

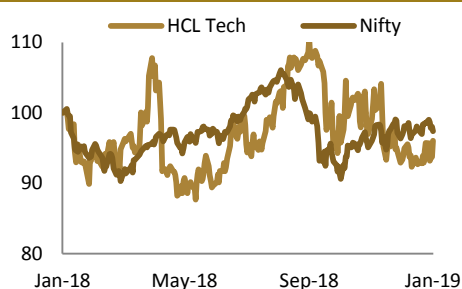
Market statistics

Current stock price (`)	988
Shares O/S (cr.)	135.6
Mcap (` cr)	134,012
52W H/L (`)	1125/880
6m avg. volume	2,209,100
Bloomberg	HCLT IN

Shareholding pattern

Promoters	60.00
Domestic Institution	8.20
Foreign Institution	28.30
Non-institution	3.50
of which more than 1%	

HCL Tech vs Nifty



Capital efficiency & valuations

Particulars	FY19E	FY20E	FY21E
RoE (%)	22.2	20.0	18.5
EPS (`)	72.6	79.3	86.9
CEPS (`)	88.1	95.6	104.2
P/E (x)	13.6	12.5	11.4
P/BV (x)	3.3	2.7	2.2
EV/EBITDA (x)	9.3	7.9	6.4
Income growth (%)	19.2	11.1	9.7
EBITDA growth (%)	22.9	11.5	10.1
PAT growth (%)	15.1	9.2	9.7

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HCL Technologies reported a stable quarter. HCLT reported revenues of US\$2,202mn, up 4.9% (in USD terms, up 5.6% in cc terms), during Q3FY19. Margin was dented by higher-than-expected wage costs and SG&A costs. 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% and expects to achieve the higher point of revenue growth guidance. We maintain our Buy rating on HCL Tech given the deal wins (17 transformational deals), strong bookings, better execution and strategy of augmenting offerings by acquiring IPs.

Revenue growth beats estimates, margin miss: HCL Technologies' EBITDA was lower-than-our expectations with 4.9% QoQ growth in US\$ revenue (5.6% QoQ in cc terms). Both, EBITDA margin and EBIT margin was down 30bps QoQ dented by higher-than-expected wage costs and SG&A costs. Net profit increased 19.6% YoY to `26.1bn. Regionally, North America reported cc revenue growth of 2.7% QoQ. The revenues of Europe and RoW increased by 12.9% and 4.5% QoQ on cc terms respectively. The Company added/lost 1/2 client QoQ in the US\$100mn+/US\$50mn+, and added 5 clients in the US\$20mn+ bracket to take the list to 10, 29 and 95 respectively. Headcount saw a net of 4,453 employees join (gross 13,191 employees joined) to take the total base to 132,328.

Guidance maintained at 9.5-11.5% revenue growth in cc terms, expects to achieve higher point of revenue growth 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. Growth was led by services across verticals and geographies driven by Mode-2 services that grew 13.1%, Mode-3 grew 6.2%, and Mode-1 grew 3.9% (QoQ cc) Deal wins. HCL Tech signed 17 transformational deals during the quarter. With the highest deal bookings (17 transformational deals) during this fiscal, total TCVs of deal wins during 9MFY19 grew by 40% YoY.

Operating metrics. Amongst verticals, growth was led by Telecommunications, Media, Publishing & Entertainment (+35.4% QoQ cc) likely on Nokia deal ramp up, sustained growth in Retail & CPG (+8.4%), Technology & Services (+7.5%) and Lifesciences & Healthcare (+5.8%). Financial Services (-0.6% QoQ cc) and Public services (-4.4%) showed weakness. Within services, Infrastructure showed robust growth (+10.4% QoQ cc) after rebounding in Q2FY19. Engineering and R&D Services was up 5.1%, Application services was up 2.3%, while Business services fell 3.7%. This quarter, HCL announced a definitive agreement to acquire select IBM software products for an aggregate value of US\$1,775mn.

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 and 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.



Exhibit 1: Quarterly details

` mn	3QFY18	2QFY19	3QFY19	QoQ (%)	YoY (%)	Comments
Revenues (in US\$m)	1,988	2,099	2,202	4.9	10.8	
Revenues	128,080	148,610	156,990	5.6	22.6	Revenues were up 5.6% in cc terms.
- Operating costs	98,440	113,620	120,520	6.1	22.4	
EBITDA	29,640	34,990	36,470	4.2	23.0	
EBITDA margin (%)	23.1	23.5	23.2	(31)bps	9bps	EBITDA margin and EBIT margin was QoQ dented by higher-than-expected wage costs and SG&A costs
- Interest expense	-	-	-	-	-	
- Depreciation	4,550	5,330	5,610	5.3	23.3	
+ Other income, net (incl forex)	2,640	2,520	1,050	(58.3)	(60.2)	Includes a forex loss of `540mn, compared to a gain of `690mn
PBT	27,730	32,180	31,910	(0.8)	15.1	
- Taxes	5,790	6,780	5,660	(16.5)	(2.2)	
Effective tax rate (%)	20.9	21.1	17.7	(333)bps	(314)bps	Tax rate to remain in the range of 22-23%
PAT	21,940	25,400	26,250	3.3	19.6	
Net margin (%)	17.1	17.1	16.7	(37)bps	(41)bps	
Reported profits	21,940	25,400	26,110	2.8	19.0	

Source: Company

Exhibit 2: Change in estimates

` mn	FY19E			FY20E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	8,575	8,619	0.5	9,461	9,564	1.1
Revenue	596,773	602,600	1.0	662,284	669,510	1.1
EBITDA margin (%)	23.6	23.3	(25)bps	23.7	23.4	(25)bps
EPS (`)	73.4	72.6	(1.1)	81.5	79.3	(2.7)

Source: Trust Research

Geography wise Revenues: Regionally, North America reported cc revenue growth of 2.7% QoQ. The revenues of Europe and RoW increased by 12.9% and 4.5% QoQ on cc terms respectively.

Exhibit 3: Geographical wise Performance

Geographical mix	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
US	61.9	62.6	62.8	62.4	63.5	61.6	64.5	65.8	64.4
Europe	29.6	27.7	27.4	29.1	28.7	30.0	28.1	26.8	28.2
RoW	8.5	9.7	9.8	8.5	7.8	8.4	7.4	7.4	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	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Financial Services	24.3	24.2	24.9	25.0	24.6	25.0	23.8	23.0	21.6
Manufacturing	33.9	34.6	34.9	35.4	36.5	36.0	36.5	36.2	36.4
Life sciences & Healthcare	8.9	8.4	7.9	7.9	7.4	7.4	7.3	7.2	9.2
Public Services	9.4	9.2	9.5	9.3	9.6	9.6	9.1	10.0	10.2
Retail & CPG	12.0	11.5	11.8	11.7	11.7	11.5	12.8	12.9	3.0
Telecommunications, Media, Publishing & Entertainment	11.2	11.7	11.0	10.7	10.2	10.5	10.5	10.7	9.6
Others	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	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Application services	37.5	36.8	36.3	35.9	35.3	34.7	34.0	33.1	32.0
Engineering and R&D services	18.6	20.5	21.5	22.0	24.2	24.1	24.5	25.5	25.5
Infrastructure services	39.8	38.8	38.6	38.5	36.7	37.3	36.2	36.0	37.5
BPO services	4.1	3.9	3.6	3.6	3.8	3.9	5.3	5.4	5.0
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 4,453 employees join (gross 13,191 employees joined) to take the total base to 132,328.

Exhibit 6: Employee strength

Employees	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Total employee count	111,092	115,973	117,781	119,040	119,291	120,081	124,121	127,875	132,328
Technical	101,154	105,537	107,029	108,351	108,831	109,565	113,404	116,910	121,273
Support	9,938	10,426	10,752	10,689	10,460	10,516	10,717	10,965	11,055
Gross Addition	8,467	10,605	9,462	8,645	7,113	8,476	12,558	11,683	13,191

Source: Company

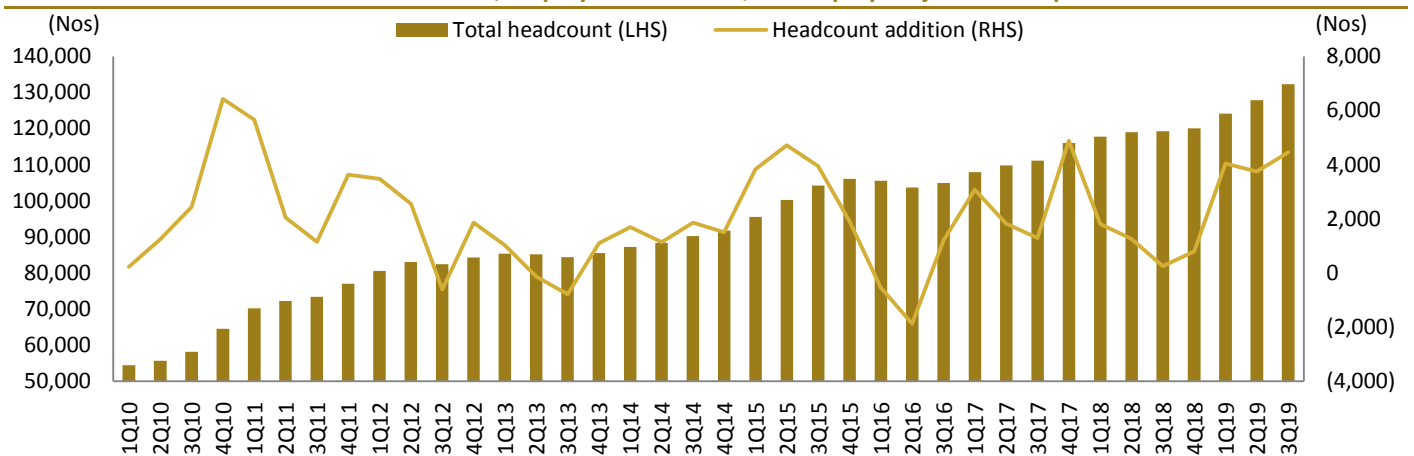
Client Concentration: The Company added/lost 1/2 client QoQ in the US\$100mn+/US\$50mn+, and added 5 clients in the US\$20mn+ bracket to take the list to 10, 29 and 95 respectively.

Exhibit 7: Client details

Client metrics	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
100 million dollar +	8	8	8	9	9	8	9	9	10
50 million dollar +	24	25	25	25	25	28	32	31	29
20 million dollar +	87	85	86	84	85	87	87	90	95
10 million dollar +	148	153	154	157	156	160	162	165	164
5 million dollar +	241	246	249	259	261	264	267	269	276
1 million dollar +	496	506	508	536	552	561	571	575	597
Top 5 clients (LTM)	14.2	14.7	14.4	15.1	15.8	16.3	17.0	17.3	17.4
Top 10 clients (LTM)	21.7	22.1	22.4	22.9	23.5	23.8	24.6	24.8	24.8
Top 20 clients (LTM)	31.9	32.9	33.0	33.2	33.5	33.7	34.2	34.2	34.1

Source: Company

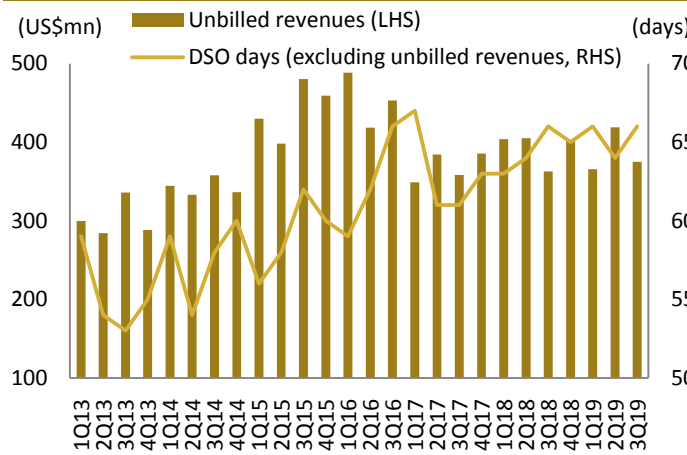
Exhibit 8: Utilization can be used as a lever, Employee addition: 4,453 employees joined this quarter



Source: Company, Trust

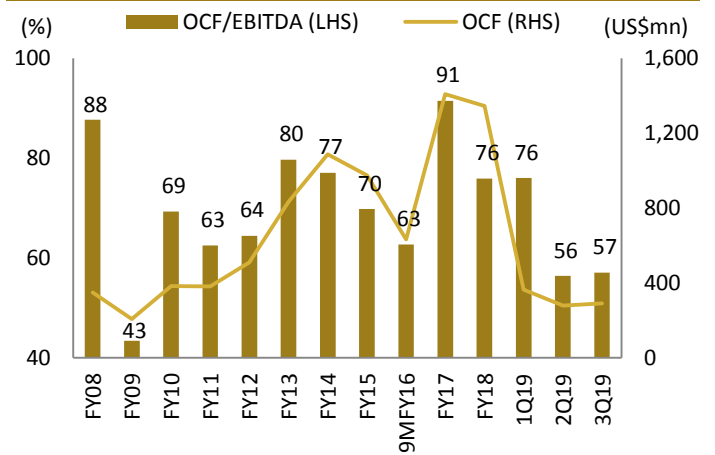


Exhibit 9: DSO increased to 66 days, Unbilled rev. decreased



Source: Company, Trust

Exhibit 10: OCF/EBITDA was weak this quarter



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. Growth was led by services across verticals and geographies driven by Mode-2 services that grew 13.1%, Mode-3 grew 6.2%, and Mode-1 grew 3.9% (QoQ cc) Deal wins. HCL Tech signed 17 transformational deals during the quarter. With the highest deal bookings (17 transformational deals) during this fiscal, total TCVs of deal wins during 9MFY19 grew by 40% YoY.



Financials

Income Statement (` mn)

Year End-March	FY17	FY18	FY19E	FY20E	FY21E
Revenues	467,220	505,700	602,600	669,510	734,233
Op. Expenses	364,130	391,300	462,000	512,719	561,540
EBITDA	103,090	114,400	140,600	156,791	172,693
Other Income	9,340	11,110	8,030	7,500	8,550
Depreciation	8,340	14,520	21,526	22,816	24,066
EBIT	104,090	110,990	127,104	141,475	157,178
Interest	-	-	-	-	-
PBT	104,090	110,990	127,104	141,475	157,178
Tax	19,520	23,170	25,866	31,124	36,151
PAT	84,570	87,820	101,238	110,350	121,027
Minority + Extra Ord. Item	-	-	140	-	-
Adj Pat	84,570	87,820	101,098	110,350	121,027

Valuations Summary

Year End-March	FY17	FY18	FY19E	FY20E	FY21E
Per share (`)					
EPS	60.0	63.1	72.6	79.3	86.9
CEPS	65.9	73.5	88.1	95.6	104.2
BVPS	237.5	264.5	302.9	370.8	455.2
DPS	24.0	8.0	8.0	10.0	11.0
Payout (%)	46.8	14.9	12.7	14.4	14.8
Valuation (x)					
P/E	14.6	15.4	13.6	12.5	11.4
P/BV	3.7	3.7	3.3	2.7	2.2
EV/EBITDA	10.8	11.1	9.3	7.9	6.4
Dividend Yield (%)	2.7	0.8	0.8	1.0	1.1
Return ratio (%)					
EBIDTA Margin	22.1	22.6	23.3	23.4	23.5
PAT Margin	18.1	17.4	16.8	16.5	16.5
ROAE	25.3	23.9	22.2	20.0	18.5
ROACE	30.6	29.8	27.7	25.6	23.9
Leverage Ratios (x)					
Total D/E	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.4)	(0.3)	(0.3)	(0.4)	(0.4)
Current ratio	2.1	2.2	2.5	2.9	3.3
Growth Ratios (%)					
Income growth	50.1	8.2	19.2	11.1	9.7
EBITDA growth	51.3	11.0	22.9	11.5	10.1
PAT growth	49.2	3.8	15.1	9.2	9.7
Turnover Ratios					
F.A. Turnover (x)	5.3	9.8	10.5	10.7	11.6
Debtors Days	22	21	21	20	20
Payable days	97	96	97	95	94

Balance Sheet (` mn)

Year End-March	FY17	FY18	FY19E	FY20E	FY21E
Sources of Funds					
Equity Share Capital	2,821	2,784	2,713	2,713	2,784
Reserves & Surplus	332,082	365,384	453,618	548,100	651,209
Total Shareholders Fund	334,903	368,168	456,330	550,812	653,993
Non-current liabilities	5,417	4,371	2,371	2,371	2,371
Long term Borrowings	5,417	4,371	2,371	2,371	2,371
Total Current Liabilities	124,002	111,812	127,841	141,876	155,385
Current Liabilities	111,477	99,143	113,918	126,424	138,462
Other cur liabilities & Prov	12,525	12,669	13,923	15,452	16,923
Total Liabilities	464,322	484,351	586,542	695,059	811,749
Assets					
Non-current Assets	199,646	238,801	261,116	281,615	297,869
Fixed assets	87,479	51,847	57,530	62,530	63,464
Non-current investments	73,583	144,057	154,057	164,057	174,057
Other non-current assets	38,584	42,897	49,529	55,028	60,348
Current assets	264,676	245,550	325,427	413,444	513,880
Current investments	113,653	80,838	90,838	100,838	110,838
Accounts Receivables, net	83,014	96,394	115,567	128,399	140,812
Unbilled Receivables	25,012	26,181	33,019	36,685	40,232
Cash & bank balances	13,165	16,939	48,030	105,333	175,731
Other current assets	29,832	25,198	37,972	42,188	46,267
Total Assets	464,322	484,351	586,542	695,059	811,749

Cash flow Statement

Year End-March	FY17	FY18	FY19E	FY20E	FY21E
PBT	104,090	110,990	127,104	141,475	157,178
Depreciation	8,340	14,520	21,526	22,816	24,066
Others	-	-	(140)	-	-
CF before W.cap	112,430	125,510	148,490	164,291	181,243
Inc/dec in W.cap	(9,959)	26,426	119,102	152,111	169,395
Op CF after W.cap	122,389	99,084	25,866	31,124	36,151
Less Taxes	19,520	23,170	93,236	120,987	133,244
Net CF From Operations	102,869	75,914	27,209	27,816	25,000
Inc/(dec) in F.A + CWIP	52,589	19,557	20,000	20,000	20,000
(Pur)/sale of Investments	10,205	(3,018)			
CF from Invst Activities	(62,794)	(16,539)	(47,209)	(47,816)	(45,000)
Loan Raised/(repaid)	(4,315)	(1,046)	(2,000)	-	-
Equity Raised	9,716	(41,444)	(72)	0	72
Dividend	39,604	13,111	12,864	15,868	17,918
CF from Fin Activities	(34,203)	(55,601)	(14,936)	(15,868)	(17,846)
Net inc/(dec) in cash	5,872	3,774	31,091	57,303	70,398
Op. bal of cash	7,293	13,165	16,939	48,030	105,333
Cl. balance of cash	13,165	16,939	48,030	105,333	175,731



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Sell	Less than -15%

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