

**Summary:** Building Enterprises for the digital age with Mode1-2-3 strategy

## HCL TECHNOLOGIES LIMITED

**Recommendation:** Buy

**CMP:** Rs.1033/-

**TARGET:** Rs. 1070/-

**SENSEX:** 38233

**NIFTY:** 11483

### KEY STOCK STATISTICS:

Market Capitalization (crs): 138022/-

Book Value: Rs. 302.56/-

Face Value: Rs. 2/-

52 week High/Low: 1124.50/880

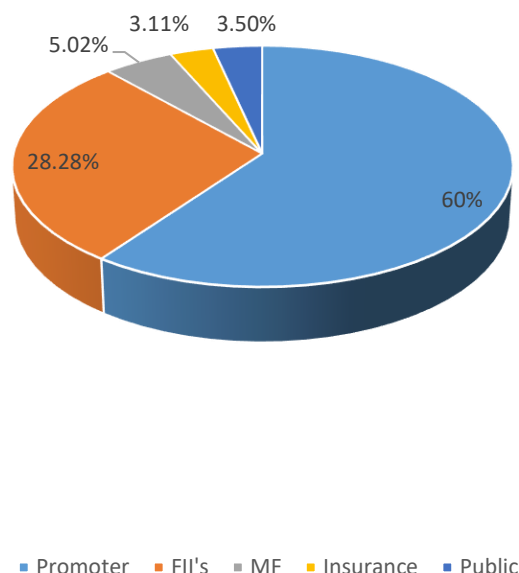
P/E Ratio: 14.09

Industry P/E:23.63

### Company Background:

- ✓ HCL Technologies is a leading global technology company that helps global enterprises re-image and transform their businesses through digital technology transformation.
- ✓ HCL focuses on providing an integrated portfolio services underlined by its Mode 1-2-3 growth strategy.
- ✓ Mode 1 encompasses the core services in the areas of applications, Infrastructure, BPO, Engineering & R& D services, leveraging DRYICE autonomies to transform client's business and IT landscape, making them 'lean' and 'agile'.
- ✓ Mode 2 focuses on experience-centric and outcome oriented integrated offerings of Digital & Analytics, IoT WoRKS, cloud native services and cybersecurity & GRC services to drive business outcomes and enable enterprise digitalization.
- ✓ Mode 3 strategy is ecosystem-driven, creating innovative IP-partnerships to build products and platforms business.
- ✓ HCL leverages its global network of integrated co-innovation labs and global delivery capabilities to provide holistic multi services delivery in key industrial verticals including financial services, manufacturing, telecommunications, media, publishing & government.

## SHAREHOLDING PATTERN



Source: Company, KFO Research

### RETURNS (%):

	3 MONTHS	6 MONTHS	12 MONTHS
SENSEX	-2.50	4.55	6.67
HCLTECH	10.05	4.93	8.58

Source: Company, KFO Research

Analyst :

Nilesh Soman

[research@thekeynotes.in](mailto:research@thekeynotes.in)

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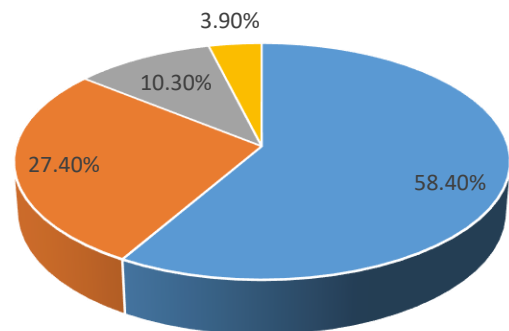
## INDUSTRY OVERVIEW

- ✓ The new digital age is transforming enterprises and is altering how they operate in a fast changing world.
- ✓ The key digital disruptions that are leading this transformation include automation, block chain, cloud, digital twins, Internet of things and artificial intelligence (AI).
- ✓ Enterprises today stand at the cross roads due to these disruptive technologies that promise to modify the business landscape forever.
- ✓ Most companies in the IT space have come to realize that new tech-driven models are fast gaining acceptance, making it imperative for business leaders to upgrade their skills.
- ✓ This has led them to invest proactively in “creative destruction” – the next logical step to thrive and survive.

## HCL Strategy

- ✓ 21<sup>st</sup> century enterprises cannot overlook the importance of continuous reinvention, the key to sustained competitive advantage in a constantly evolving business landscape.
- ✓ A three –lane “highway,” Mode 1-2-3 is at the core HCL’s strategy for HCL that will drive unmatched value and respond to changing industry dynamics in a timely and agile manner.
- ✓ The outcome and growth potential across the three modes differ distinctively.
- ✓ Under Mode 1, HCL continued to strengthen its core services.
- ✓ The Mode 2 Strategy revolves around stepping up the game and leveraging high growth business opportunities.
- ✓ HCL, leveraging its Mode 3 strategy was successful in filing new patents in next-gen technologies, adding and expanding existing IP partnerships and developing the first X aa S service management system.

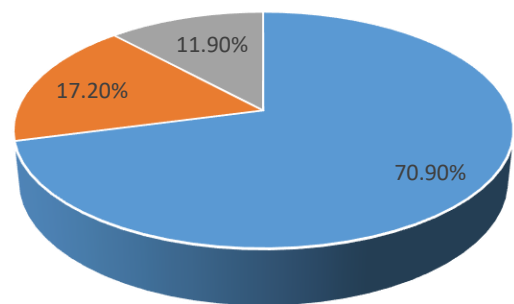
## GEOGRAPHIC MIX



■ Americas ■ Europe ■ ROW ■ India

Source: Company, KFO Research

## MODE 1-2-3 Highlights



■ Mode 1 ■ Mode 2 ■ Mode 3

Source: Company, KFO Research.

**FY'19 Guidance:**

- ✓ **Revenue:** FY'19 Revenues are expected to grow between 9.5% to 11.5% in constant currency (\* Revenue Guidance is based on FY'18 (April-March) average exchange rates.
- ✓ **Operating Margin (EBIT):** FY'19 expected Operating Margin (EBIT) range is from 19.5% to 20.5%.

**RISK & CONCERNS:**

- ✓ Regulatory Compliance Risk
- ✓ Business Continuity Risk
- ✓ Information and Cyber Security Risk
- ✓ Privacy Risk
- ✓ Competition Related Risk
- ✓ HR Related Risk
- ✓ Technology Related Risk
- ✓ Increase dependence on onshore workforce

**VALUATIONS:**

On the basis of Discount Cash Flow Valuation Method, we are recommending 'Buy' for the stock. Since the stock offers good opportunity, we initiate a '**BUY**' signal on the stock with 12-month price target of **Rs 1070/-** share an upside of 20% from current levels.

**GROWTH DRIVERS**

- ✓ Mode 1 growth was driven by IMS, ERS and Applications all of them demonstrating strong traction.
- ✓ Mode 2 crosses US \$ 1.5 billion run rate. The robust growth in Mode 2 services was fueled by all the components that include digital & Analytics, security & Cloud Native services.
- ✓ All geographies reported double-digit growth. Americas 12.9%, Europe 14.5% & ROW (ex-India) 12.1%.
- ✓ HCL announced a definitive agreement to acquire select IBM Software products for an aggregate value of US \$ 1,775 million
- ✓ HCL continues its strong deal win momentum signing 17 transformational deals this quarter (Q3'18) which are a mix of Mode1 and Mode 2 services across all our service lines. These deals were led by sectors such as Financial Services, technology and Manufacturing.

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