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Q4FY21 result review  
and reco change

## Technology

Target price: Rs1,060

### Earnings revision

(%)	FY22E	FY23E
Sales	↑ 0.8	↓ 0.8
EBIT	↓ 3.9	↓ 3.2
EPS	↓ 4.0	↓ 4.0

### Target price revision

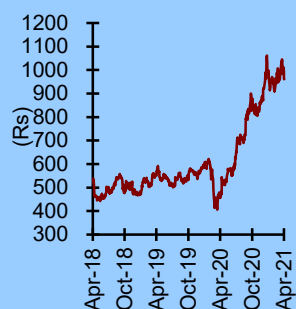
Rs1,060 from Rs1,150

### Shareholding pattern

(%)	Sep '20	Dec '20	Mar '21
Promoters	60.3	60.3	60.3
Institutional			
Investors	35.5	35.2	34.7
MFs and other	6.0	6.6	6.8
Banks/FIs	0.1	0.2	0.2
Insurance Cos.	4.3	3.3	3.4
FIs	25.1	25.1	24.3
Others	4.2	4.5	5.0

Source: www.nseindia.com

### Price chart



# HCL Technologies

**ADD**

Downgrade from Buy

**Rs956**

## Underwhelming performance and outlook!

HCLT has reported disappointments across the board – revenue growth, margins and outlook. Organic growth (+1.6% QoQ, CC) was tepid and in-line with a typical March quarter even before the pandemic. Like TCS and Infosys, muted growth in Mar-21 further strengthens our anti-consensus argument that industry growth rates are unlikely to accelerate going forward (vs pre-covid). Both revenue growth and margin guidance bands are unusually abstract and underwhelming. It should be noted that HCLT was one of the very few companies that came out with definitive guidance bands in Jun-20 amidst peak covid uncertainty. In that context, the street is unlikely to take much comfort in strong deal wins, also given the limited causal relationship here. Impact of the proposed investments on deal wins and subsequent period growth will be keenly tracked. Expectations around articulation of a formal capital return policy (like TCS & Infosys) too met with a disappointment. As we revisit growth, margin and ETR assumptions, FY22-23E EPS witnesses a ~4% downgrade notwithstanding INR depreciation benefit. We cut our TP by ~8% now implying a lower target multiple of 19x FY23E EPS. We downgrade the stock to **ADD** (from *Buy* earlier).

► **Disappointments across the board.** Revenue missed our / consensus estimates. Adjusted for DWS' contribution, organic growth (+1.6% QoQ, CC) was tepid and in-line with a typical March quarter even before the pandemic. Seasonality in Products & Platforms (-4.9% QoQ, CC) was the key overhang on growth. In addition, elusive recovery in ER&D business (+0.7% QoQ, CC) was another dampener. In IT & Business Services, organic growth (+3.2% QoQ, CC) was in-line with a typical March quarter adjusted for a bit of base normalisation seen during the recovery leg.

Adjusted for a one-off special bonus to employees (-370bps QoQ impact), EBIT margin was 90 / 210bps behind our / consensus estimates. Residual wage hikes (-60bps impact), seasonality in Products & Platforms (-70bps impact), fresher hiring (-60bps impact) and INR appreciation (-20bps impact) were the key margin movers. In addition, impairment charge related to a couple of products led to significant EBIT margin compression in P&P segment (980bps to 20.8%).

► **Guidance signals weaker confidence.** It should be noted that HCLT was one of the very few companies which came out with definitive guidance bands in Jun-20 amidst peak covid uncertainty! However, this time, both revenue and margin guidance are unusually abstract and underwhelming. While the company reported strong deal wins (TCV of US\$3.1bn), the street is unlikely to take much comfort given the limited causality on growth in subsequent periods. Notwithstanding INR depreciation benefit, we cut our FY22-23E EPS by 4% and TP by 8% implying a lower target multiple of 19x FY23E EPS. We downgrade the stock to **ADD** (from *Buy* earlier).

Market Cap	Rs2593bn/US\$34.6bn	<b>Year to March</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
Reuters/Bloomberg	HCLT.BO/HCLT IN	Revenue (Rs mn)	753,952	846,823	931,234	1005,793
Shares Outstanding (mn)	2,713.7	Net Income (Rs mn)	131,515	133,657	150,616	166,393
52-week Range (Rs)	1062/462	EPS (Rs)	45.9	48.7	55.0	60.8
Free Float (%)	39.7	% Chg YoY	12.7	6.2	12.8	10.6
FII (%)	24.3	P/E(x)	20.8	19.6	17.4	15.7
Daily Volume (US\$'000)	88,414	CEPS (Rs)	61.0	64.1	70.3	76.1
Absolute Return 3m (%)	(3.1)	EV/E(x)	12.1	11.2	9.9	8.8
Absolute Return 12m (%)	102.9	Dividend Yield	2.7	2.5	2.9	3.2
Sensex Return 3m (%)	(1.9)	RoCE (%)	17.5	16.3	16.8	17.2
Sensex Return 12m (%)	51.9	RoE (%)	23.5	20.2	20.6	20.8

Please refer to important disclosures at the end of this report

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**Table 1: Q4FY21 actuals vs estimates**

	Mar-21A	Dec-20	QoQ	Mar-20	YoY	Mar-21E	I-Sec est.	Consensus	chg
Revenue (US\$ mn)	2,696	2,617	3.0%	2,543	6.0%	2,716	-0.7%	2,713	-0.6%
cc revenue growth	2.5%	3.5%	-100bps	0.8%	170bps	3.0%	-50bps	3.0%	-50bps
<b>Rs bn</b>									
Revenue	196	193	1.7%	186	5.7%	198	-0.7%	198	-0.7%
EBIT	33	44	-26.4%	39	-16%	35	-6.1%	37	-12.1%
EBIT margins	16.6%	22.9%	-630bps	20.9%	-430bps	17.5%	-90bps	18.7%	-210bps
Net Income	24	40	-40.1%	32	-24.3%	27	-12.7%	31	-24.1%
Net margin	12.2%	20.6%	-850bps	17.0%	-480bps	13.8%	-170bps	15.9%	-370bps

Source: Company data, I-Sec research

**Table 2: Change in estimates**

	Revised		Earlier		Change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
INR/USD	75.0	76.0	73.0	74.5	2.7%	2.0%
USD Revenue - m	11,291	12,253	11,510	12,600	-1.9%	-2.8%
Growth (%)	11.0	8.5	13.0	9.5	-200bps	-90bps
EBIT margin (%)	169	191	176	197	-3.9%	-3.2%
PAT (INR B)	20.0	20.5	21.0	21.0	-100bps	-50bps
EPS	132	149	138	155	-4.0%	-4.0%

Source: Company data, I-Sec research

## Financial summary (US GAAP consolidated)

Table 3: Profit and loss statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Revenues (US\$ mn)	10,175	11,291	12,253	13,234
Operating Revenues (Sales)	7,53,952	8,46,823	9,31,234	10,05,793
Operating Expenses	5,53,026	6,37,234	7,00,288	7,54,857
<b>EBITDA</b>	<b>2,00,926</b>	<b>2,09,589</b>	<b>2,30,946</b>	<b>2,50,936</b>
% margins	26.6	24.8	24.8	24.9
Depreciation/Amortisation	39,881	40,177	40,023	40,157
<b>EBIT</b>	<b>1,61,045</b>	<b>1,69,412</b>	<b>1,90,923</b>	<b>2,10,779</b>
% margins	21.4	20.0	20.5	21.0
Other Income	6,588	6,704	7,642	8,683
<b>Recurring PBT</b>	<b>1,67,632</b>	<b>1,76,116</b>	<b>1,98,565</b>	<b>2,19,462</b>
Less: Taxes	36,680	43,148	48,648	53,768
Less: Minority Interest	(563)	(690)	(699)	(699)
Less: Exceptional item	5,839	-	-	-
<b>Net Income (Reported)</b>	<b>1,25,676</b>	<b>1,33,657</b>	<b>1,50,616</b>	<b>1,66,393</b>

Source: Company data, I-Sec research

Table 4: Balance sheet

(Year ending March 31)

	FY21	FY22E	FY23E	FY24E
<b>Assets</b>				
Total Current Assets	4,36,309	5,35,467	6,38,035	7,37,343
Total Current Liabilities & Provisions	1,69,789	1,90,703	2,09,712	2,26,503
<b>Net Current Assets</b>	<b>2,66,520</b>	<b>3,44,764</b>	<b>4,28,322</b>	<b>5,10,841</b>
Investments	474	480	486	486
Net Fixed Assets	3,82,956	3,69,348	3,58,361	3,44,244
Other Assets	69,077	69,915	70,847	70,847
<b>Total Assets</b>	<b>7,19,028</b>	<b>7,84,508</b>	<b>8,58,017</b>	<b>9,26,419</b>
<b>Liabilities</b>				
Borrowings	39,600	40,080	40,614	40,614
Other Liabilities	56,087	57,458	58,923	59,622
Net Worth	6,23,340	6,86,970	7,58,479	8,26,182
<b>Total Liabilities</b>	<b>7,19,028</b>	<b>7,84,508</b>	<b>8,58,017</b>	<b>9,26,419</b>

Source: Company data, I-Sec research

Table 5: Quarterly trend

(Rs mn, year ending March 31)

	Jun-20	Sep-20	Dec-20	Mar-21
Net sales	1,78,410	1,85,940	1,93,020	1,96,420
% growth (YoY)	8.6	6.1	6.4	5.7
EBIT	45,660	49,510	54,420	50,970
Margin (%)	25.6	26.6	28.2	25.9
Other income	2,070	1,360	1,260	1,900
Recurring Net Income	29,250	31,420	39,810	23,870

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Year ending March 31)

	FY21	FY22E	FY23E	FY24E
<b>Operating Cashflow before W Cap changes</b>	<b>1,61,245</b>	<b>1,72,454</b>	<b>1,89,241</b>	<b>2,05,152</b>
Working Capital Inflow / (Outflow)	31,582	(6,535)	(5,707)	(5,819)
<b>Operating Cashflow</b>	<b>1,92,827</b>	<b>1,65,919</b>	<b>1,83,534</b>	<b>1,99,333</b>
Capex	(63,764)	(21,925)	(24,111)	(26,041)
Proceeds from Issue of Share Capital	-	-	-	-
Inc/(Dec) in Borrowings / other L.Term Liabs	(79,577)	690	699	699
Dividend paid	(32,768)	(76,200)	(86,868)	(97,292)
<b>Increase/(Decrease) in Cash</b>	<b>16,717</b>	<b>68,485</b>	<b>73,254</b>	<b>76,699</b>

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY21	FY22E	FY23E	FY24E
<b>Per Share Data (in Rs)</b>				
EPS(Diluted Recurring) after ESOP				
Charges	45.9	48.7	55.0	60.8
Recurring Cash EPS	61.0	64.1	70.3	76.1
Dividend per share (DPS)	26.0	24.0	27.4	30.6
Book Value per share (BV)	229.7	253.2	279.5	304.5
<b>Growth Ratios (%)</b>				
Operating Income (Sales) - US\$ terms	2.4	11.0	8.5	8.0
Operating Income (Sales)	6.7	12.3	10.0	8.0
EBITDA	20.5	4.3	10.2	8.7
Recurring Net Income (bef ESOP)	12.9	6.3	12.7	10.5
Diluted Recurring EPS	12.7	6.2	12.8	10.6
Diluted Recurring CEPS	18.6	5.0	9.7	8.3
<b>Valuation Ratios (x)</b>				
P/E	20.8	19.6	17.4	15.7
P/CEPS	15.7	14.9	13.6	12.6
P/BV	4.2	3.8	3.4	3.1
EV / EBITDA	12.1	11.2	9.9	8.8
EV / Sales	3.2	2.8	2.4	2.2
EV / FCF*				
*FCF excludes spends on IPR acquisition				
<b>Operating Ratios</b>				
COR/Sales (%)	59.1	60.8	60.7	60.7
SG&A/Sales (%)	14.2	14.5	14.5	14.4
Other Income / PBT (%)	3.9	3.8	3.8	4.0
Effective Tax Rate (%)	21.9	24.5	24.5	24.5
Fixed Asset Turnover (x) on average	2.0	2.3	2.6	2.9
Receivables (days)	86	86	86	86
<b>Return/Profitability Ratios (%)</b>				
Recurring Net Income Margins	16.7	15.8	16.2	16.5
RoCE (Based on Avg)	17.5	16.3	16.8	17.2
RoNW (Based on Avg)	23.5	20.2	20.6	20.8
Dividend Yield	2.7	2.5	2.9	3.2
EBITDA Margins	26.6	24.8	24.8	24.9

Source: Company data, I-Sec research

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