

HCL TECHNOLOGIES LTD

HCLT

14 FEB 2019

Quarterly Update

BUY

Target Price : Rs 1,235

CMP : Rs 1,082
 Potential Upside : 15%
 Relative to Sector : Positive

MARKET DATA

No. of Shares : 135.62 Cr
 FV (Rs) : 2
 Market Cap (Rs Cr.) : 145,549
 52-week High / Low : Rs 1,191/ Rs947
 Avg. Daily vol. (6mth) : 45,28,033 shares
 Bloomberg Code : HCLT IN
 Reuters Code : HCLT NS
 BSE Code : 532281
 NSE Code : HCL TECH

Q4 FY19:- Healthy deal Pipeline and Acquisitions lead to high growth

HCL Tech reported its Q4 FY19 numbers. The numbers are much in line with expectations. The company has reported revenue growth of growth of 3.3% QoQ in constant currency terms and 15.3% on YoY basis at Rs. 15,990 crs. However Net income is down by 1.6% QoQ at Rs. 2,568 crs. The mode 1 business vertical grew by 2.5% QoQ basis, Mode 2 business vertical grew by 14.1% QoQ. However Mode 3 business declines by 7.6% on QoQ basis. The company has given strong growth guidance 14%-16% for FY20 on the basis of strong deal wins. It trimmed FY20 operating margin guidance to 18.5-19.5% from 19.5-20.5% in FY19, citing investments in the digital business. Commentary on deal wins was positive with 17 transformational deals inked during the quarter. During the quarter the company has added 2 clients in 10mn+ vertical, 7 clients under 5mn + bucket. 26 clients under 1mn + bucket.

Healthy deal wins, higher growth in key business verticals will put HCL Tech on growth trajectory. **We assign 13.8x P/E multiple to its FY21E earnings of Rs. 89.5 per share which gives a target price of Rs. 1,235 per share, an upside of 15%.**

Key Highlights

Strong broad based growth, IMS business seen strong revival

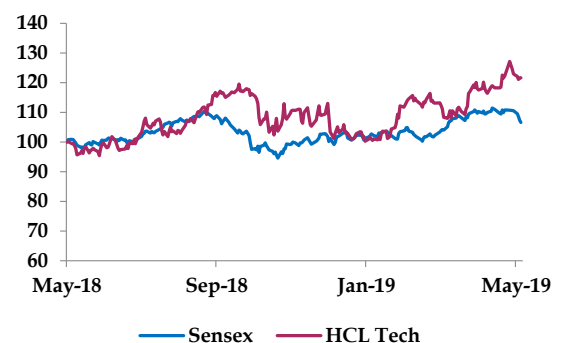
IMS vertical has seen strong revival during two previous consecutive quarters. IMS services showed a strong growth of 7.3% QoQ, Application Services grew by 0.9% QoQ, Business services and Engineering and R&D services degrew by 3.0%. On Vertical front financial services grew marginally by 0.9% QoQ, Manufacturing sector grew by 2.5% on QoQ, Public Services sector showed a strong growth of 17.7%QoQ, Technology and services sector grew 3.9% QoQ, Retail and CPG 1.4% QoQ. Telecommunication Sector grew degrew by 3.8%. On Geographical front, Americas grew by 1.1%, Europe grew by 8.4%, RoW grew 3.6% QoQ. During the quarter, HCLT acquired Strong-Bridged Envision (SBE), a digital consulting firm, for \$ 45m. SBE enhances HCLT's digital offerings in strategy development, agile program.

FINANCIAL SUMMARY (Consolidated)

Y/E	Sales (Rs Cr)	EBITDA (Rs Cr)	PAT (Rs Cr)	YoY Change	EPS (Rs)	P/E (x)	RoE (%)	RoCE (%)
March								
FY18	47,568	11,458	8,606	-	64.7	15.2	25%	31%
FY19E	60,428	13,898	10,126	18%	74.8	14.5	26%	26%
FY20E	71,011	16,333	11,210	11%	83.4	13.3	25%	27%
FY21E	78,516	18,059	12,310	10%	89.5	12.2	25%	26%

Source: Company, Axis Securities, Consensus Estimates, CMP as on 11th FEB, 2019

PRICE PERFORMANCE



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Operating margins are slightly under stress

For Q4 FY19, EBITDA margins have declined by 75 bps on YoY at 22.5%. EBIT margin has also declined by 70 bps sequentially to 19.0 % from 19.7% in Q3 FY19 due to headwinds arising from higher onsite expenses and employee expenses. Operating Margins were impacted mainly due to INR appreciation and European currencies, as also impact of seasonality in product revenues. HCLT has guided for EBIT margins of 18.5-19.5% in FY20, lower by 100bps compared with FY19. The company indicated increased investments towards ensuring the IBM deal right from the start, along with sustained investments in Mode-2 revenues and transition costs in Mode-1 services related to large deal ramp-ups.

Operating Margins Slightly under stress

Margin Analysis (%)	Q4 FY19	Q3 FY19	Q4 FY18	QoQ Changes in BPS	YoY Changes in BPS
Gross Profit	35%	35%	35%	-50	-20
EBITDA	23%	23%	23%	-70	-50
EBIT	19%	20%	20%	-70	-60
NPAT	16%	17%	17%	-60	-80
SG&A (As % net Sales)	12%	12%	12%	20	30

Source: Company, Axis Securities

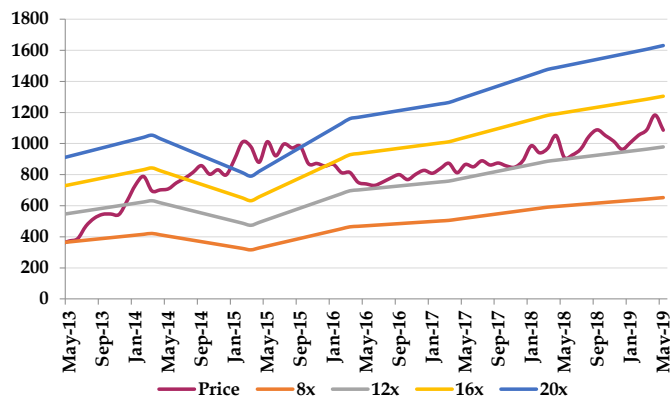
Quarterly Highlights

- Services: Infrastructure services led growth in service offerings, up 7.3% QoQ in cc terms and application services (up 5.2%). BPO and ER&D were soft (down 5.8% and 3.0% QoQ, cc).
- BPO: Revenue, at USD103.2mn, declined 5.3% QoQ and grew 31.4% YoY.
- Net employee addition for the Q4 FY19 stood higher by 5,637, taking total headcount to 137,965.
- Attrition in IT services (LTM) stood at 17.7% as compared to 17.8% in the Q3 FY19.
- Utilization: Blended utilization stood at 85.4%, down 120bps sequentially.
- DSO stood at 67 days versus 66 in the previous quarter.
- A new acquisition IBM IP is expected to be completed by first half of FY20, which should lead to major contribution to the topline growth during that period. This also entails a spurt in receivables by \$912mn and additional \$200mn debt adversely impacting cash flows. The acquisitions are expected to aid margin in the medium term.

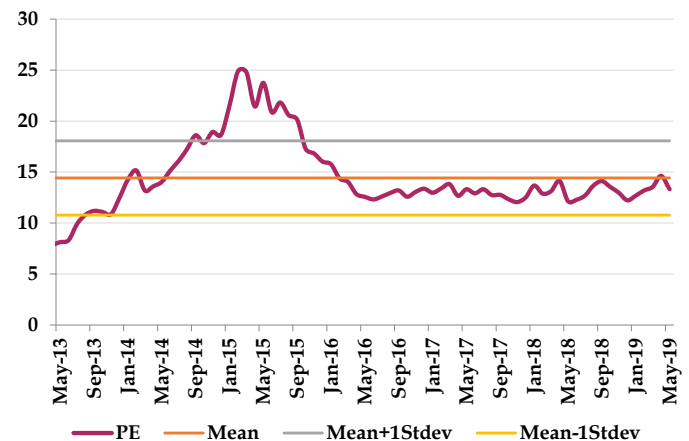
Valuations

Robust business structure, healthy deal pipeline and revitalization of key business segment make HCL Tech a safer bet to invest in. Rising demand across geographies and across different verticals helps HCL Tech to attain higher growth momentum. We assign 13.8x P/E multiple to its FY21E earnings of Rs. 89.5 per share which gives a target price of Rs. 1,235 per share, an upside of 15%.

HCL Tech- 12M Fwd PE Band



HCL Tech 12M Fwd PE Band



Source: Company, Axis Securities

Mode 1-2-3 Highlights

Y/E March	Revenue (In \$ mn)	Revenue Mix (%)	EBIT Margin (%)	QoQ Growth (%)
Mode 1	1,606	71%	21%	3%
Mode 2	430	19%	13%	14%
Mode 3	242	11%	19%	-8%
Total	2,278	100%	19%	3%

Geographical Mix

	Q4 FY19	Q3 FY 19	Q4 FY18	QoQ Change	YOY Change
America	63%	64.4%	62%	-2%	2%
Europe	30%	28%	30%	5%	-1%
RoW	7%	7%	9%	1%	-13%

Geographical Mix

	Q4 FY19	Q3 FY 19	Q4 FY18	QoQ Change	YOY Change
Application Services	33%	32%	35%	2%	-6%
Infrastructure Services	39%	38%	37%	2%	4%
Business Services	5%	5%	4%	4%	4%
Engineering and R&D Services	24%	26%	24%	-10%	15%

Service Mix

	Q4 FY19	Q3 FY 19	Q4 FY18	QoQ Change	YOY Change
Application Services	33%	32%	35%	2%	-6%
Infrastructure Services	39%	38%	37%	2%	4%
Business Services	5%	5%	4%	4%	4%
Engineering and R&D Services	24%	26%	24%	-10%	15%

Vertical Mix

	Q4 FY19	Q3 FY 19	Q4 FY18	QoQ Change	YOY Change
Financial Services	21%	22%	25%	-2%	-16%
Manufacturing	18%	18%	19%	0%	-9%
Technology & Services	19%	19%	17%	0%	11%
Retail & CPG	10%	10%	10%	0%	4%
Telecommunication, Media	9%	9%	7%	0%	16%

Publishing& Entertainment

	Q4 FY19	Q3 FY 19	Q4 FY18	QoQ Change	YOY Change
Lifesciences& Healthcare	13%	13%	12%	0%	13%
Public Services	11%	11%	11%	0%	5%

Number of Clients

	Q4 FY19	Q3 FY 19	Q4 FY18	QoQ Change	YOY Change
100 Mn +	10	10	8	0%	25%
50 Mn +	29	29	28	0%	4%
20 Mn +	95	95	87	0%	9%
10 Mn +	166	164	160	1%	4%
5 Mn +	283	276	264	3%	7%
1 Mn +	623	597	561	4%	11%

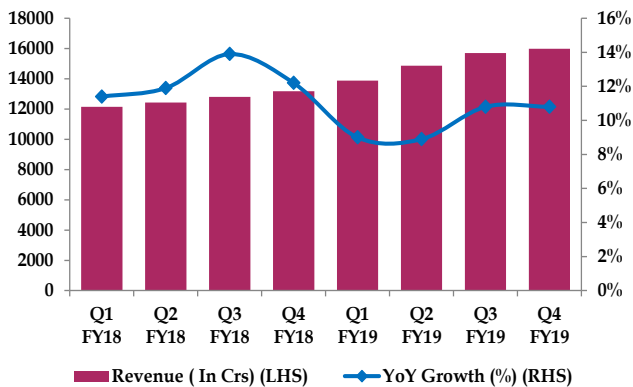
Clinet Contribution

	Q4 FY19	Q3 FY 19	Q4 FY18
Top 5 Clients	17%	17%	16%
Top 10 Clients	24%	25%	24%
Top 20 Clients	33%	34%	34%

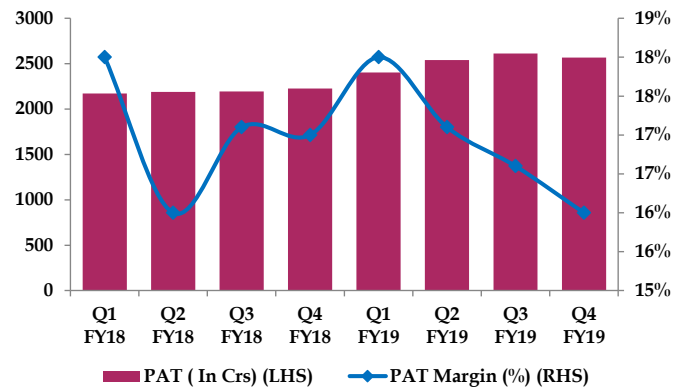
Employee Data

	Q4 FY19	Q3 FY 19	Q4 FY18	QoQ Change	YOY Change
Total Employee Count	137,965	132,328	120,081	4%	15%
Technical	126,717	121,273	109,565	4%	16%
Support	11,248	11,055	10,516	2%	7%
Gross Addition	14,249	13,191	8,476	8%	68%

Revenue growth

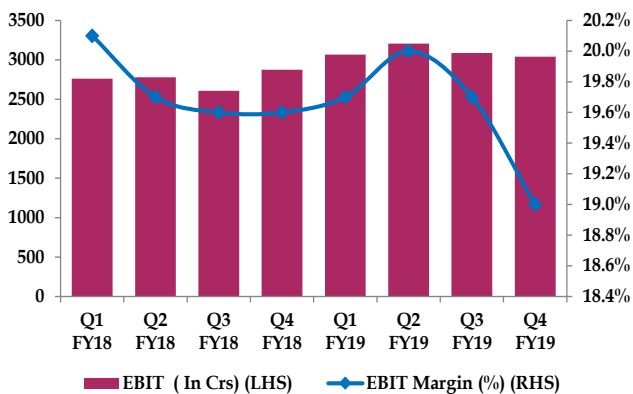


Net Profit growth

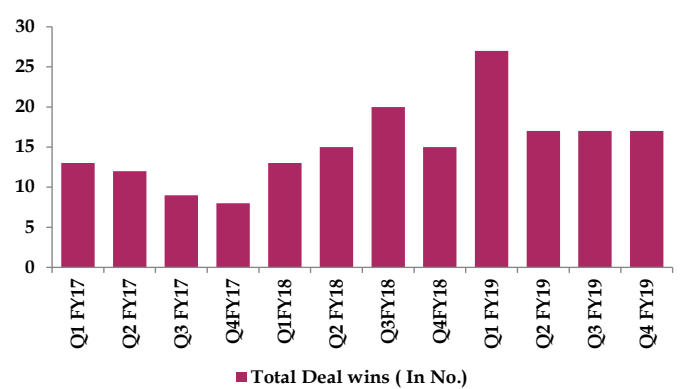


Source: Company, Axis Securities

Operating Margin



Total Deal wins



Source: Company, Axis Securities

Results Update

(Rs.Cr.)	Quarterly Performance				
	Q4FY19	Q3FY19	Q4FY18	% Change (QoQ)	% Change (YoY)
Revenues	15,990	15,699	13,179	2%	21%
Direct Costs	10,421	10,152	8,560	3%	22%
Gross Profits	5,568	5,547	4,618	0%	21%
SG&A	1,972	1,900	1,583	4%	25%
EBITDA	3,596	3,647	3,036	-1%	18%
EBITDA Margin	22%	23%	23%	-3%	-2%
Depreciation	558	561	453	-1%	23%
EBIT	3,039	3,086	2,583	-2%	18%
EBIT Margin	19%	20%	20%	(65)	(59)
Forex Gains	23	(54)	161		
Other Income	129	159	119		
EBT	2,568	2,611	2,227	-2%	15%
Provision For Tax	615	566	634	9%	-3%
ETR	24%	22%	28%	227	(452)
Net Profit	2,568	2,611	2,227	-2%	15%
Net Profit Margin	16%	17%	17%	(57)	(84)
EPS Diluted	75.7	76.8	63.9		

Source: Company, Axis Securities

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SELL	Less than -10%
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