

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	149,182	1,100	1,235	12%	Buy

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

CMP	Target
1,100	1,235

MARKET DATA

No. of Shares	: 135.62 cr
Market Cap	: Rs 149,182 Cr
52-week High / Low	: Rs 1188/920
BSE Code	: 532281
NSE Code	: HCLTECH

Investment Rationale

- IBM partnership – driving growth and earnings momentum:** HCL Tech has completed the acquisition of 7 products from IBM out of which 5 products were earlier under IP partnership and 2 products are new. Company has already paid \$ 81 crs on June 30, 2019, and will likely pay \$ 81.25 Crs after one year. The deal also has an earnout component of \$ 15 crs to be paid in three installments. This partnership will lead to goodwill of \$ 92 crs and intangible asset of \$ 125 crs adding to amortization. IBM product portfolio has EBITDA margin of 50%+ with amortization of ~20%, yielding EBIT margin of ~30%.
- Quarterly performance:** HCL Tech reported strong Q1FY20 numbers. The numbers are much in line with expectations. The revenue in constant currency grew 2.7% QoQ and 18.4% on YoY basis at Rs. 16,425 crs. However Net income was down by 13.6% QoQ at Rs. 2,220 crs. The mode 1 business vertical grew by 4.1% QoQ, Mode 2 business vertical grew by 3.6% QoQ. Mode 3 business grew by 6.5% QoQ.
- Strong guidance for FY20:** The company has given strong revenue growth guidance 14%-16% for FY20 backed by strong deal wins. It maintained FY20 operating margin guidance of 18.5-19.5% citing investments in the digital business. Management commentary on deal wins was positive with 12 transformational deals linked during the quarter. During the quarter the company added 2 clients in 100mn+ vertical, 6 clients in 10mn+ vertical, 10 clients under 5mn + bucket, 10 clients under 1mn + bucket.
- We reiterate **BUY** on HCL Technologies India with a target price of Rs. 1,235.

Financial Summary

Y/E	Sales (Rs Cr)	EBITDA (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	RoE (%)	RoCE (%)
March						
FY19	60,427	13,968	10,127	74.6	26%	24%
FY20E	67,385	15,548	10,134	81.4	23%	21%
FY21E	70,831	17,808	11,470	89.5	24%	22%

Source: Reuters, Consensus Estimates

No of Stocks Matrix		
No of Stocks	9m	15m
Met Target	15	26
Not Met Target	21	36

Performance Matrix		
% Return	9m	15m
Met Target	12.29	11.63
Not Met Target	(10.49)	(20.04)

Benchmark Performance Matrix		
% Return	9m	15m
Met Target	2.42	3.10
Not Met Target	(2.86)	(1.79)

Note : Performance of the pick of the week is calculated for stocks recommended from Dec-18 to Aug-19 for 9 Months and from Jun-18 to Aug-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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