



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

Q1 FY21 Result Update@ Dalal&Broacha

Buy on Dips

Current Price	623
Target Price	692
Upside	11%
52 Week Range	375/652

Key Share Data

Market Cap (Rs.Bn)	1691.83
Market Cap (US\$ Bn)	22.58
No of o/s shares (Mn)	2713.67
Face Value	2
Monthly Avg.	
Vol(BSE+NSE)('000)	4920.64
BSE Code	532281
NSE Code	HCLTECH
Bloomberg	HCLT:IN

Price performance



% Shareholding	Jun-20	Mar-20
Promoters	60.33	60.33
Public	39.67	39.67
Others	0.00	0.00
Total	100	100

HCL Tech's Q1FY21 performance was marginally better than our estimates

- **\$ Revenue** came in at \$2,356 Mn, -7.4% qoq / -0.3% yoy and +0.8% vs. estimates
- **INR revenue** came in at INR 178,410 Mn, -4% qoq / +8.6% yoy and +0.7% above our estimates
- **EBIT** was reported at INR 36,600 Mn, -5.7% qoq / 30.5% yoy and +2.7% vs our estimates
- **EBIT margins** stood at 20.5%, vs 20.9% / 17.1% in Q4FY20 / Q1FY20 respectively and 40 bps above our estimates
- **PAT** came in at INR 29,250 Mn, -7% qoq / +31.8% yoy and 6.1% above our estimates
- **EPS** at INR 10.78 in Q1FY21 vs 11.6 / 8.2 in Q4FY20 / Q1FY20 respectively
- Management resumed guidance with a 1.5-2.5% revenue growth for FY21e in cc terms and 19.5-20.5% on the EBIT margin front

Segment Analysis

IT & Business services (70% of revenue) reported a de-growth of 7.8% qoq / 5.6% yoy; **ER&D Services (16% of revenue)** de-grew 9% qoq / 5.1% yoy; **Products & Platforms (13.8% of revenue)** de-grew by 2.1% qoq

Industry-wise

Financial Services (22.4% of topline) reported a de-growth of 1.7% qoq and growth of 11.7% yoy. **Manufacturing (18.1% of revenue)** reported a de-growth of 18.8% qoq / 8.3% yoy. **Technology Services (17.2% of revenue)** de-grew by 1.2% qoq / 8.8% yoy; **Lifesciences & Healthcare (13.7% of topline)** reported a growth of 1.9% qoq / 7.1% yoy

Mode II (20.3% of topline) reported the least de-growth of -1.6% qoq. **Mode I (63.4% of topline)** reported a de-growth of 9.5% qoq. **Mode III (28.9% of revenue)** reported a de-growth 4.7% qoq

Concall KTAs

(i) Impact in Q1FY21 was lower than expected. Large part of the impact was related to supply side issues which are largely resolved now (ii) Apart from COVID, off-shoring of certain large deals (signed last year) impacted revenue. Organic component of the de-growth in the current quarter was -5.3% (iii) EBIT margins were aided by Forex, cost management, right shoring, automation and higher contribution of Mode 2 and 3 segments. Margin walk: +76 bps due to forex, -67 bps due to increase in Depreciation and Amortization, -12 bps due to R&D expenses in Products & Platforms, +40 bps due to SG&A savings and -70 bps due to lower Gross Margins (iv) Manufacturing, Media, Retail, Energy and Travel & Hospitality saw maximum impact due to COVID. Financial Services, Life Sciences & Healthcare, Technology Services Telecom and CPG held up well (v) ER&D services saw a decline mainly due to Aerospace, Automotive and Office automation (vi) Completed 1 year of products acquired from IBM. Seeing immense traction in BigFix and Appscan. Products saw limited impact in COVID due to their mission critical and sticky nature. Products saw sequential decline mainly due to one offs associated with transition

Consolidated Financials (In INR Mn)

Year	Net Sales	% Growth	EBIT	EBIT Margin (%)	PAT	PAT Margin (%)	EPS	Growth (%)	PE (x)	ROE (%)	ROCE (%)
FY18	505,690	8%	99,870	19.7%	87,810	17%	31.5	5.4%	9.9x	25.3%	26.3%
FY19	604,280	19%	118,210	19.6%	101,530	17%	36.4	15.6%	8.6x	26.1%	25.3%
FY20	706,780	17%	137,377	19.4%	110,107	16%	40.6	11.4%	15.4x	24.3%	25.4%
FY21E	725,570	2.7%	148,080	20.4%	113,405	15.6%	41.8	0.2%	14.9x	21.5%	23.8%
FY22E	795,411	9.6%	163,047	20.5%	125,135	15.7%	46.1	8.4%	13.5x	20.8%	23.3%

Source: Company, Dalal&Broacha Research



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Other Key Highlights

- Pipeline has seen healthy improvements at ~40% qoq especially in Financial Services, Technology, Energy & Automotive. Digital transformation, cost transformation, and vendor consolidation are theme of the hour
- 1.5-2.5% qoq growth guidance translates into FY21e guidance of -2.3% to -0.8%
- Generated FCF of \$757 Mn during the quarter (196% of Net Income). Gross Cash stands at \$1.95 Bn
- Revenue bottomed out in Q1, can see stable recovery henceforth
- Cloud adoption post COVID can be a great tailwind for IMS segment
- Acquisition of CISCO SON during the quarter to aid telecom vertical of ER&D business
- Partnership with Broadcom's Symantec Division boosts Security services portfolio

Q1FY21 Performance Review

YE March (Rs mn)	Q1 FY21	Q4 FY20	Q-o-Q change %	Q1 FY20	Y-o-Y change %	Q4 FY20 Estimates	Deviation %
Revenues (\$)	2,356	2,543	(7.4%)	2,364	(0.3%)	2,336	0.8%
Revenues (INR)	178,410	185,900	(4.0%)	164,250	8.6%	177,238	0.7%
Direct Cost	107,280	111,510	(3.8%)	109,200	(1.8%)	111,510	(3.8%)
Gross Profit	71,130	74,390	(4.4%)	55,050	29.2%	65,728	8.2%
SG&A	25,450	27,190	(6.4%)	21,050	20.9%	23,927	6.4%
EBITDA	45,680	47,200	(3.2%)	34,000	34.4%	41,801	9.3%
Depreciation & Amortisation	9,060	8,390	8.0%	5,950	52.3%	6,163	47.0%
EBIT	36,620	38,810	(5.6%)	28,050	30.6%	35,638	2.8%
Other Income, net	2,050	(130)		1,280	60.2%	177	
PreTax Income	38,670	38,680	(0.0%)	29,330	31.8%	35,815	8.0%
Adjusted Pretax Income	38,670	38,680	(0.0%)	29,330	31.8%	35,815	
Tax	9,290	7,070	31.4%	7,050	31.8%	8,238	
Net Profit	29,380	31,530	(6.8%)	22,200	32.3%	27,578	6.5%
Adjusted Net Profit	29,380	31,530	(6.8%)	22,200	32.3%	27,578	6.5%
Diluted EPS (Rs)	10.8	11.6	(6.8%)	8.2	32.4%	10.2	
Adjusted Diluted EPS	10.8	11.6	(6.8%)	8.2	32.4%	10.2	6.5%
No. of Shares (mn) - Diluted	2,713	2,714		2,713		2,713	

- \$ Revenue was 0.8% above our estimates

- EBIT was robust for the quarter due to higher contribution from Mode II and Mode III services

- Net Profit came in at 6.5% above our estimates due to higher Other Income at 2,050 Mn vs INR 1,280 Mn in Q1FY20

Margin Analysis (%)			Change in bps		Change in bps		
Operating Profit Margin (%)	20.5%	20.9%	(35)	17.1%	345	20.1%	42
EBITDA Margin (%)	25.6%	25.4%	21	20.7%	490	23.6%	202
Net Profit Margin (%)	16.5%	17.0%	(49)	13.5%	295	15.6%	91
Adjusted NPM (%)	16.5%	17.0%	(49)	13.5%	295	15.6%	91
Effective Tax rate (%)	24.0%	18.3%	575	24.0%	(1)	23.0%	102

Cost Analysis (%)			Change in bps		Change in bps		
Direct cost as % of Sales	60.1%	60.0%	15	66.5%	(635)	62.9%	(278)
SG&A as % of Sales	14.3%	14.6%	(36)	12.8%	145	13.5%	76



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Revenue by Industry	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Financial Services	21.1%	20.3%	22.4%	21.6%	21.1%	22.4%
Manufacturing & Hi-Tech	17.5%	19.9%	19.8%	20.9%	20.7%	18.1%
Telecom	8.6%	8.0%	8.4%	9.0%	8.3%	7.6%
Retail & CPG	10.0%	9.5%	10.0%	10.3%	10.2%	10.0%
Life Science	13.0%	12.8%	12.9%	12.2%	12.5%	13.7%
Public Services (Includes Energ	11.1%	10.5%	11.0%	10.9%	11.1%	11.0%
Technology Services	18.5%	18.9%	15.4%	15.1%	16.2%	17.2%

Revenue by Industry	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Financial Services	481	480	557	549	537	528
Q-o-Q Growth	1.1%	-0.2%	16.0%	-1.3%	-2.3%	-1.7%
Y-o-Y Growth	-5.7%	-1.9%	15.4%	15.5%	11.7%	10.0%
Manufacturing & Hi-Tech	399	470	492	532	526	426
Q-o-Q Growth	2.3%	18.0%	4.6%	8.0%	-1.0%	-19.0%
Y-o-Y Growth	-45.7%	25.1%	30.3%	36.4%	32.1%	-9.4%
Telecom	196	189	209	229	211	179
Q-o-Q Growth	-3.3%	-3.5%	10.4%	9.6%	-7.8%	-15.2%
Y-o-Y Growth	29.9%	26.1%	38.2%	13.0%	7.8%	-5.3%
Retail & CPG	228	225	249	262	259	236
Q-o-Q Growth	1.4%	-1.4%	10.7%	5.4%	-1.0%	-9.2%
Y-o-Y Growth	16.4%	20.1%	18.4%	16.7%	13.9%	4.9%
Life Science	296	303	321	310	318	323
Q-o-Q Growth	3.5%	2.2%	6.0%	-3.2%	2.5%	1.5%
Y-o-Y Growth	26.3%	15.0%	18.4%	8.4%	7.4%	6.7%
Public Services (Includes Energy u	253	248	273	277	282	259
Q-o-Q Growth	18.4%	-1.8%	10.2%	1.4%	1.8%	-8.2%
Y-o-Y Growth	17.0%	15.0%	21.8%	29.8%	11.7%	4.4%
Technology Services	421	447	383	384	412	405
Q-o-Q Growth	2.4%	6.0%	-14.3%	0.3%	7.3%	-1.7%
Y-o-Y Growth	95.1%	19.5%	0.2%	-6.7%	-2.2%	-9.3%

Key: Green Highlighting indicates performance was relatively better than previous period

Red Highlighting indicates performance was worse off than previous comparable period

Mode 1 - 2 - 3	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Mode I	70%	67%	66%	65.1%	63%
Mode II	18.8%	18.3%	18.2%	19.2%	20.3%
Mode III	10.9%	14.7%	15.8%	15.7%	16.2%

- **Mode 1** reported the maximum dip in Q1FY21
- Increase in contribution of **Mode 2 and 3** segments helped in reported solid margins for the quarter

Mode 1 - 2 - 3 Trend	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Mode I	1,662	1,665	1,679	1,656	1,493
Q-o-Q Growth		0.2%	0.8%	-1.4%	-9.8%
Y-o-Y Growth					-10.1%
Mode II	444	455	463	488	478
Q-o-Q Growth		2.4%	1.8%	5.5%	-2.1%
Y-o-Y Growth					7.6%
Mode III	258	365	402	399	382
Q-o-Q Growth		41.8%	10.0%	-0.6%	-4.4%
Y-o-Y Growth					48.1%

Valuation & Outlook

HCL Tech is currently trading at 14.9x / 13.5x FY21e / FY22e EPS. HCL Tech reported a better than earlier estimated quarter. However, stock is trading at a discount to peers due to the perception overhang of Products & Platforms (IBM products acquisition). We believe that major renewals are due in the September and December quarter which will indicate the Products' business sustainability and trajectory. We will continue to monitor the progress of the P&P business before upgrading HCL Tech to a solid buy. **We recommend a BUY on Dips rating on the stock until then with a target price of INR 692 based on FY22e EPS estimates.**



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P&L Statement						Balance Sheet					
YE March (Rs. mn)	FY18	FY19	FY20	FY21E	FY22E	YE March (Rs. mn)	FY18	FY19	FY20	FY21E	FY22E
Total Revenues	505,690	604,280	706,780	725,570	795,411	Equity Capital	2,780	2,710	5,351	5,351	5,351
Revenue Growth (Y-o-Y)	8.2%	19.5%	17.0%	2.7%	9.6%	Reserves & Surplus	361,080	410,950	485,384	559,097	634,178
Less:						Equity	363,860	413,660	490,735	564,448	639,530
Employees Cost	332,370	392,680	443,080	436,166	480,603	Net Worth	363,860	413,660	490,735	564,448	639,530
SG&A	58,930	71,910	96,770	105,335	115,335	Capital Employed	379,262	466,868	540,216	622,588	700,503
Total Op. Expenditure	391,300	464,590	539,850	541,501	595,938	Assets					
EBIDTA	114,390	139,690	166,930	184,069	199,473	Gross Block	87,740	103,260	113,260	123,260	133,260
EBIDTA Growth (Y-o-Y)	10.9%	22.1%	19.5%	10.3%	8.4%	Less: Depreciation	42,140	50,330	78,730	107,388	114,051
Less: Depreciation	14,520	21,480	29,553	35,989	36,426	Net Block	45,600	52,930	34,530	15,872	19,209
Operating Profit	99,870	118,210	137,377	148,080	163,047	Investments	13,950	16,410	18,968	19,436	21,179
Growth (Y-o-Y)	5.4%	18.4%	16.2%	7.8%	10.1%	Intangible Assets	141,930	175,950	250,887	319,646	393,293
Non-operating	11,110	8,050	1,790	3,331	2,386	Other Non-current	35,170	38,540	45,077	46,276	50,730
Profit Before tax	110,980	126,260	139,167	151,411	165,433	Current Assets					
Tax	23,170	24,810	29,380	38,136	40,298	Sundry Debtors	96,390	117,060	136,916	140,556	154,085
Net Profit	87,810	101,530	110,107	113,405	125,135	Cash and Bank	39,862	75,588	67,062	100,276	86,069
Adjusted Net Profit	87,810	101,530	110,107	113,405	125,135	Other Current Assets	49,620	65,210	76,271	78,299	85,836
Diluted EPS (Rs.)	63.0	72.9	40.6	41.8	46.1	Total Current Assets	221,692	271,888	316,457	356,263	366,702
Growth (Y-o-Y) %	5.4%	15.6%	-44.3%	3.0%	10.3%	Less: Current Liabilities					
Adjusted Diluted EPS	31.5	36.4	40.6	41.8	46.1	Sundry Creditors	9,180	13,050	12,446	12,252	13,500
Growth (Y-o-Y) %	5.4%	15.6%	11.4%	3.0%	10.3%	Total Current Liabilities	100,650	115,750	149,327	160,439	178,518
						Capital Applied	379,262	466,868	540,216	622,588	700,503

Valuation Ratios					
YE March (Rs. mn)	FY18E	FY19E	FY19E	FY19E	FY19E
P/E (x)	9.9x	8.6x	15.4x	14.9x	13.5x
EV/EBITDA	7.3x	5.9x	9.9x	8.9x	8.2x
P/BV (x)	2.4x	2.1x	3.4x	3.0x	2.6x
Market Cap / Sales	1.7x	1.4x	2.4x	2.3x	2.1x

Free Cash Flow Analysis					
	FY18	FY19	FY20E	FY20E	FY20E
EBITDA	114,390	139,690	166,930	184,069	199,473
Add: Depreciation Tax Shield	3,031	4,221	6,239	9,065	8,873
Less: Inc in FC Investment	(39,643)	(49,540)	(84,937)	(78,759)	(83,646)
Taxes Paid	23,170	24,810	29,380	38,136	40,298
Total Free Cash Flows	23,436	70,191	39,334	80,757	77,836

Key Operating Ratios					
YE March (Rs. mn)	FY18	FY19	FY20	FY21E	FY22E
EBITDA Margin (%)	22.6%	23.1%	23.6%	25.4%	25.1%
Tax / PBT (%)	20.9%	19.6%	21.1%	25.2%	24.4%
Net Profit Margin (%)	17.4%	16.8%	15.6%	15.6%	15.7%
RoE (%)	25.3%	26.1%	24.3%	21.5%	20.8%
RoCE (%)	26.3%	25.3%	25.4%	23.8%	23.3%
Current Ratio (x)	2.2x	2.3x	2.1x	2.2x	2.1x
Dividend Payout (%)	23.1%	11.0%	30.0%	35.0%	40.0%
BV Per Share (Rs.)	261.2	296.9	180.9	208.1	235.8
Growth Indicators %					
Gross Block Growth (%)	13.0%	17.7%	9.7%	8.8%	8.1%
Sales Growth (%)	8.2%	19.5%	17.0%	2.7%	9.6%
EBITDA Growth (%)	10.9%	22.1%	19.5%	10.3%	8.4%
Net Profit Growth (%)	3.8%	15.6%	8.4%	3.0%	10.3%
Diluted EPS Growth (%)	5.4%	15.6%	11.4%	3.0%	10.3%



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