

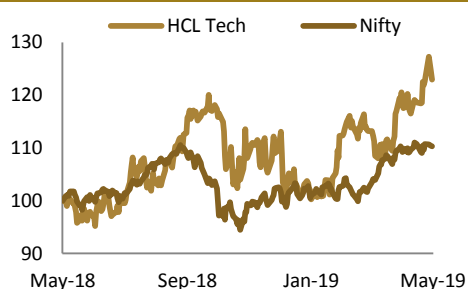
Market statistics

Current stock price (₹)	1,132
Shares O/S (cr.)	135.6
Mcap (₹ cr)	153,544
52W H/L (₹)	1190/880
6m avg. volume	2,086,436
Bloomberg	HCLT IN

Shareholding pattern

Promoters	60.00
Domestic Institution	7.68
Foreign Institution	28.74
Non-institution	3.58
of which more than 1%	

HCL Tech vs Nifty



Capital efficiency & valuations

Particulars	FY19	FY20E	FY21E
RoE (%)	24.0	20.8	19.3
EPS (₹)	74.6	79.1	88.1
CEPS (₹)	90.5	95.7	105.5
P/E (x)	14.6	14.3	12.9
P/BV (x)	3.5	3.0	2.5
EV/EBITDA (x)	10.1	9.2	7.5
Income growth (%)	19.5	14.8	11.8
EBITDA growth (%)	22.1	9.6	12.0
PAT growth (%)	15.3	6.4	11.7

HCL Technologies reported a stable quarter. HCLT reported revenues of US\$2,278mn, up 3.5% (in USD terms, up 3.3% in cc terms), during Q4FY19. Margin was dented by higher-than-expected wage costs and SG&A costs. For FY20, HCLT has guided to revenue growth of 14%-16% growth in cc terms and EBIT margin guidance of 18.5-19.5%. 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 Tech reported strong revenue growth performance coupled with highest ever deal bookings (third time record order bookings during FY19) in Q4FY19, while operating profitability missed our estimates. HCL Tech impressed with strong constant currency revenue growth of 3.3% QoQ led by strong growth in IMS (7.3% QoQ cc) and application services (5.2% QoQ cc). On a reported basis, US\$ revenue grew by 3.5% QoQ to US\$2,278mn in Q4FY19. EBIT margin contracted by ~63bps QoQ to 18.9%, below our expectations, owing to forex impact including rupee appreciation (-43 bps) and soft seasonality in product business (-20 bps). Lower profitability was partially offset by higher-than-expected forex gains that resulted in 1.6% QoQ decline in net profit.

Revenue guidance for FY20E remains strong, but cut margin guidance: The management has provided strong cc revenue growth guidance of 14-16% for FY20E, including revenues from the acquisition of seven products from IBM (transaction is expected to close in May'19) and full year incremental revenues from other acquisitions. The organic revenue contribution to FY20E revenue is expected to be accelerated to 7-9% (6.5% in FY19) though it would be mostly back-ended, led by strong deals wins, healthy deal pipeline (up 10%), addition of large clients, continued robust growth momentum in IMS and increasing spending in digital transformation. Despite a strong growth outlook, the management cautioned about the challenges to revenue growth owing to geopolitical factors including delays in visa processing, delays in demand fulfillment owing to talent supply crunch, adverse impact on clients' spending owing to tariff wars and BREXIT. The margins guidance was lowered to 18.5-19.5% for FY20E versus the earlier guidance of 19.5-20.5% for FY19, attributed to below guided margin range performance in Q1FY20E (full quarter transition impact due to IBM seven product acquisition against one month incremental revenue and wage revision), higher investments for building capabilities, steps to control attrition rate and transition impact of large deal ramp-ups.

Continued revenue momentum in FY19, beat top-end of organic growth guidance. For last three years (FY17-FY19), HCL Tech has been delivering industry-leading revenue growth among the large peers, with a CAGR of 11.2% in US\$ terms. In FY19, the company delivered strong cc revenue growth of 11.8% YoY, higher than its guidance range of 9.5-11.5%, led by strong growth in IMS (11.1% cc), business services (51.5% CC), engineering and R&D (19.5% cc). However, application services cc revenue growth remained soft at 3.5% YoY owing to client-specific issues in financial vertical in Europe. Barring financial and manufacturing, technology (30.7% cc), life sciences (22.5% cc), telecommunications (17.5% CC), retail & CPG (16.8% cc) and public services (11.6% cc) verticals led the overall growth during FY19. Further, the company's organic growth (~6.5% cc) exceeded its estimates of 4.25-6.25% in cc provided at the beginning of FY19.

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	4QFY18	3QFY19	4QFY19	QoQ (%)	YoY (%)	Comments
Revenues (in US\$m)	2,038	2,202	2,278	3.5	11.8	
Revenues	131,790	156,990	159,900	1.9	21.3	Revenues were up 3.3% in cc terms.
- Operating costs	101,430	120,520	123,930	2.8	22.2	
EBITDA	30,360	36,470	35,970	(1.4)	18.5	
EBITDA margin (%)	23.0	23.2	22.5	(74)bps	(54)bps	EBITDA margin and EBIT margin was lower-than-expected due to higher wage costs and SG&A costs
- Interest expense	-	-	-	-	-	
- Depreciation	4,530	5,610	5,580	(0.5)	23.2	
+ Other income, net (incl forex)	2,800	1,050	1,520	44.8	(45.7)	Includes a forex gain of `230mn, compared to a loss of `540mn
PBT	28,630	31,910	31,910	-	11.5	
- Taxes	6,340	5,660	6,150	8.7	(3.0)	
Effective tax rate (%)	22.1	17.7	19.3	154bps	(287)bps	Tax rate to remain in the range of 22-23%
PAT	22,290	26,250	25,760	(1.9)	15.6	
Net margin (%)	16.9	16.7	16.1	(61)bps	(80)bps	
Reported profits	22,290	26,110	25,680	(1.6)	15.2	

Source: Company

Exhibit 2: Change in estimates

` mn	FY20E			FY21E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	9,564	9,910	3.6	10,489	11,078	5.6
Revenue	669,510	693,719	3.6	734,233	775,474	5.6
EBITDA margin (%)	23.4	22.1	(130)bps	23.5	22.1	(140)bps
EPS (`)	79.3	79.1	(0.3)	86.9	88.1	1.4

Source: Trust Research

Geography wise Revenues: Regionally, North America reported cc revenue growth of 1.1% QoQ. The revenues of Europe and RoW increased by 8.4% and 3.6% QoQ on cc terms respectively.

Exhibit 3: Geographical wise Performance

Geographical mix	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
US	62.6	62.8	62.4	63.5	61.6	64.5	65.8	64.4	62.9
Europe	27.7	27.4	29.1	28.7	30.0	28.1	26.8	28.2	29.7
RoW	9.7	9.8	8.5	7.8	8.4	7.4	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	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Financial Services	24.2	24.9	25.0	24.6	25.0	23.8	23.0	21.6	21.1
Manufacturing	34.6	34.9	35.4	36.5	36.0	36.5	36.2	36.4	36.2
Life sciences & Healthcare	8.4	7.9	7.9	7.4	7.4	7.3	7.2	9.2	8.6
Public Services	9.2	9.5	9.3	9.6	9.6	9.1	10.0	10.2	10.0
Retail & CPG	11.5	11.8	11.7	11.7	11.5	12.8	12.9	13.0	13.0
Telecommunications, Media, Publishing & Entertainment	11.7	11.0	10.7	10.2	10.5	10.5	10.7	9.6	11.1
Others	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	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Application services	36.8	36.3	35.9	35.3	34.7	34.0	33.1	32.0	32.6
Engineering and R&D services	20.5	21.5	22.0	24.2	24.1	24.5	25.5	25.5	23.9
Infrastructure services	38.8	38.6	38.5	36.7	37.3	36.2	36.0	37.5	38.9
BPO services	3.9	3.6	3.6	3.8	3.9	5.3	5.4	5.0	4.6
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 5,637 employees join (gross 14,249 employees joined) to take the total base to 137,965.

Exhibit 6: Employee strength

Employees	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Total employee count	115,973	117,781	119,040	119,291	120,081	124,121	127,875	132,328	137,965
Technical	105,537	107,029	108,351	108,831	109,565	113,404	116,910	121,273	126,717
Support	10,426	10,752	10,689	10,460	10,516	10,717	10,965	11,055	11,248
Gross Addition	10,605	9,462	8,645	7,113	8,476	12,558	11,683	13,191	14,249

Source: Company

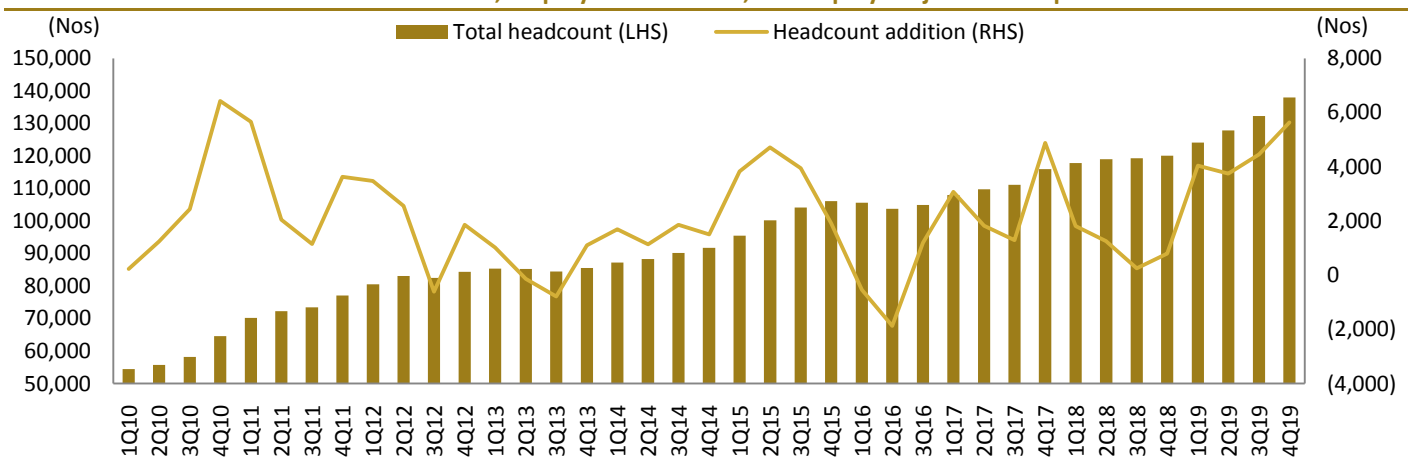
Client Concentration: The Company added 2/7 clients QoQ in the US\$10mn+/US\$5mn+, and added 26 clients in the US\$1mn+ bracket to take the list to 166, 283 and 623 respectively.

Exhibit 7: Client details

Client metrics	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
100 million dollar +	8	8	9	9	8	9	9	10	10
50 million dollar +	25	25	25	25	28	32	31	29	29
20 million dollar +	85	86	84	85	87	87	90	95	95
10 million dollar +	153	154	157	156	160	162	165	164	166
5 million dollar +	246	249	259	261	264	267	269	276	283
1 million dollar +	506	508	536	552	561	571	575	597	623
Top 5 clients (LTM)	14.7	14.4	15.1	15.8	16.3	17.0	17.3	17.4	17.0
Top 10 clients (LTM)	22.1	22.4	22.9	23.5	23.8	24.6	24.8	24.8	24.1
Top 20 clients (LTM)	32.9	33.0	33.2	33.5	33.7	34.2	34.2	34.1	33.4

Source: Company

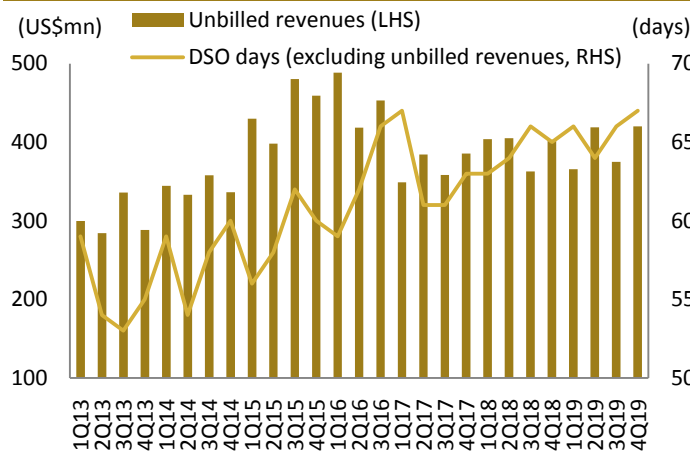
Exhibit 8: Utilization can be used as a lever, Employee addition: 5,637 employees joined this quarter



Source: Company, Trust

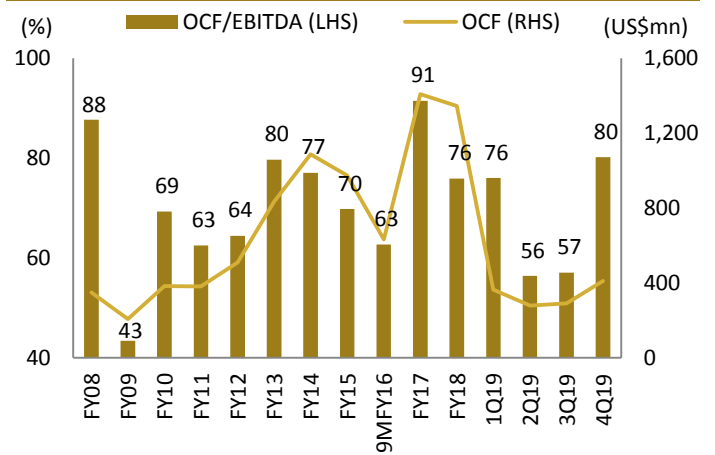


Exhibit 9: DSO increased to 67 days, Unbilled rev. increased



Source: Company, Trust

Exhibit 10: OCF/EBITDA was strong this quarter



Source: Company, Trust

FY20 Guidance

The management has provided strong cc revenue growth guidance of 14-16% for FY20E, including revenues from the acquisition of seven products from IBM (transaction is expected to close in May'19) and full year incremental revenues from other acquisitions. The organic revenue contribution to FY20E revenue is expected to be accelerated to 7-9% (6.5% in FY19) though it would be mostly back-ended, led by strong deals wins, healthy deal pipeline (up 10%), addition of large clients, continued robust growth momentum in IMS and increasing spending in digital transformation. Despite a strong growth outlook, the management cautioned about the challenges to revenue growth owing to geopolitical factors including delays in visa processing, delays in demand fulfillment owing to talent supply crunch, adverse impact on clients' spending owing to tariff wars and BREXIT. The margins guidance is lowered to 18.5-19.5% for FY20E versus the earlier guidance of 19.5-20.5% for FY19, attributed to below guided margin range performance in Q1FY20E (full quarter transition impact due to IBM seven product acquisition against one month incremental revenue and wage revision), higher investments for building capabilities, steps to control attrition rate and transition impact of large deal ramp-ups.



Financials

Income Statement (` mn)

Year End-March	FY17	FY18	FY19	FY20E	FY21E
Revenues	467,220	505,700	604,280	693,719	775,474
Op. Expenses	364,130	391,300	464,590	540,606	604,015
EBITDA	103,090	114,400	139,690	153,113	171,459
Other Income	9,340	11,110	8,050	7,580	8,630
Depreciation	8,340	14,520	21,480	22,563	23,813
EBIT	104,090	110,990	126,260	138,130	156,276
Interest	-	-	-	-	-
PBT	104,090	110,990	126,260	138,130	156,276
Tax	19,520	23,170	24,810	30,389	35,943
PAT	84,570	87,820	101,450	107,741	120,333
Minority + Extra Ord. Item	-	-	220	-	-
Adj Pat	84,570	87,820	101,230	107,741	120,333

Valuations Summary

Year End-March	FY17	FY18	FY19	FY20E	FY21E
Per share (`)					
EPS	60.0	63.1	74.6	79.1	88.1
CEPS	65.9	73.5	90.5	95.7	105.5
BVPS	237.5	264.5	311.3	380.0	460.3
DPS	24.0	8.0	8.0	8.0	8.0
Payout (%)	46.8	14.9	12.7	11.8	10.6
Valuation (x)					
P/E	14.6	15.4	14.6	14.3	12.9
P/BV	3.7	3.7	3.5	3.0	2.5
EV/EBITDA	10.8	11.1	10.1	9.2	7.5
Dividend Yield (%)	2.7	0.8	0.7	0.7	0.7
Return ratio (%)					
EBIDTA Margin	22.1	22.6	23.1	22.1	22.1
PAT Margin	18.1	17.4	16.8	15.5	15.5
ROAE	25.3	23.9	24.0	20.8	19.3
ROACE	30.6	29.8	27.3	24.8	23.5
Leverage Ratios (x)					
Total D/E	0.0	0.0	0.1	0.1	0.1
Net Debt/Equity	(0.4)	(0.3)	(0.2)	(0.3)	(0.4)
Current ratio	2.1	2.2	2.3	2.7	3.0
Growth Ratios (%)					
Income growth	50.1	8.2	19.5	14.8	11.8
EBITDA growth	51.3	11.0	22.1	9.6	12.0
PAT growth	49.2	3.8	15.3	6.4	11.7
Turnover Ratios					
F.A. Turnover (x)	5.3	9.8	10.4	11.0	12.1
Debtors Days	22	21	21	20	20
Payable days	97	96	96	95	95

Balance Sheet (` mn)

Year End-March	FY17	FY18	FY19	FY20E	FY21E
Sources of Funds					
Equity Share Capital	2,821	2,784	2,713	2,713	2,733
Reserves & Surplus	332,082	365,384	419,527	514,574	622,118
Total Shareholders Fund	334,903	368,168	422,240	517,286	624,850
Non- current liabilities	5,417	4,371	39,860	39,860	39,860
Long term Borrowings	5,417	4,371	39,860	39,860	39,860
Total Current Liabilities	124,002	111,812	126,860	149,592	167,138
Current Liabilities	111,477	99,143	111,480	133,300	148,935
Other cur liabilities & Prov	12,525	12,669	15,380	16,292	18,203
Total Liabilities	464,322	484,351	588,960	706,739	831,849
Assets					
Non- current Assets	199,646	238,801	291,790	306,978	324,884
Fixed assets	87,479	51,847	58,010	63,010	64,197
Non-current investments	73,583	144,057	176,950	186,950	196,950
Other non-current assets	38,584	42,897	56,830	57,018	63,738
Current assets	264,676	245,550	297,170	399,761	506,964
Current investments	113,653	80,838	54,620	64,620	74,620
Accounts Receivables, net	83,014	96,394	117,060	133,042	148,721
Unbilled Receivables	25,012	26,181	29,040	38,012	42,492
Cash & bank balances	13,165	16,939	59,290	120,373	192,266
Other current assets	29,832	25,198	37,160	43,714	48,865
Total Assets	464,322	484,351	588,960	706,739	831,849

Cash flow Statement

Year End-March	FY17	FY18	FY19	FY20E	FY21E
PBT	104,090	110,990	126,260	138,130	156,276
Depreciation	8,340	14,520	21,480	22,563	23,813
Others	-	-	(220)	-	-
CF before W.cap	112,430	125,510	147,520	160,693	180,089
Inc/dec in W.cap	(9,959)	26,426	34,372	8,963	14,484
Op CF after W.cap	122,389	99,084	113,148	151,729	165,605
Less Taxes	19,520	23,170	24,810	30,389	35,943
Net CF From Operations	102,869	75,914	88,338	121,341	129,661
Inc/(dec) in F.A + CWIP	52,589	19,557	27,643	27,563	25,000
(Pur)/sale of Investments	10,205	(3,018)	6,675	20,000	20,000
CF from Invst Activities	(62,794)	(16,539)	(34,318)	(47,563)	(45,000)
Loan Raised/(repaid)	(4,315)	(1,046)	35,489	-	-
Equity Raised	9,716	(41,444)	(34,294)	(0)	20
Dividend	39,604	13,111	12,864	12,695	12,788
CF from Fin Activities	(34,203)	(55,601)	(11,669)	(12,695)	(12,768)
Net inc /(dec) in cash	5,872	3,774	42,351	61,083	71,893
Op. bal of cash	7,293	13,165	16,939	59,290	120,373
Cl. balance of cash	13,165	16,939	59,290	120,373	192,266

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Served as Director or Employee	No

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Hold	15% to -15%
Sell	Less than -15%

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