

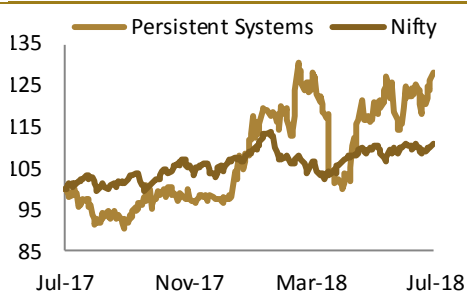
Market statistics

Current stock price (`)	964
Shares O/S (cr.)	139.2
Mcap (` cr)	134,186
52W H/L (`)	1107/825
6m avg. volume	2,348,200
Bloomberg	HCLT IN

Shareholding pattern

Promoters	60.17
Domestic Institution	9.70
Foreign Institution	26.24
Non-institution	3.89
of which more than 1%	

HCL Tech vs Nifty



Capital efficiency & valuations

Particulars	FY18	FY19E	FY20E
RoE (%)	23.9	21.5	19.5
EPS (`)	63.1	69.9	76.0
CEPS (`)	73.5	84.3	92.0
P/E (x)	15.4	13.8	12.7
P/BV (x)	3.7	3.0	2.5
EV/EBITDA (x)	11.1	9.0	7.6
Income growth (%)	8.2	14.7	9.2
EBITDA growth (%)	11.0	16.2	9.9
PAT growth (%)	3.8	10.8	8.7

HCL Technologies results were slightly below-expectation on the revenue front, while better on the margin front. HCLT reported revenues of US\$2,055mn, up 0.8% (in USD terms, up 2.7% in cc terms), during Q1FY19. Margin was helped by INR depreciation, better operational efficiencies. For FY19, HCLT has maintained its guided - revenue growth of 9.5%-11.5% growth in cc terms and EBIT margin guidance of 19.5-20.5%. We maintain our Buy rating on HCL Tech given the deal wins (27 transformational deals), highest-ever bookings, better execution and strategy of augmenting offerings by acquiring IPs.

Quarter details: HCL Technologies' EBITDA was as per our expectations with 0.5% QoQ growth in US\$ revenue (2.7% QoQ in cc terms) while EBITDA margin stood at 23.2%. EBITDA margin was up 21bps QoQ and EBIT margin was up 7bps QoQ. Net profit increased 13.5% YoY to ` 24.04bn. Regionally, North America reported cc revenue growth of 5.9% QoQ. The revenues of Europe and RoW declined by 1% and 7.1% QoQ on cc terms. India business is expected to remain weak for 2-3 quarters. Barring technology, healthcare and public services, all other verticals (manufacturing, financial services, etc.) declined during this quarter owing to renewal of deals (effective date was in Q1FY19). The company secured 27 transformational deals in the financial, retail and communication verticals, including a US\$1.5bn deal from Nokia.

Guidance maintained at 9.5-11.5% revenue growth in cc terms: FY19 includes the full integration of several acquisitions to revenue growth. Management had provided FY19 revenue growth guidance of 9.5-11.5% YoY on cc basis, Revenue from Mode 2 (digital services) and Mode 3 (product & platform) grew at 9.6% QoQ, taking combined revenue contribution to total revenues to 26.6% (vs. 23.4% in FY18). **Deal wins.** HCL Tech signed 27 transformational deals during the quarter, and the management indicated that HCLT had signed highest amount of bookings ever signed in this quarter.

Acquisition spree continues: Optimistic commentary on improving organic growth going ahead: The recent acquisition (H&D in Germany) and incremental investments (\$177 million) would help the company to achieve the revenue growth (indicated the growth guidance include 1.25% from M&A in Q4FY18 con-call) in FY19. Further, the company has the highest deal wins in the recent past, which would kicking in next 4-6 months. The management also indicated the improvement in growth rate in H1FY19 on the back of ramp-up deals won in Q2/Q3FY18 and shifting of customer spending for building digital enterprise and modernization of infrastructure. To add to that, 40% of the IP business (11% of total revenue) is in new areas and this would continue to grow in double-digits going ahead. We believe the anticipated revival in IMS business along with continued revenue momentum in digital and engineering business could drive organic revenue growth in FY2020E.

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. Though organic revenue growth guidance in FY19E would be impacted owing to the decline in India SI business and headwinds in renewals, we see positive setups for organic revenue growth in FY20E on account of a ramp-up of infra related deals, incremental deal pipelines and traction in engineering services. Further, we believe that successful inorganic strategy will keep the company in the top quadrant of growth among peers.

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**Exhibit 1: Quarterly details**

` mn	1QFY18	4QFY18	1QFY19	QoQ (%)	YoY (%)	Comments
Revenues (in US\$m)	1,884	2,038	2,055	0.8	9.0	
Revenues	121,490	131,790	138,780	5.3	14.2	Revenues were up 2.7% in cc terms.
- Operating costs	94,680	101,430	106,520	5.0	12.5	
EBITDA	26,810	30,360	32,260	6.3	20.3	
EBITDA margin (%)	22.1	23.0	23.2	21bps	118bps	Margin were helped by better operational efficiencies
- Interest expense	-	-	-	-	-	
- Depreciation	2,360	4,530	4,960	9.5	110.2	
+ Other income, net (incl forex)	2,690	2,800	2,960	5.7	10.0	Includes a forex gain of `1430mn, compared to a of `1610mn
PBT	27,140	28,630	30,260	5.7	11.5	
- Taxes	5,430	6,340	6,220	(1.9)	14.5	
Effective tax rate (%)	20.0	22.1	20.6	(159)bps	55bps	Tax rate to remain in the range of 22-23%
PAT	21,710	22,290	24,040	7.9	10.7	
Net margin (%)	17.9	16.9	17.3	41bps	(55)bps	
Reported profits	21,710	22,290	24,040	7.9	10.7	

Source: Company

Exhibit 2: Change in estimates

` mn	FY19E			FY20E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	8,743	8,653	(1.0)	9,593	9,461	(1.4)
Revenue	568,313	580,284	2.1	623,532	633,920	1.7
EBITDA margin (%)	22.6	22.9	30bps	22.8	23.1	20bps
EPS (`)	68.3	69.9	2.3	75.1	76.0	1.2

Source: Trust Research

Geography wise Revenues: Regionally, North America reported cc revenue growth of 5.9% QoQ. The revenues of Europe and RoW declined by 1% and 7.1% QoQ on cc terms. India business is expected to remain weak for 2-3 quarters.

Exhibit 3: Geographical wise Performance

Geographical mix	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
US	59.9	61.9	61.9	62.6	62.8	62.4	63.5	61.6	64.5
Europe	31.4	29.3	29.6	27.7	27.4	29.1	28.7	30.0	28.1
RoW	8.7	8.8	8.5	9.7	9.8	8.5	7.8	8.4	7.4
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	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Financial Services	23.6	24.1	24.3	24.2	24.9	25.0	24.6	25.0	23.8
Manufacturing	33.2	32.2	33.9	34.6	34.9	35.4	36.5	36.0	36.5
Life sciences & Healthcare	9.1	9.4	8.9	8.4	7.9	7.9	7.4	7.4	7.3
Public Services	10.0	10.4	9.4	9.2	9.5	9.3	9.6	9.6	9.1
Retail & CPG	11.9	12.6	12.0	11.5	11.8	11.7	11.7	11.5	12.8
Telecommunications, Media, Publishing & Entertainment	11.7	10.9	11.2	11.7	11.0	10.7	10.2	10.5	10.5
Others	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	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Application services	38.3	37.8	37.5	36.8	36.3	35.9	35.3	34.7	34.0
Engineering and R&D services	17.7	17.8	18.6	20.5	21.5	22.0	24.2	24.1	24.5
Infrastructure services	39.8	40.3	39.8	38.8	38.6	38.5	36.7	37.3	36.2
BPO services	4.2	4.1	4.1	3.9	3.6	3.6	3.8	3.9	5.3
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 4,040 employees join (gross 12,558 employees joined) to take the total base to 124,121.

Exhibit 6: Employee strength

Employees	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Total employee count	107,968	109,795	111,092	115,973	117,781	119,040	119,291	120,081	124,121
Technical	98,225	99,897	101,154	105,537	107,029	108,351	108,831	109,565	113,404
Support	9,743	9,898	9,938	10,426	10,752	10,689	10,460	10,516	10,717
Gross Addition	10,515	9,083	8,467	10,605	9,462	8,645	7,113	8,476	12,558

Source: Company

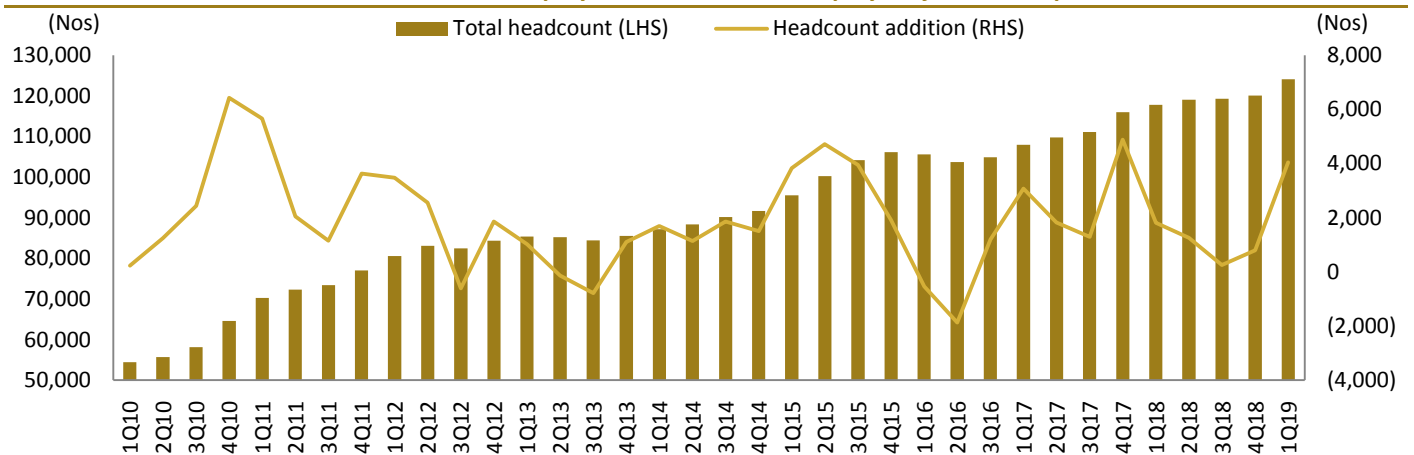
Client Concentration: The Company added 1 client QoQ in the US\$100mn+, 4 clients in the US\$50mn+ bracket to take the list to 9 and 32 respectively.

Exhibit 7: Client details

Client metrics	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
100 million dollar +	7	8	8	8	8	9	9	8	9
50 million dollar +	20	20	24	25	25	25	25	28	32
40 million dollar +	32	34	35	34	35	37	40	40	40
30 million dollar +	48	49	48	49	52	52	56	58	56
20 million dollar +	80	82	87	85	86	84	85	87	87
10 million dollar +	146	146	148	153	154	157	156	160	162
5 million dollar +	237	235	241	246	249	259	261	264	267
1 million dollar +	482	494	496	506	508	536	552	561	571
Top 5 clients (LTM)	13.9	13.8	14.2	14.7	14.4	15.1	15.8	16.3	17.0
Top 10 clients (LTM)	21.8	21.6	21.7	22.1	22.4	22.9	23.5	23.8	24.6
Top 20 clients (LTM)	31.7	31.8	31.9	32.9	33.0	33.2	33.5	33.7	34.2

Source: Company

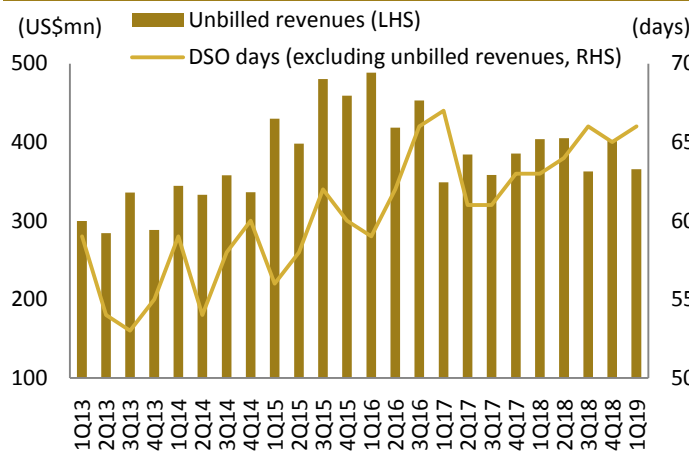
Exhibit 8: Utilization can be used as a lever, Employee addition: 4,040 employees joined this quarter



Source: Company, Trust

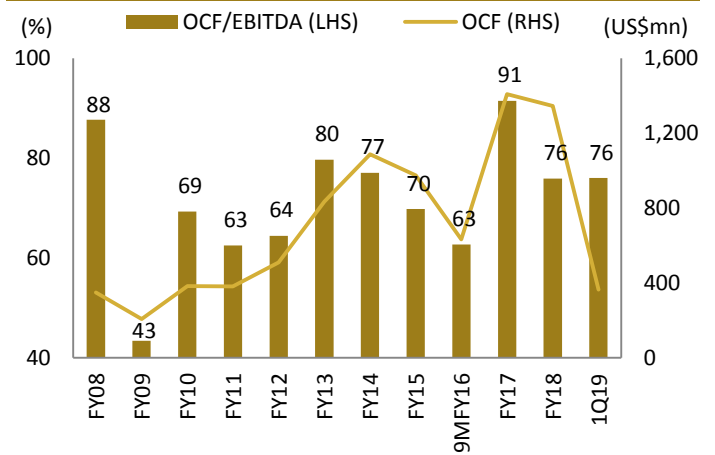


Exhibit 9: DSO increased to 66 days, Unbilled rev. decreased



Source: Company, Trust

Exhibit 10: OCF/EBITDA remains at FY19 levels



Source: Company, Trust

FY19 Guidance

FY19 includes the full integration of several acquisitions to revenue growth. Management had provided FY19 revenue growth guidance of 9.5-11.5% YoY on cc basis, Revenue from Mode 2 (digital services) and Mode 3 (product & platform) grew at 9.6% QoQ, taking combined revenue contribution to total revenues to 26.6% (vs. 23.4% in FY18). **Deal wins.** HCL Tech signed 27 transformational deals during the quarter, and the management indicated that HCLT had signed highest amount of bookings ever signed in this quarter.



Financials

Income Statement (` mn)

Year End-March	FY16*	FY17	FY18	FY19E	FY20E
Revenues	311,360	467,220	505,700	580,284	633,920
Op. Expenses	243,210	364,130	391,300	447,336	487,772
EBITDA	68,150	103,090	114,400	132,948	146,148
Other Income	7,960	9,340	11,110	11,277	12,590
Depreciation	4,450	8,340	14,520	19,988	22,238
EBIT	71,660	104,090	110,990	124,236	136,499
Interest	-	-	-	-	-
PBT	71,660	104,090	110,990	124,236	136,499
Tax	14,990	19,520	23,170	26,895	30,712
PAT	56,670	84,570	87,820	97,342	105,787
Minority + Extra Ord. Item	970	-	-	-	-
Adj Pat	55,700	84,570	87,820	97,342	105,787

Valuations Summary

Year End-March	FY16*	FY17	FY18	FY19E	FY20E
Per share (`)					
EPS	40.2	60.0	63.1	69.9	76.0
CEPS	43.3	65.9	73.5	84.3	92.0
BVPS	198.7	237.5	264.5	324.9	390.4
DPS	17.0	24.0	8.0	8.0	9.0
Payout (%)	49.4	46.8	14.9	13.4	13.9
Valuation (x)					
P/E	20.5	14.6	15.4	13.8	12.7
P/BV	4.1	3.7	3.7	3.0	2.5
EV/EBITDA	15.6	10.8	11.1	9.0	7.6
Dividend Yield (%)	2.1	2.7	0.8	0.8	0.9
Return ratio (%)					
EBIDTA Margin	21.9	22.1	22.6	22.9	23.1
PAT Margin	18.2	18.1	17.4	16.8	16.7
ROAE	20.2	25.3	23.9	21.5	19.5
ROACE	24.7	30.6	29.8	27.3	25.0
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	3.0
Growth Ratios (%)					
Income growth	(16.0)	50.1	8.2	14.7	9.2
EBITDA growth	(21.7)	51.3	11.0	16.2	9.9
PAT growth	(21.9)	49.2	3.8	10.8	8.7
Turnover Ratios					
F.A. Turnover (x)	7.2	5.3	9.8	10.1	10.6
Debtors Days	23	22	21	20	20
Payable days	98	97	96	96	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	449,697	540,826
Total Shareholders Fund	280,221	334,903	368,168	452,481	543,610
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	123,783	134,973
Current Liabilities	95,085	111,477	99,143	110,302	120,273
Other cur liabilities & Prov	12,635	12,525	12,669	13,481	14,700
Total Liabilities	397,673	464,322	484,351	578,635	680,953
Assets					
Non-current Assets					
Fixed assets	43,230	87,479	51,847	57,190	59,952
Non-current investments	171,666	73,583	144,057	154,057	164,057
Other non-current assets	38,788	38,584	42,897	47,695	52,103
Current assets	143,989	264,676	245,550	319,693	404,842
Current investments	5,365	113,653	80,838	90,838	100,838
Accounts Receivables, net	77,213	83,014	96,394	111,287	121,574
Unbilled Receivables	30,015	25,012	26,181	31,796	34,735
Cash & bank balances	7,293	13,165	16,939	49,206	107,749
Other current assets	24,103	29,832	25,198	36,566	39,946
Total Assets	397,673	464,322	484,351	578,635	680,953

Cash flow Statement

Year End-March	FY16*	FY17	FY18	FY19E	FY20E
PBT	71,660	104,090	110,990	124,236	136,499
Depreciation	4,450	8,340	14,520	19,988	22,238
Others	(970)	-	-	-	-
CF before W.cap	75,140	112,430	125,510	144,225	158,738
Inc/(dec) in W.cap	18,411	(9,959)	26,426	24,703	9,824
Op CF after W.cap	56,729	122,389	99,084	119,522	148,913
Less Taxes	14,990	19,520	23,170	26,895	30,712
Net CF From Operations	41,739	102,869	75,914	92,627	118,201
Inc/(dec) in F.A + CWIP	9,483	52,589	19,557	25,331	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)	(45,331)	(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	13,029	14,658
CF from Fin Activities	(17,939)	(34,203)	(55,601)	(15,029)	(14,658)
Net inc/(dec) in cash	(6,223)	5,872	3,774	32,267	58,543
Op. bal of cash	13,516	7,293	13,165	16,939	49,206
Cl. balance of cash	7,293	13,165	16,939	49,206	107,749



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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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