

# HCL Technologies

BUY

## Growth momentum intact

We maintain BUY on HCL Tech (HCLT) following a strong revenue and tad lower margin performance. Organic growth momentum is strong and integration of IBM products (key monitorable) will keep growth at top-end of guidance and margin at the lower end. Our TP is Rs 1,250 at 14x Jun-21E EPS.

### HIGHLIGHTS OF THE QUARTER

- Rev came higher than est. at USD 2,364mn, a strong 4.2% QoQ CC which included 3.7% organic (supported by early ramp-up of large deal) and 0.5% from Strong-Bridge Envision consolidation. Acquired IBM products and other inorganic (Actian, H&D, Strong Bridge) expected to contribute ~6.5% to FY20 rev growth. HCLT maintained its FY20 rev guidance at 14-16% CC, implying ~8-10% organic growth.
- Mode-2 biz (18.8% of rev) decelerated to 3.6% QoQ, however Mode-1 delivered strong growth of 4.1% QoQ. Service segments reclassified into IT & Business services (75.3% of rev and 3.6% QoQ), ER&D (16.9% of rev and 5.6% QoQ) and Products & Platform (7.8% of rev and 7% QoQ). HCLT has lower risk (vs. peers) from adverse H-1B regulations with US localisation at 70%.

- Margin performance was lower with EBIT% at 17.1%, -193bps QoQ (17.5% est) impacted by lower gross margin (-130bps impact) and higher SG&A (-50bps impact). Margin was impacted by onsite heavy ER&D, investments to build front-end/HCL Software division and INR/Visa cost impact. Mode-1 margins moderated while Mode-2/3 margins were flat QoQ. APAT at Rs 22.20bn was impacted by higher ETR.

### STANCE

While the jury is out on the acquired products of IBM, (1) Synergies with services (product differentiation), (2) Cross-sell/market opportunity, and (3) Better margins justify the increased capital intensity. We are more impressed with the recovery in organic growth trajectory (converged with larger peers), supported by large deal momentum (Nokia, Broadcom, Xerox) and differentiation in IMS (benefiting from vendor consolidation) and ER&D (scale). Expect USD rev/EPS at 12/9% CAGR over FY19-22E. Key risks include escalation in client specific headwinds impacted by adverse macro and scaling HCL Software division.

### Financial Summary

YE March (Rs bn)	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues	164.25	138.78	18.4	159.90	2.7	505.69	604.27	702.99	779.54	851.16
EBIT	28.05	27.30	2.7	30.39	(7.7)	99.87	118.20	129.99	151.62	165.79
APAT	22.20	24.03	(7.6)	25.68	(13.6)	87.80	101.22	101.27	116.70	130.46
Diluted EPS (Rs)	16.4	17.7	(7.6)	18.9	(13.6)	64.7	74.6	74.7	86.0	96.2
P/E (x)						15.8	13.7	13.7	11.9	10.6
EV / EBITDA (x)						11.6	9.5	8.9	7.3	6.4
RoE (%)						25.3	26.0	23.1	23.6	23.3

Source: Company, HDFC sec Inst Research # Consolidated

INDUSTRY	IT
CMP (as on 07 Aug 2019)	Rs 1,023
Target Price	Rs 1,250
Nifty	10,856
Sensex	36,691

KEY STOCK DATA	
Bloomberg	HCLT IN
No. of Shares (mn)	1,356
MCap (Rs bn) / (\$ mn)	1,387/19,569
6m avg traded value (Rs mn)	1,995

STOCK PERFORMANCE (%)	
52 Week high / low	Rs 1,190/920
	3M 6M 12M
Absolute (%)	(9.6) (3.8) 5.6
Relative (%)	(5.5) (3.0) 8.1

SHAREHOLDING PATTERN (%)	
	Mar-19 Jun-19
Promoters	60.00 60.00
FIs & Local MFs	7.67 7.98
FPIs	28.74 28.63
Public & Others	3.59 3.39
Pledged Shares	0.00 0.00

Source : BSE

**Apurva Prasad**  
apurva.prasad@hdfcsec.com  
+91-22-6171-7327

**Amit Chandra**  
amit.chandra@hdfcsec.com  
+91-22-6171-7345

**Akshay Ramnani**  
akshay.ramnani@hdfcsec.com  
+91-22-6171-7334

**Revenue came at USD 2,364mn, +4.2/17.0% QoQ/YoY in CC (including ~0.5% inorganic)**

**EBIT margin came at 17.1%, down 193bps QoQ, margin was impacted by Forex (-15bps), Visa cost (-20bps), SGA investments for IBM products (-50bps) and investment in ERS business (-110bps)**

**Maintained FY20 guidance of 14 to 16% CC growth and 18.5 to 19.5% EBIT margin**

**ETR was higher at 24% (+476bps QoQ) on account of IBM product acquisition, FY20 ETR guided at ~24%**

### Quarterly Consolidated Financials Snapshot

Particulars (Rs bn)	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)
<b>Net Revenues (USD mn)</b>	<b>2,364</b>	<b>2,055</b>	<b>15.0</b>	<b>2,278</b>	<b>3.8</b>
<b>Net Revenues</b>	<b>164.25</b>	<b>138.78</b>	<b>18.4</b>	<b>159.90</b>	<b>2.7</b>
Direct Costs	109.20	91.06	19.9	104.21	4.8
<b>Gross Profit</b>	<b>55.05</b>	<b>47.72</b>	<b>15.4</b>	<b>55.69</b>	<b>(1.1)</b>
SG&A Expenses	21.05	15.46	36.2	19.72	6.7
<b>EBITDA</b>	<b>34.00</b>	<b>32.26</b>	<b>5.4</b>	<b>35.97</b>	<b>(5.5)</b>
Depreciation	5.95	4.96	20.0	5.58	6.6
<b>EBIT</b>	<b>28.05</b>	<b>27.30</b>	<b>2.7</b>	<b>30.39</b>	<b>(7.7)</b>
Other Income	1.28	2.95	(56.6)	1.52	(15.8)
<b>PBT</b>	<b>29.33</b>	<b>30.25</b>	<b>(3.0)</b>	<b>31.91</b>	<b>(8.1)</b>
Tax	7.05	6.22	13.3	6.15	14.6
<b>RPAT</b>	<b>22.20</b>	<b>24.03</b>	<b>(7.6)</b>	<b>25.68</b>	<b>(13.6)</b>
E/o (adj for tax)	-	-	-	-	-
<b>APAT</b>	<b>22.20</b>	<b>24.03</b>	<b>(7.6)</b>	<b>25.68</b>	<b>(13.6)</b>

Source: Company, HDFC sec Inst Research

### Margin Analysis

	1QFY20	1QFY19	YoY (bps)	4QFY19	QoQ (bps)
Direct Costs % Net Revenues	66.5	65.6	87	65.2	131
Gross Profit Margin (%)	33.5	34.4	(87)	34.8	(131)
SG&A Expenses % Net Revenues	12.8	11.1	168	12.3	48
EBITDA Margin (%)	20.7	23.2	(255)	22.5	(180)
<b>EBIT Margin (%)</b>	<b>17.1</b>	<b>19.7</b>	<b>(259)</b>	<b>19.0</b>	<b>(193)</b>
Tax Rate (%)	24.0	20.6	347	19.3	476
APAT Margin (%)	13.5	17.3	(380)	16.1	(254)

Source: Company, HDFC sec Inst Research

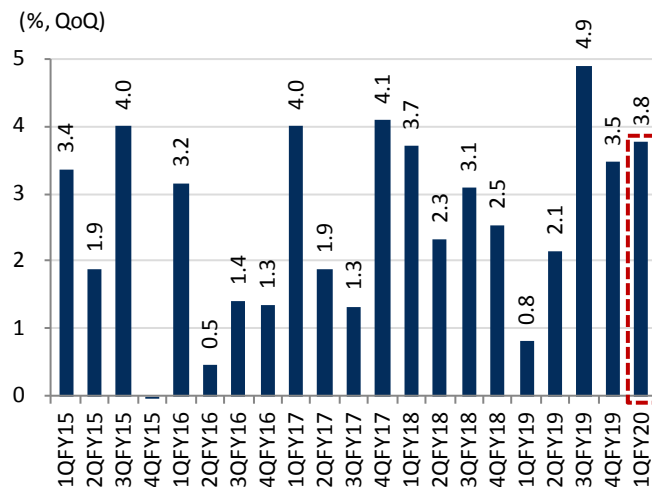
**YoY revenue growth of 15.0% was highest in past 30 qtrs**

**Within segments, Mode-1 margin (17.8%) had a steep decline impacting the fall in EBIT margin**

**1QFY20 margin was lower (expected), margin is expected to recover from 2Q**

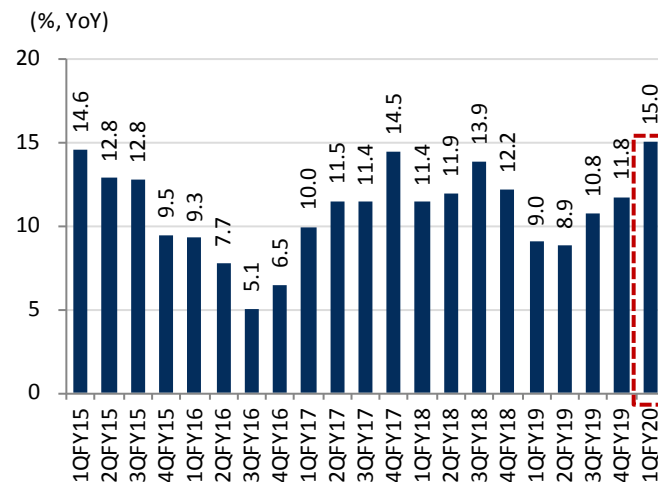
**12 transformational deals wins in 1Q, the optical deceleration in deal win momentum comes after a strong FY19 in terms of deal booking (78 transformation deals in FY19)**

### QoQ USD Revenue Growth Trajectory



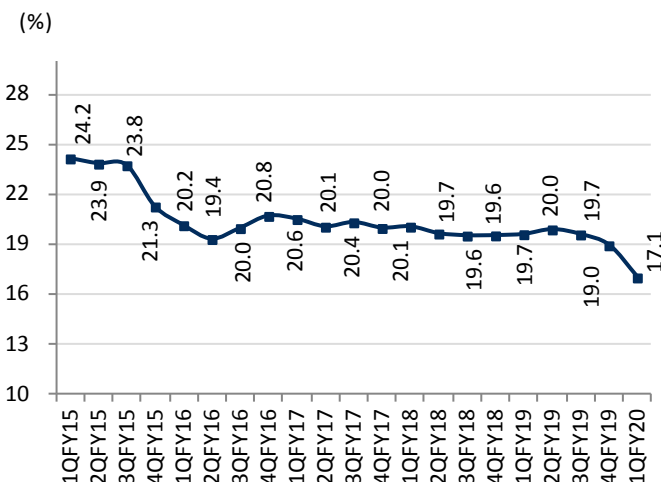
Source: Company, HDFC sec Inst Research

### YoY USD Revenue Growth Trajectory



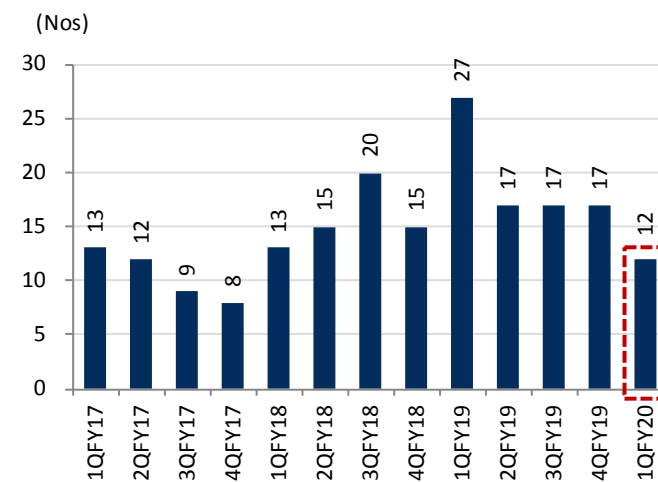
Source: Company, HDFC sec Inst Research

### EBIT Margin Trajectory



Source: Company, HDFC sec Inst Research

### Transformational Deals Trend



Source: Company, HDFC sec Inst Research

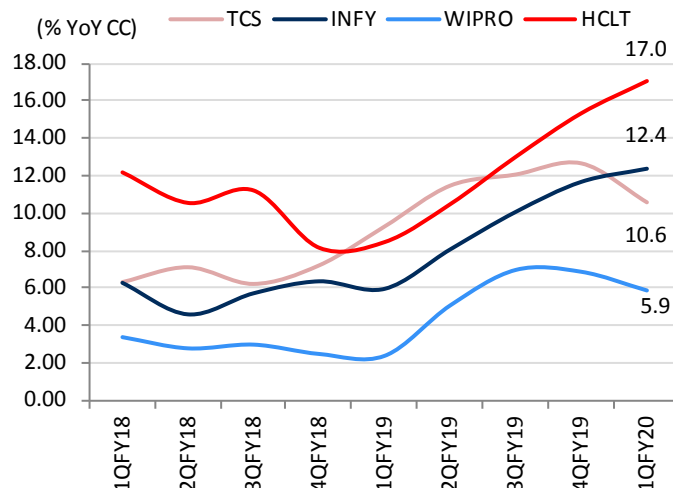
**With 17.0 % YoY CC growth HCLT led the revenue growth among peers**

**Visible acceleration in YoY growth for HCLT**

**Service segments reclassified into IT & Business services (75.3% of rev, +3.6% QoQ CC), ER&D (16.9% of rev and 5.6% QoQ CC) and Products & Platform (7.8% of rev and 7% QoQ CC)**

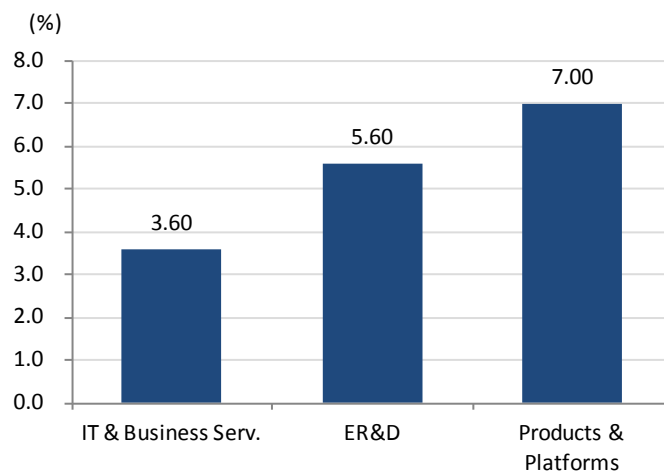
**HCLT launched HCL Software, a new business unit encompassing software products and it delivered 400 releases across Informix, Domino and Workload Automation**

### Peer comparison: Revenue Growth Trend (% YoY CC)



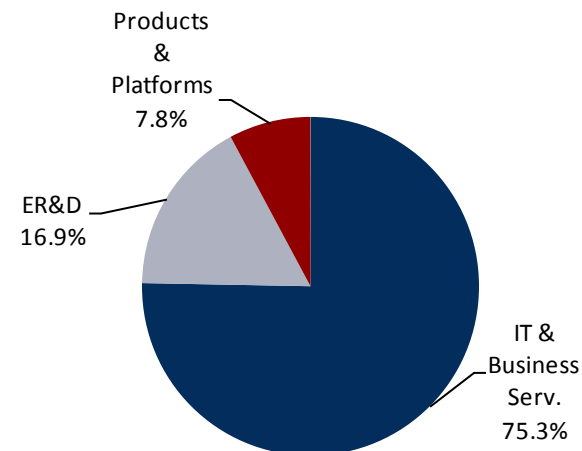
Source: Company, HDFC sec Inst Research

### Revenue Growth by Segment (% QoQ CC)



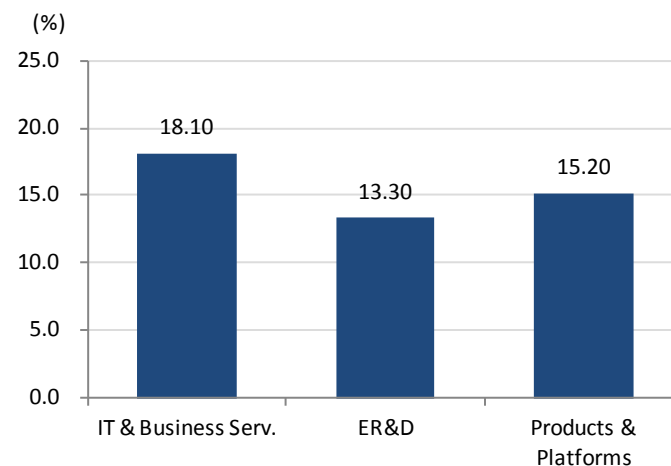
Source: Company, HDFC sec Inst Research

### Revenue Break-up by Segment (% of Revenue)



Source: Company, HDFC sec Inst Research

### Revenue Growth by Segment (% YoY CC)



Source: Company, HDFC sec Inst Research

**Among verticals, Manufacturing led growth (+18.4% QoQ CC) on ramp up of large deals**

**BFSI was stable (+0.5% QoQ CC), BFSI was anticipated to get impacted by ramp down of 2 large banking clients but ramp down was lower than expected**

**Client specific issues in BFSI improved, 1 client in BFSI is facing challenges (vs. 2 earlier), also large deal wins in BFSI would aid BFSI to grow in 2H**

### Vertical Revenue Break-up

(% of rev)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Manufacturing	34.9	35.4	36.5	36.0	36.5	36.2	36.3	36.2	38.8
Financial Services	24.9	25.0	24.6	25.0	23.8	23.0	21.6	21.1	20.4
Life Sciences and Healthcare	11.8	11.7	11.7	11.5	12.8	12.9	13.0	13.0	12.8
Public Services	11.1	10.6	10.2	10.5	10.5	10.7	9.7	11.1	10.5
Retail & CPG	9.5	9.3	9.6	9.6	9.1	10.0	10.2	10.0	9.5
Telecom, Media, Publishing & Entertainment	7.9	7.9	7.4	7.4	7.3	7.2	9.2	8.6	8.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, HDFC Sec Inst Research

### Vertical-wise Revenue Growth

(QoQ, % CC)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Manufacturing	3.3	2.4	6.6	0.2	(1.3)	1.7	3.9	2.5	18.4
Financial Services	5.3	1.2	1.4	2.0	(1.4)	0.1	(0.6)	0.9	0.5
Life Sciences and Healthcare	4.8	1.8	2.4	(0.2)	13.4	3.2	5.8	3.5	2.4
Public Services	(2.7)	(4.6)	0.2	4.1	3.5	5.3	(4.4)	17.7	(0.2)
Retail & CPG	4.9	(0.5)	6.6	1.1	(1.6)	13.0	8.4	1.4	(1.4)
Telecom, Media, Publishing & Entertainment	(2.5)	1.7	(3.8)	1.8	0.2	1.1	35.4	(3.8)	(2.7)
<b>Total</b>	<b>2.6</b>	<b>0.9</b>	<b>3.3</b>	<b>1.2</b>	<b>2.7</b>	<b>3.0</b>	<b>5.6</b>	<b>3.3</b>	<b>4.2</b>

Source: Company, HDFC Sec Inst Research

### Vertical-wise Revenue Growth

(YoY, % CC)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Manufacturing	17.1	21.9	21.0	13.8	(3.9)	(3.9)	1.5	6.7	28.3
Financial Services	19.2	14.2	10.6	9.4	2.9	2.3	0.1	(1.4)	0.9
Life Sciences and Healthcare	10.6	3.8	9.7	9.0	18.1	19.8	23.4	28.2	16.0
Public Services	6.4	6.2	1.0	(3.1)	3.4	13.3	8.1	21.8	18.0
Retail & CPG	7.1	(1.0)	13.1	11.8	5.3	19.2	21.5	20.9	22.1
Telecom, Media, Publishing & Entertainment	(2.7)	(6.3)	(6.8)	(3.2)	(0.1)	(0.8)	40.3	33.4	28.2
<b>Total</b>	<b>12.2</b>	<b>10.6</b>	<b>11.2</b>	<b>8.2</b>	<b>8.5</b>	<b>10.5</b>	<b>13.0</b>	<b>15.3</b>	<b>17.0</b>

Source: Company, HDFC Sec Inst Research

**Americas led revenue growth among geographies up 11.7% QoQ CC on large deal ramp-up**

**Europe was soft (-8.1% QoQ CC) impacted by projects reaching steady state, on YoY basis Europe was up 11.3% YoY CC**

**RoW declined 10.6% QoQ CC growth in RoW is expected to recover**

### Geographic Revenue Break-up

(% of rev)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Americas	62.8	62.4	63.5	61.5	64.5	65.8	64.5	62.9	67.7
Europe	27.4	29.1	28.7	30.0	28.1	26.8	28.3	29.7	26.0
Rest of the World	9.8	8.5	7.9	8.5	7.5	7.4	7.3	7.4	6.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, HDFC Sec Inst Research

### Geographic Revenue Growth

(QoQ, % CC)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Americas	3.8	1.5	4.9	(0.7)	5.9	4.4	2.7	1.1	11.7
Europe	(0.4)	4.4	1.9	3.6	(1.0)	(0.9)	12.9	8.4	(8.1)
Rest of the World	3.1	(12.0)	(3.9)	8.1	(7.1)	4.9	4.5	3.6	(10.6)
<b>Total</b>	<b>2.6</b>	<b>0.9</b>	<b>3.3</b>	<b>1.2</b>	<b>2.7</b>	<b>3.0</b>	<b>5.6</b>	<b>3.3</b>	<b>4.2</b>

Source: Company, HDFC Sec Inst Research

### Geographic Revenue Growth

(YoY, % CC)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Americas	16.9	12.7	16.6	9.6	11.9	15.1	12.9	15.1	21.3
Europe	0.3	7.4	2.5	9.7	9.3	3.5	14.5	18.7	11.3
Rest of the World	22.3	6.3	2.5	(5.2)	(15.5)	0.7	8.4	4.7	1.6
<b>Total</b>	<b>12.2</b>	<b>10.6</b>	<b>11.2</b>	<b>8.2</b>	<b>8.5</b>	<b>10.5</b>	<b>13.0</b>	<b>15.3</b>	<b>17.0</b>

Source: Company, HDFC Sec Inst Research

**Attrition moderated to 17.3%  
(vs. 17.7% in 4Q)**

**There is acceleration in net  
additions for the past 4 qtrs**

**HCLT has 1,600 workforce in  
Australia & New Zealand**

**HCLT has trained 85,193  
employees in digital and next-  
gen technology skills**

### Headcount, Attrition And Utilisation Data

(Nos.)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
<b>Total headcount</b>	<b>117,781</b>	<b>119,040</b>	<b>119,291</b>	<b>120,081</b>	<b>124,121</b>	<b>127,875</b>	<b>132,328</b>	<b>137,965</b>	<b>143,900</b>
Technical	107,029	108,351	108,831	109,565	113,404	116,910	121,273	126,717	132,384
Support	10,752	10,689	10,460	10,516	10,717	10,965	11,055	11,248	11,516
Gross Additions	9,462	8,645	7,113	8,476	12,558	11,683	13,191	14,249	16,332
Net Additions	1,808	1,259	251	790	4,040	3,754	4,453	5,637	5,935
Voluntary LTM Attrition (%)	16.2	15.7	15.2	15.5	16.3	17.1	17.8	17.7	17.3

Source: Company, HDFC Sec Inst Research

### Business Lines

(% of rev)	FY16	FY17	FY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Mode 1	84.1	81.4	76.6	73.4	72.0	71.0	70.5	70.3
Mode 2	12.3	12.8	14.7	15.7	16.0	17.2	18.9	18.8
Mode 3	3.6	5.8	8.7	11.0	12.0	11.9	10.6	10.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, HDFC Sec Inst Research

### Key Assumptions

Particulars	FY17	FY18	FY19	FY20E	FY21E	FY22E
IT and Business Services	12.0	6.5	7.5	NA	9.5	10.6
Engineering & R&D services	11.2	38.3	19.1	NA	8.0	8.2
Products & Platform	80.2	68.5	44.0	NA	21.5	10.4
<b>Total USD revenue growth (%)</b>	<b>11.9</b>	<b>12.4</b>	<b>10.1</b>	<b>16.7</b>	<b>10.7</b>	<b>10.2</b>
USD/INR rate	67.0	64.5	70.0	69.9	70.0	70.0
<b>EBIT margin (%)</b>	<b>20.3</b>	<b>19.8</b>	<b>19.6</b>	<b>18.5</b>	<b>19.5</b>	<b>19.5</b>

Source: HDFC sec Inst Research, Re-classified segments and not comparable to prior period

***HCLT closed the previously announced USD 1.8bn acquisition of select IBM products including AppScan, BigFix, Commerce, Connections, Digital Experience, Notes Domino and Unica.***

### Change In Estimates

Particulars	Earlier estimates	Revised estimates	% change
	FY20E		
Revenue (USD mn)	10,021	10,073	0.5
Revenue (Rs bn)	700.32	702.99	0.4
EBIT (Rs bn)	130.69	129.99	(0.5)
EBIT margin (%)	18.7	18.5	(17)bps
EPS (Rs)	78.3	74.7	(4.6)
FY21E			
Revenue (USD mn)	11,136	11,147	0.1
Revenue (Rs bn)	779.54	779.54	0.0
EBIT (Rs bn)	150.59	151.62	0.7
EBIT margin (%)	19.3	19.5	13bps
EPS (Rs)	89.7	86.0	(4.1)



## Peer Set Comparison

Company	MCap (Rs bn)	CMP (Rs)	TP (Rs)	RECO	EPS (Rs)				P/E (x)				RoE (%)			
					FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
TCS	8,306	2,213	2,420	BUY	68.8	83.9	87.9	98.4	32.2	26.4	25.2	22.5	30.1	36.1	36.1	38.5
Infosys	3,377	776	770	NEU	34.2	36.7	36.9	41.5	22.7	21.1	21.0	18.7	22.0	24.4	24.8	27.2
Wipro	1,497	263	220	SELL	14.0	15.8	16.6	17.7	18.7	16.6	15.8	14.9	16.5	17.3	16.9	16.9
<b>HCL Tech</b>	<b>1,387</b>	<b>1,023</b>	<b>1,250</b>	<b>BUY</b>	<b>64.7</b>	<b>74.6</b>	<b>74.7</b>	<b>86.0</b>	<b>15.8</b>	<b>13.7</b>	<b>13.7</b>	<b>11.9</b>	<b>25.3</b>	<b>26.0</b>	<b>23.1</b>	<b>23.6</b>
TechM	593	674	595	SELL	43.2	48.9	45.7	48.5	15.6	13.8	14.7	13.9	21.5	22.0	19.5	19.1
<b>Tier-1 IT Median</b>									<b>18.7</b>	<b>16.6</b>	<b>15.8</b>	<b>14.9</b>	<b>22.0</b>	<b>24.4</b>	<b>23.1</b>	<b>23.6</b>
LTI	278	1,600	2,115	BUY	66.9	87.3	85.8	101.2	23.9	18.3	18.6	15.8	33.2	34.6	28.0	28.2
Mphasis	180	965	1,310	BUY	45.4	57.6	59.4	70.2	21.3	16.8	16.3	13.7	14.6	20.0	20.0	21.1
LTTs	160	1,535	1,955	BUY	45.5	68.0	73.2	93.3	33.7	22.6	21.0	16.5	27.7	32.0	28.1	30.0
Mindtree	122	745	705	NEU	32.3	44.2	36.5	48.1	23.1	16.9	20.4	15.5	21.4	24.9	17.3	23.0
Hexaware *	106	357	440	BUY	16.8	19.6	20.9	26.0	21.3	18.2	17.1	13.7	26.6	26.5	24.3	26.1
Cyient	50	447	510	NEU	38.6	43.6	42.7	45.8	11.6	10.2	10.5	9.8	18.1	19.5	17.7	17.2
Zensar	49	217	265	BUY	10.6	14.1	15.2	18.2	20.4	15.4	14.3	11.9	15.1	17.3	16.3	17.1
Persistent	42	528	615	NEU	42.0	47.5	42.5	45.7	12.6	11.1	12.4	11.6	16.0	15.7	13.6	14.2
Tata Elxsi	39	619	990	NR	38.5	46.6	33.0	39.5	16.1	13.3	18.8	15.7	37.0	34.5	20.4	21.4
Sonata	33	315	495	BUY	18.6	24.0	27.0	30.2	17.0	13.1	11.7	10.4	31.0	35.1	34.3	34.0
Intellect	28	215	300	BUY	3.5	7.7	8.0	11.7	NM	28.1	27.0	18.3	6.7	11.1	9.8	12.8
eClerx	20	521	505	SELL	74.0	61.7	51.6	55.9	7.0	8.4	10.1	9.3	24.1	17.6	14.2	15.3
Majesco	14	488	730	BUY	(1.5)	18.3	26.3	34.4	NM	26.6	18.5	14.2	NM	8.4	10.4	12.2
HGS	12	591	755	NR	96.5	84.6	84.1	101.4	6.1	7.0	7.0	5.8	10.5	8.5	11.5	12.1
Mastek	8	356	618	BUY	27.7	40.4	42.1	47.6	12.9	8.8	8.4	7.5	13.7	16.1	14.1	14.3
<b>Tier-2 IT Median</b>									<b>20.4</b>	<b>16.8</b>	<b>17.1</b>	<b>13.7</b>	<b>19.8</b>	<b>19.5</b>	<b>17.3</b>	<b>17.2</b>

Company	MCap (USD bn)	CMP USD	TP	RECO	EPS (USD)				P/E (x)				RoE (%)			
					FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
Accenture	126	187	NA	NR	5.4	6.3	7.3	8.0	34.4	29.6	25.6	23.5	41.8	42.0	42.0	41.9
Cognizant	34	62	NA	NR	3.6	4.5	3.9	4.3	17.2	13.7	15.7	14.4	14.1	19.0	18.9	20.2
Capgemini^	20	109	NA	NR	4.8	4.3	6.5	70.2	23.0	25.7	16.7	1.6	11.5	10.1	13.4	13.7
<b>Global IT Median</b>									<b>28.5</b>	<b>25.1</b>	<b>16.9</b>	<b>15.4</b>	<b>14.1</b>	<b>19.0</b>	<b>20.9</b>	<b>20.6</b>

Source: HDFC sec Inst Research, Bloomberg, \*Dec YE, ^CMP and EPS in EUR terms

## Consolidated Income Statement

YE March (Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
<b>Net Revenues (USD mn)</b>	<b>7,838</b>	<b>8,632</b>	<b>10,073</b>	<b>11,147</b>	<b>12,286</b>
<b>Growth (%)</b>	<b>12.4</b>	<b>10.1</b>	<b>16.7</b>	<b>10.7</b>	<b>10.2</b>
<b>Net Sales</b>	<b>505.69</b>	<b>604.27</b>	<b>702.99</b>	<b>779.54</b>	<b>851.16</b>
<b>Growth (%)</b>	<b>8.2</b>	<b>19.5</b>	<b>16.3</b>	<b>10.9</b>	<b>9.2</b>
Cost of Revenue	332.37	392.68	457.49	500.73	546.63
SG&A Expenses	58.93	71.91	88.74	96.66	106.40
<b>EBITDA</b>	<b>114.39</b>	<b>139.68</b>	<b>156.75</b>	<b>182.15</b>	<b>198.14</b>
Depreciation	14.52	21.48	26.77	30.53	32.35
<b>EBIT</b>	<b>99.87</b>	<b>118.20</b>	<b>129.99</b>	<b>151.62</b>	<b>165.79</b>
<b>EBIT (%)</b>	<b>19.7</b>	<b>19.6</b>	<b>18.5</b>	<b>19.5</b>	<b>19.5</b>
<b>EBIT Growth (%)</b>	<b>5.4</b>	<b>18.4</b>	<b>10.0</b>	<b>16.6</b>	<b>9.3</b>
Other Income net	11.78	9.78	6.43	6.79	11.46
Interest	0.69	1.74	3.05	3.30	3.30
<b>PBT</b>	<b>110.96</b>	<b>126.24</b>	<b>133.37</b>	<b>155.11</b>	<b>173.95</b>
Tax (incl deferred)	23.17	24.81	32.02	38.41	43.49
<b>RPAT</b>	<b>87.79</b>	<b>101.21</b>	<b>101.27</b>	<b>116.70</b>	<b>130.46</b>
<b>APAT</b>	<b>87.80</b>	<b>101.22</b>	<b>101.27</b>	<b>116.70</b>	<b>130.46</b>
<b>APAT Growth (%)</b>	<b>7.7</b>	<b>15.3</b>	<b>0.0</b>	<b>15.2</b>	<b>11.8</b>
<b>EPS</b>	<b>64.7</b>	<b>74.6</b>	<b>74.7</b>	<b>86.0</b>	<b>96.2</b>
<b>EPS Growth (%)</b>	<b>7.7</b>	<b>15.3</b>	<b>0.0</b>	<b>15.2</b>	<b>11.8</b>

Source: Company, HDFC sec Inst Research

## Consolidated Balance Sheet

YE March (Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
<b>SOURCES OF FUNDS</b>					
Share Capital - Equity	2.78	2.71	2.71	2.71	2.71
Reserves	361.08	410.95	460.15	519.90	590.16
<b>Total Shareholders' Funds</b>	<b>363.86</b>	<b>413.66</b>	<b>462.86</b>	<b>522.61</b>	<b>592.87</b>
<b>Total Debt</b>	<b>3.80</b>	<b>37.01</b>	<b>37.01</b>	<b>37.01</b>	<b>37.01</b>
Long Term Provisions & Others	11.92	18.30	18.30	18.30	18.30
<b>TOTAL SOURCES OF FUNDS</b>	<b>379.58</b>	<b>470.00</b>	<b>519.20</b>	<b>578.95</b>	<b>649.21</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	119.54	138.27	199.19	186.58	175.08
CWIP	3.20	2.35	2.35	2.35	2.35
Goodwill	67.99	90.61	135.34	135.34	135.34
Investments	0.43	0.85	0.85	0.85	0.85
Other non-current assets	40.89	56.45	57.21	57.80	58.35
<b>Total Non Current Assets</b>	<b>232.05</b>	<b>288.53</b>	<b>394.94</b>	<b>382.92</b>	<b>371.98</b>
Debtors	96.39	117.06	138.62	153.84	168.08
Cash & Equivalents	66.35	100.92	24.32	87.33	160.33
Other Current Assets	85.44	79.24	85.55	85.67	85.77
<b>Total Current Assets</b>	<b>248.18</b>	<b>297.22</b>	<b>248.49</b>	<b>326.83</b>	<b>414.18</b>
Creditors	9.18	13.05	15.18	16.83	18.37
Other Current Liabilities & Provns	91.47	102.70	109.05	113.97	118.58
<b>Total Current Liabilities</b>	<b>100.65</b>	<b>115.75</b>	<b>124.23</b>	<b>130.80</b>	<b>136.95</b>
<b>Net Current Assets</b>	<b>147.53</b>	<b>181.47</b>	<b>124.26</b>	<b>196.03</b>	<b>277.23</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>379.58</b>	<b>470.00</b>	<b>519.20</b>	<b>578.95</b>	<b>649.21</b>

Source: Company, HDFC sec Inst Research

## Consolidated Cash Flow

YE March (Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	110.96	126.24	133.37	155.11	173.95
Non-operating & EO items	(5.11)	(7.61)	(4.88)	(5.11)	(8.60)
Interest expenses	0.22	1.24	3.05	3.30	3.30
Depreciation	13.83	20.73	26.77	30.53	32.35
Working Capital Change	(12.34)	(24.66)	(19.58)	(13.68)	(12.81)
Tax paid	(23.56)	(26.21)	(32.02)	(38.41)	(43.49)
<b>OPERATING CASH FLOW ( a )</b>	<b>84.00</b>	<b>89.73</b>	<b>106.70</b>	<b>131.73</b>	<b>144.71</b>
Capex	(54.51)	(62.93)	(127.68)	(17.92)	(20.85)
Free cash flow (FCF)	29.49	26.80	(20.98)	113.82	123.86
Investments	1.17	(0.42)	-	-	-
<b>INVESTING CASH FLOW ( b )</b>	<b>(48.23)</b>	<b>(55.74)</b>	<b>(122.80)</b>	<b>(12.81)</b>	<b>(12.26)</b>
Debt Issuance	(0.58)	33.21	-	-	-
Interest expenses	(0.22)	(1.24)	(3.05)	(3.30)	(3.30)
FCFE	28.69	58.77	(24.03)	110.51	120.56
Share capital Issuance	-	-	-	-	-
Dividend/Buyback	(56.05)	(52.27)	(52.07)	(56.95)	(60.20)
<b>FINANCING CASH FLOW ( c )</b>	<b>(56.85)</b>	<b>(20.30)</b>	<b>(55.11)</b>	<b>(60.25)</b>	<b>(63.50)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>(21.08)</b>	<b>13.69</b>	<b>(71.21)</b>	<b>58.67</b>	<b>68.95</b>
Closing Cash & Equivalents	66.35	100.92	24.32	87.33	160.33

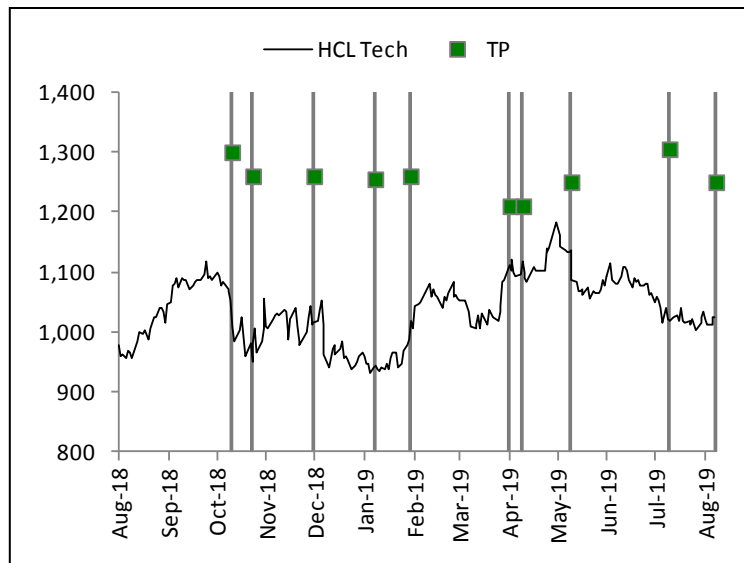
Source: Company, HDFC sec Inst Research

## Key Ratios

	FY18	FY19	FY20E	FY21E	FY22E
<b>PROFITABILITY (%)</b>					
EBIT Margin	19.7	19.6	18.5	19.5	19.5
APAT Margin	17.4	16.8	14.4	15.0	15.3
RoE	25.3	26.0	23.1	23.6	23.3
RoIC or Core RoCE	28.4	27.8	22.9	23.1	25.4
RoCE	24.4	24.2	20.9	21.7	21.6
<b>EFFICIENCY</b>					
Tax Rate (%)	20.9	19.7	24.0	24.8	25.0
Total Asset Turnover (x)	1.1	1.0	1.1	1.1	1.1
Debtors (days)	70	71	72	72	72
Other current assets (days)	62	48	44	40	37
Payables (days)	7	8	8	8	8
Other current liab & provn (days)	66	62	57	53	51
Cash Conversion Cycle (days)	60	49	52	51	51
Net Debt/EBITDA (x)	(0.5)	(0.5)	0.1	(0.3)	(0.6)
Net Debt/Equity (x)	(0.2)	(0.2)	0.0	(0.1)	(0.2)
Interest Coverage (x)	145	68	43	46	50
<b>PER SHARE DATA</b>					
EPS (Rs/sh)	64.7	74.6	74.7	86.0	96.2
CEPS (Rs/sh)	75.5	90.5	94.4	108.6	120.1
DPS (Rs/sh)	12.0	10.0	32.0	35.0	37.0
BV (Rs/sh)	268.4	305.8	342.1	386.2	438.0
<b>VALUATION</b>					
P/E	15.8	13.7	13.7	11.9	10.6
P/BV	3.8	3.3	3.0	2.6	2.3
EV/EBITDA	11.6	9.5	8.9	7.3	6.4
OCF/EV (%)	6.3	6.8	7.6	9.9	11.5
FCF/EV (%)	2.2	2.0	(1.5)	7.0	11.8
FCFE/mkt cap (%)	2.2	4.4	(1.7)	6.8	11.5
Dividend Yield (%)	1.2	1.0	3.1	3.4	3.6

Source: Company, HDFC sec Inst Research

## RECOMMENDATION HISTORY



Date	CMP	Reco	Target
10-Oct-18	1,050	BUY	1,300
24-Oct-18	952	BUY	1,260
30-Nov-18	1,013	BUY	1,260
8-Jan-19	945	BUY	1,255
30-Jan-19	988	BUY	1,260
1-Apr-19	1,087	BUY	1,210
9-Apr-19	1,096	BUY	1,210
10-May-19	1,132	BUY	1,250
5-Jul-19	1,016	BUY	1,305
8-Aug-19	1,023	BUY	1,250

### Rating Definitions

**BUY** : Where the stock is expected to deliver more than 10% returns over the next 12 month period  
**NEUTRAL** : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period  
**SELL** : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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**HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066**

**Compliance Officer: Binkle R. Oza Email: [complianceofficer@hdfcsec.com](mailto:complianceofficer@hdfcsec.com) Phone: (022) 3045 3600**

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