

Pick of the Week

- In an ever-changing business environment, some of our investment ideas seem more convincing than others due to better earning visibility and/or attractive valuation. Every Monday, we bring you such fundamental stock ideas through our “Pick of the Week” report.
 - **Investment Horizon:** Though the ideal investment horizon for such ideas remain 6-9 months, our picks may provide some profit-making opportunities even to short-term investors.
 - **Risk-Return Profile:** Pick of the week ideas are the best high return research ideas at this point in time.

Scrip	Mcap (Rs Cr)	CMP	Target Price *	Potential Upside (%)	Reco
HCL Technologies	147,301	1,088	1,235	13.5%	Buy

* Note: Investment horizon Approx. 6-9 months., CMP as on 10th May, 2019.

CMP	Target
1,088	1,235

MARKET DATA

No. of Shares	: 135 cr
Market Cap	: Rs 147,301 Cr
52-week High / Low	: Rs 1188/880
BSE Code	: 532281
NSE Code	: HCLTECH

Investment Rationale

- ❑ **Quarterly performance:** HCL Tech reported revenue growth of 3.5% QoQ (3.3% in cc) , but soft margin (largely due to Mode 3 seasonality). IMS delivered another strong quarter (+7.3% QoQ in cc terms).
- ❑ **Improved visibility due to strong deal wins:** Strong deal wins along with healthy outlook for BFSI and IMS is expected to drive growth going forward. Receding headwinds in BFSI, sustained momentum in IMS and ramp up of deal provide revenue visibility. The company signed 17 transformational deals in Q4. Deal pipeline has improved QoQ which leads to better revenue momentum/ visibility in FY20.
- ❑ **Improving revenue trajectory:** Management's guidance of 14-16% growth is in line with peers, while its organic growth at 7-9% is marginally higher than last year's growth of 6.5%. We expect steady improvement of revenue growth due to (a) record deals over past few quarters TCV (USD 2-3bn/quarter) , (b) broad-based growth across key service segments and (c) IMS segment regaining momentum with ~21% y-o-y growth.
- ❑ **Margins to improve going forward:** We expect improvement in margin trajectory from H2FY20 led by revenue contribution from IBM deal, which is a high-margin business, waning seasonality impact of Mode 3 business that has lower IP revenue in Q4 and stronger growth in Mode 2 driving operating leverage.
- ❑ We have a **Buy** with a target price of Rs. 1,235

Financial Summary

Y/E	Sales	EBITDA	PAT	EPS	RoCE
March	(Rs Cr)	(Rs Cr)	(Rs Cr)	(Rs)	(%)
FY19	60,427	13,926	10,120	73.5	27%
FY20E	60,385	14,062	10,134	83.4	27%
FY21E	67,831	15,808	10,970	89.5	26%

Source: Company, Axis Securities Ltd

No of Stocks Matrix		
No of Stocks	9m	15m
Met Target	12	26
Not Met Target	26	38

Performance Matrix		
% Return	9m	15m
Met Target	11.42	11.76
Not Met Target	(7.86)	(13.79)

Benchmark Performance Matrix		
% Return	9m	15m
Met Target	2.90	2.26
Not Met Target	8.84	7.21

Note : Performance of the pick of the week is calculated for stocks recommended from Aug-18 to Apr-19 for 9 Months and from Feb-17 to Apr-19 for 15 Months.

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DEFINITION OF RATINGS	
Ratings	Expected absolute returns over 12 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

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