



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

Analyst: Mayank Babla (022) 67141412

## Stock Idea@ Dalal&Broacha

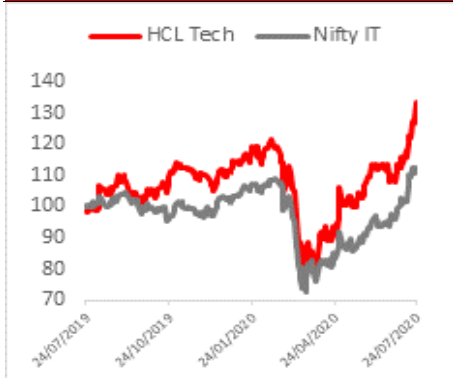
### BUY

Current Price	680
Target Price	784
Upside	15%
52 Week Range	376/690

### Key Share Data

Market Cap (Rs. Bn)	1865
Market Cap (US\$ Bn)	25
No of o/s shares (Mn)	2714
Face Value	2
Monthly Avg. Vol (BSE+NSE) ('000)	7618
BSE Code	532281
NSE Code	HCLTECH
Bloomberg	HCLT:IN

### Price performance



### Management achieved targeted revenue run rate and completed investments to upgrade acquired products

HCL Tech acquired 7 IT products from IBM with a vision to expand into the Products & Platforms space – which is typically a higher margin business. In Q1FY21, HCL Tech completed 1 year of the acquisition and also successfully scaled up the revenue to targeted run rate of \$150 Mn per quarter (or \$625 Mn pa). Additionally, HCL Tech is able to maintain EBIT margins due to higher contribution from Products & Platforms division (13.8% of revenue) and has EBIT margins of 31.6% versus IT Services (70.2% of revenue and 18.8% EBIT margins) and ER&D Services (16% of revenue and 18.7% EBIT margins).

### Impact of COVID bottomed out in Q1FY21

Management indicated that COVID impact bottomed out in Q1FY21 and that deal pipeline has seen healthy improvements at ~40% qoq especially in Financial Services, Technology, Energy & Automotive. Management has also given guidance of 1.5-2.5% qoq revenue growth guidance which translates into FY21e guidance of -2.3% to -0.8%.

### COVID to help boost Mode II and Mode III services

HCL Tech classifies Digital services under Mode II and Products & Platforms under Mode III services. Due to COVID, IT companies have seen an increased focus on Cloud and Digital services which should boost HCL Tech's Mode II and Mode III services (cumulatively 36.5% of revenue)

### Other Key Triggers

- Generate strong Free Cash Flow of \$757 Mn which is 196% of Net Income.
- Gross Cash stands at \$1.95 Bn and Net Cash at \$1.33 Bn on the balance sheet (5.3% of Market Cap)

### Valuation & Outlook

HCL Tech is currently trading at 16.3x / 14.8x FY21e / FY22e EPS. HCL Tech reported a better than earlier estimated quarter. However, stock is trading at a discount to peers due to the overhang of Products & Platforms (IBM products acquisition) which we believe should recede as management has scaled up revenue of the division. We believe that the stock will see some re-rating due to the current euphoria in the Technology space as well. Therefore, **we recommend a BUY on rating on the stock with a target price of INR 784 based on FY22e EPS estimates.** Lastly, given the current volatility in the stock markets we recommend investors to keep a stop loss of INR 620.

% Shareholding	Jun-21	Mar-20
Promoters	60.33	60.33
Public	39.67	39.67
Others	0.00	0.00
<b>Total</b>	<b>100</b>	<b>100</b>

### Consolidated Financials (In INR Mn)

Year	Net Sales	% Growth	EBIT	EBIT Margin (%)	PAT	PAT Margin (%)	EPS	Growth (%)	PE (x)	ROE (%)	ROCE (%)
<b>FY18</b>	505,690	8%	99,870	19.7%	87,810	17%	31.5	5.4%	10.8x	25.3%	26.3%
<b>FY19</b>	604,280	19%	118,210	19.6%	101,530	17%	36.4	15.6%	9.3x	26.1%	25.3%
<b>FY20</b>	706,780	17%	137,377	19.4%	110,107	16%	40.6	11.4%	16.8x	24.3%	25.4%
<b>FY21E</b>	725,570	2.7%	148,080	20.4%	113,405	15.6%	41.8	0.2%	16.3x	21.5%	23.8%
<b>FY22E</b>	795,411	9.6%	163,047	20.5%	125,135	15.7%	46.1	8.4%	14.8x	20.8%	23.3%

Source: Company, Dalal&Broacha Research



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P&L Statement					
YE March (Rs. mn)	FY18	FY19	FY20	FY21E	FY22E
<b>Total Revenues</b>	<b>505,690</b>	<b>604,280</b>	<b>706,780</b>	<b>725,570</b>	<b>795,411</b>
Revenue Growth (Y-o-Y)	8.2%	19.5%	17.0%	2.7%	9.6%
<b>Less:</b>					
Employees Cost	332,370	392,680	443,080	436,166	480,603
SG&A	58,930	71,910	96,770	105,335	115,335
<b>Total Op. Expenditure</b>	<b>391,300</b>	<b>464,590</b>	<b>539,850</b>	<b>541,501</b>	<b>595,938</b>
<b>EBIDTA</b>	<b>114,390</b>	<b>139,690</b>	<b>166,930</b>	<b>184,069</b>	<b>199,473</b>
EBIDTA Growth (Y-o-Y)	10.9%	22.1%	19.5%	10.3%	8.4%
Less: Depreciation	14,520	21,480	29,553	35,989	36,426
<b>Operating Profit</b>	<b>99,870</b>	<b>118,210</b>	<b>137,377</b>	<b>148,080</b>	<b>163,047</b>
Growth (Y-o-Y)	5.4%	18.4%	16.2%	7.8%	10.1%
Non-operating	11,110	8,050	1,790	3,331	2,386
<b>Profit Before tax</b>	<b>110,980</b>	<b>126,260</b>	<b>139,167</b>	<b>151,411</b>	<b>165,433</b>
Tax	23,170	24,810	29,380	38,136	40,298
<b>Net Profit</b>	<b>87,810</b>	<b>101,530</b>	<b>110,107</b>	<b>113,405</b>	<b>125,135</b>
Adjusted Net Profit	87,810	101,530	110,107	113,405	125,135
<b>Diluted EPS (Rs.)</b>	<b>63.0</b>	<b>72.9</b>	<b>40.6</b>	<b>41.8</b>	<b>46.1</b>
Growth (Y-o-Y) %	5.4%	15.6%	-44.3%	3.0%	10.3%
<b>Adjusted Diluted EPS</b>	<b>31.5</b>	<b>36.4</b>	<b>40.6</b>	<b>41.8</b>	<b>46.1</b>
Growth (Y-o-Y) %	5.4%	15.6%	11.4%	3.0%	10.3%

Valuation Ratios					
YE March (Rs. mn)	FY18E	FY19E	FY19E	FY19E	FY19E
P/E (x)	10.8x	9.3x	16.8x	16.3x	14.8x
<b>EV/EBITDA</b>	<b>8.0x</b>	<b>6.5x</b>	<b>10.8x</b>	<b>9.7x</b>	<b>9.0x</b>
P/BV (x)	2.6x	2.3x	3.8x	3.3x	2.9x
<b>Market Cap / Sales</b>	<b>1.9x</b>	<b>1.6x</b>	<b>2.6x</b>	<b>2.5x</b>	<b>2.3x</b>

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

Balance Sheet					
YE March (Rs. mn)	FY18	FY19	FY20	FY21E	FY22E
Equity Capital	2,780	2,710	5,351	5,351	5,351
Reserves & Surplus	361,080	410,950	485,384	559,097	634,178
<b>Equity</b>	<b>363,860</b>	<b>413,660</b>	<b>490,735</b>	<b>564,448</b>	<b>639,530</b>
<b>Net Worth</b>	<b>363,860</b>	<b>413,660</b>	<b>490,735</b>	<b>564,448</b>	<b>639,530</b>
<b>Capital Employed</b>	<b>379,262</b>	<b>466,868</b>	<b>540,216</b>	<b>622,588</b>	<b>700,503</b>
<b>Assets</b>					
Gross Block	87,740	103,260	113,260	123,260	133,260
Less: Depreciation	42,140	50,330	78,730	107,388	114,051
<b>Net Block</b>	<b>45,600</b>	<b>52,930</b>	<b>34,530</b>	<b>15,872</b>	<b>19,209</b>
<b>Investments</b>	<b>13,950</b>	<b>16,410</b>	<b>18,968</b>	<b>19,436</b>	<b>21,179</b>
Intangible Assets	141,930	175,950	250,887	319,646	393,293
Other Non-current	35,170	38,540	45,077	46,276	50,730
<b>Current Assets</b>					
Sundry Debtors	96,390	117,060	136,916	140,556	154,085
Cash and Bank	39,862	75,588	67,062	100,276	86,069
Other Current Assets	49,620	65,210	76,271	78,299	85,836
<b>Total Current Assets</b>	<b>221,692</b>	<b>271,888</b>	<b>316,457</b>	<b>356,263</b>	<b>366,702</b>
<b>Less: Current Liabilities</b>					
Sundry Creditors	9,180	13,050	12,446	12,252	13,500
<b>Total Current Liabilities</b>	<b>100,650</b>	<b>115,750</b>	<b>149,327</b>	<b>160,439</b>	<b>178,518</b>
<b>Capital Applied</b>	<b>379,262</b>	<b>466,868</b>	<b>540,216</b>	<b>622,588</b>	<b>700,503</b>

Key Operating Ratios					
YE March (Rs. mn)	FY18	FY19	FY20	FY21E	FY22E
EBITDA Margin (%)	22.6%	23.1%	23.6%	25.4%	25.1%
<b>Tax / PBT (%)</b>	<b>20.9%</b>	<b>19.6%</b>	<b>21.1%</b>	<b>25.2%</b>	<b>24.4%</b>
Net Profit Margin (%)	17.4%	16.8%	15.6%	15.6%	15.7%
<b>RoE (%)</b>	<b>25.3%</b>	<b>26.1%</b>	<b>24.3%</b>	<b>21.5%</b>	<b>20.8%</b>
RoCE (%)	26.3%	25.3%	25.4%	23.8%	23.3%
<b>Current Ratio (x)</b>	<b>2.2x</b>	<b>2.3x</b>	<b>2.1x</b>	<b>2.2x</b>	<b>2.1x</b>
Dividend Payout (%)	23.1%	11.0%	30.0%	35.0%	40.0%
<b>BV Per Share (Rs.)</b>	<b>261.2</b>	<b>296.9</b>	<b>180.9</b>	<b>208.1</b>	<b>235.8</b>
<b>Growth Indicators %</b>					
Gross Block Growth (o/c)	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 (o/c)	5.4%	15.6%	11.4%	3.0%	10.3%



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Contact	Email ID	Contact No.	Sector
Mr. Kunal Bhatia	kunal.bhatia@dalal-broacha.com	022 67141442	Auto, Auto Ancillary, FMCG
Mrs.Charulata Gaidhani	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma /Healthcare
<b>Mr. Mayank Babla</b>	<b>mayank.babladalal-broacha.com</b>	<b>022 67141412</b>	<b>I.T/Telecom/Media</b>
Mr. Avinash Tanawade	avinash.tanawade@dalal-broacha.com	022 67141449	BFSI
Mr. Akshay Ashok	akshay.ashok@dalal-broacha.com	022 67141486	BFSI
Mr. Suraj Nandu	suraj.nandu@dalal-broacha.com	022 67141438	Associate
Mr. Tanush Mehta	tanush.mehta@dalal-broacha.com	022 67141441	Associate

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