



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141442

## Q4 FY18 Result Update@ Dalal &Broacha

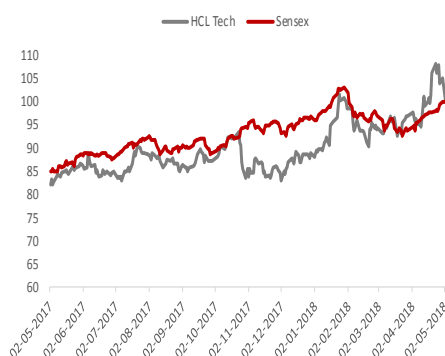
### ACCUMULATE

Current Price	1001
Target Price	1119
52 Week Range	736 - 943

### Key Share Data

Market Cap (Rs.bn)	1,394
Market Cap (US\$ mn)	21,446
No of o/s shares (mn)	1,392
Face Value	2
Monthly Avg. Vol(BSE+NSE) Nos '000	2,078
BSE Code	532281
NSE Code	HCLTECH
Bloomberg	HCLT.IN

### Price performance



% Shareholding	Mar-18	Dec-17
Promoters	60.18	60.19
Public	39.82	39.81
Others	-	-
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

### Revenues in-line with estimates, guidance maintained

- Revenue in dollar terms was reported at \$2,038 Mn, a qoq growth of 2.5% vs our estimate of 4.9%. Although Mode II and Mode III services showed remarkable growth, growth in Mode I services were below expectations.
- In Rupee terms, revenue came in at INR 1,31,790 Mn, up 2.9% qoq and 9.3% yoy, 1.8% below our estimate of INR 1,34,222 Mn.
- EBITDA was reported at INR 30,360 Mn, up 2.4% qoq and 14.6% yoy and 3.4% below our estimate of INR 31,418 Mn. EBITDA margins came in at 23% in Q4, down by 11 bps qoq and 37 bps below our estimate of 23.4%
- PAT was reported at INR 22,270 Mn, up 1.5% qoq and down 4.3% yoy, versus our estimate of INR 23,274 Mn.

EPS for the quarter and FY18 was reported at INR 16.02 and INR 62.23

- On a positive note, the company has maintained its revenue growth guidance of 10.5%-12.5% in USD terms and Operating Profit (EBIT Margin) guidance of 19.5%-20.5% for FY19E.

### Mode II and Mode III services drove growth while Mode I services and organic sources faced headwinds

- Mode II (14.7% of revenues) and Mode III (8.7% of revenues) grew 29% and 68% yoy in FY18 whereas Mode I (77% of revenues) grew in mid-single digits.
- In terms of services, Business Services and Infrastructure services outperformed with a 5.3% and 2.5% qoq growth in Q4. Application services reported a de-growth of 0.9% as the company faced headwinds in signing large deals whereas Engineering Services witnessed a slowdown after solid performance in Q3
- Company signed 15 new transformational deals in Q4 and client additions across \$50 Mn, \$30 Mn and \$20 Mn categories

### Key Concall Takeaways

- Management has maintained that the new acquisitions, namely C3i and Actian are expected to go through a gestation period in FY19E and are estimated to deliver post FY20E
- 5 main focus areas in Mode II are Enterprise Application, Data Fabric, Digital Foundation, Cyber Security and Autonomics
- While management has maintained growth guidance in FY19E, it did go on admit that there were headwinds in the large deals space and organic business (which should be compensated by inorganic business)
- Margins remained flattish in Q4 mainly due to impact in Software Services business which were offset by improved margins in IMS and BPO
- Expect ETR in the range of 22-23% in FY19E

### Valuation & Outlook:

Stock is currently trading at 14.2x and 12.8x FY18E and FY19E EPS. We have an ACCUMULATE rating on the stock with a target price of INR 1,119.

### Consolidated Financials (In INR Mn)

Year	Net Sales	% Growth	EBIT	EBIT (%)	PAT	PAT (%)	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	15.9x	23.6%	21.8%
FY19E	5,58,777	10%	1,09,861	19.7%	98,124	18%	70.4	14.2x	23.1%	22.2%
FY20E	6,15,228	10%	1,21,070	19.7%	1,09,161	18%	78.4	12.8x	22.7%	21.9%

Source: Company, Dalal & Broacha Research



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YE March (Rs mn)	Q4 FY18	Q3 FY18	Q-o-Q change %	Q4 FY17	Y-o-Y change %	Q4 FY18 Estimates	Deviation %
Revenues (\$)	<b>2,038</b>	<b>1,988</b>	<b>2.5%</b>	<b>1,817</b>	<b>12.2%</b>	<b>2,084</b>	<b>(2.2%)</b>
<b>Revenues (INR)</b>	<b>1,31,780</b>	<b>1,28,080</b>	<b>2.9%</b>	<b>1,20,530</b>	<b>9.3%</b>	<b>1,34,222</b>	<b>(1.8%)</b>
Direct Cost	85,600	84,120	1.8%	79,870	7.2%	87,235	(1.9%)
<b>Gross Profit</b>	<b>46,180</b>	<b>43,960</b>	<b>5.1%</b>	<b>40,660</b>	<b>13.6%</b>	<b>46,987</b>	<b>(1.7%)</b>
SG&A	15,830	14,320	10.5%	14,170	11.7%	15,570	1.7%
<b>EBITDA</b>	<b>30,350</b>	<b>29,640</b>	<b>2.4%</b>	<b>26,490</b>	<b>14.6%</b>	<b>31,418</b>	<b>(3.4%)</b>
Depreciation & Amortisation	4,530	4,550	(0.4%)	2,330	94.4%	4,768	(5.0%)
<b>EBIT</b>	<b>25,820</b>	<b>25,090</b>	<b>2.9%</b>	<b>24,160</b>	<b>6.9%</b>	<b>26,649</b>	<b>(3.1%)</b>
Foreign Exchange Gains/(Loss)							
Other Income, net	2,800	2,640	6.1%	2,150	30.2%	2,767	
<b>PreTax Income</b>	<b>28,620</b>	<b>27,730</b>	<b>3.2%</b>	<b>26,310</b>	<b>8.8%</b>	<b>29,416</b>	<b>(2.7%)</b>
<b>Adjusted Pretax Income</b>	<b>28,620</b>	<b>27,730</b>	<b>3.2%</b>	<b>26,310</b>	<b>8.8%</b>	<b>29,416</b>	
Tax	6,340	5,790	9.5%	3,030	109.2%	6,142	
Share of Minority Interest	0	0		0		0	
<b>Net Profit</b>	<b>22,280</b>	<b>21,940</b>	<b>1.5%</b>	<b>23,280</b>	<b>(4.3%)</b>	<b>23,274</b>	<b>(4.3%)</b>
<b>Adjusted Net Profit</b>	<b>22,280</b>	<b>21,940</b>	<b>1.5%</b>	<b>23,280</b>	<b>(4.3%)</b>	<b>23,274</b>	<b>(4.3%)</b>
<b>Diluted EPS (Rs)</b>	<b>16.0</b>	<b>15.7</b>	<b>1.5%</b>	<b>16.5</b>	<b>(2.8%)</b>	<b>16.7</b>	
<b>Adjusted Diluted EPS</b>	<b>16.0</b>	<b>15.7</b>	<b>1.5%</b>	<b>16.5</b>	<b>(2.8%)</b>	<b>16.7</b>	<b>(4.3%)</b>
No.of Shares (mn) - Diluted	1,393	1,393		1,414		1,393	
<b>Margin Analysis (%)</b>			<b>Change in bps</b>	<b>Change in bps</b>			
Gross Profit Margin (%)	35.0%	34.3%	72	33.7%	131	35.0%	4
Operating Profit Margin (%)	19.6%	19.6%	0	20.0%	(45)	19.9%	(26)
EBITDA Margin (%)	23.0%	23.1%	(11)	22.0%	105	23.4%	(38)
Net Profit Margin (%)	16.9%	17.1%	(22)	19.3%	(241)	17.3%	(43)
Adjusted NPM (%)	16.9%	17.1%	(22)	19.3%	(241)	17.3%	(43)
Effective Tax rate (%)	22.2%	20.9%	127	11.5%	1064	20.9%	127
<b>CostAnalysis (%)</b>			<b>Change in bps</b>	<b>Change in bps</b>			
Direct cost as % of Sales	65.0%	65.7%	(72)	66.3%	(131)	65.0%	(4)
SG&A as % of Sales	12.0%	11.2%	83	11.8%	26	11.6%	41

Source: Company, Dalal & Broacha Research

- Blended utilization remained constant at 85.9%
- Attrition increased from 15.2% in Q3 to 15.5% Q4
- Employee headcount increased by 790 in Q4FY18 to a total tally of 1,20,081. FY18 employee addition stood at 4108 vs 11077 in FY17
- Cash & Cash Equivalents stood at INR 16,939 Mn as of Q4FY18



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Contact	Email ID	Contact No.	Sector
Mr. Kunal Bhatia	kunal.bhatia@dalal-broacha.com	022 67141442	Auto, Auto Ancillary, FMCG
Ms.CharulataGaidhani	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma /Healthcare
Mr. AvinashKumar	avinash.kumar@dalal-broacha.com	022 67141441	Capital Goods
Ms. Richa.Singh	richa.singh@dalal-broacha.com	022 67141444	Analyst

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021

Tel: 91-22- 2282 2992, 2287 6173, (D) 6630 8667 Fax: 91-22-2287 0092  
E-mail: research@dalalbroachaindia.com, equity.research@dalal-broacha.com