

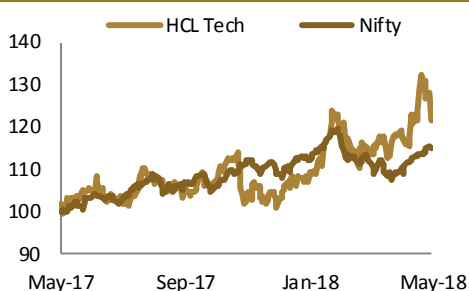
Market statistics

Current stock price (`)	1001
Shares O/S (cr.)	139.2
Mcap (` cr)	139,371
52W H/L (`)	1107/811
6m avg. volume	1,922,092
Bloomberg	HCLT IN

Shareholding pattern

Promoters	60.18
Domestic Institution	9.79
Foreign Institution	26.54
Non-institution	3.49
of which more than 1%	

HCL Tech vs Nifty



Capital efficiency & valuations

Particulars	FY18	FY19E	FY20E
RoE (%)	23.9	21.3	19.6
EPS (`)	63.1	68.3	75.1
CEPS (`)	73.5	81.5	90.0
P/E (x)	15.4	14.7	13.3
P/BV (x)	3.7	3.1	2.6
EV/EBITDA (x)	11.1	9.7	8.2
Income growth (%)	8.2	12.4	9.7
EBITDA growth (%)	11.0	12.1	10.7
PAT growth (%)	3.8	8.3	10.0

HCL Technologies results were as-per-expectation on the revenue and the margin front. HCLT reported revenues of US\$2,038mn, up 2.5% (in USD terms, up 1.2% in cc terms), during Q4FY18. Margin was helped by decent revenue trajectory, better operational efficiencies. For FY19, HCLT has guided - revenue growth of 9.5%-11.5% growth in cc terms and 10.5%-12.5% in US\$ terms. Company has retained EBIT margin guidance of 19.5%-20.5% despite currency appreciation. We maintain our Buy rating on HCL Tech given the deal wins (35 transformational deals in 2HFY18, vs 42 in FY17), better execution and strategy of augmenting offerings by acquiring IPs.

Quarter details: HCL Technologies' margins were as per our expectations with 2.5% QoQ growth in US\$ revenue (1.2% QoQ in cc terms) while EBITDA margin stood at 23%. EBITDA margin was down 10bps QoQ and EBIT margin was flat QoQ. Net profit decreased 4.3% YoY to `22.3bn. Amongst geographies, growth was driven by Asia Pacific (+8.1% QoQ cc) and Europe (+3.6%). Revenue from Americas declined by 0.7% QoQ. India business is expected to remain weak for 2-3 quarters. Growth drivers: Driven by Engineering and R&D Services at 1.7% QoQ in cc terms, Business Services (+5.3%), Infrastructure Services at 2.5%. Vertical growth led by Energy & Utilities at 4.1%, Financial Services 2%, Media publishing & Entertainment at 1.8%, Retail & CPG at 1.1%, and Manufacturing at 0.2%.

Guidance at 9.5-11.5% revenue growth in cc terms: FY19 includes the full integration of several acquisitions to revenue growth. Management has provided FY19 revenue growth guidance of 9.5-11.5% YoY on cc basis, implying a 2.3- 2.8% CQGR, inclusive of revenue from recent acquisitions (C3i Solutions and Actian Corp). Management expects revenue growth in FY19E would be evenly distributed among organic and inorganic (4.25-6.25%), as revenue from acquisitions in FY18 will be largely offset by the decline in India business, smaller deal sizes in legacy business and headwinds during renewals. However, IMS business is expected to rebound in 1H19E based on recent deal contracts, which has been laggard for the past seven quarters (CQGR of 1.5%), owing to higher exposure to data centre management, cloud adoption and automation initiatives. We believe the anticipated revival in IMS business along with continued revenue momentum in digital technologies could drive organic revenue growth in FY20E. **Deal wins.** HCL Tech signed 15 transformational deals during the quarter, compared to 35 transformational deals in 2HFY18, vs 42 in FY17.

Acquisition spree continues: During Q418, HCL Tech announced acquisitions of C3i (offers services for the life sciences and CPG industries) and Actian Corporation (a hybrid data management company). While C3i's acquisition was in legacy area, Actian Corporation's acquisition was in Mode 3 space. Though revenue for both the companies has declined by 5-8% YoY in CY17, management expects these acquired entities to deliver better revenue and margin performance in FY20 compared to FY19 (expects largely stable performance on a YoY basis). In the past three years, the company has completed seven IP deals and 12 acquisitions (including in the ERD space), which shows its growth strategy through the inorganic route.

IMS still remains strong, HCLT better placed. While competitive intensity in IMS has increased, it remains a large and underpenetrated market and gives us comfort that HCLT's competitive advantages are intact. Compared to peers, HCLT has a better portfolio mix (higher exposure to cost-focused service-lines such as infrastructure management services), stable senior management team, efficient use of capital and a track record of recovering margins in large deals.

Valuation: We maintain our Buy rating on HCL Tech on account of its continuous large deal wins; market share wins in its large clients, beneficiary in vendor consolidation.

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Exhibit 1: Quarterly details

` mn	4QFY17	3QFY18	4QFY18	QoQ (%)	YoY (%)	Comments
Revenues (in US\$m)	1,817	1,988	2,038	2.5	12.2	
Revenues	120,530	128,080	131,790	2.9	9.3	Revenues were up 2/5% QoQ in USD terms, 1.2% in cc terms.
- Operating costs	94,040	98,440	101,430	3.0	7.9	
EBITDA	26,490	29,640	30,360	2.4	14.6	
EBITDA margin (%)	22.0	23.1	23.0	(11)bps	106bps	Margin were helped by better operational efficiencies
- Interest expense	-	-	-	-	-	
- Depreciation	2,330	4,550	4,530	(0.4)	94.4	
+ Other income, net (incl forex)	2,150	2,640	2,800	6.1	30.2	Includes a forex gain of `1610mn, compared to a of `1290mn
PBT	26,310	27,730	28,630	3.2	8.8	
- Taxes	3,030	5,790	6,340	9.5	109.2	
Effective tax rate (%)	11.5	20.9	22.1	126bps	1,063bps	Tax rate to remain in the range of 22-23%
PAT	23,280	21,940	22,290	1.6	(4.3)	
Net margin (%)	19.3	17.1	16.9	(22)bps	(240)bps	
Reported profits	23,280	21,940	22,290	1.6	(4.3)	

Source: Company

Exhibit 2: Change in estimates

` mn	FY19E			FY20E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	8,742	8,743	-	9,624	9,593	(0.3)
Revenue	568,249	568,313	-	625,574	623,532	(0.3)
EBITDA margin (%)	22.8	22.6	(15)bps	22.9	22.8	(10)bps
EPS (`)	69.2	68.3	(1.3)	75.2	75.1	(0.1)

Source: Trust Research

Geography wise Revenues: Amongst geographies, growth was driven by Asia Pacific (+8.1% QoQ cc) and Europe (+3.6%). Revenue from Americas declined by 0.7% QoQ. India business is expected to remain weak for 2-3 quarters.

Exhibit 3: Geographical wise Performance

Geographical mix	Q3FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
US	62.5	59.9	61.9	61.9	62.6	62.8	62.4	63.5	61.6
Europe	28.4	31.4	29.3	29.6	27.7	27.4	29.1	28.7	30.0
RoW	9.1	8.7	8.8	8.5	9.7	9.8	8.5	7.8	8.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Exhibit 4: Vertical mix

Offerings	Q3FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Financial Services	25.0	23.6	24.1	24.3	24.2	24.9	25.0	24.6	25.0
Manufacturing	31.4	33.2	32.2	33.9	34.6	34.9	35.4	36.5	36.0
Life sciences & Healthcare	9.9	9.1	9.4	8.9	8.4	7.9	7.9	7.4	7.4
Public Services	9.2	10.0	10.4	9.4	9.2	9.5	9.3	9.6	9.6
Retail & CPG	12.8	11.9	12.6	12.0	11.5	11.8	11.7	11.7	11.5
Telecommunications, Media, Publishing & Entertainment	11.1	11.7	10.9	11.2	11.7	11.0	10.7	10.2	10.5
Others	0.6	0.5	0.4	0.3	0.4	-	-	-	-
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, Trust Research



Exhibit 5: Services Mix

Offerings	Q3FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Application services	39.9	38.3	37.8	37.5	36.8	36.3	35.9	35.3	34.7
Engineering and R&D services	18.7	17.7	17.8	18.6	20.5	21.5	22.0	24.2	24.1
Infrastructure services	36.2	39.8	40.3	39.8	38.8	38.6	38.5	36.7	37.3
BPO services	5.2	4.2	4.1	4.1	3.9	3.6	3.6	3.8	3.9
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, Trust Research

Human Resources: Headcount saw a net of 790 employees join (gross 8,476 employees joined) to take the total base to 120,081.

Exhibit 6: Employee strength

Employees	Q3FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Total employee count	104,896	107,968	109,795	111,092	115,973	117,781	119,040	119,291	120,081
Technical	95,649	98,225	99,897	101,154	105,537	107,029	108,351	108,831	109,565
Support	9,247	9,743	9,898	9,938	10,426	10,752	10,689	10,460	10,516
Gross Addition	9,280	10,515	9,083	8,467	10,605	9,462	8,645	7,113	8,476

Source: Company

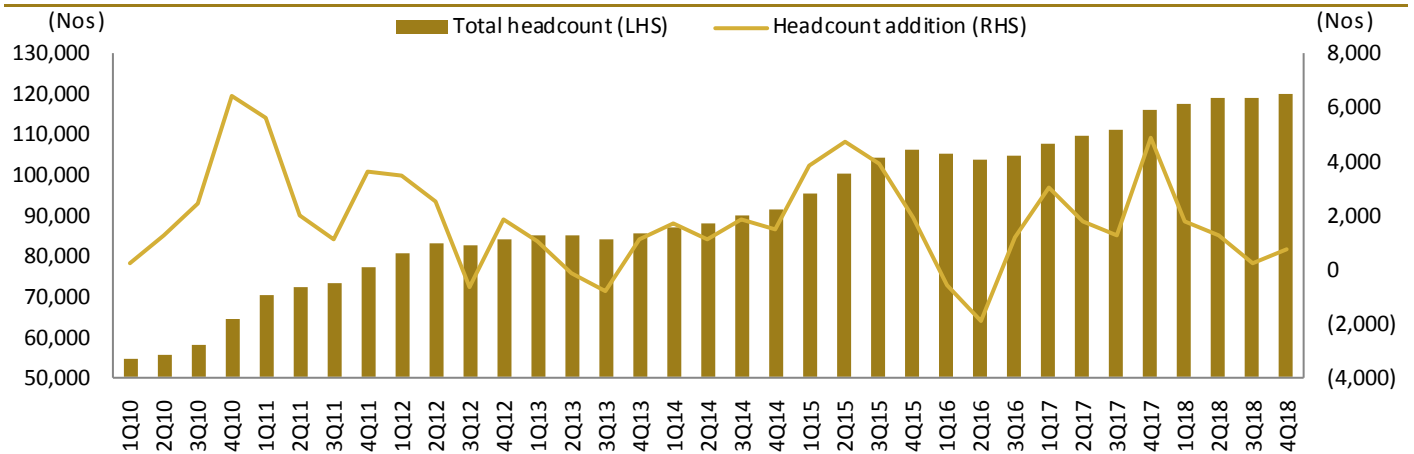
Client Concentration: The company lost 1 client QoQ in the US\$100mn+, but added 3 clients in the US\$50mn+ bracket to take the list to 8 and 28 respectively.

Exhibit 7: Client details

Client metrics	Q3FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
100 million dollar +	8	7	8	8	8	8	9	9	8
50 million dollar +	19	20	20	24	25	25	25	25	28
40 million dollar +	29	32	34	35	34	35	37	40	40
30 million dollar +	43	48	49	48	49	52	52	56	58
20 million dollar +	75	80	82	87	85	86	84	85	87
10 million dollar +	144	146	146	148	153	154	157	156	160
5 million dollar +	233	237	235	241	246	249	259	261	264
1 million dollar +	482	482	494	496	506	508	536	552	561
Top 5 clients (LTM)	13.6	13.9	13.8	14.2	14.7	14.4	15.1	15.8	16.3
Top 10 clients (LTM)	21.8	21.8	21.6	21.7	22.1	22.4	22.9	23.5	23.8
Top 20 clients (LTM)	32.2	31.7	31.8	31.9	32.9	33.0	33.2	33.5	33.7

Source: Company

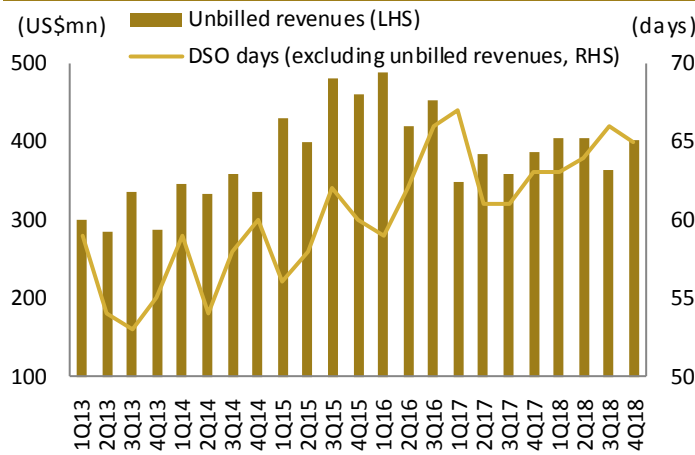
Exhibit 8: Utilisation can be used as a lever, Employee addition: 790 employees joined this quarter



Source: Company, Trust

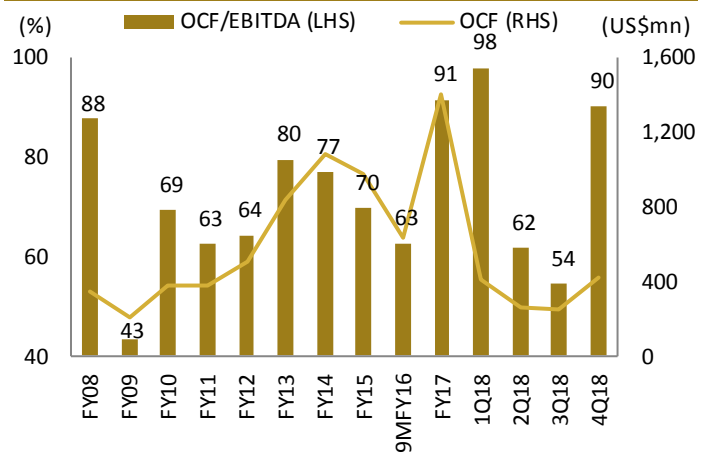


Exhibit 9: DSO decreased to 65 days, Unbilled rev. increased



Source: Company, Trust

Exhibit 10: OCF/EBITDA was soft this quarter



Source: Company, Trust

FY19 Guidance

FY19 includes the full integration of several acquisitions to revenue growth. Management has provided FY19 revenue growth guidance of 9.5-11.5% YoY on cc basis, implying a 2.3- 2.8% CQGR, inclusive of revenue from recent acquisitions (C3i Solutions and Actian Corp). Management expects revenue growth in FY19E would be evenly distributed among organic and inorganic (4.25- 6.25%), as revenue from acquisitions in FY18 will be largely offset by the decline in India business, smaller deal sizes in legacy business and headwinds during renewals. However, IMS business is expected to rebound in 1H19E based on recent deal contracts, which has been laggard for the past seven quarters (CQGR of 1.5%), owing to higher exposure to data centre management, cloud adoption and automation initiatives. We believe the anticipated revival in IMS business along with continued revenue momentum in digital technologies could drive organic revenue growth in FY20E.



Financials

Income Statement (` mn)

Year End-March	FY16*	FY17	FY18	FY19E	FY20E
Revenues	311,360	467,220	505,700	568,313	623,532
Op. Expenses	243,210	364,130	391,300	440,063	481,515
EBITDA	68,150	103,090	114,400	128,249	142,016
Other Income	7,960	9,340	11,110	12,053	13,590
Depreciation	4,450	8,340	14,520	18,392	20,642
EBIT	71,660	104,090	110,990	121,911	134,964
Interest	-	-	-	-	-
PBT	71,660	104,090	110,990	121,911	134,964
Tax	14,990	19,520	23,170	26,820	30,367
PAT	56,670	84,570	87,820	95,090	104,597
Minority + Extra Ord. Item	970	-	-	-	-
Adj Pat	55,700	84,570	87,820	95,090	104,597

Valuations Summary

Year End-March	FY16*	FY17	FY18	FY19E	FY20E
Per share (`)					
EPS	40.2	60.0	63.1	68.3	75.1
CEPS	43.3	65.9	73.5	81.5	90.0
BVPS	198.7	237.5	264.5	321.1	383.4
DPS	17.0	24.0	8.0	10.0	11.0
Payout (%)	49.4	46.8	14.9	17.1	17.1
Valuation (x)					
P/E	20.5	14.6	15.4	14.7	13.3
P/BV	4.1	3.7	3.7	3.1	2.6
EV/EBITDA	15.6	10.8	11.1	9.7	8.2
Dividend Yield (%)	2.1	2.7	0.8	1.0	1.1
Return ratio (%)					
EBIDTA Margin	21.9	22.1	22.6	22.6	22.8
PAT Margin	18.2	18.1	17.4	16.7	16.8
ROAE	20.2	25.3	23.9	21.3	19.6
ROACE	24.7	30.6	29.8	27.1	25.2
Leverage Ratios (x)					
Total D/E	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.0)	(0.4)	(0.3)	(0.3)	(0.4)
Current ratio	1.3	2.1	2.2	2.6	2.9
Growth Ratios (%)					
Income growth	(16.0)	50.1	8.2	12.4	9.7
EBITDA growth	(21.7)	51.3	11.0	12.1	10.7
PAT growth	(21.9)	49.2	3.8	8.3	10.0
Turnover Ratios					
F.A. Turnover (x)	7.2	5.3	9.8	10.0	10.2
Debtors Days	23	22	21	20	20
Payable days	98	97	96	95	95

* FY16 is a 9-month period from Jul-15 to Mar-16

Balance Sheet (` mn)

Year End-March	FY16*	FY17	FY18	FY19E	FY20E
Sources of Funds					
Equity Share Capital	2,821	2,821	2,784	2,784	2,784
Reserves & Surplus	277,400	332,082	365,384	444,188	530,871
Total Shareholders Fund	280,221	334,903	368,168	446,972	533,655
Non-current liabilities	9,732	5,417	4,371	2,371	2,371
Long term Borrowings	9,732	5,417	4,371	2,371	2,371
Total Current Liabilities	107,720	124,002	111,812	121,771	133,241
Current Liabilities	95,085	111,477	99,143	108,509	118,730
Other cur liabilities & Prov	12,635	12,525	12,669	13,262	14,511
Total Liabilities	397,673	464,322	484,351	571,114	669,267
Assets					
Non-current Assets					
Fixed assets	43,230	87,479	51,847	56,847	61,205
Non-current investments	171,666	73,583	144,057	154,057	164,057
Other non-current assets	38,788	38,584	42,897	46,711	51,249
Current assets	143,989	264,676	245,550	313,499	392,756
Current investments	5,365	113,653	80,838	90,838	100,838
Accounts Receivables, net	77,213	83,014	96,394	108,992	119,581
Unbilled Receivables	30,015	25,012	26,181	31,140	34,166
Cash & bank balances	7,293	13,165	16,939	46,718	98,879
Other current assets	24,103	29,832	25,198	35,811	39,291
Total Assets	397,673	464,322	484,351	571,114	669,267

Cash flow Statement

Year End-March	FY16*	FY17	FY18	FY19E	FY20E
PBT	71,660	104,090	110,990	121,911	134,964
Depreciation	4,450	8,340	14,520	18,392	20,642
Others	(970)	-	-	-	-
CF before W.cap	75,140	112,430	125,510	140,303	155,606
Inc/(dec) in W.cap	18,411	(9,959)	26,426	22,025	10,163
Op CF after W.cap	56,729	122,389	99,084	118,278	145,443
Less Taxes	14,990	19,520	23,170	26,820	30,367
Net CF From Operations	41,739	102,869	75,914	91,457	115,076
Inc/(dec) in F.A + CWIP	9,483	52,589	19,557	23,392	25,000
(Pur)/sale of Investments	20,540	10,205	(3,018)	20,000	20,000
CF from Invst Activities	(30,023)	(62,794)	(16,539)	(43,392)	(45,000)
Loan Raised/(repaid)	5,046	(4,315)	(1,046)	(2,000)	-
Equity Raised	5,036	9,716	(41,444)	(0)	0
Dividend	28,021	39,604	13,111	16,286	17,915
CF from Fin Activities	(17,939)	(34,203)	(55,601)	(18,286)	(17,915)
Net inc/(dec) in cash	(6,223)	5,872	3,774	29,779	52,161
Op. bal of cash	13,516	7,293	13,165	16,939	46,718
Cl. balance of cash	7,293	13,165	16,939	46,718	98,879



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Recommendation **Expected absolute returns (%) over 12 months**

Buy More than 15%

Hold 15% to -15%

Sell Less than -15%

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