Q4FY19 – Result Update

Institutional Research

May 10, 2019

HCL Technologies Limited

BUY*

Downside Scenario	Last Closing Price	Price Target	Upside Scenario
	1137	1250	
		10% ▲	

Q4FY19 Result Update

HCL Technologies Ltd. (HCLT) reported Q4 FY19 net revenue at INR 1,59,900 mn; up 2% QoQ and up 21% YoY. EBIT reported by the company stood at INR 30,390 mn; down 1.5% QoQ and up 18% YoY. EBIT margin during the quarter was 19% as against 19.6% QoQ and YoY. Profit reported by the company stood at INR 25,680 mn; down 2% QoQ and up 15% YoY. PAT margin during the quarter was 16% as against 16.5% QoQ and 16.9% YoY. The company board has recommended an interim dividend of INR 2/equity share.

During the quarter, Infrastructure services delivered growth of 7.3% QoQ CC on back of robust 10.4% sequential growth (in CC) in the previous quarter. During FY19, Infrastructure services posted double digit growth at 11.1% YoY CC. FY19 witnessed a broad based growth across verticals driven by Technology & Services at 30.7%, Lifesciences & Healthcare at 22.5%, Telecommunications, Media, Publishing & Entertainment at 17.5%, Retail & CPG at 16.8% and Public Services at 11.6% (in CC).

FY20 Guidance:

The revenue growth guidance of 14%-16% in constant currency terms is given by the management for FY20, (lower than market expectation). The lower guidance reflect major cost pressures ahead, mostly because of increased expenditure towards IBM. This translates between 13.4% to 15.4% revenue growth in $ terms based on 31 March 2019 rate. The growth in FY20 will be mostly back-ended. Management guided EBIT margin in the range of 18.5-19.5%.

Mode 1-2-3 Strategy to flourish:

Mode 1-2-3 Strategy focuses on the existing core and the new growth areas. Each of the three modes have a distinct outcome and growth potential. Mode 1 grew 2.5% QoQ in CC terms. Mode 2 showed better performance at 14.3% QoQ CC growth and Mode 3 showed degrowth of 7.6% in CC terms QoQ basis. For the full year FY'19, Mode 2 grew 28.7% YoY CC and Mode 3 at 48.4% YoY CC. Mode 2 and Mode 3 together constitute 28.4% at the end of FY'19. The organic guidance of 7-9% growth will be significantly driven by Mode-2 revenues.

HCLT will run end-to-end Infrastructure operations around Data Centre, End-User Computing , Mainframe, Networking and Security in companies across more than 50 countries. HCL will drive extreme automation in Mode 1 services to reduce cost of customer's operations and improve efficiency.

High number of transformational deals won during the quarter:

HCLT won 17 deals during the quarter. These deals were led by verticals such as Retail & Consumer Packaged Goods, Manufacturing, Public Services and Financial Services. A total of 78 deals have been signed in FY'19.

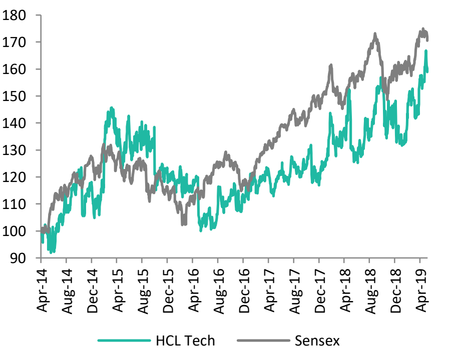
Clients additions:

During the quarter, HCLT added 19 clients in $5 mn bracket, 6 clients in $10 mn bracket, 8 clients in $20 mn bracket, 1 client in $50 mn bracket and 2 clients in $100 mn bracket on a YoY basis.

Market Data	
Industry	IT
Sensex	37,559
Nifty	11,335
Bloomberg Code	HCLT:IN
Face Value (INR)	2
52-w H/L	1190/ 880
Market Cap (INR Mn)	15,40,093

Valuation Data	FY19	FY20E	FY21E
P/E (x)	15.2	12.2	10.9
EV/ EBITDA (x)	9.4	7.5	6.3

HCL Technologies Ltd. Vs SENSEX



Shareholding Pattern	Mar'19	Dec'18	Sep'18
Promoters	60.01	60.01	60.17
FIIs	28.74	28.28	28.01
DIIs	7.68	8.22	8.17
Others/ Retail	3.57	3.49	3.65

(INR Mn)	FY18	FY19	FY20E	FY21E
Net Sales	5,05,690	6,04,270	6,33,590	6,85,297
EBIT	1,11,900	1,37,520	1,61,843	1,79,869
EBIT Margin	*22%*	*23%*	*26%*	*26%*
Profit After Tax	87,220	1,01,200	1,30,021	1,45,219
PAT Margin	*17%*	*17%*	*21%*	*21%*
P/E (x)	18.1	15.2	12.2	10.9
P/BV (x)	3.9	3.4	2.9	2.5
EV/EBITDA (x)	12.2	9.4	7.5	6.3

Source: Company, NSPL Research

** Read last page for disclaimer & rating rationale*

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Quarterly Performance (INR Mn)	QUARTER ENDED			GROWTH	
	Mar-19	Dec-18	Mar-18	YoY	QoQ
Revenues	1,59,900	1,56,990	1,31,790	21.30%	1.90%
Direct Costs	1,04,210	1,01,520	85,600		
Gross Profits	55,690	55,470	46,190	20.60%	0.40%
SG & A	19,720	19,000	15,830		
EBITDA	35,970	36,470	30,360	18.50%	-1.40%
Depreciation	5580	5610	4530		
EBIT	30,390	30,860	25,830	17.70%	-1.50%
ForEx Gains/(Loss)	230	-540	1610		
Other Income, net	1290	1590	1190		
PBT	31,910	31,910	28,630		
Provision for Tax	6150	5660	6340		
Non- controlling interest	80	140	30		
PAT	25,680	26,110	22,260	15.30%	-1.70%
EBIT Margin	18.90%	19.60%	19.60%		
PAT Margin	16.00%	16.50%	16.90%		

Source: Company, NSPL Research

Valuation:

The acquisition of IBM products implies structural change. Its well-established infrastructure management practice, combined with its Enterprise application services (EAS) practice, provides significant cross-selling opportunity, which could help HCLT win some of the large size deals. Digital and IoT an are key focus areas for clients, and the company expects them to grow at a much faster clip.

At CMP of INR 1137, the company is trading at P/E multiple of 11x FY21E EPS. We value the company using P.E. multiple methodology. We have given an exit multiple of 12x to arrive at a target price of INR 1250 which is an upside of 10%.

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Conference call highlights:

- The 4QFY19 QoQ revenue growth was mostly driven by Mode 2 services, which grew 14.3% QoQ in CC terms.
- 4QFY19 EBIT margin at 18.9% lagged behind because of cross-currency headwinds due to the seasonality effect of IP revenues and a strong base in 3QFY19.
- HCL filed 50 patents this quarter, which is the highest number of patents filed since 2015. In FY'19, 99 patents were filed in next-generation technologies and platforms, including data analytics and simulation, automation and machine learning, among others.
- In 4QFY19, in CC terms, Telecommunication, Media and Entertainment grew 33.4% YoY, the highest among all verticals. It was followed by Life Sciences and Healthcare which grew 28.2% YoY, Technology & Services grew 25.9%, Public Services grew 21.8%, and Retail and CPG grew 20.9%, on YoY basis.
- The management mentioned that because of the IBM deal, few reporting changes will be done in FY20 with products and platforms to be a separate business segment as it becomes a large part of total revenues.

Mode 1-2-3 Highlights

Quarter Ended 31-Mar-2019	Revenue (in US$ Mn)	Revenue Mix	EBIT Margin	QoQ Growth (in Constant Currency)
Mode 1	1,606	70.5%	20.5%	2.5%
Mode 2	430	18.9%	13.1%	14.3%
Mode 3	242	10.6%	18.8%	-7.6%
Total	**2,278**	**100.0%**	**18.9%**	**3.3%**

Financial Year Ended 31-Mar-2019	Revenue (in US$ Mn)	Revenue Mix	EBIT Margin	YoY Growth (in Constant Currency)
Mode 1	6,185	71.6%	20.6%	4.5%
Mode 2	1,465	17.0%	12.8%	28.7%
Mode 3	982	11.4%	22.8%	48.4%
Total	**8,632**	**100.0%**	**19.5%**	**11.8%**

Geographic Mix	31-Mar-2018	31-Dec-2018	31-Mar-2019	FY'19
Americas	61.6%	64.4%	62.9%	64.4%
Europe	30.0%	28.2%	29.7%	28.2%
RoW	8.5%	7.3%	7.4%	7.4%
SERVICE MIX				
Application Services	34.7%	32.0%	32.6%	32.9%
Infrastructure Services	37.3%	37.5%	38.9%	37.2%
Business Services	3.9%	5.0%	4.5%	5.0%
Engineering and R&D Services	24.1%	25.5%	23.9%	24.9%
VERTICAL MIX				
Financial Services	25.0%	21.6%	21.1%	22.3%
Manufacturing	19.2%	17.7%	17.5%	17.9%
Technology & Services	16.8%	18.7%	18.7%	18.5%
Retail & CPG	9.6%	10.2%	10.0%	9.9%
Telecommunications, Media, Publishing & Entertainment	7.4%	9.2%	8.6%	8.1%
Lifesciences & Healthcare	11.5%	13.0%	13.0%	12.9%
Public Services	10.6%	9.7%	11.1%	10.5%

Source: Company, NSPL Research

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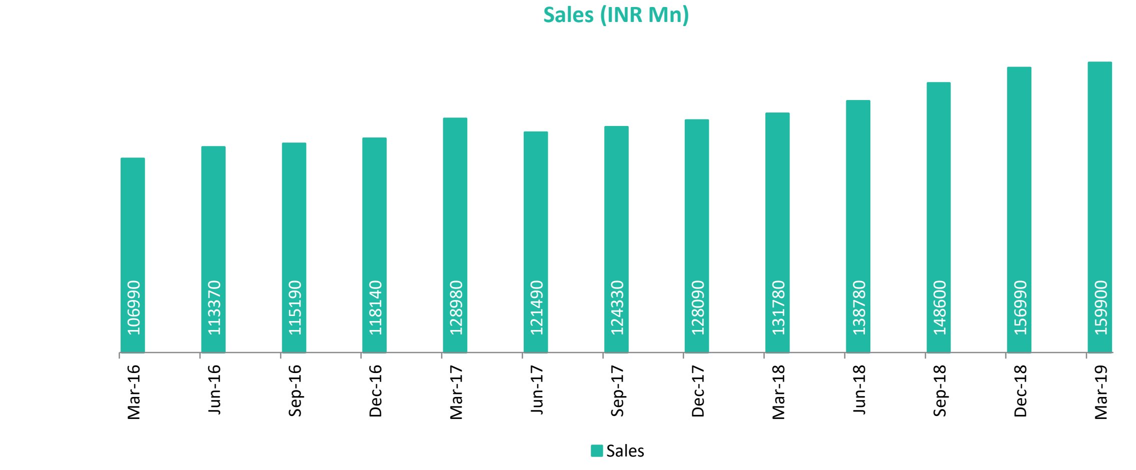

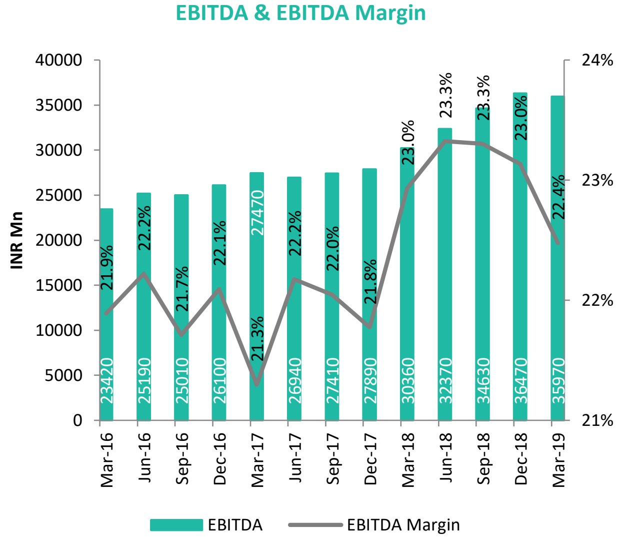

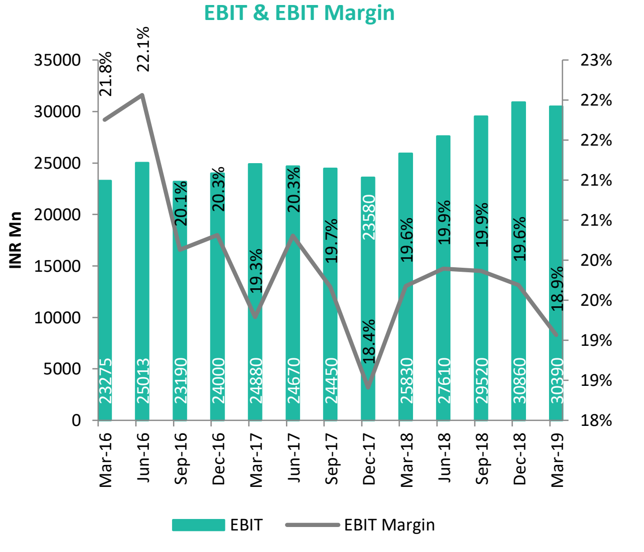

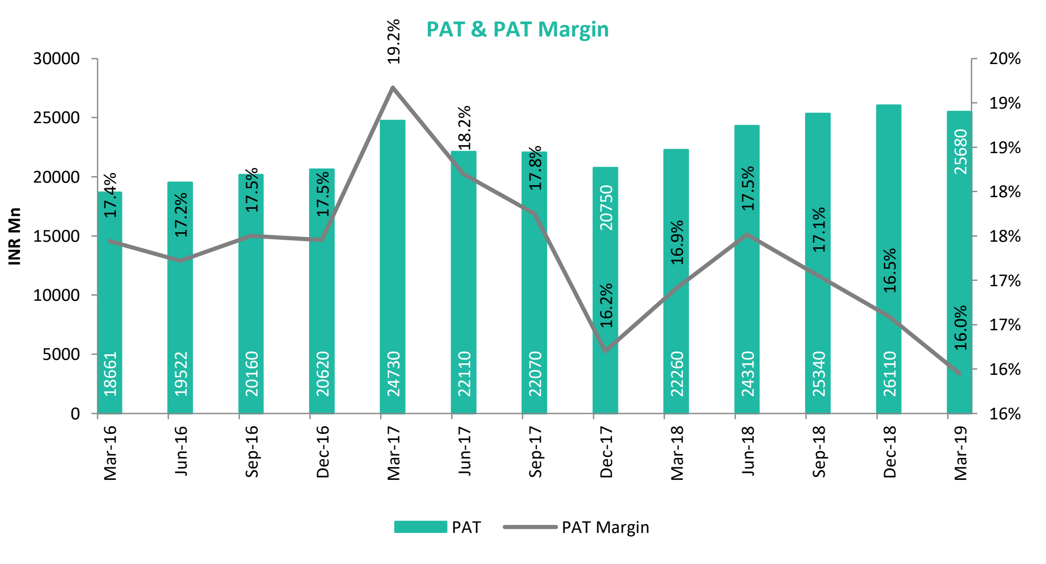

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Profit & Loss (INR Mn)	FY18	FY19	FY20E	FY21E
Net Sales	5,05,690	6,04,270	6,33,590	6,85,297
Direct Cost	3,46,910	4,07,400	3,99,518	4,33,472
SG&A Expenses	46,880	59,350	72,229	71,956
Total Cost	3,93,790	4,66,750	4,71,747	5,05,428
EBIDTA	1,11,900	1,37,520	1,61,843	1,79,869
Depreciation	13,830	20,730	12,016	12,016
Non-operating Income	12,170	9,430	14,573	15,762
Profit Before Tax	1,10,240	1,26,220	1,64,399	1,83,615
Tax	23,020	25,020	34,378	38,396
Profit	87,220	1,01,200	1,30,021	1,45,219

Balance Sheet (INR Mn)	FY18	FY19	FY20E	FY21E
Liabilities				
Equity Capital	2,780	2,710	2,710	2,710
General Reserves	3,61,080	4,10,950	4,91,502	5,81,468
Share Premium	46,642	46,642	46,642	46,642
Total Reserves	**4,07,722**	**4,57,592**	**5,38,144**	**6,28,111**
Net Worth	4,10,502	4,60,302	5,40,854	6,30,821
Minority Interest	2,093	2,093	2,093	2,093
Total Loans	**36,450**	**16,670**	**3,590**	**3,590**
Deferred Tax Liability (Net)	340	2,260	1,901	2,056
Other Non-current Liabilities	22,756	27,192	28,512	30,838
Capital Employed	**4,72,142**	**5,08,518**	**5,76,950**	**6,69,398**
Assets				
Net Block	39,627	30,397	30,881	31,365
Capital WIP	3,200	2,350	-	-
Investments in subsidiaries	3,603	4,603	5,603	6,603
Intangible Assets	73,940	85,340	85,340	85,340
Other Non-current Assets	26,296	31,422	32,947	35,635
Deferred Income Tax Assets	22,048	25,244	32,880	36,723
Current assets				
Inventories	1,720	910	4,926	5,344
Sundry Debtors	1,17,763	1,40,720	1,47,548	1,59,590
Cash and Bank Balance	2,52,969	2,68,989	3,29,454	4,09,893
Normal Cash	15,171	18,128	19,008	20,559
Excess Cash	2,37,798	2,50,861	3,10,446	3,89,334
Operating Current Assets	35,398	42,299	44,351	47,971
Total Current Assets	**4,07,850**	**4,52,918**	**5,26,279**	**6,22,797**
Current Liabilities				
Provision for Tax and Others	16,536	18,933	24,660	27,542
Other Current Liabilities	78,382	93,662	1,01,374	1,09,648
Total Current Liabilities	**1,04,422**	**1,23,756**	**1,36,980**	**1,49,066**
Net Current Assets	3,03,428	3,29,162	3,89,299	4,73,732
Capital Applied	**4,72,142**	**5,08,518**	**5,76,950**	**6,69,398**

Source: Company, NSPL Research

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Cash Flow (INR Mn)	FY18	FY19	FY20E	FY21E
Cash Inflows				
Profit Before Tax	1,10,240	1,26,220	1,64,399	1,83,615
Depreciation	13,830	20,730	12,016	12,016
Operating cashflow	67,865	83,426	92,567	1,01,983
Total Inflows	1,25,775	57,106	80,448	1,04,465
Cash Outflows				
Working Capital Changes				
Inc/(Dec) in Working Capital	1,642	9,713	(328)	3,994
Capex/Investments				
Inc/(Dec) in Investments	1,000	1,000	1,000	1,000
Addition to Gross Block	10,500	11,500	12,500	12,500
Inc/(Dec) in Capital WIP	3,200	(850)	(2,350)	-
Inc/(Dec) in other assets	13,613	19,722	9,161	6,532
Inc. in Misc. Assets				
Inc/(Dec) in Fixed assets/ Investments	28,313	31,372	20,311	20,032
Inc/(Dec) in Cash/Bank Balance	95,820	16,021	60,465	80,439
Total Outflows	1,25,775	57,106	80,448	1,04,465

Ratios	FY18	FY19	FY20E	FY21E
Book Value (INR)	295.3	339.7	388.1	452.7
P/E (x)	18.1	15.2	12.2	10.9
P/BV (x)	3.9	3.4	2.9	2.5
P/CEPS (x)	15.6	12.6	11.2	10.1
EV/EBITDA (x)	12.2	9.4	7.5	6.3

NUMBER OF MILLION DOLLAR CLIENTS (LTM)	31-Mar-2018	31-Dec-2018	31-Mar-2019	QoQ CHANGE	YoY CHANGE
100 Million dollar +	8	10	10	0	2
50 Million dollar +	28	29	29	0	1
20 Million dollar +	87	95	95	0	8
10 Million dollar +	160	164	166	2	6
5 Million dollar +	264	276	283	7	19
1 Million dollar +	561	597	623	26	62

CLIENT CONTRIBUTION TO REVENUE (LTM)	31-Mar-2018	31-Dec-2018	31-Mar-2019
Top 5 Clients	16.3%	17.4%	17.0%
Top 10 Clients	23.8%	24.8%	24.1%
Top 20 Clients	33.7%	34.1%	33.4%

CLIENT BUSINESS	31-Mar-2018	31-Dec-2018	31-Mar-2019
New Clients	3.5%	3.8%	4.8%
Existing Clients	96.5%	96.2%	95.2%

Source: Company, NSPL Research

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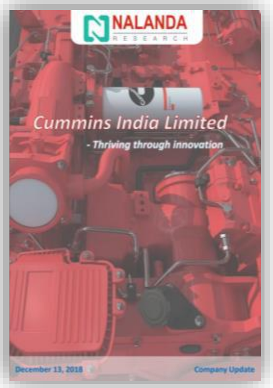

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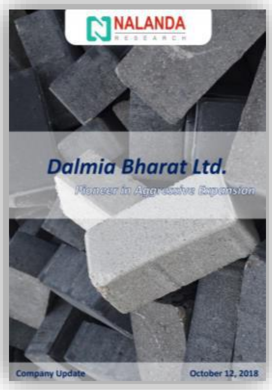

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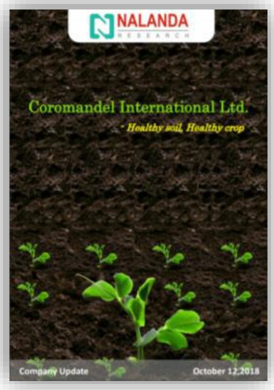
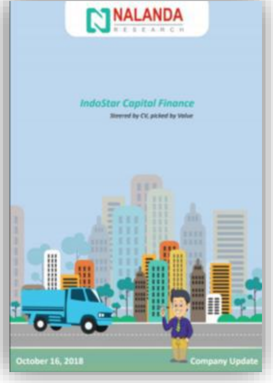
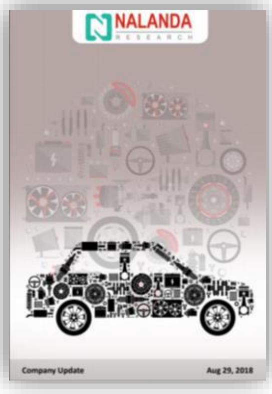


Coromandel International

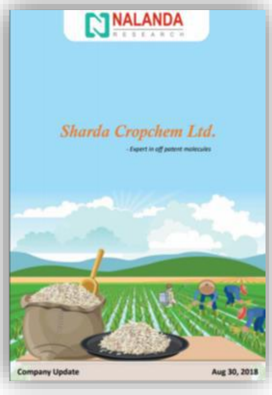
Meghmani Organics



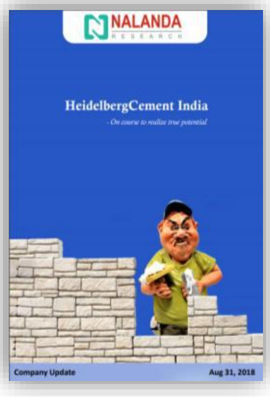
IndoStar Capital



Minda Industries



Sharda Cropchem



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HCL Technologies Ltd.			
Date	CMP (INR)	Target Price (INR)	Recommendation
May 10, 2019	1137	1250	Buy

Rating Legend	
Strong Buy	**More than 15%**
Buy	**5% - 15%**
Hold	**0 – 5%**
Reduce	**-5% - 0**
Sell	**Less than -5%**

Following table contains the disclosure of interest in order to adhere to utmost transparency in the matter;

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Has research analyst or NSPL engaged in market making activity for the subject company	NO
Other disclosures	NO

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