

# HSIE Results Daily

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- **HCL Technologies:** We maintain BUY on HCL Tech (HCLT), based on solid 3Q and a strong outlook across multiple growth vectors. Large deal momentum (>13% YoY and 13 transformational deals >USD25mn TCV in 3Q) and pipeline at nearly an all-time high (many USD 200-300mn deals) supports the growth outlook. Operational highlights include offshore-led improvement in ER&D and IT & Business services margins and continuity in strong cash generation with OCF/EBIT at 114% (119% in 2Q). P&P business traction (>14,000 customers 6,000 sales transactions across new and renewals) is expected to continue (beyond 4Q weak seasonality), supported by new product releases (15+ in 3Q), strong deal activity (USD 91mn net new license bookings) and more cross-sell/up-sell transactions across products/services. The absence of large acquisitions and subsequent accretion to FCF/payout are upside risks to valuations. Our target price is Rs 1,110 at 18x Dec-22E (15% EPS CAGR over FY21-23E).

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# HCL Technologies

## Mode-2, 3 driven momentum

We maintain BUY on HCL Tech (HCLT), based on solid 3Q and a strong outlook across multiple growth vectors. Large deal momentum (>13% YoY and 13 transformational deals >USD25mn TCv in 3Q) and pipeline at nearly an all-time high (many USD 200-300mn deals) supports the growth outlook. Operational highlights include offshore-led improvement in ER&D and IT & Business services margins and continuity in strong cash generation with OCF/EBIT at 114% (119% in 2Q). P&P business traction (>14,000 customers 6,000 sales transactions across new and renewals) is expected to continue (beyond 4Q weak seasonality), supported by new product releases (15+ in 3Q), strong deal activity (USD 91mn net new license bookings) and more cross-sell/up-sell transactions across products/services. The absence of large acquisitions and subsequent accretion to FCF/payout are upside risks to valuations. Our target price is Rs 1,110 at 18x Dec-22E (15% EPS CAGR over FY21-23E).

- 3QFY21 highlights:** (1) HCLT's revenue came in marginal above our estimates at 4.4% QoQ (3.5% QoQ CC), supported by +2.7% QoQ CC in IT & BS, +2.5% QoQ in ER&D and +8.3% QoQ in P&P segment. (2) EBIT margin was 22 quarter high at 22.9% (+127bps QoQ) supported by SG&A leverage (+50bps), Offshoring (+50bps), revenue catch up in Mode 2 & Mode 3 (+80bps), offset by wage hike (-50bps). (3) Growth was broad-based across the verticals with TME/Tech/Mfg/Retail delivering 12.1/6.8/5.6/3.7% QoQ respectively (CC terms). (4) 4QFY21 margins to be impacted by wage hike impact (-80 to -90 bps). (5) Revenue guidance revised at +2% to +3% QoQ (CC terms) for 4QFY21E while EBIT margin guidance revised upward to 21-21.5% for FY21E.
- Outlook:** We have factored in USD revenue growth at +2.4/13.1/10.5%, factoring in IT & BS growth at +0.6/13.7/10.4%, ER&D growth at -4.2/+11.8/+12.6% and P&P growth at +23.1/11.7/8.6% over FY21/22/23E respectively. EBIT margins are estimated at 21.6/21.7/21.9% over the same period, translating into an EPS CAGR of 15% over FY21-23E (TCS/INFY at 19/20% CAGR).

### Quarterly Financial summary

YE March (Rs bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD mn)	2,617	2,543	2.9	2,507	4.4	8,632	9,936	10,174	11,507	12,712
Net Sales	193.02	181.35	6.4	185.94	3.8	604.27	706.78	756.75	868.93	985.21
EBIT	44.15	36.70	20.3	40.16	9.9	118.21	138.53	163.81	188.35	215.73
APAT	34.33	30.37	13.1	31.42	9.3	101.23	110.62	128.75	148.59	171.53
Diluted EPS (Rs)	12.7	11.2	13.1	11.6	9.3	37.3	40.8	47.4	54.8	63.2
P/E (x)						26.5	24.3	20.9	18.1	15.7
EV / EBITDA (x)						18.8	15.7	12.5	10.7	9.1
RoE (%)						26.0	23.8	23.2	23.4	23.6

Source: Company, HSIE Research, Consolidated Financials

### Change in Estimates

YE March (Rs bn)	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %
Revenue (USD mn)	10,147	10,174	0.3	11,454	11,507	0.5	12,652	12,712	0.5
Revenue	754.61	756.75	0.3	864.96	868.93	0.5	980.57	985.21	0.5
EBIT	162.91	163.81	0.6	187.68	188.35	0.4	214.87	215.73	0.4
EBIT margin (%)	21.6	21.6	6bps	21.7	21.7	-2bps	21.9	21.9	-2bps
APAT	127.15	128.75	1.3	145.76	148.59	1.9	170.57	171.53	0.6
EPS (Rs)	46.9	47.4	1.3	53.7	54.8	1.9	62.9	63.2	0.6

Source: Company, HSIE Research

**BUY**

CMP (as on 15 Jan 2021)	Rs 990
Target Price	Rs 1,110
NIFTY	14,434

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 1,100	Rs 1,110
EPS %	FY21E +1.3	FY22E +1.9

### KEY STOCK DATA

Bloomberg code	HCLT IN
No. of Shares (mn)	2,714
MCap (Rs bn) / (\$ mn)	2,686/36,761
6m avg traded value (Rs mn)	7,403
52 Week high / low	Rs 1,099/375

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	15.1	60.9	66.1
Relative (%)	(8.3)	24.9	49.0

### SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	60.33	60.33
FIs & Local MFs	10.61	10.24
FPIs	24.92	24.92
Public & Others	4.14	4.51
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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**Rating Criteria**

BUY: &gt;+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: &gt;10% Downside return potential

**Disclosure:**

Analyst	Company Covered	Qualification	Any holding in the stock
Apurva Prasad	HCL Technologies	MBA	NO
Amit Chandra	HCL Technologies	MBA	NO
Vinesh Vala	HCL Technologies	MBA	NO

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