnessed sequential deceleration in QoQ growth over last 3 quarters. The revenue growth was led by strong performance of Mode 2(digital technologies) that grew 25.2% on YoY basis in constant currency this quarter.
- EBIT margin (excluding milestone bonus) declined by 260 bps QoQ, which was more than expected decline; led by wage hike, and higher SG&A and higher depreciation expense for the quarter.
- However, the deal win momentum remained strong as it signed net new deal of \$3.1bn (up 48% YoY), led by traction in digital technologies
- LTM attrition declined by 640bps YoY to 9.9%. However, it is expected to pick up going ahead with increased demand for talent.
- Gross Cash stands at US \$ 2,803 mn and Net Cash at US \$ 2,268 mn at the end of March 31st, 2021.
- Declared interim dividend of Rs 16/ share. Included a Special Interim Dividend of Rs 10 /- per share as a milestone to mark the Company crossing the \$10 B milestone. (Dividend is Rs 26 for FY21).
- FY22E Guidance: Has guided for double digit revenue growth (in cc terms) for FY22; with EBIT margin between 19%-21%.

**Our view:** The revenue and margin performance was below expectation. However, On the positive side, the broad outlook remains positive as the deal win momentum remains strong led by deals in cloud migration, and other digital technologies; and the company continue to focus on investments in talent and other geographies to boost long term growth potential. The company has provided robust guidance of double digit revenue growth (in cc terms) for FY22, while maintaining broadly stable margin in the range of 19-21%. The valuation remains attractive as the stock trades at 16.3x on FY23 earnings. Initiate coverage on the stock with BUY rating.

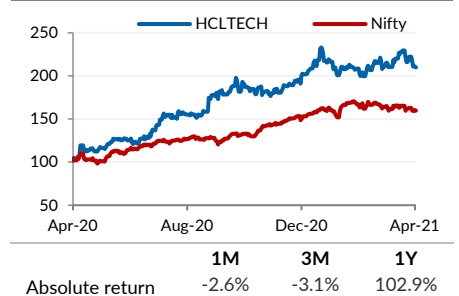
## Exhibit 1: Result table

Particulars (Rs mn)	Mar-21	Mar-20	yoy %	Dec-20	qoq %
Sales (\$ mn)	2,696	2,543	6.0	2,617	3.0
Sales	196,420	185,900	5.7	193,020	1.8
EBITDA	50,970	47,200	8.0	54,420	(6.3)
EBITDA %	25.9	25.4	56 bps	28.2	-224 bps
Depreciation	11,170	8,390	33.1	10,270	8.8
EBIT	39,800	38,810	2.6	44,150	(9.9)
EBIT Margin %	20.3	20.9	-61 bps	22.9	-261 bps
PBT	41,700	38,600	8.0	45,410	(8.2)
Tax	11,910	7,070	68.5	5,440	118.9
Adj PAT	29,790	31,530	(5.5)	39,970	(25.5)
NPM (%)	15	17	-179 bps	21	-554 bps
EPS	10.9	11.6	(6.1)	14.7	(25.6)

## Stock data (as on Apr 23, 2021)

Nifty	14,341
52 Week h/l (Rs)	1067 / 462
Market cap (Rs/USD mn)	2,593,314 / 34,568
Outstanding Shares	2,714
6m Avg t/o (Rs mn):	6,270
Div yield (%):	1.3
Bloomberg code:	HCLT IN
NSE code:	HCLTECH

## Stock performance



## Shareholding pattern (As of Sep'20 end)

Promoter	60.3%
FII+DII	35.5%
Others	4.1%

## Financial Summary

(Rs mn)	FY21	FY22E	FY23E
Net Revenue	753,790	843,029	937,510
YoY Growth	6.7%	11.8%	11.2%
EBIDTA	200,560	222,753	250,059
YoY Growth	20.1%	11.1%	12.3%
PAT	130,520	141,349	159,094
YoY Growth	18.0%	8.3%	12.6%
ROE	23.1%	20.9%	19.9%
EPS	48	52	59
P/E	19.9	18.3	16.3
BV	228	270	319
P/BV	4.2	3.5	3.0

### PIYUSH PANDEY

Lead Analyst

piyush.pandey@ysil.in

+91 97697 28375



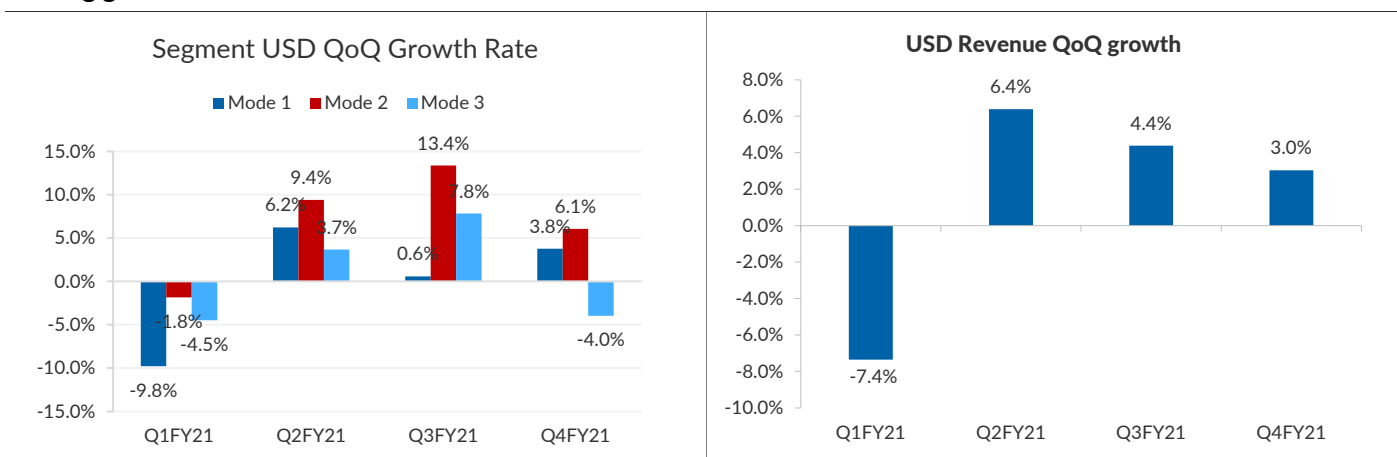
### AMAR AMBANI, Sr. President, Head of Research

amar.ambani@ysil.in

## CON-CALL HIGHLIGHTS

- ✓ New deal wins of \$3.1bn includes 19 large deals across segments and geographies. The focus going ahead will be in winning large deals as they play a big role in deciding revenue growth.
- ✓ Looking to expand into other markets such as Brazil, Mexico, S. Korea and Spain.
- ✓ Products and platform: 75% of this segment will continue to have double digit growth; while other 25% will have lower growth. Has decided to discontinue few products as part of business strategy.
- ✓ Would be hiring around 15000 employees in FY22, mainly focused towards freshers.
- ✓ The management feels that it is not the time to maximise profit but to make investments for growth and accordingly, they will be making investment in talent and expanding into other markets to boost long term revenue growth potential.
- ✓ Expect cost related to travel coming back this year; Wage hike cycle for FY22 would commence in July quarter and these factors have been considered in FY22 EBIT margin guidance of 19-21%

**Exhibit 2: Mode 2 (Digital Technologies) maintains strong growth**      **Exhibit 3: Slight moderation in Growth in Q4FY21**



Source: Company, YES Sec – Research

Source: Company, YES Sec – Research

## DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

The information and opinions in this report have been prepared by YSL and are subject to change without any notice. The report and information contained herein are strictly confidential and meant solely for the intended recipient and may not be altered in any way, transmitted to, copied or redistributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of YSL.

The information and opinions contained in the research report have been compiled or arrived at from sources believed to be reliable and have not been independently verified and no guarantee, representation of warranty, express or implied, is made as to their accuracy, completeness, authenticity or validity. No information or opinions expressed constitute an offer, or an invitation to make an offer, to buy or sell any securities or any derivative instruments related to such securities. Investments in securities are subject to market risk. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Investors should note that each security's price or value may rise or fall and, accordingly, investors may even receive amounts which are less than originally invested. The investor is advised to take into consideration all risk factors including their own financial condition, suitability to risk return profile and the like, and take independent professional and/or tax advice before investing. Opinions expressed are our current opinions as of the date appearing on this report. Investor should understand that statements regarding future prospects may not materialize and are of general nature which may not be specifically suitable to any particular investor. Past performance may not necessarily be an indicator of future performance. Actual results may differ materially from those set forth in projections.

Technical Analysis reports focus on studying the price movement and trading turnover charts of securities or its derivatives, as opposed to focussing on a company's fundamentals and opinions, as such, may not match with reports published on a company's fundamentals.

YSL, its research analysts, directors, officers, employees and associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject YSL and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

## DISCLOSURE OF INTEREST

Name of the Research Analyst : Piyush Pandey

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

### YES Securities (India) Limited

**Registered Office:** Unit No. 602 A, 6th Floor, Tower 1 & 2, One International Center, Senapati Bapat Marg, Elphinstone Road, Mumbai - 400013, Maharashtra, India.

Email: [research@ysil.in](mailto:research@ysil.in) | Website: [www.yesinvest.in](http://www.yesinvest.in)

**Registration Nos.:** CIN: U74992MH2013PLC240971 | SEBI Single Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 | MERCHANT BANKER: INM000012227 | RESEARCH ANALYST: INH000002376 | INVESTMENT ADVISER: INA000007331 | Sponsor and Investment Manager to YSL Alternates Alpha Plus Fund (Cat III AIF) SEBI Registration No.: IN/AIF3/20-21/0818 | AMFI ARN Code - 94338.

**Details of Compliance Officer:** Name: Vaibhav Purohit, Email id: [compliance@ysil.in](mailto:compliance@ysil.in), Contact No-+91-22-33479208

## **RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS**

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Potential return >15% over 12 months

**ADD:** Potential return +5% to +15% over 12 months

**REDUCE:** Potential return -10% to +5% over 12 months

**SELL:** Potential return <-10% over 12 months

**NOT RATED / UNDER REVIEW**

## **ABOUT YES SECURITIES (INDIA) LIMITED**

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a SEBI registered stock broker holding membership of NSE, BSE, MCX & NCDEX. YSL is also a SEBI registered Category I Merchant Banker, Investment Adviser and a Research Analyst. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.