

# HCL Technologies (HCLTEC)

₹ 960

## Modest operating performance...

- US\$ revenues grew 0.8% QoQ to \$2,055 million, lower than our 2.2% growth and \$2,083 million estimate. Revenues in constant currency grew 2.7% QoQ
- Revenues in rupees grew 5.3% QoQ to ₹ 13,878 crore, largely in line with our 5.9% QoQ growth and ₹ 13,957 crore estimate
- At 19.7%, EBIT margins increased 10 bps QoQ, below our 20.1% and 50 bps expansion estimate
- PAT of ₹ 2,403 crore was above our ₹ 2,284 crore estimate led by higher other income (₹ 153 crore in Q1FY19 vs. ₹ 119 crore in Q4FY18) and lower tax rate (20.6% as a percentage of PBT vs. 22.1% in Q4FY18). HCL Tech announced a dividend of ₹ 2/share for a consecutive 62<sup>nd</sup> quarter

### Yet another soft quarter on organic basis...

HCL Tech reported revenue growth of 2.7% in CC terms with C3i acquisition contributing ~2% to growth indicating weak growth on organic basis. Weak growth was mainly on account of a drag in India SI business partly countered by growth in engineering and R&D services (3.1% QoQ). For FY19E, HCL Tech maintained its revenue growth guidance of 9.5-11.5% in constant currency translating to 8.4-10.4% in US\$ terms based on June 30, 2018 rates. Taking into account the incremental contribution from acquisitions, IP partnerships and new deals in the pipeline, indicates muted growth of ~5% on an organic basis in FY19E, lower than its peers. However, with larger size deals in its pipeline and healthy deal signings (27 in Q1), the management expects this to lead to incremental growth in coming quarters. Overall, we expect US\$ revenues to grow at a CAGR of 10.5% to US\$9,567 million in FY18-20E.

### Mode 2 & 3 @ 26.6% of revenues, witness healthy growth of 9.6% QoQ...

HCL describes its next gen & digital services through mode 1-2-3 strategy and expects it to drive efficiency in core business and expand to next-generation services. Mode 2, 3, which focus on new growth areas like Digital, Cloud, Security and IoT along with products & platforms together now contribute 26.6% to revenues (vs. 18.6% in FY17) and grew 9.6% QoQ. The management indicated it would continue investing in enhancing its presence & capabilities across mode 2 offerings. In media interactions, the management indicated it is on track to increase its Mode 2, 3 contributions to 40% of revenues in the next two to three years.

### Miss on margins; margin guidance band maintained for FY19E...

EBIT margins increased 10 bps QoQ to 19.7%, slightly below our 20.1% estimate. The margin miss was mainly on account of higher-than-expected employee expenses (65.6% as a percentage of revenue vs. 65% estimate). On the margin guidance outlook for FY19E, the management retained its margin band at 19.5-20.5%. Hence, we estimate EBIT margin to be 19.5%, 19.7% in FY19E, FY20E respectively.

### Signs of acceleration in organic growth still missing; maintain HOLD...

HCL Tech reported yet another soft quarter on an organic basis with overall revenue witnessing up-tick with the aid of acquisitions. Guidance for FY19E also implies weaker organic growth of ~5% for the year and remains a concern. Although healthy bookings and strengthening its position in Mode 2 & 3 (Emerging Technologies & product & solutions platform) could bode well for growth, a revival in its IMS (36% of revenues) is still missing and needs to be watched. Hence, we maintain our **HOLD** recommendation with target price of ₹ 1050.

Rating matrix		
Rating	:	Hold
Target	:	₹ 1050
Target Period	:	12 months
Potential Upside	:	9%

What's Changed?		
Target	Changed from ₹ 1000 to ₹ 1050	
EPS FY19E	Changed from ₹ 64.9 to ₹ 68.1	
EPS FY20E	Changed from ₹ 71.5 to ₹ 75.1	
Rating	Unchanged	

Quarterly Performance					
	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Revenue	13,878	12,149	14.2	13,179	5.3
EBIT	2,730	2,445	11.7	2,583	5.7
EBIT (%)	19.7	20.1	-45 bps	19.6	7 bps
PAT	2,403	2,171	10.7	2,227	7.9

Key Financials				
₹ Crore	FY17	FY18P	FY19E	FY20E
Net Sales	46,723	50,570	59,100	65,537
EBITDA	9,474	9,987	11,504	12,896
Net Profit	8,457	8,780	9,476	10,453
EPS (₹)	60.0	62.6	68.1	75.1

Valuation summary				
	FY17	FY18P	FY19E	FY20E
P/E	16.0	15.3	14.1	12.8
Target P/E	17.5	16.8	15.4	14.0
EV / EBITDA	13.0	11.2	9.1	7.7
P/BV	4.0	3.7	3.2	2.8
RoNW (%)	25.3	23.8	22.6	22.0
RoCE (%)	29.0	27.3	27.8	27.6

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	135,523.1
Total Debt (₹ Crore)	541.7
Cash (₹ Crore)	2,462.2
EV (₹ Crore)	133,602.6
52 week H/L	1107 / 825
Equity capital	282.5
Face value	₹ 2

Price performance (%)				
	1M	3M	6M	12M
TCS	6.6	12.0	27.2	55.0
Infosys	9.0	18.6	21.3	40.3
Wipro	7.3	(2.4)	(14.6)	(5.1)
HCL Tech	4.7	(10.5)	(0.2)	8.0

Research Analyst	
Deepak Purswani, CFA	
deepak.purswani@icicisecurities.com	
Deepti Tayal	
deepti.tayal@icicisecurities.com	

## Variance analysis

	Q1FY19	Q1FY19E	Q1FY18	YoY (%)	Q4FY18	QoQ (%)	Comments
Revenue	13,878	13,957	12,149	14.2	13,179	5.3	Revenues in constant currency grew 2.7% sequentially
Cost of sales (including employee expenses)	9,106	9,072	8,057	13.0	8,560	6.4	
Gross Margin	4,772	4,885	4,092	16.6	4,619	3.3	
Gross margin (%)	34.4	35.0	33.7	70 bps	35.0	-66 bps	
Selling & marketing costs	1,546	1,605	1,411	9.6	1,583	-2.3	
EBITDA	3,226	3,280	2,681	20.3	3,036	6.3	
EBITDA Margin (%)	23.2	23.5	22.1	118 bps	23.0	21 bps	
Depreciation	496	475	236	110.2	453	9.5	
EBIT	2,730	2,805	2,445	11.7	2,583	5.7	
EBIT Margin (%)	19.7	20.1	20.1	-45 bps	19.6	7 bps	EBIT margins were slightly below our expectation
Other income	296	161	269	10.0	280	5.7	
PBT	3,026	2,966	2,714	11.5	2,863	5.7	
Tax paid	622	682	543	14.5	634	-1.9	
PAT	2,403	2,284	2,171	10.7	2,227	7.9	PAT was above our crore estimate led by higher other income and lower tax rate

## Key Metrics

Closing employees	124,121	120,200	117,781	5.4	120,081	3.4
Attrition - IT Services (%)	16.3	15.0	16.2	10 bps	15.5	80 bps
Blended Utilisation (%)	85.5	85.5	86.0	-50 bps	85.9	-40 bps
Average \$/₹	67.5	67.0	64.5	4.7	64.7	4.4

Source: Company, ICICI Direct Research

## Change in estimates

(₹ Crore)	Old	FY19E New	% Change	Old	FY20E New	% Change
Revenue	56,279	59,100	5.0	62,188	65,537	5.4
EBIT	10,951	11,504	5.0	12,109	12,896	6.5
EBIT Margin (%)	19.5	19.5	-1 bps	19.5	19.7	19 bps
PAT	9,039	9,476	4.8	9,951	10,453	5.0
EPS (₹)	64.9	68.1	4.9	71.5	75.1	5.0

Source: Company, ICICI Direct Research

## Assumptions

	FY17	Current FY18E	Current FY19E	Earlier FY19E	Current FY20E	Earlier FY20E	Comments
Closing employees	115,973	134,285	147,508	147,508	159,948	159,948	
Attrition - IT Services (%)	17.8	15.0	14.0	14.0	14.0	14.0	
Blended Utilisation (%)	85.4	87.8	88.4	88.4	88.4	88.4	
Average \$/₹	67.0	64.5	68.3	65.0	68.5	65.0	Change in exchange rate assumption

Source: Company, ICICI Direct Research

## Conference call highlights...

- **Soft quarter on organic basis, FY19E guidance maintained-** For FY19E, HCL Tech maintained its revenue growth guidance of 9.5-11.5% in constant currency translating to 8.4-10.4% in US\$ terms based on June 30, 2018 rates
- **Retains EBIT margin guidance-** Wage hikes would percolate to Q2 and Q3 as its usual cycle. For FY19E, HCL has maintained its stance of EBIT margin in the 19.5-20.5% band for FY19E
- **Growth driven by ER&D services-** Engineering and R&D services (24.5% of revenue) led the growth for the quarter with 3.1% growth on a QoQ basis in CC terms. However, they registered strong growth of 24.2% YoY (CC terms) in FY18 supported by acquisitions and IP partnerships. The management reiterated its positive outlook on the ER&D space
- **Soft quarter for IMS-** IMS (36.2% of revenue), the largest contributor to revenue by service mix posted a soft quarter with 0.6% sequential growth. However, they maintained their stance for FY19E to be better compared to FY18 for the vertical. The management said deals won include significant amount of the next generation infrastructure components going into the solution
- **IP partnership** - Extended IP partnership with a leading technology provider will include market leading on-premises digital experience software with favourable market growth conditions. The consideration for the new IP deal is US\$177 million
- **Good deal signings-** The highlight of Q1FY19 result was significant deal win. The company signed 27 transformational deals during the quarter led by strong momentum in telecom, financial services, retail & CPG and energy & utilities verticals. With slightly larger deals in its pipeline and healthy deal signings, the management expects this to lead to incremental growth in coming quarters
- **Mode 2, 3 witness healthy growth-** From this quarter, disclosure of revenue from mode 1, 2, 3 strategies is provided on a quarterly basis. Mode 2 and mode 3, which deal with newer age technologies together constituted 26.6% of revenues and grew 9.6% sequentially. Mode 2 growth was led by cloud, digital and analytics offerings while mode 3 growth was led by products and IP partnerships. EBIT margin in Mode 2 was at 14.8% while for mode 3 it was 25.2%
- **Employee update-** The employee count was at 124,121, with gross addition of 12,558 employees over the last quarter. On the attrition front, IT services attrition increased 80 bps QoQ to 16.3% (LTM). Blended utilisation (including trainees) declined 40 bps sequentially to 85.5%
- **Cash position-** Cash & cash equivalents were at US\$1,579 million at the end of Q1FY19. DSO days excluding unbilled revenues stood at 66 days

## Company Analysis

### Exhibit 1: Geography wise break-up

	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
<b><u>Revenue by geography (%)</u></b>						
Americas	62.6	62.8	62.4	63.5	61.6	64.5
Europe	27.7	27.4	29.1	28.7	30.0	28.1
RoW	9.7	9.7	8.5	7.9	8.5	7.5
<b><u>Growth QoQ (%) - Constant Currency</u></b>						
Americas	5.3	3.8	1.5	4.9	-0.7	5.9
Europe	-3.0	-0.4	4.4	1.9	3.6	-1.0
RoW	15.8	3.1	-12.0	-3.9	8.1	-7.1

Source: Company, ICICI Direct Research

### Exhibit 2: Vertical wise break-up

	% contribution to revenues Q1FY19	CC Growth QoQ (%)	CC Growth YoY (%)
<b><u>Revenue by verticals (%)</u></b>			
Financial Services	23.8	-1.4	2.9
Manufacturing	18.3	-1.3	-3.9
Technology & Services	18.2	9.3	39.5
Lifesciences & Healthcare	12.8	13.4	18.1
Public Services	10.5	3.5	3.4
Retail & CPG	9.1	-1.6	5.3
Telecommunications, Media, Publishing & Entertainment	7.3	0.2	-0.1

\*Vertical re-classification in Q1FY19, Source: Company, ICICI Direct Research

### Exhibit 3: Service line wise break-up

	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
<b><u>Revenue by services (%)</u></b>						
Application Services	36.8	36.3	35.9	35.3	34.7	34.0
Infrastructure Services	38.8	38.6	38.5	36.7	37.3	36.2
Business Services	3.9	3.6	3.6	3.7	3.9	5.2
Engineering and R&D Services	20.5	21.5	22.0	24.2	24.1	24.5
<b><u>Growth QoQ (%) - Constant currency</u></b>						
Application Services	1.8	1.6	0.0	1.6	-0.9	0.8
Infrastructure Services	0.9	1.7	-0.2	-1.2	2.5	0.6
Business Services	0.2	-6.7	2.9	5.0	5.3	38.8
Engineering and R&D Services	14.6	7.9	4.4	13.6	1.7	3.1

Source: Company, ICICI Direct Research

Healthy growth of 5.9% QoQ by Americas

Lifesciences & healthcare and technology & services led the growth among verticals

IMS posted a soft quarter

ER&D grew 3.1% QoQ. However, it registered a strong growth of 24.2% YoY (CC terms) in Q1FY19

Healthy client addition across the client's category.  
Attrition (LTM) in IT services grew 80 bps QoQ to 16.3%

#### Exhibit 4: Client & Human resource metrics

	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
<b><u>Client metrics</u></b>						
US\$1-5 million	260	259	277	291	297	304
US\$10-20 million	68	68	73	71	73	75
US\$30-40 million	15	17	15	16	18	16
US\$50-100 million	17	17	16	16	20	23
US\$100 million+	8	8	9	9	8	9

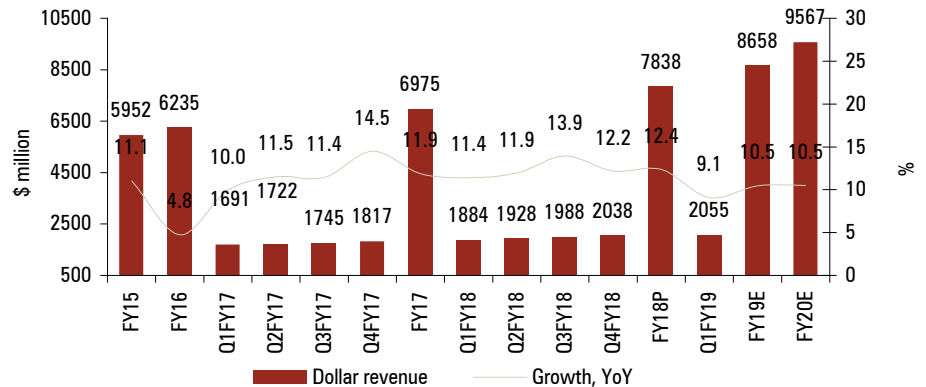
#### **Headcount, Utilization & Attrition**

Total Employees	115,973	117,781	119,040	119,291	120,081	124,121
Blended Utilization (In- trainees)	85.7	86.0	86.0	85.8	85.9	85.5
Attrition - IT Services (LTM)	16.9	16.2	15.7	15.2	15.5	16.3

Source: Company, ICICI Direct Research

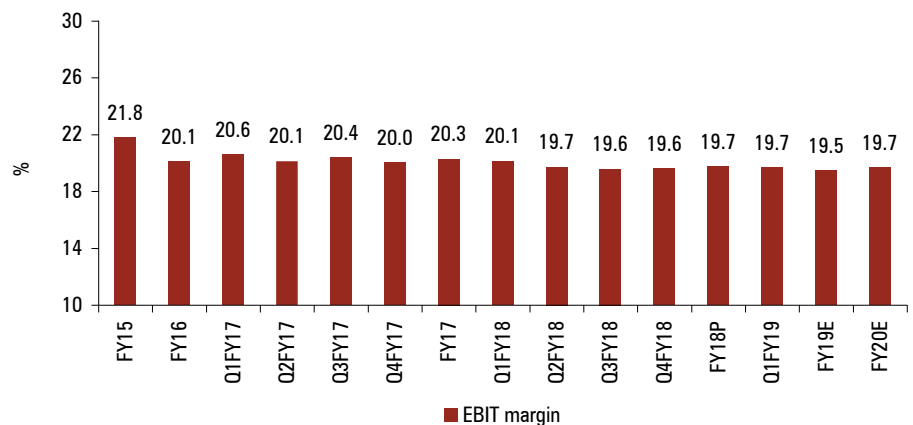
## Financial story in charts

**Exhibit 5: Dollar revenues may grow at 10.5% CAGR during FY18-20E**



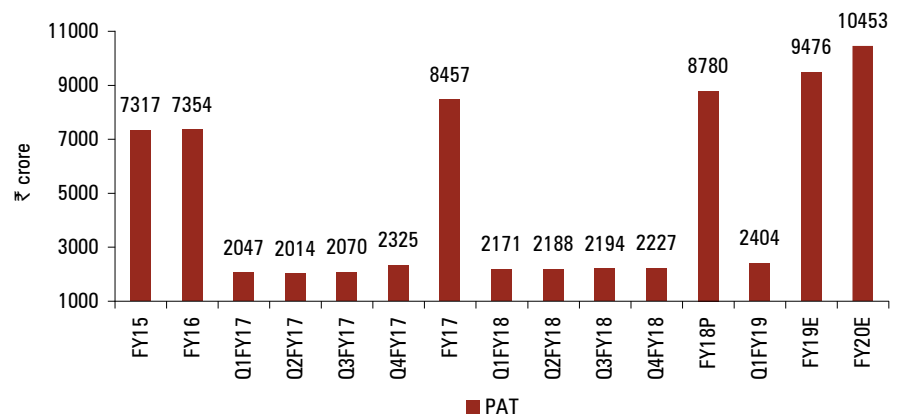
Source: Company, ICICI Direct Research

**Exhibit 6: EBIT margins decline QoQ, maintained at 19.5-20.5% for FY19E**



Source: Company, ICICI Direct Research

**Exhibit 7: PAT trend**



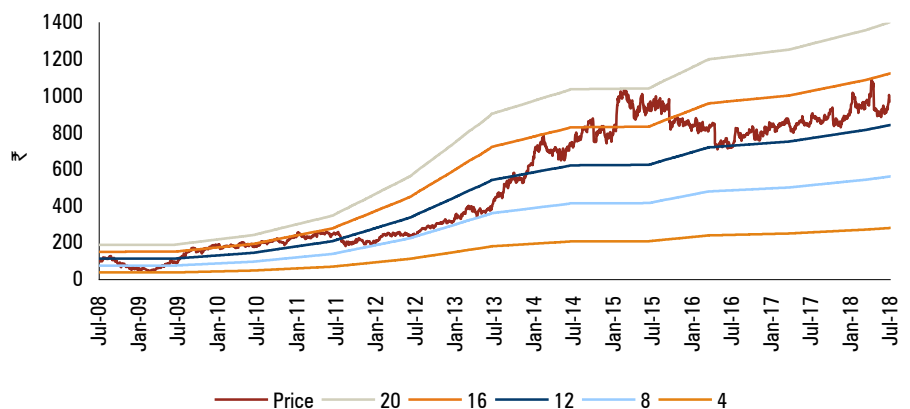
Source: Company, ICICI Direct Research

## Outlook and valuation

HCL Tech reported Q1FY19 results that were marginally below our expectation on operating performance front. For FY19E, HCL Tech has retained its revenue guidance of 9.5-11.5% in constant currency (CC) and margin guidance of 19.5-20.5%. The highlight of the Q1FY19 result was significant deal win. The company signed 27 transformational deals during the quarter led by strong momentum in telecom, financial services, retail & CPG and energy & utilities verticals. Among geographies, revenue growth in constant currency was driven by America, which grew 5.9% while RoW declined 7.1% QoQ. Among verticals, lifesciences & healthcare and technology & services led the growth with 13.4% and 9.3% growth respectively. While financial services, retail & CPG and manufacturing declined QoQ by 1.4%, 1.6% and 1.3%, respectively. Engineering & R&D grew 3.1% QoQ and healthy 24.2% YoY in CC terms among services.

HCL Tech reported yet another soft quarter on an organic basis with overall revenue witnessing an up-tick with the aid of acquisitions. Guidance for FY19E also implies weaker organic growth of ~5% for the year and remains a concern. Although healthy bookings and strengthening its position in Mode 2 & 3 (Emerging Technologies & product & solutions platform) could bode well for the growth ahead, growth in its IMS (36% of revenues) is still missing and needs to be watched. Hence, we maintain our HOLD rating with a target price of ₹ 1050 (14x FY20E).

**Exhibit 8: One year forward rolling PE**



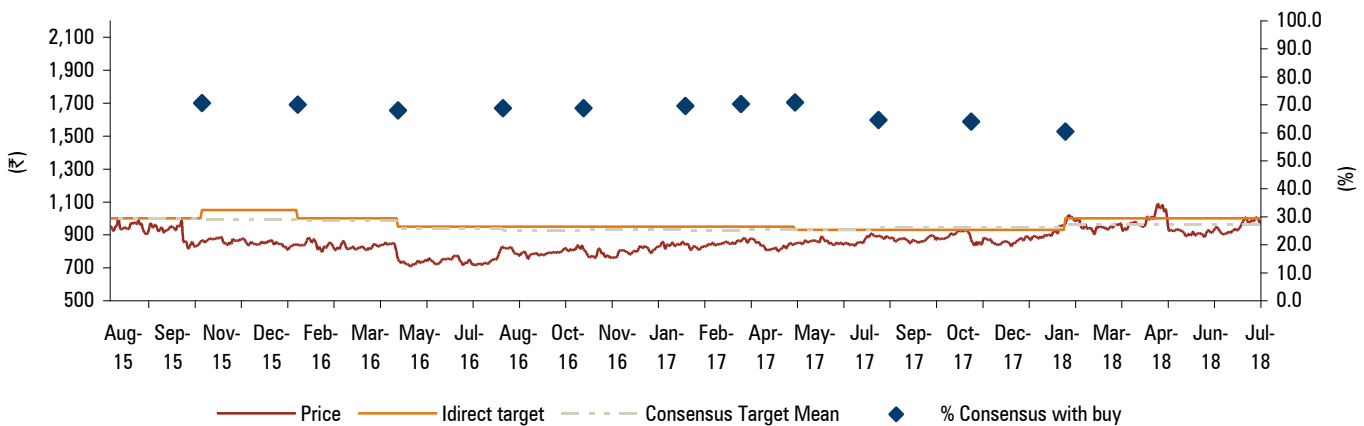
Source: Company, ICICI Direct Research

**Exhibit 9: Valuation**

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY16	40,913	10.4	52.1	0.5	18.4	15.4	26.2	30.3
FY17	46,723	14.2	60.0	15.2	16.0	13.0	25.3	29.0
FY18P	50,570	8.2	62.6	4.3	15.3	11.2	23.8	27.3
FY19E	59,100	16.9	68.1	8.7	14.1	9.1	22.6	27.8
FY20E	65,537	10.9	75.1	10.3	12.8	7.7	22.0	27.6

Source: Company, ICICI Direct Research

## Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

## Key events

Date	Event
Oct-17	HCL Tech has announced a collaboration with Red Hat to offer HCL Application Platform-as-a-Service to enterprise customers globally. Red Hat is world's leading provider of open source solutions. The collaboration combines Red Hat OpenShift Container Platform with HCL's capabilities to build digital and cloud native applications
Nov-17	HCL Tech has entered into a five-year IT infrastructure services contract with Jardine Lloyd Thompson Group (JLT), one of the world's leading providers of insurance, reinsurance and employee benefits related advice, brokerage and associated services
Sep-17	HCL Tech announces two acquisitions. It acquires UK-based ETL Factory Ltd, doing business as Datawave. Total cash consideration for the acquisition is up to £7 million. ETL's revenue grows from £1.04 million in FY15 to £6.2 million in FY17. In another acquisition, HCL acquires the assets of UK based Alpha Insight. Cash
Jan-18	HCL Technologies has mutually terminated its joint venture with US-based Great American Insurance Company (GAIC) to reduce financial/ operational overheads. HCL Tech had entered into a JV agreement with GAIC in September, 2011 with setting up of HCL Eagle Ltd
Feb-18	HCL Technologies collaborates with Xilinx, a leading silicon provider for wireless infrastructure, to deliver next-generation mobile backhaul solution on 5G wireless networks. The solution targets 5G access and mobile backhaul markets and will enable telecom OEMs to meet the stringent requirements of next-generation networks
Mar-18	HCL Technologies signs a deal with Norway-based energy company, Statkraft. As part of the five-and-a-half-year deal, HCL would provide end-to-end integrated infrastructure services, including data centre, service desk, workplace, network and security services, application operations and cross functional services. No financial details of the deal were disclosed
Jun-18	HCL Tech signs an end-to-end IT infrastructure services deal with Falck, an international leader in the ambulance and healthcare markets. Through this deal, HCL would support Falck's business transformation by consolidating, simplifying and standardizing Falck's IT infrastructure operations

Source: Company, ICICI Direct Research

## Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Vamasundari Investments (Delhi) Pvt. Ltd.	30-Jun-18	42.7%	595.1	7.5
2	HCL Holdings Pvt. Ltd.	30-Jun-18	16.8%	233.9	0.0
3	Artisan Partners Limited Partnership	30-Jun-18	1.5%	20.2	-0.4
4	The Vanguard Group, Inc.	30-Jun-18	1.4%	19.0	0.5
5	Life Insurance Corporation of India	30-Jun-18	1.3%	18.5	3.9
6	BlackRock Institutional Trust Company, N.A.	30-Jun-18	1.3%	17.8	-1.1
7	ICICI Prudential Asset Management Co. Ltd.	30-Jun-18	1.1%	15.2	-3.8
8	SBI Funds Management Pvt. Ltd.	30-Jun-18	1.0%	13.4	-0.8
9	Lazard Asset Management, L.L.C.	30-Jun-18	0.9%	12.8	-3.6
10	Aditya Birla Sun Life AMC Limited	30-Jun-18	0.9%	12.6	1.0

Source: Reuters, ICICI Direct Research

## Shareholding Pattern

(in %)	Dec-17	Mar-18	Jun-18
Promoter	60.19	60.18	60.17
Public	39.81	39.82	39.83
Others	0.00	0.00	0.00
Total	100.00	100.00	100.00

## Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Vamasundari Investments (Delhi) Pvt. Ltd.	101.49m	7.50m	HCL Corporation, Ltd.	-58.19m	-4.30m
Hcl Avitas Pvt Ltd	56.04m	4.14m	ICICI Prudential Asset Management Co. Ltd.	-50.91m	-3.76m
Life Insurance Corporation of India	52.39m	3.87m	Lazard Asset Management, L.L.C.	-49.36m	-3.65m
Aditya Birla Sun Life AMC Limited	14.18m	1.05m	BlackRock Institutional Trust Company, N.A.	-14.74m	-1.09m
Amundi Hong Kong Limited	11.89m	0.80m	Tata Asset Management Limited	-13.53m	-1.00m

Source: Reuters, ICICI Direct Research

## Financial summary

Profit and loss statement		₹ Crore			
	FY17	FY18P	FY19E	FY20E	
Total operating Income	46,723	50,570	59,100	65,537	
Growth (%)	14.2	8.2	16.9	10.9	
Direct costs	30,890	33,237	38,651	42,861	
S,G&A expenses	5,524	5,894	7,092	7,733	
Total Operating Expenditure	36,414	39,131	45,743	50,594	
EBITDA	10,309	11,440	13,357	14,942	
Growth (%)	17.2	11.0	16.8	11.9	
Depreciation	771	1,453	1,773	1,966	
Amortisation	64	-	80	80	
Other Income	746	570	645	679	
PBT	10,220	10,557	12,149	13,575	
Forex adjustments	-	-	-	-	
Total Tax	1,952	2,316	2,673	3,122	
PAT	8,457	8,780	9,476	10,453	
Growth (%)	15.0	3.8	7.9	10.3	
EPS (₹)	60.0	62.6	68.1	75.1	
Growth (%)	15.2	4.3	8.7	10.3	

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
	FY17	FY18P	FY19E	FY20E	
PBT	10,220	10,557	12,149	13,575	
Depreciation & Amortisation	835	1,453	1,853	2,046	
(Inc)/dec in Current Assets	(653)	1,143	(359)	(1,416)	
Inc/(dec) in CL and Provisions	1,639	918	2,035	1,536	
Taxes paid	(1,952)	(2,316)	(2,673)	(3,122)	
CF from operating activities	9,532	11,726	12,359	11,940	
(Inc)/dec in Investments	746	570	645	679	
(Inc)/dec in Fixed Assets	(1,168)	(1,264)	(1,477)	(1,638)	
CF from investing activities	(422)	(694)	(832)	(960)	
Issue/(Buy back) of Equity	-	(3,500)	-	-	
Inc/(dec) in loan funds	(69)	-	-	-	
Dividend paid & dividend tax	(3,972)	(1,955)	(4,435)	(4,892)	
Inc/(dec) in debentures	-	-	-	-	
Others	-	-	-	-	
CF from financing activities	(4,040)	(5,455)	(4,435)	(4,892)	
Net Cash flow	5,069	5,577	7,093	6,088	
Exchange difference	-	-	-	-	
Opening Cash	5,981	11,050	16,627	23,720	
Bank bal + unclaimed dvd.	(9,733)	(9,733)	(9,733)	(9,733)	
Cash c/f to balance sheet	1,317	6,894	13,986	20,074	

Source: Company, ICICI Direct Research

Balance sheet		₹ Crore			
	FY17	FY18P	FY19E	FY20E	
Liabilities					
Equity Capital	283	276	276	276	
Reserve and Surplus	33,208	36,540	41,581	47,142	
Total Shareholders funds	33,490	36,816	41,857	47,418	
Total Debt	542	542	542	542	
Other liabilities + Provisions	1,253	1,253	1,253	1,253	
Minority Interest / Others	-	-	-	-	
Total Liabilities	35,285	38,610	43,651	49,212	
Assets					
Net Block + CWIP	4,681	4,492	4,116	3,709	
Intangible assets	11,426	11,426	11,426	11,426	
Investments	10,366	10,366	10,366	10,366	
Liquid investments	1,146	1,146	1,146	1,146	
Inventory	-	-	-	-	
Debtors	10,803	10,114	10,047	11,141	
Loans and Advances	-	-	-	-	
Other Current Assets	2,983	2,529	2,955	3,277	
Cash	1,317	6,894	13,986	20,074	
Total Current Assets	16,248	20,682	28,134	35,638	
Total Current Liabilities	11,148	12,065	14,101	15,636	
Net Current Assets	5,100	8,616	14,033	20,002	
Other non current assets	3,712	3,712	3,712	3,712	
Application of Funds	35,285	38,610	43,651	49,212	

Source: Company, ICICI Direct Research

Key ratios		FY17	FY18P	FY19E	FY20E
Per share data (₹)					
EPS		60.0	62.6	68.1	75.1
Cash EPS		65.9	73.0	81.4	89.8
BV		237.6	262.5	300.7	340.6
DPS		24.0	12.0	31.9	35.1
Cash Per Share		9.3	49.2	100.5	144.2
Operating Ratios (%)					
EBIT Margin		20.3	19.7	19.5	19.7
PBT Margin		21.9	20.9	20.6	20.7
PAT Margin		18.1	17.4	16.0	15.9
Debtor days		84	73	62	62
Creditor days		-	-	-	-
Return Ratios (%)					
RoE		25.3	23.8	22.6	22.0
RoCE		29.0	27.3	27.8	27.6
RoIC		28.9	32.7	40.3	46.1
Valuation Ratios (x)					
P/E		16.0	15.3	14.1	12.8
EV / EBITDA		13.0	11.2	9.1	7.7
EV / Net Sales		2.9	2.5	2.0	1.8
Market Cap / Sales		2.9	2.7	2.3	2.1
Price to Book Value		4.0	3.7	3.2	2.8
Solvency Ratios					
Debt/EBITDA		0.1	0.0	0.0	0.0
Debt / Equity		0.0	0.0	0.0	0.0
Current Ratio		1.2	1.0	0.9	0.9
Quick Ratio		1.2	1.0	0.9	0.9

Source: Company, ICICI Direct Research

## ICICI Direct Research coverage universe (IT)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE(%)		
	(₹)	TP(₹)	Rating		FY18P	FY19E	FY20E	FY18P	FY19E	FY20E	FY18P	FY19E	FY20E	FY18P	FY19E	FY20E	FY18P	FY19E	FY20E
Cyient (INFENT)	710	760	Hold	7,881	36.0	39.3	47.6	19.4	17.8	14.7	12.8	9.8	9.0	21.4	20.2	21.5	17.3	17.0	18.1
Eclerx (ECLSER)	1,280	1,180	Hold	5,190	72.9	72.2	84.4	17.3	17.4	14.9	11.8	11.5	9.5	23.2	22.1	23.9	19.3	17.0	18.4
Firstsource (FIRSOU)	73	87	Buy	5,087	4.8	5.1	6.2	15.2	14.2	11.7	12.0	10.3	8.5	12.7	14.7	16.0	13.9	13.6	15.1
HCL Tech (HCLTEC)	960	1,050	Hold	135,523	62.6	68.1	75.1	15.3	14.1	12.8	11.2	9.1	7.7	27.3	27.8	27.6	23.8	22.6	22.0
Infosys (INFTEC)	1,357	1,410	Hold	309,689	64.7	71.2	78.4	21.0	19.0	17.3	14.9	13.3	12.0	30.9	30.4	30.9	22.5	21.8	22.1
KPIT Tech (KPISYS)	296	300	Hold	5,770	12.9	17.9	21.3	22.5	16.2	13.6	14.7	10.7	8.9	15.9	19.8	20.6	14.2	17.0	17.2
MindTree (MINCON)	927	1,055	Buy	16,070	34.3	41.4	50.2	27.9	23.1	19.1	20.7	14.5	11.5	24.9	27.7	28.9	20.8	21.8	22.2
NIIT Technologies (NIITEC)	1,244	1,250	Buy	3,941	45.6	58.2	69.1	24.1	18.9	15.9	6.0	4.6	3.4	18.4	20.7	21.1	15.1	16.7	17.1
Persistent (PSYS)	832	825	Buy	6,598	40.5	43.7	50.9	20.4	18.9	16.2	12.6	10.9	9.0	19.9	19.1	19.9	15.2	14.7	15.3
TCS (TCS)	1,939	2,060	Hold	724,485	67.4	80.6	89.4	14.3	23.9	21.5	21.0	17.3	15.2	37.6	43.9	39.8	29.6	34.2	30.9
Tech Mahindra (TECMAH)	647	735	Hold	63,483	42.7	42.2	49.0	15.1	15.3	13.2	12.0	9.5	7.6	21.9	20.0	20.1	20.0	17.3	17.0
Wipro (WIPRO)	271	325	Buy	123,392	16.8	18.8	21.5	16.3	14.6	12.7	10.2	9.2	7.7	16.9	15.9	16.2	16.6	15.3	15.4

Company, ICICI Direct Research

## **RATING RATIONALE**

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



**Pankaj Pandey**

**Head – Research**

**[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)**

**ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)**

## ANALYST CERTIFICATION

We /I, Deepak Purswani, CFA MBA (Finance), Deepti Tayal, MBA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

## Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock broking and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with Sebi Registration Number – INH000000990. ICICI Securities is a wholly-owned subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com).

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

It is confirmed that Deepak Purswani, CFA MBA (Finance), Deepti Tayal, MBA, Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

It is confirmed that Deepak Purswani, CFA MBA (Finance), Deepti Tayal, MBA, Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.