

# HCL Technologies

## Improving durability

Maintain BUY on HCL Tech (HCLT) based on relative outperformance, in-line 4Q rev, operational improvement and business durability (large deals, infra services, software business). HCLT's software portfolio and strong presence in infra services (cloud migration, virtual workplace, endpoint management) will mitigate the near-term headwinds of volume/price compression & deferrals. Our TP of Rs 565, values HCLT at a modest 12x FY22E EPS (3-6% EPS increase).

- **Highest growth within peers.** HCLT's revenue stood at USD 2,543mn, +0.8/13.5% QoQ/YoY cc including organic +6% YoY. FY20 growth at 16.7% cc included 10.7% organic growth (highest within peers). Early response towards BCP translated into negligible COVID-19 impact on 4Q performance. Short-term impact of (1) Volume-based billing, (2) Pricing discounts (temporary), (3) EN deals slowdown & deferral/pause in discretionary, and (4) Payment extension expected to be higher in Manufacturing vertical (Auto, Aero sub-vertical).
- **Large deal ramp to support recovery from 2Q.** Despite the headwinds in Mar-20, HCLT signed 14 transformational deals with record bookings in 4Q. 2QFY21 trajectory is expected to improve supported by ramp-up of large deals such as Stanley, Black & Decker. Mgmt stated that renewals are tracking well and no long-term impact is seen on longer duration deals due to COVID-19 situation. Growth recovery is predicated on (1) 53 transformational signings in FY20 (5 clients added to >USD 100mn bucket), (2) Cross-sell opportunities in infra services, and (2) 11% growth in RPO for next year.
- **P&P provides rev/margin stability.** HCLT expanded its partnerships across MS Azure, AWS, GCP, IBM and Cisco and also launched new releases across its products-AppScan, BigFix, Unica and DRYICE. Strong velocity in products is supported by geo diversification, business criticality, sustainable operating profile (>30% EBIT) and provide stability/resilience to HCLT.
- **Operational outperformance.** EBIT margin was higher at 20.9%, +64bps QoQ supported by increase in IT & Business services margin (led by Mode-2 growth/margin). Margin improvement supported by INR depreciation (+53bps QoQ) and operational efficiencies, offsetting higher amortisation. Cash conversion improved in FY20 with OCF/EBITDA at 81% as compared to 64% in FY19.
- **Valuation and view.** We've factored flat revenue in FY21 (~1.5% organic decline) and EBIT% decline of 100bps, reverting in FY22 (at FY20 level) with 8% rev growth in FY22E. Factored 1% decline in IT & BS, 6% decline in ER&D and 14% growth in P&P (1% organic) for FY21E. Valuation discount to peers on lower RoIC/FCF due to capex/acquisition intensity, despite the growth outperformance; currently at 10.9x FY22E (5/10-yr avg. at 14x).

### Financial Summary

| YE Mar (Rs bn)   | 4Q<br>FY20 | 4Q<br>FY19 | YoY<br>(%) | 3Q<br>FY20 | QoQ<br>(%) | FY18   | FY19   | FY20   | FY21E  | FY22E  |
|------------------|------------|------------|------------|------------|------------|--------|--------|--------|--------|--------|
| Net Revenues     | 185.90     | 159.90     | 16.3       | 181.35     | 2.5        | 505.69 | 604.27 | 706.78 | 724.08 | 794.85 |
| EBIT             | 38.81      | 30.39      | 27.7       | 36.70      | 5.7        | 99.87  | 118.21 | 140.30 | 136.44 | 158.95 |
| APAT             | 31.54      | 25.68      | 22.8       | 30.37      | 3.9        | 87.80  | 101.23 | 110.62 | 105.12 | 127.20 |
| Diluted EPS (Rs) | 11.6       | 9.5        | 22.8       | 11.2       | 3.9        | 32.4   | 37.3   | 40.8   | 38.8   | 46.9   |
| P/E (x)          |            |            |            |            |            | 15.8   | 13.7   | 12.5   | 13.2   | 10.9   |
| EV / EBITDA (x)  |            |            |            |            |            | 11.6   | 9.5    | 7.9    | 7.8    | 6.3    |
| RoE (%)          |            |            |            |            |            | 25.3   | 26.0   | 23.8   | 19.0   | 19.9   |

Source: Company, HSIE Research

## BUY

|                         |        |
|-------------------------|--------|
| CMP (as on 07 May 2020) | Rs 511 |
| Target Price            | Rs 565 |
| NIFTY                   | 9,199  |

| KEY CHANGES  | OLD    | NEW    |
|--------------|--------|--------|
| Rating       | Buy    | Buy    |
| Price Target | Rs 525 | Rs 565 |
|              | FY21E  | FY22E  |
| EPS %        | 3.2%   | 6.8%   |

### KEY STOCK DATA

|                             |              |
|-----------------------------|--------------|
| Bloomberg code              | HCLT IN      |
| No. of Shares (mn)          | 2,714        |
| MCap (Rs bn) / (\$ mn)      | 1,389/18,318 |
| 6m avg traded value (Rs mn) | 2,388        |
| 52 Week high / low          | Rs 624/375   |

### STOCK PERFORMANCE (%)

|              | 3M     | 6M     | 12M   |
|--------------|--------|--------|-------|
| Absolute (%) | (15.8) | (10.9) | (9.6) |
| Relative (%) | 7.8    | 11.8   | 8.3   |

### SHAREHOLDING PATTERN (%)

|                 | Dec-19 | Mar-20 |
|-----------------|--------|--------|
| Promoters       | 59.88  | 60.33  |
| FIs & Local MFs | 8.38   | 9.07   |
| FPIs            | 27.66  | 26.42  |
| Public & Others | 4.08   | 4.18   |
| Pledged Shares  | 0.00   | 0.00   |

Source : BSE

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Revenue at USD 2,543mn,  
+0.8/13.5% QoQ/YoY CC  
(6% YoY CC organic  
growth), led by IT &  
Business services

EBIT% expanded by 64bps  
QoQ aided by currency  
tailwind (+53bps) and  
productivity in IT business  
services (+22bps), partially  
offset by increase in  
amortisation cost (-11bps)

APAT at Rs 31.54bn was  
supported by healthy  
margins (Mode-2 margin  
expansion)

### Quarterly consolidated Financial Snapshot

| Particulars (Rs bn)   | 4QFY20 | 4QFY19 | YoY (%) | 3QFY20 | QoQ (%) |
|-----------------------|--------|--------|---------|--------|---------|
| Net Revenues (USD mn) | 2,543  | 2,278  | 11.7    | 2,543  | 0.0     |
| Net Revenues          | 185.90 | 159.90 | 16.3    | 181.35 | 2.5     |
| Direct Costs          | 114.79 | 104.21 | 10.2    | 115.10 | -0.3    |
| Gross Profit          | 71.11  | 55.69  | 27.7    | 66.25  | 7.3     |
| SG&A Expenses         | 23.91  | 19.72  | 21.2    | 21.55  | 11.0    |
| EBITDA                | 47.20  | 35.97  | 31.2    | 44.70  | 5.6     |
| Depreciation          | 8.39   | 5.58   | 50.4    | 8.00   | 4.9     |
| EBIT                  | 38.81  | 30.39  | 27.7    | 36.70  | 5.7     |
| Other Income          | -0.13  | 1.52   | NA      | 0.67   | NA      |
| PBT                   | 38.68  | 31.91  | 21.2    | 37.37  | 3.5     |
| Tax                   | 7.06   | 6.15   | 14.8    | 6.92   | 2.0     |
| APAT                  | 31.54  | 25.68  | 22.8    | 30.37  | 3.9     |
| E/o (adj for tax)     | -      | -      | -       | -      | -       |
| RPAT                  | 31.54  | 25.68  | 22.8    | 30.37  | 3.9     |

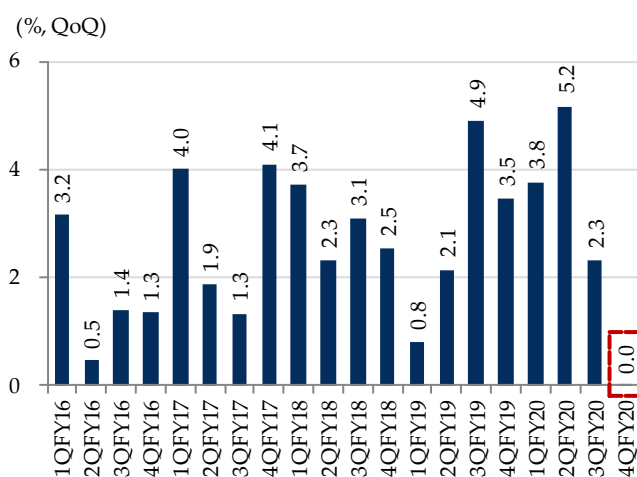
Source: Company, HSIE Research

### Margin Analysis

| Particulars (% of Revenue) | 4QFY20 | 4QFY19 | YoY (bps) | 3QFY20 | QoQ (bps) |
|----------------------------|--------|--------|-----------|--------|-----------|
| Direct Costs               | 61.7   | 65.2   | -342      | 63.5   | -172      |
| Gross Profit Margin (%)    | 38.3   | 34.8   | 342       | 36.5   | 172       |
| SG&A Expenses              | 12.9   | 12.3   | 53        | 11.9   | 98        |
| EBITDA Margin (%)          | 25.4   | 22.5   | 289       | 24.6   | 74        |
| EBIT Margin (%)            | 20.9   | 19.0   | 187       | 20.2   | 64        |
| Tax Rate (%)               | 18.3   | 19.3   | -102      | 18.5   | -27       |
| APAT Margin (%)            | 17.0   | 16.1   | 91        | 16.7   | 22        |

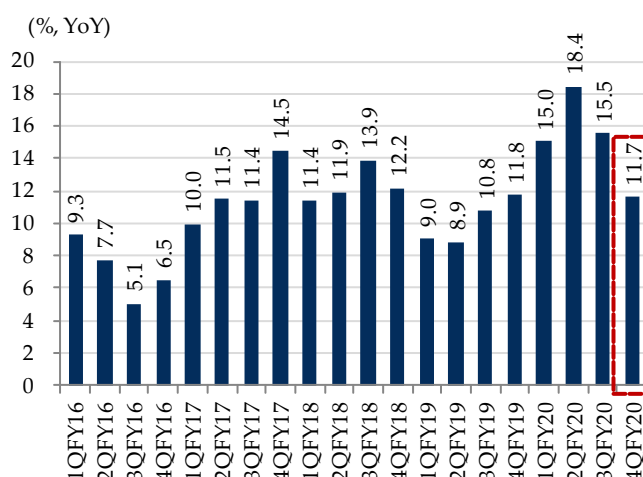
Source: Company, HSIE Research

### Revenue Growth Trajectory (% QoQ)



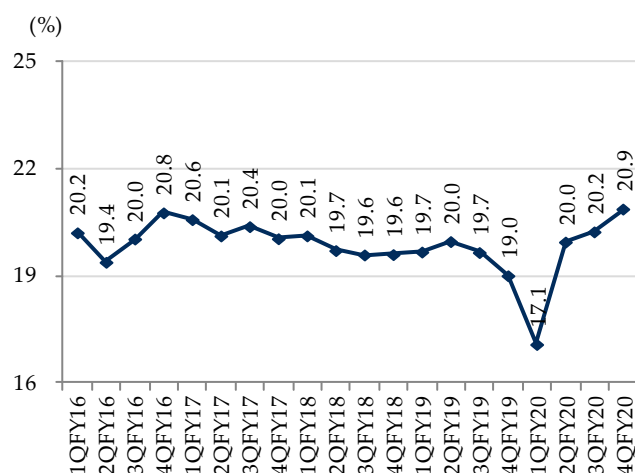
Source: Company, HSIE Research

### Revenue Growth Trajectory (% YoY)



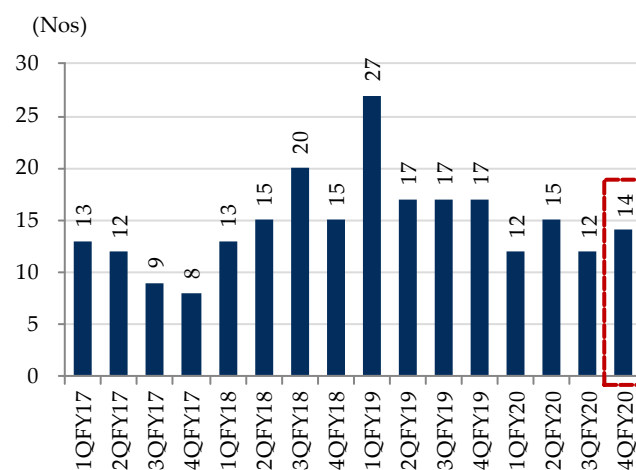
Source: Company, HSIE Research

## EBIT Margin Trajectory (%)



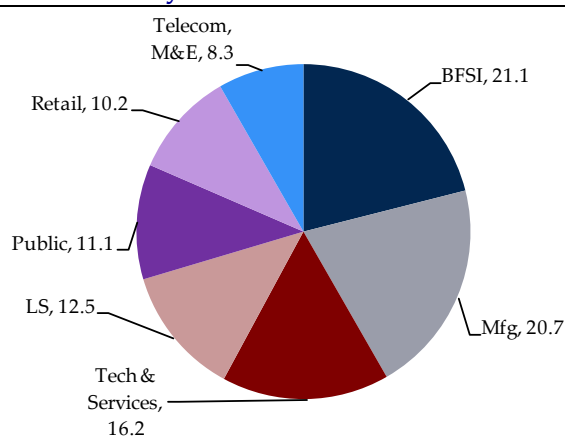
Source: Company, HSIE Research

## HCLT's Transformational Deal Trend



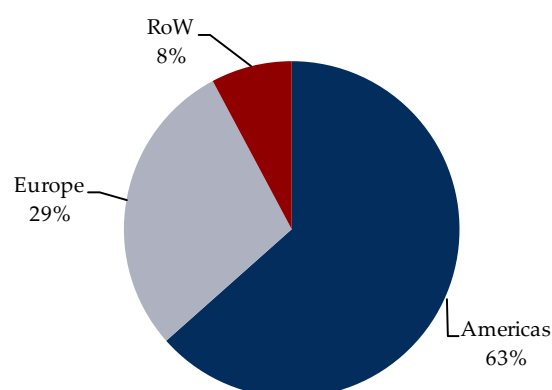
Source: Company, HSIE Research

## Revenue Mix By Vertical (%)



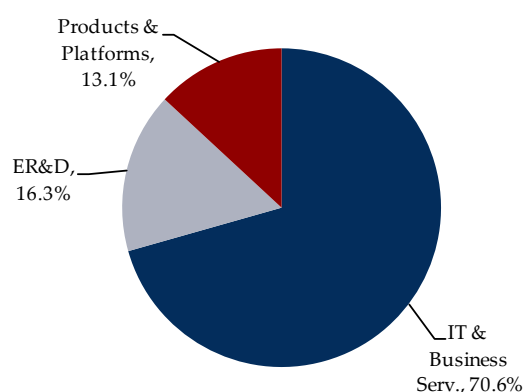
Source: Company, HSIE Research; 4QFY20

## Revenue Mix By Geography (%)



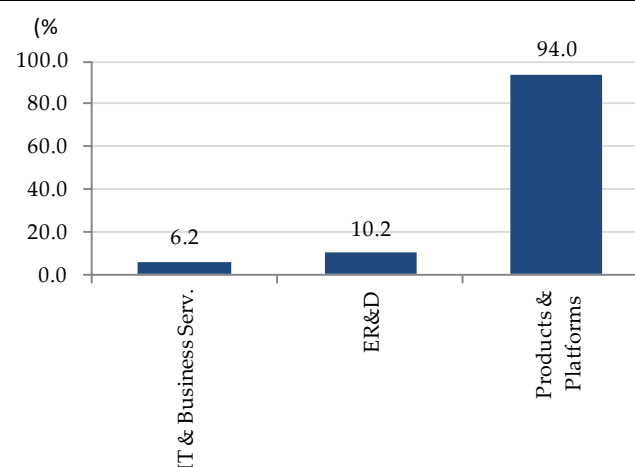
Source: Company, HSIE Research; 4QFY20

## Revenue Mix by Segment (%)



Source: Company, HSIE Research; 4QFY20

## Revenue Growth by Segment (% YoY CC)



Source: Company, HSIE Research; 4QFY20

**HCLT leads among tier-1 IT peers with revenue growth of 13.5% YoY CC (organic growth 6%) in 4QFY20**

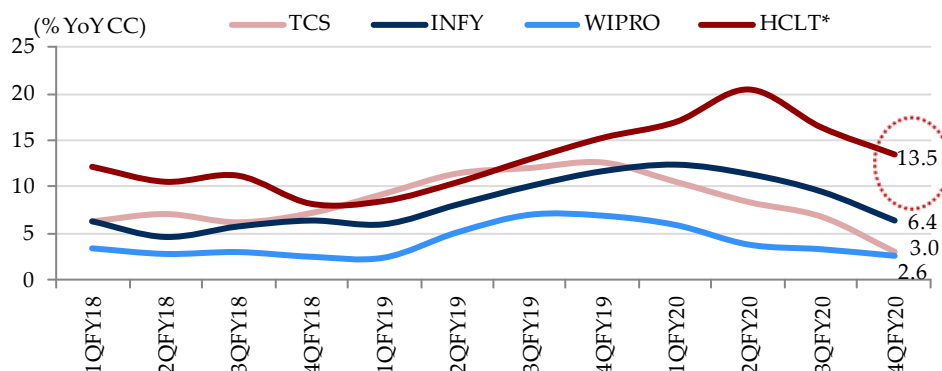
**EBIT margin gap narrows between INFY (21.2%) and HCLT (20.9%) in 4Q**

**Industry-leading organic growth of 10.7% among Tier- 1 IT companies in FY20, outperformance to continue based on infra services cross-sell, velocity in P&P portfolio and ramp-up of large deals from 2Q**

**HCLT reported marginal expansion in its EBIT% supported by P&P business, as compared to decline by all Tier 1-IT peers in FY20**

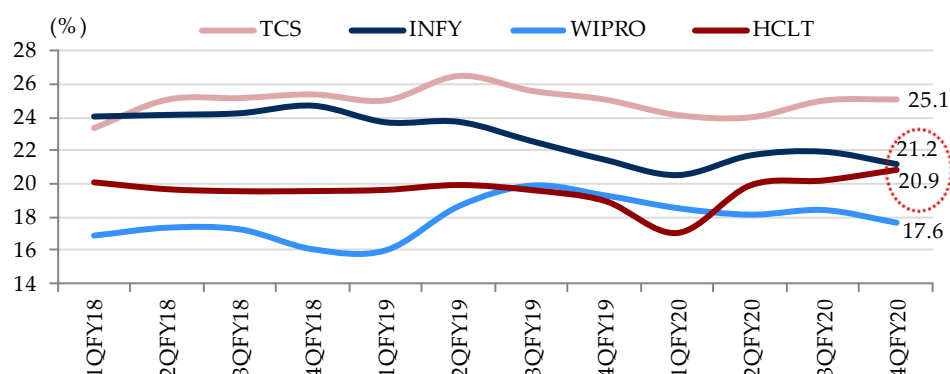
**Multiple cost levers such as variable pay, sub-contracting, granular utilisation management, travel cost & discretionary spend**

### Growth leadership: Revenue Growth Trend (% YoY CC) vs. peers



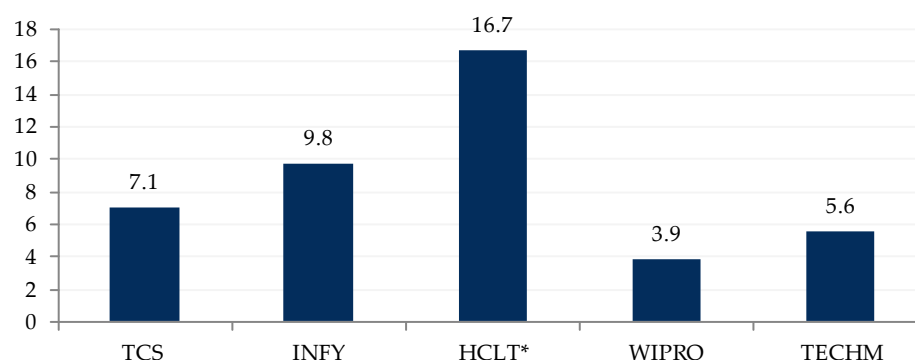
Source: Company, HSIE Research, \* HCLT organic growth of 6%

### Relative outperformance in margins: EBIT Margin Trend (%) vs. peers



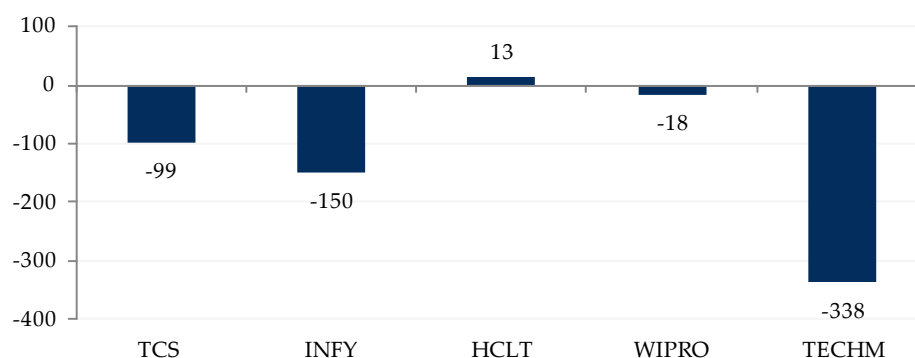
Source: Company, HSIE Research

### Growth leadership (including organic): FY20 Revenue Growth (% YoY CC)



Source: Company, HSIE Research, \* HCLT organic growth of 10.7%

### Higher durability in operations supported by P&P: FY20 EBIT% change (YoY bps)



Source: Company, HSIE Research

Segment-wise, IT BS grew 1.6% QoQ supported by Infra services, while ER&D declined 1.8% QoQ due to COVID 19 impact

Mfg (Auto/Aerospace) to be biggest impacted due to COVID-19 situation

Financial services expected to have only modest impact supported by spend on digital channels, vendor/captive consolidation opportunities

Despite relative strength in Telecom vertical, client-specific issue to impact its near-term performance

Multiple RTB consolidation opportunities in E&U despite muted industry outlook

IBM product acquisition payment tranche of USD 812mn in 1QFY21 (USD 812mn paid till Jun-19)

### Vertical-wise Revenue Growth

| (YoY, % CC)                                | 1QFY19     | 2QFY19      | 3QFY19      | 4QFY19      | 1QFY20      | 2QFY20      | 3QFY20      | 4QFY20      |
|--|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Manufacturing                              | -3.9       | -3.9        | 1.5         | 6.7         | 28.3        | 26.0        | 27.0        | 26.7        |
| Technology & Services                      | 39.5       | 36.3        | 24.4        | 25.9        | 20.0        | 41.5        | 43.0        | 38.7        |
| Financial Services                         | 2.9        | 2.3         | 0.1         | -1.4        | 0.9         | 8.5         | 4.3         | 1.5         |
| Life Sciences and Healthcare               | 18.1       | 19.8        | 23.4        | 28.2        | 16.0        | 16.3        | 5.4         | 3.4         |
| Public Services                            | 3.4        | 13.3        | 8.1         | 21.8        | 18.0        | 7.1         | 7.8         | -1.3        |
| Telecom, Media, Publishing & Entertainment | -0.1       | -0.8        | 40.3        | 33.4        | 28.2        | 34.3        | 8.2         | 6.0         |
| Retail & CPG                               | 5.3        | 19.2        | 21.5        | 20.9        | 22.1        | 9.9         | 4.2         | 4.1         |
| <b>Total</b>                               | <b>8.5</b> | <b>10.5</b> | <b>13.0</b> | <b>15.3</b> | <b>17.0</b> | <b>20.5</b> | <b>16.4</b> | <b>13.5</b> |

Source: Company, HSIE Research, Reclassified from 1QFY19, Prior acquisition methodology

### Geographic Revenue Growth

| (YoY, % CC)       | 1QFY19     | 2QFY19      | 3QFY19      | 4QFY19      | 1QFY20      | 2QFY20      | 3QFY20      | 4QFY20      |
|-------------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Americas          | 11.9       | 15.1        | 12.9        | 15.1        | 21.3        | 22.6        | 21.2        | 20.4        |
| Europe            | 9.3        | 3.5         | 14.5        | 18.7        | 11.3        | 19.9        | 9.5         | 2.4         |
| Rest of the World | -15.5      | 0.7         | 8.4         | 4.7         | 1.6         | 4.4         | 0.8         | -1.3        |
| <b>Total</b>      | <b>8.5</b> | <b>10.5</b> | <b>13.0</b> | <b>15.3</b> | <b>17.0</b> | <b>20.5</b> | <b>16.4</b> | <b>13.5</b> |

Source: Company, HSIE Research, Prior acquisition methodology

### Headcount, Attrition and Utilisation Data

| (Nos.)                      | 1QFY19         | 2QFY19         | 3QFY19         | 4QFY19         | 1QFY20         | 2QFY20         | 3QFY20         | 4QFY20         |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Total headcount</b>      | <b>124,121</b> | <b>127,875</b> | <b>132,328</b> | <b>137,965</b> | <b>143,900</b> | <b>147,123</b> | <b>149,173</b> | <b>150,423</b> |
| Technical                   | 113,404        | 116,910        | 121,273        | 126,717        | 132,384        | 135,957        | 137,725        | 139,302        |
| Support                     | 10,717         | 10,965         | 11,055         | 11,248         | 11,516         | 11,166         | 11,448         | 11,121         |
| Gross additions             | 12,558         | 11,683         | 11,055         | 11,248         | 16,332         | 13,430         | 11,502         | 10,278         |
| Net additions               | 4,040          | 3,754          | 4,453          | 5,637          | 5,935          | 3,223          | 2,050          | 1,250          |
| Voluntary LTM attrition (%) | 16.3           | 17.1           | 17.8           | 17.7           | 17.3           | 16.9           | 16.8           | 16.3           |

Source: Company, HSIE Research

### Business Segment Contribution

| (% of rev)   | 1QFY19       | 2QFY19       | 3QFY19       | 4QFY19       | 1QFY20       | 2QFY20       | 3QFY20       | 4QFY20       |
|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Mode 1       | 73.4         | 72.0         | 71.0         | 70.5         | 70.3         | 67.0         | 66.0         | 65.1         |
| Mode 2       | 15.7         | 16.0         | 17.2         | 18.9         | 18.8         | 18.3         | 18.2         | 19.2         |
| Mode 3       | 11.0         | 12.0         | 11.9         | 10.6         | 10.9         | 14.7         | 15.8         | 15.7         |
| <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, HSIE Research

### Business Segment Revenue growth

| (QoQ, %)     | 1QFY19     | 2QFY19     | 3QFY19     | 4QFY19     | 1QFY20     | 2QFY20     | 3QFY20     | 4QFY20     |
|--------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Mode 1       | NA         | 0.3        | 3.2        | 2.9        | 3.5        | 0.2        | 0.8        | -1.4       |
| Mode 2       | NA         | 4.5        | 12.2       | 14.1       | 3.3        | 2.5        | 1.5        | 5.6        |
| Mode 3       | NA         | 11.1       | 4.8        | -8.0       | 6.6        | 41.5       | 10.1       | -0.5       |
| <b>Total</b> | <b>0.8</b> | <b>2.1</b> | <b>4.9</b> | <b>3.5</b> | <b>3.8</b> | <b>5.2</b> | <b>2.3</b> | <b>0.0</b> |

Source: Company, HSIE Research

### Key Assumptions

| Particulars                         | FY20        | FY21E       | FY22E       |
|-------------------------------------|-------------|-------------|-------------|
| IT and Business Services            | 10.7        | -1.0        | 8.5         |
| Engineering & R&D services          | 12.4        | -6.2        | 7.3         |
| Products & Platform                 | 60.3        | 14.0        | 8.3         |
| <b>Total USD revenue growth (%)</b> | <b>15.1</b> | <b>-0.2</b> | <b>8.3</b>  |
| USD/INR rate                        | 71.1        | 73.0        | 74.0        |
| <b>EBIT margin (%)</b>              | <b>19.9</b> | <b>18.8</b> | <b>20.0</b> |

Source: HSIE Research

### Change in Estimates

| (Rs bn)          | FY21E   |        |          | FY22E   |        |          |
|------------------|---------|--------|----------|---------|--------|----------|
|                  | Earlier | New    | % Change | Earlier | New    | % Change |
| Revenue (USD Mn) | 10,061  | 9,919  | -1.4     | 10,841  | 10,741 | -0.9     |
| Revenue          | 734.44  | 724.08 | -1.4     | 802.21  | 794.85 | -0.9     |
| EBIT             | 134.32  | 136.44 | 1.6      | 151.20  | 158.95 | 5.1      |
| EBIT Margin (%)  | 18.3    | 18.8   | 55bps    | 18.8    | 20.0   | 115bps   |
| EPS (Rs)         | 37.5    | 38.8   | 3.2      | 43.9    | 46.9   | 6.8      |

Source: HSIE Research

## Peer Set Comparison

| Company                 | MCap<br>(Rs bn) | CMP<br>(Rs) | TP<br>(Rs) | RECO       | EPS (Rs)    |             |             |             | P/E (x)     |             |             |             | RoE (%)     |             |             |             |
|-------------------------|-----------------|-------------|------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                         |                 |             |            |            | FY19        | FY20        | FY21E       | FY22E       | FY19        | FY20        | FY21E       | FY22E       | FY19        | FY20        | FY21E       | FY22E       |
| TCS*                    | 7,115           | 1,896       | 1,680      | REDUCE     | 83.9        | 86.2        | 78.9        | 88.3        | 22.6        | 22.0        | 24.0        | 21.5        | 36.1        | 37.3        | 35.1        | 38.9        |
| Infosys*                | 2,831           | 667         | 680        | BUY        | 37.1        | 38.6        | 36.7        | 42.4        | 17.9        | 17.3        | 18.2        | 15.7        | 24.3        | 25.2        | 23.2        | 25.3        |
| <b>HCL Tech*</b>        | <b>1,385</b>    | <b>511</b>  | <b>565</b> | <b>BUY</b> | <b>37.3</b> | <b>40.8</b> | <b>38.8</b> | <b>46.9</b> | <b>13.7</b> | <b>12.5</b> | <b>13.2</b> | <b>10.9</b> | <b>26.0</b> | <b>23.8</b> | <b>19.0</b> | <b>19.9</b> |
| Wipro*                  | 1,051           | 184         | 185        | REDUCE     | 15.8        | 17.0        | 15.6        | 17.0        | 11.7        | 10.8        | 11.8        | 10.9        | 17.3        | 17.3        | 14.9        | 14.2        |
| TechM*                  | 499             | 517         | 625        | BUY        | 48.9        | 48.3        | 42.4        | 48.0        | 10.6        | 10.7        | 12.2        | 10.8        | 22.0        | 20.2        | 16.5        | 17.4        |
| <b>Tier-1 IT Median</b> |                 |             |            |            |             |             |             |             | <b>13.7</b> | <b>12.5</b> | <b>13.2</b> | <b>10.9</b> | <b>24.3</b> | <b>23.8</b> | <b>19.0</b> | <b>19.9</b> |
| LTI                     | 277             | 1,593       | 1,650      | ADD        | 87.1        | 86.2        | 93.1        | 109.9       | 18.3        | 18.5        | 17.1        | 14.5        | 34.6        | 28.2        | 26.3        | 27.0        |
| Mphasis                 | 141             | 756         | 800        | ADD        | 57.6        | 60.4        | 59.6        | 66.9        | 13.1        | 12.5        | 12.7        | 11.3        | 20.0        | 20.5        | 18.6        | 19.3        |
| L&T Tech                | 124             | 1,185       | 1,215      | ADD        | 67.8        | 77.2        | 72.9        | 86.7        | 17.5        | 15.4        | 16.3        | 13.7        | 32.0        | 29.8        | 24.4        | 25.2        |
| Mindtree*               | 145             | 883         | 830        | ADD        | 44.1        | 40.5        | 43.7        | 55.1        | 20.0        | 21.8        | 20.2        | 16.0        | 24.9        | 19.5        | 21.6        | 24.0        |
| Hexaware*#              | 73              | 245         | 300        | ADD        | 19.6        | 21.5        | 19.8        | 22.9        | 12.5        | 11.4        | 12.4        | 10.7        | 26.5        | 24.9        | 20.2        | 20.9        |
| Persistent*             | 41              | 532         | 525        | REDUCE     | 47.8        | 47.0        | 37.1        | 43.9        | 11.1        | 11.3        | 14.3        | 12.1        | 15.7        | 14.4        | 11.5        | 12.6        |
| Cyient*                 | 26              | 233         | 240        | REDUCE     | 44.4        | 33.8        | 23.2        | 26.7        | 5.2         | 6.9         | 10.1        | 8.7         | 19.5        | 13.4        | 9.8         | 10.8        |
| Zensar                  | 19              | 83          | 95         | ADD        | 14.2        | 10.3        | 9.2         | 11.8        | 5.8         | 8.0         | 9.1         | 7.0         | 17.6        | 11.5        | 9.4         | 11.2        |
| Sonata                  | 22              | 217         | 250        | BUY        | 23.7        | 27.3        | 22.4        | 27.5        | 9.1         | 7.9         | 9.7         | 7.9         | 35.1        | 34.6        | 25.6        | 28.6        |
| Majesco                 | 8               | 285         | 360        | BUY        | 18.3        | 18.0        | 20.5        | 24.8        | 15.5        | 15.8        | 13.9        | 11.5        | 8.4         | 7.3         | 7.8         | 8.8         |
| Mastek                  | 8               | 277         | 333        | BUY        | 39.9        | 39.8        | 39.6        | 43.2        | 6.9         | 6.9         | 7.0         | 6.4         | 15.9        | 15.0        | 13.3        | 12.8        |
| <b>Tier-2 IT AVG</b>    |                 |             |            |            |             |             |             |             | <b>12.3</b> | <b>12.4</b> | <b>13.0</b> | <b>10.9</b> | <b>22.7</b> | <b>19.9</b> | <b>17.1</b> | <b>18.3</b> |
| <b>Tier-2 IT Median</b> |                 |             |            |            |             |             |             |             | <b>12.5</b> | <b>11.4</b> | <b>12.7</b> | <b>11.3</b> | <b>20.0</b> | <b>19.5</b> | <b>18.6</b> | <b>19.3</b> |

Source: HSIE Research, #Dec YE, \* FY20 Actual numbers

## Financials

### Consolidated Income Statement

| YE March (Rs bn)       | FY17          | FY18          | FY19          | FY20          | FY21E         | FY22E         |
|------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Net Revenues (USD mn)  | 6,975         | 7,838         | 8,632         | 9,936         | 9,919         | 10,741        |
| <i>Growth (%)</i>      | 11.9          | 12.4          | 10.1          | 15.1          | -0.2          | 8.3           |
| Net Sales              | 467.23        | 505.69        | 604.27        | 706.78        | 724.08        | 794.85        |
| <i>Growth (%)</i>      | 14.2          | 8.2           | 19.5          | 17.0          | 2.4           | 9.8           |
| Cost of Revenue        | 308.90        | 332.37        | 392.67        | 452.95        | 473.47        | 509.97        |
| SG&A Expenses          | 55.24         | 58.93         | 71.91         | 86.90         | 85.80         | 95.79         |
| <b>EBITDA</b>          | <b>103.09</b> | <b>114.39</b> | <b>139.69</b> | <b>166.93</b> | <b>164.82</b> | <b>189.09</b> |
| Depreciation           | 8.35          | 14.52         | 21.48         | 26.63         | 28.38         | 30.14         |
| <b>EBIT</b>            | <b>94.74</b>  | <b>99.87</b>  | <b>118.21</b> | <b>140.30</b> | <b>136.44</b> | <b>158.95</b> |
| <i>EBIT (%)</i>        | 20.3          | 19.7          | 19.6          | 19.9          | 18.8          | 20.0          |
| <i>EBIT Growth (%)</i> | 15.2          | 5.4           | 18.4          | 18.7          | -2.8          | 16.5          |
| Other Income net       | 10.24         | 11.78         | 9.78          | 6.84          | 5.60          | 12.14         |
| Interest               | 0.89          | 0.69          | 1.74          | 5.05          | 3.30          | 3.30          |
| <b>PBT</b>             | <b>104.09</b> | <b>110.96</b> | <b>126.25</b> | <b>142.09</b> | <b>138.74</b> | <b>167.79</b> |
| Tax (incl deferred)    | 19.52         | 23.17         | 24.81         | 29.38         | 33.30         | 40.27         |
| <b>RPAT</b>            | <b>84.57</b>  | <b>87.79</b>  | <b>101.22</b> | <b>112.39</b> | <b>105.12</b> | <b>127.20</b> |
| <b>APAT</b>            | <b>81.54</b>  | <b>87.80</b>  | <b>101.23</b> | <b>110.62</b> | <b>105.12</b> | <b>127.20</b> |
| <i>APAT Growth (%)</i> | 10.9          | 7.7           | 15.3          | 9.3           | -5.0          | 21.0          |
| <b>EPS</b>             | <b>30.1</b>   | <b>32.4</b>   | <b>37.3</b>   | <b>40.8</b>   | <b>38.8</b>   | <b>46.9</b>   |
| <i>EPS Growth (%)</i>  | 10.9          | 7.7           | 15.3          | 9.3           | -5.0          | 21.0          |

Source: Company, HSIE Research

### Consolidated Balance Sheet

| YE March (Rs bn)                   | FY17          | FY18          | FY19          | FY20          | FY21E         | FY22E         |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>SOURCES OF FUNDS</b>            |               |               |               |               |               |               |
| Share Capital – Equity             | 2.85          | 2.78          | 2.71          | 5.43          | 5.42          | 5.42          |
| Reserves                           | 326.64        | 361.08        | 410.95        | 507.24        | 584.70        | 679.36        |
| <b>Total Shareholders' Funds</b>   | <b>329.49</b> | <b>363.86</b> | <b>413.66</b> | <b>512.67</b> | <b>590.12</b> | <b>684.78</b> |
| <b>Total Debt</b>                  | <b>4.38</b>   | <b>3.80</b>   | <b>37.01</b>  | <b>46.93</b>  | <b>46.93</b>  | <b>46.93</b>  |
| Long Term Provisions & Others      | 9.22          | 11.92         | 18.30         | 49.07         | 49.07         | 49.07         |
| <b>TOTAL SOURCES OF FUNDS</b>      | <b>344.82</b> | <b>379.58</b> | <b>470.00</b> | <b>610.21</b> | <b>687.66</b> | <b>782.32</b> |
| <b>APPLICATION OF FUNDS</b>        |               |               |               |               |               |               |
| Net Block                          | 87.31         | 119.54        | 138.27        | 213.36        | 204.00        | 186.96        |
| CWIP                               | 4.48          | 3.20          | 2.35          | 4.00          | 4.00          | 4.00          |
| Goodwill                           | 65.04         | 67.99         | 90.61         | 161.54        | 161.54        | 161.54        |
| Investments                        | 1.60          | 0.43          | 0.85          | 0.85          | 0.85          | 0.85          |
| Other non-current assets           | 34.56         | 40.89         | 56.45         | 65.19         | 65.19         | 65.19         |
| <b>Total Non Current Assets</b>    | <b>192.99</b> | <b>232.05</b> | <b>288.53</b> | <b>444.94</b> | <b>435.58</b> | <b>418.54</b> |
| Debtors                            | 83.01         | 96.39         | 117.06        | 141.31        | 144.77        | 158.92        |
| Cash & Equivalents                 | 101.90        | 66.35         | 100.92        | 119.57        | 143.87        | 242.50        |
| Other Current Assets               | 79.72         | 85.44         | 79.24         | 123.24        | 123.26        | 123.35        |
| <b>Total Current Assets</b>        | <b>264.63</b> | <b>248.18</b> | <b>297.22</b> | <b>384.12</b> | <b>411.91</b> | <b>524.77</b> |
| Creditors                          | 8.01          | 9.18          | 13.05         | 11.66         | 11.95         | 13.11         |
| Other Current Liabilities & Provns | 104.79        | 91.47         | 102.70        | 207.19        | 147.88        | 147.88        |
| <b>Total Current Liabilities</b>   | <b>112.80</b> | <b>100.65</b> | <b>115.75</b> | <b>218.85</b> | <b>159.82</b> | <b>160.99</b> |
| <b>Net Current Assets</b>          | <b>151.83</b> | <b>147.53</b> | <b>181.47</b> | <b>165.27</b> | <b>252.08</b> | <b>363.78</b> |
| <b>TOTAL APPLICATION OF FUNDS</b>  | <b>344.82</b> | <b>379.58</b> | <b>470.00</b> | <b>610.21</b> | <b>687.66</b> | <b>782.32</b> |

Source: Company, HSIE Research

## Consolidated Cash Flow

| YE March (Rs bn)                 | FY17          | FY18          | FY19          | FY20          | FY21E         | FY22E         |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Reported PBT                     | 104.09        | 110.96        | 126.25        | 142.09        | 138.74        | 167.79        |
| Non-operating & EO items         | -7.08         | -5.11         | -7.61         | -1.74         | -4.26         | -9.23         |
| Interest expenses                | 0.19          | 0.22          | 1.24          | 2.51          | 3.30          | 3.30          |
| Depreciation                     | 8.28          | 13.83         | 20.73         | 34.20         | 28.38         | 30.14         |
| Working Capital Change           | 3.21          | -12.34        | -24.66        | -15.60        | -3.20         | -13.07        |
| Tax paid                         | -20.07        | -23.56        | -26.21        | -25.58        | -33.30        | -40.27        |
| <b>OPERATING CASH FLOW ( a )</b> | <b>88.62</b>  | <b>84.00</b>  | <b>89.74</b>  | <b>135.88</b> | <b>129.67</b> | <b>138.67</b> |
| Capex                            | -44.08        | -54.51        | -62.93        | -79.57        | -78.33        | -13.11        |
| Free cash flow (FCF)             | 44.54         | 29.49         | 26.81         | 56.31         | 51.34         | 125.56        |
| Investments                      | -0.14         | 1.17          | -0.42         | -             | -             | -             |
| <b>INVESTING CASH FLOW ( b )</b> | <b>-37.14</b> | <b>-48.23</b> | <b>-55.74</b> | <b>-77.83</b> | <b>-74.07</b> | <b>-3.88</b>  |
| Debt Issuance                    | -3.95         | -1.48         | 36.14         | -2.46         | -             | -             |
| Interest expenses                | -0.19         | -0.14         | -0.71         | -1.36         | -3.30         | -3.30         |
| FCFE                             | 40.40         | 27.87         | 62.24         | 52.49         | 48.04         | 122.26        |
| Share capital Issuance           | 0.03          | -             | -             | -             | -0.01         | -             |
| Dividend/Buyback                 | -40.69        | -55.31        | -53.21        | -16.25        | -27.66        | -32.54        |
| <b>FINANCING CASH FLOW ( c )</b> | <b>-44.80</b> | <b>-56.93</b> | <b>-17.78</b> | <b>-20.07</b> | <b>-30.97</b> | <b>-35.84</b> |
| <b>NET CASH FLOW (a+b+c)</b>     | <b>6.68</b>   | <b>-21.16</b> | <b>16.22</b>  | <b>37.98</b>  | <b>24.62</b>  | <b>98.94</b>  |
| Closing Cash & Equivalents       | 101.90        | 66.35         | 100.92        | 119.57        | 143.87        | 242.50        |

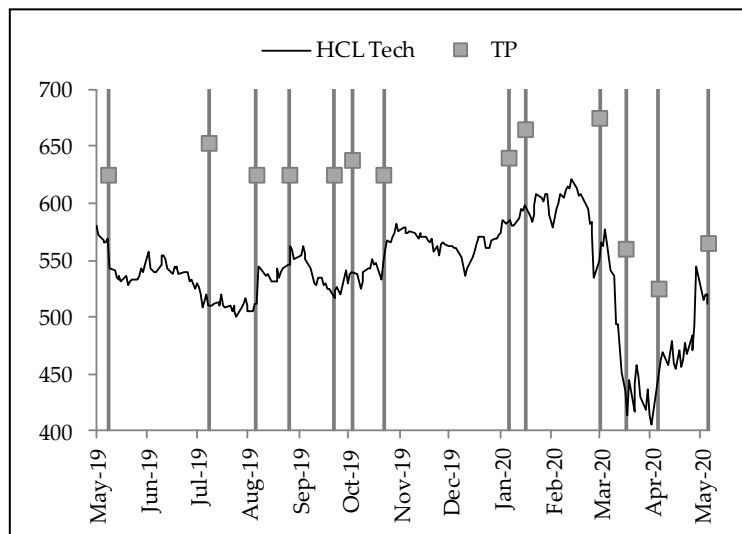
Source: Company, HSIE Research

## Key Ratios

|                                   | FY17  | FY18  | FY19  | FY20  | FY21E | FY22E |
|-----------------------------------|-------|-------|-------|-------|-------|-------|
| <b>PROFITABILITY (%)</b>          |       |       |       |       |       |       |
| EBIT Margin                       | 20.3  | 19.7  | 19.6  | 19.9  | 18.8  | 20.0  |
| APAT Margin                       | 17.5  | 17.4  | 16.8  | 15.7  | 14.5  | 16.0  |
| RoE                               | 26.9  | 25.3  | 26.0  | 23.8  | 19.0  | 19.9  |
| RoIC or Core RoCE                 | 34.9  | 28.4  | 27.8  | 25.9  | 20.0  | 22.3  |
| RoCE                              | 25.6  | 24.4  | 24.2  | 21.2  | 16.6  | 17.6  |
| <b>EFFICIENCY</b>                 |       |       |       |       |       |       |
| Tax Rate (%)                      | 18.8  | 20.9  | 19.7  | 20.7  | 24.0  | 24.0  |
| Total Asset Turnover (x)          | 1.0   | 1.1   | 1.0   | 0.9   | 0.9   | 0.8   |
| Debtors (days)                    | 65    | 70    | 71    | 73    | 73    | 73    |
| Other current assets (days)       | 62    | 62    | 48    | 64    | 62    | 57    |
| Payables (days)                   | 6     | 7     | 8     | 6     | 6     | 6     |
| Other current liab & provn (days) | 82    | 66    | 62    | 107   | 75    | 68    |
| Cash Conversion Cycle (days)      | 41    | 60    | 49    | 24    | 55    | 56    |
| Net Debt/EBITDA (x)               | -0.9  | -0.5  | -0.5  | -0.4  | -0.6  | -1.0  |
| Net Debt/Equity (x)               | -0.3  | -0.2  | -0.2  | -0.1  | -0.2  | -0.3  |
| Interest Coverage (x)             | 106   | 145   | 68    | 28    | 41    | 48    |
| <b>PER SHARE DATA</b>             |       |       |       |       |       |       |
| EPS (Rs/sh)                       | 30.1  | 32.4  | 37.3  | 40.8  | 38.8  | 46.9  |
| CEPS (Rs/sh)                      | 34.3  | 37.7  | 45.2  | 51.3  | 49.2  | 58.0  |
| DPS (Rs/sh)                       | 24.0  | 12.0  | 10.0  | 14.0  | 17.0  | 20.0  |
| BV (Rs/sh)                        | 122.1 | 134.1 | 152.9 | 189.6 | 218.1 | 253.0 |
| <b>VALUATION</b>                  |       |       |       |       |       |       |
| P/E                               | 17.0  | 15.8  | 13.7  | 12.5  | 13.2  | 10.9  |
| P/BV                              | 4.2   | 3.8   | 3.3   | 2.7   | 2.3   | 2.0   |
| EV/EBITDA                         | 12.5  | 11.6  | 9.5   | 7.9   | 7.8   | 6.3   |
| OCF/EV (%)                        | 6.9   | 6.3   | 6.8   | 10.3  | 10.0  | 11.6  |
| FCF/EV (%)                        | 3.5   | 2.2   | 2.0   | 4.3   | 7.6   | 12.6  |
| FCFE/mkt cap (%)                  | 3.1   | 2.1   | 4.7   | 4.0   | 7.4   | 12.4  |
| Dividend Yield (%)                | 4.7   | 2.3   | 2.0   | 2.7   | 3.3   | 3.9   |

Source: Company, HSIE Research

## RECOMMENDATION HISTORY



| Date      | CMP | Reco | Target |
|-----------|-----|------|--------|
| 10-May-19 | 566 | BUY  | 625    |
| 5-Jul-19  | 508 | BUY  | 653    |
| 8-Aug-19  | 512 | BUY  | 625    |
| 27-Sep-19 | 547 | BUY  | 625    |
| 22-Oct-19 | 525 | BUY  | 625    |
| 4-Nov-19  | 539 | BUY  | 638    |
| 24-Dec-19 | 548 | BUY  | 625    |
| 7-Jan-20  | 582 | BUY  | 640    |
| 18-Feb-20 | 599 | BUY  | 665    |
| 2-Mar-20  | 534 | ADD  | 675    |
| 18-Mar-20 | 451 | BUY  | 560    |
| 6-Apr-20  | 406 | BUY  | 525    |
| 8-May-20  | 511 | BUY  | 565    |

From 2<sup>nd</sup> March 2020, we have moved to new rating system

## Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: >10% Downside return potential

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