



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141442

Q2 FY19 Result Update@ Dalal &Broacha

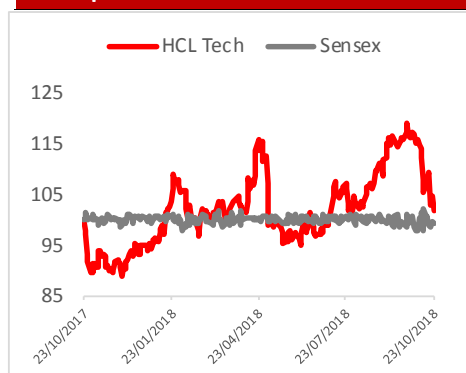
ACCUMULATE

Current Price	952
Target Price	1167
Upside (%)	22.5%
52 Week Range	1125/825

Key Share Data

Market Cap (Rs.bn)	1350.5
Market Cap (US\$ mn)	18374.5
No of o/s shares (mn)	1392
Face Value	2
Monthly Avg.	
Vol(BSE+NSE) Nos	
'000	2100
BSE Code	532281
NSE Code	HCLTECH
Bloomberg	HCLT.IN

Price performance



% Shareholding	Mar-18	Dec-17
Promoters	60.17	60.17
Public	39.83	39.83
Others	-	-
Total	100.00	100.00

Revenues in-line with estimates, guidance maintained

- HCL Tech reported its Q2FY19 performance which was largely in line with our estimates
- Dollar revenues came in at USD 2099 Mn, +2.2% qoq / +8.9% yoy and 0.6% vs our estimate of USD 2,087 Mn
- In Rupee terms, revenue came in at INR 1,48,600 Mn, +7.1% qoq / +19.5% yoy and 1.6% above our estimate of INR 1,46,268 Mn
- EBIT was reported at INR 29,660 Mn, +8.6% qoq / +21% yoy and 1.5% below our estimate of INR 30,098 | EBIT margins stood at 19.9% versus our estimate of 20.6%
- PAT stood at INR 25,400 Mn, +6.7% qoq / +17.2% yoy_ and marginally below our estimate of INR 26,089 Mn | PAT margins stood at 17.1% versus our estimate of 17.8%
- EPS for the quarter stood at INR 18.2 vs our expectation of 18.7
- Revenue guidance for FY19E is unchanged at 9.5% - 11.5%
- EBIT margin guidance was also unchanged at 19.5% to 20.5%

Mode II and Mode III services drove growth during the quarter

- Mode II (16% of revenues) and Mode III (11.9% of revenues) grew 5.3% and 10.4% qoq in Q2FY19 whereas Mode I (72% of revenues) grew at 1.4% qoq.
- In terms of services, Business Services and Engineering services outperformed with a 7.3% and 6.3% qoq growth in Q2. Infrastructure services followed with a growth of 2.5% qoq while Application services reported a growth of 0.4% qoq and continued its sluggish trend.
- However, company continues to face headwinds from 2 clients in the financial services vertical

Key Concall Takeaways

- (i) - Order Booking in Q4 more than the average of the last 4 quarters (ii) Mode III services crossed USD 1 Bn annual run rate (iii) 4 out of 7 verticals shown strong momentum. Retail & CPG grew 13% qoq, Lifesciences & Healthcare grew 3.2% qoq, Public Services grew 5.3% qoq and Technology & Services grew 2.2% qoq (iv) Financial Services (23% of revenues) displayed good momentum although reported flattish growth during the quarter. Demand is good except weakness in 2 accounts that company pointed out earlier (v) Momentum in Global Infra (IMS) business, which grew 2.5% qoq and contributed 36% to the topline, will continue perform in H2 as well (vi) Engineering services (25.5% of revenues) – helped by Actian revenues (acquired in H1CY18) – grew 6.3% qoq – management witnessed allot of opportunities in platform engineering and IoT (vii) EBIT margin profile – tailwind of 90 bps from forex (INR depreciation) | wage impact of -70 bps | SGA -50 bps impact | productivity due to utilization and automation +80 bps benefit (viii) Organic business performed better than inorganic business in the last quarter (as opposed to 50-50 in the beginning of the year)

Consolidated Financials (In INR Mn)

Year	Net Sales	% Growth	EBIT	EBIT Margin (%)	PAT	PAT Margin (%)	EPS	PE (x)	ROE (%)	ROCE (%)
FY16	4,09,130	15%	83,460	20.4%	74,500	18%	52.8	17.3x	27.5%	25.5%
FY17	4,67,220	14%	94,790	20.3%	84,610	18%	59.8	15.3x	26.6%	24.4%
FY18	5,05,690	8%	99,870	19.7%	87,810	17%	63.0	15.1x	23.5%	22.6%
FY19E	6,00,586	19%	1,23,480	20.6%	1,06,889	18%	76.7	12.4x	24.9%	24.0%
FY20E	6,75,058	12%	1,33,795	19.8%	1,16,364	17%	83.3	11.4x	23.8%	22.4%



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YE March (Rs mn)	Q2 FY19	Q1 FY19	Q-o-Q change %	Q2 FY18	Y-o-Y change %	Q1 FY19 Estimates	Deviation %
Revenues (\$)	2,099	2,055	2.1%	1,928	8.8%	2,087	0.6%
Revenues (INR)	1,48,610	1,38,780	7.1%	1,24,340	19.5%	1,46,268	1.6%
Direct Cost	95,890	91,060	5.3%	82,080	16.8%	94,321	1.7%
Gross Profit	52,720	47,720	10.5%	42,260	24.8%	51,947	1.5%
SG&A	17,730	15,460	14.7%	14,670	20.9%	16,821	5.4%
EBITDA	34,990	32,260	8.5%	27,590	26.8%	35,126	(0.4%)
Depreciation & Amortisation	5,330	4,960	7.5%	3,080	73.1%	5,028	6.0%
EBIT	29,660	27,300	8.6%	24,510	21.0%	30,098	(1.5%)
Foreign Exchange Gains/(Loss)							
Other Income, net	2,520	2,960	(14.9%)	2,980	(15.4%)	2,925	
PreTax Income	32,180	30,260	6.3%	27,490	17.1%	33,024	(2.6%)
Adjusted Pretax Income	32,180	30,260	6.3%	27,490	17.1%	33,024	
Tax	6,780	6,220	9.0%	5,610	20.9%	6,935	
Share of Minority Interest	0	0		0		0	
Net Profit	25,400	24,040	5.7%	21,880	16.1%	26,089	(2.6%)
Adjusted Net Profit	25,400	24,040	5.7%	21,880	16.1%	26,089	(2.6%)
Diluted EPS (Rs)	18.2	17.3	5.4%	15.7	16.0%	18.7	
Adjusted Diluted EPS	18.2	17.3	5.4%	15.7	16.0%	18.7	(2.9%)
No.of Shares (mn) - Diluted	1,396	1,393		1,395		1,393	
Margin Analysis (%)			Change in bps	Change in bps			
Gross Profit Margin (%)	35.5%	34.4%	109	34.0%	149	35.5%	(4)
Operating Profit Margin (%)	20.0%	19.7%	29	19.7%	25	20.6%	(62)
EBITDA Margin (%)	23.5%	23.2%	30	22.2%	136	24.0%	(47)
Net Profit Margin (%)	17.1%	17.3%	(23)	17.6%	(51)	17.8%	(74)
Adjusted NPM (%)	17.1%	17.3%	(23)	17.6%	(51)	17.8%	(74)
Effective Tax rate (%)	21.1%	20.6%	51	20.4%	66	21.0%	7
CostAnalysis (%)			Change in bps	Change in bps			
Direct cost as % of Sales	64.5%	65.6%	(109)	66.0%	(149)	64.5%	4
SG&A as % of Sales	11.9%	11.1%	79	11.8%	13	11.5%	43

- Blended utilization remained constant at 86%
- Attrition decreased from 16.3% in Q1 to 15.7% Q2
- Employee headcount increased by 8,645 in Q2FY19 to a total tally of 1,19,040
- Cash & Cash Equivalents stood at USD 1,594 Mn as of Q2FY19

Valuation & Outlook

Mode II and Mode III services reported strong growth during the quarter while Mode I services reported sluggish growth mainly dragged by Financial Services vertical. Management pointed out that organic growth contributed more to overall growth compared to inorganic growth during the quarter which indicates some green shoots of revival. Stock is currently trading at 12.4x and 11.4x FY19E and FY20E EPS which is considerably cheap compared to its peers in the large cap space. We have a BUY rating on the stock with a target price of INR 1,167.



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P&L Statement					
YE March (Rs. mn)	FY16	FY17	FY18	FY19E	FY20E
Total Revenues	4,09,130	4,67,220	5,05,690	6,00,586	6,75,058
Revenue Growth (Y-o-Y)	14.6%	14.2%	8.2%	18.8%	12.4%
Less:					
Employees Cost	2,67,810	3,08,890	3,32,370	3,85,027	4,37,979
SG&A	52,170	55,200	58,930	70,556	80,332
Total Op. Expenditure	3,19,980	3,64,090	3,91,300	4,55,583	5,18,310
EBIDTA	89,150	1,03,130	1,14,390	1,45,003	1,56,747
EBIDTA Growth (Y-o-Y)	1.1%	15.7%	10.9%	26.8%	8.1%
Less: Depreciation	5,690	8,340	14,520	21,523	22,952
Operating Profit	83,460	94,790	99,870	1,23,480	1,33,795
Operating Profit Growth (Y-o-Y)	0.4%	13.6%	5.4%	23.6%	8.4%
Non-operating Income	10,090	9,340	11,110	11,744	13,501
Profit Before tax	93,550	1,04,130	1,10,980	1,35,224	1,47,297
Tax	19,050	19,520	23,170	28,335	30,932
Share of Minority Interest	0	0	0	0	0
Net Profit	74,500	84,610	87,810	1,06,889	1,16,364
Adjusted Net Profit	74,500	84,610	87,810	1,06,889	1,16,364
Diluted EPS (Rs.)	52.8	59.8	63.0	76.7	83.3
Growth (Y-o-Y) %	1.9%	13.4%	5.4%	21.7%	8.6%
Adjusted Diluted EPS	52.8	59.8	63.0	76.7	83.3
Growth (Y-o-Y) %	1.9%	13.4%	5.4%	21.7%	8.6%

Free Cash Flow Analysis					
	FY16	FY17	FY18E	FY19E	FY20E
EBITDA	89,150	1,03,130	1,14,390	1,45,003	1,56,747
Add: Depreciation Tax Shield	1,159	1,563	3,031	4,510	4,820
Working Capital Changes	-22,690	4,959	2,300	-8,473	-7,634
Taxes Paid	19,050	19,520	23,170	28,335	30,932
Total Free Cash Flows	31,103	30,739	88,052	1,04,205	1,13,001

Key Operating Ratios					
YE March (Rs. mn)	FY16	FY17	FY18	FY19E	FY20E
EBITDA Margin (%)	21.8%	22.1%	22.6%	24.1%	23.2%
Tax / PBT (%)	20.4%	18.7%	20.9%	21.0%	21.0%
Net Profit Margin (%)	18.2%	18.1%	17.4%	17.8%	17.2%
RoE (%)	26.9%	26.3%	23.5%	24.9%	23.8%
RoCE (%)	25.1%	24.8%	22.6%	24.0%	22.4%
Current Ratio (x)	2.5x	2.2x	2.5x	2.7x	3.1x
Dividend Payout (%)	48.3%	48.1%	48.1%	48.1%	48.1%
BV Per Share (Rs.)	194.0	232.9	269.2	309.1	351.6
Financial Leverage Ratios					
Debt/ Equity (x)	0.03	0.01	0.01	0.01	0.06
Interest Coverage (x)					
Interest / Debt (%)					
Growth Indicators %					
Gross Block Growth (%)	7.9%	11.8%	10.9%	9.9%	10.6%
Sales Growth (%)	14.6%	14.2%	8.2%	18.8%	12.4%
EBITDA Growth (%)	1.1%	15.7%	10.9%	26.8%	8.1%
Net Profit Growth (%)	1.9%	13.6%	3.8%	21.7%	8.9%
Diluted EPS Growth (%)	1.9%	13.4%	5.4%	21.7%	8.6%
Turnover Ratios					
Debtors days	69	65	65	65	65
Creditors days	8	8	7	7	7
Inventory Days	3	3	2	2	2

Balance Sheet					
YE March (Rs. mn)	FY16	FY17	FY18	FY19E	FY20E
Equity Capital	2,821	2,854	2,811	2,811	2,812
Reserves & Surplus	2,71,087	3,26,645	3,72,229	4,27,717	4,88,124
Equity	2,73,908	3,29,499	3,75,040	4,30,528	4,90,936
Net Worth	2,73,908	3,29,499	3,75,040	4,30,528	4,90,936
Minority Interest	2,107	1,725	1,725	1,725	1,725
Net Deferred tax liability/(Asset)	0	0	0	0	0
Other Non-current Liabilities	11,733	9,228	9,987	11,862	13,333
Total Loans	9,518	4,447	4,371	3,580	30,720
Capital Employed	2,97,266	3,44,899	3,91,124	4,47,695	5,36,714
Assets					
Gross Block	69,427	77,651	86,151	94,651	1,04,651
Less: Depreciation	33,473	37,668	52,188	73,711	96,663
Net Block	35,954	39,983	33,963	20,940	7,988
Investments	8,615	8,697	8,991	9,717	10,286
Intangible Assets	61,207	1,12,377	1,12,377	1,12,377	1,12,377
Other Non-current Assets	18,958	22,399	24,243	28,792	32,362
Deferred Income Tax Assets	18,111	16,519	17,605	20,960	22,094
Current Assets					
Inventories	2,645	2,756	2,516	2,914	3,315
Sundry Debtors	77,211	83,013	89,848	1,06,708	1,19,940
Cash and Bank Balance	93,346	90,438	1,41,390	1,92,972	2,81,321
Other Current Assets	50,750	51,753	56,014	66,525	74,774
Total Current Assets	2,44,452	2,53,241	3,15,052	3,99,149	5,13,103
Less: Current Liabilities					
Sundry Creditors	7,035	8,006	7,309	8,467	9,631
Provisions	14,435	12,125	18,352	22,416	24,452
Other Current Liabilities	74,670	92,665	1,00,294	1,19,115	1,33,885
Total Current Liabilities	96,140	1,12,796	1,25,955	1,49,998	1,67,969
Capital Applied	2,97,266	3,44,899	3,91,124	4,47,695	5,36,714



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