

HCL Technologies

Growth vectors intact

We maintain BUY on HCL Tech (HCLT), based on broad-based 2Q performance and multiple growth vectors. HCLT's prowess in cloud infra business is a strong competitive advantage with enterprises accelerating cloud adoption and higher annuity streams supported by P&P upside. The positive outlook is also predicated on (1) strong deal wins with TCV up 35% QoQ, supported by 15 transformational wins (eight in life-science & healthcare vertical) and pipeline at an all-time high, (2) strengthening partner ecosystem with hyperscalers increasing the addressability and client access, (3) continued traction in P&P business with cross-sell opportunities (>12,000 unique customers signings), supported by upgrades/launches (Unica/DRYiCE in 2Q). The absence of large acquisitions and subsequent accretion to FCF/payout are the upside risks to valuations. HCLT is among our top picks in the sector, and our target price of Rs 970 is based on 18x Sep-22E EPS.

- 2QFY21 highlights:** (1) HCLT's revenue came in higher than estimated at 6.4% QoQ (4.5% QoQ CC), supported by +4.9% QoQ CC in IT & BS, +3.6% QoQ in ER&D and +3.1% QoQ in P&P segment. (2) Growth was broad-based across the verticals with LS/Retail/Tech/TME delivering 8.6/8.4/6.3/6.1% QoQ respectively (CC terms). (3) Revenue guidance retained at +1.5% to +2.5% QoQ (CC terms) over 3Q-4QFY21E while EBIT margin guidance is revised upward by 50bps to 20-21% for FY21E.
- Outlook:** We have factored in USD revenue growth at +1.2/11.8/10.1%, factoring in IT & BS growth at -0.6/+12.4/+10.4%, ER&D growth at -4.4/+11.4/+10.1% and P&P growth at +20.4/9.3/8.4% over FY21/22/23E respectively. EBIT margins are estimated at 20.6/20.7/20.6% over the same period, translating into an EPS CAGR of 12.4% over FY20-23E (TCS/INFY at 11/14% CAGR).

Quarterly Financial summary

YE March (Rs bn)	2Q FY21	2Q FY20	YoY (%)	1Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD mn)	2,507	2,486	0.9	2,356	6.4	8,632	9,936	10,052	11,240	12,372
Net Sales	185.94	175.28	6.1	178.41	4.2	604.27	706.78	750.95	854.24	958.79
EBIT	40.16	34.97	14.8	36.60	9.7	118.21	138.53	154.66	176.46	197.88
APAT	31.42	26.51	18.5	29.25	7.4	101.23	110.62	119.70	136.83	156.72
Diluted EPS (Rs)	11.6	9.8	18.5	10.8	7.4	37.3	40.8	44.1	50.4	57.8
P/E (x)						22.2	20.3	18.8	16.4	14.3
EV / EBITDA (x)						15.6	13.0	11.2	9.7	8.5
RoE (%)						26.0	23.8	21.9	22.2	22.6

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

Rs Bn	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %
Revenue (USD mn)	9,982	10,052	0.7	11,098	11,240	1.3	12,182	12,372	1.6
Revenue	746.10	750.95	0.6	843.43	854.24	1.3	944.13	958.79	1.6
EBIT	156.36	154.66	(1.1)	179.04	176.46	(1.4)	199.38	197.88	(0.8)
EBIT margin (%)	21.0	20.6	-36bps	21.2	20.7	-57bps	21.1	20.6	-48bps
APAT	121.53	119.70	(1.5)	139.62	136.83	(2.0)	158.93	156.72	(1.4)
EPS (Rs)	44.8	44.1	(1.5)	51.5	50.4	(2.0)	58.6	57.8	(1.4)

Source: Company, HSIE Research

BUY

CMP (as on 16 Oct 2020)	Rs 827
Target Price	Rs 970
NIFTY	11,762

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 990	Rs 970
	FY21E	FY22E
EPS %	-1.5	-2.0

KEY STOCK DATA

Bloomberg code	HCLT IN
No. of Shares (mn)	2,714
MCap (Rs bn) / (\$ mn)	2,245/30,611
6m avg traded value (Rs mn)	526
52 Week high / low	Rs 914/375

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	31.8	79.9	50.3
Relative (%)	22.1	49.2	46.7

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	60.33	60.33
FIs & Local MFs	9.13	10.0
FPIs	26.42	25.62
Public & Others	4.12	4.05
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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