

# HCL Technologies (HCLT IN)

Rating: BUY | CMP: Rs623 | TP: Rs751

July 20, 2020

## Q1FY21 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
<b>Rating</b>	<b>BUY</b>		<b>HOLD</b>	
<b>Target Price</b>	<b>751</b>		<b>591</b>	
Sales (Rs. m)	8,16,755	8,93,596	7,72,397	8,44,136
% Chng.	5.7	5.9		
EBITDA (Rs. m)	1,95,964	2,12,109	1,81,618	1,94,151
% Chng.	7.9	9.2		
EPS (Rs.)	48.1	52.1	44.1	46.9
% Chng.	9.1	11.1		

### Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	707	732	817	894
EBITDA (Rs. bn)	167	184	196	212
Margin (%)	23.6	25.1	24.0	23.7
PAT (Rs. bn)	111	116	130	141
EPS (Rs.)	40.8	42.9	48.1	52.1
Gr. (%)	10.8	5.2	12.1	8.3
DPS (Rs.)	7.0	8.0	10.0	10.0
Yield (%)	1.1	1.3	1.6	1.6
RoE (%)	23.7	20.5	19.6	18.4
RoCE (%)	27.0	24.3	22.5	21.2
EV/Sales (x)	2.2	2.2	1.9	1.6
EV/EBITDA (x)	9.5	8.8	7.9	6.9
PE (x)	15.3	14.5	13.0	12.0
P/BV (x)	3.3	2.7	2.4	2.1

### Key Data

### HCLT.BO | HCLT IN

52-W High / Low	Rs.652 / Rs.375
Sensex / Nifty	37,020 / 10,902
Market Cap	Rs.1,692bn/ \$ 22,551m
Shares Outstanding	2,714m
3M Avg. Daily Value	Rs.6039.69m

### Shareholding Pattern (%)

Promoter's	60.33
Foreign	25.62
Domestic Institution	10.01
Public & Others	4.00
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	8.3	4.1	19.8
Relative	(2.0)	18.0	26.9

Aniket Pande

aniketpande@plindia.com | 91-22-66322300

## Strong Overall Performance, Attractive Valuation!

### Quick Pointers:

- HCLT has impressed us with better execution, strong margin performance & restoration of guidance.
- HCLT OCF generation was strong in this quarter (US\$2.3bn vs US\$1.3bn avg) post making the pending payment of IBM (\$812mn), Net cash is US\$ 1,330mn. HCLT generates ~US\$1.7bn over the next 2-3 years & with limited capex & acquisitions there surely **is a scope for improvement in Payout ratio**.
- HCLT expects cc growth of 1.5%-2.5% for the next 3 quarters which translated revenue decline of 0.8%-3.3% in FY21E. Margins to be in 19.5% - 20.5% range.
- Due to strong margin performance, strong execution & strong recovery in FY22 on pent-up demand led to ~10% for FY22/23. We now value HCLT on 15X (33% discount to Infy) & arrive at changed TP of Rs.751 (earlier: Rs.591) on Sep-22 EPS of Rs. 50.1. Stock Is trading at a **very attractive valuation** of 14.5X/13.0X on FY22E/23E EPS of Rs. 48.1/52.1 respectively. Upgrade to Buy from Hold.

**HCLT reported revenue decline of 7.2% QoQ CC (Ple:7.1%, Cons:7.1%) & 7.4% QoQ in \$ terms in line with our & street estimates. Revenue decline was sharp in IT Services (-7.8% QoQ) and ERD (-9% QoQ) and very moderate in Products and Platforms (-2.1% QoQ). EBIT margin performance was impressive & was contained just to -40bps QoQ to 20.5% (Ple:19%, Cons: 19.5%). HCLT expects cc growth of 1.5%-2.5% for the next 3 quarters which translated revenue decline of 0.8%-3.3% \$ terms in FY21E. This compares with 0.9-2.2% CQGR implied by Infosys's revenue outlook and 2.4% by TCS's intent to achieve flat YoY cc growth by Q4FY21. Margins to be in 19.5% - 20.5% range. HCLT is looking to defend/expand margins in FY21-an impressive thing, in our view. Management believes worst is over and is confident of good growth trajectory- confidence is based on large deals, 40% higher pipeline compared to pre-Covid and stability across verticals such as financial services, healthcare, telecom and CPG. We expect revenue decline of 2.5% \$ terms in FY21E. Due to strong margin performance, strong execution & strong recovery in FY22 on pent-up demand led to ~10% for FY22/23. We now value HCLT on 15X (33% discount to Infy) & arrive at changed TP of Rs.751 (earlier: Rs.591) on Sep-22 EPS of Rs. 50.1. Stock Is trading at a very attractive valuation of 14.5X/13.0X on FY22E/23E EPS of Rs. 48.1/52.1 respectively. Upgrade to Buy from Hold.**

*Impact of Covid on revenues was lower than HCLT's own expectations. Covid resulted in shutdowns, reduced volumes and price discounts with a higher impact on manufacturing, TTH, retail, media and E&U. Supply constraints led to 33% of Covid related revenue impact, higher than that of peers because of high exposure to ER&D space.*

*HCLT mentioned that right shoring, automation & tight cost management initiatives and higher mode 3 mix contributed to a strong YoY EBIT margin performance. HCLT indicated that it will not provide a wage hike to employees in FY2021. Margins to be in 19.5% - 20.5% range. HCLT is looking to defend/expand margins in FY21-an impressive thing, in our view.*

*HCLT benefited from consolidation opportunity with a large client in Europe, and management indicated that it will further explore such opportunities. Digital transformation, cloud initiatives and cyber security are the areas where management is seeing increased demand from the clients.*

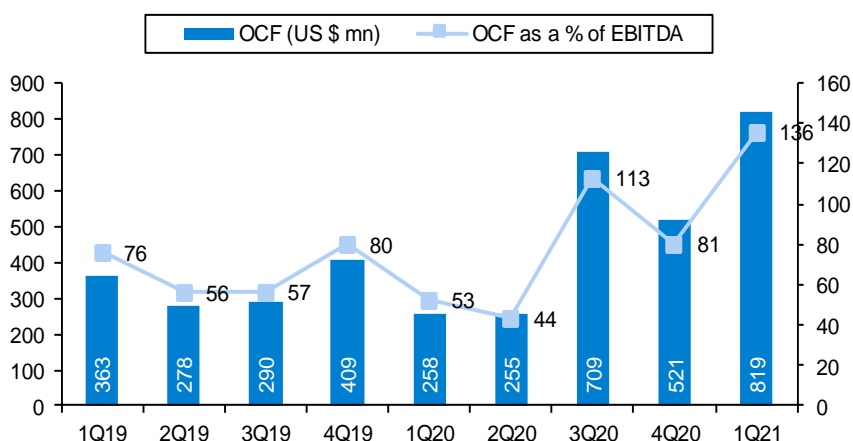
*HCLT believes that the products business is quite sticky and well diversified across geographies and verticals which help dilute Covid impact. HCLT expects stable performance from its products business for the rest of FY2021.*

- **Inline revenue performance** HCLT reported revenue decline of 7.2% QoQ CC (Ple:7.1%, Cons:7.1%) & 7.4% QoQ in \$ terms in line with our & street estimates. Revenue decline was sharp in IT Services (-7.8% QoQ) and ERD (-9% QoQ) and very moderate in Products and Platforms (-2.1% QoQ). Verticals: Manufacturing (-18.8%), Retail (-9%), Telecom (-15.5%), BFSI (-1.7%) declined while Technology services grew by +7.2% QoQ (all in CC terms QoQ). Geographies: US (-6.9%), EU (-8.5%), Row (-5.1%) - all CC QoQ. Impact of Covid on revenues was lower than HCLT's own expectations. Covid resulted in shutdowns, reduced volumes and price discounts with a higher impact on manufacturing, TTH, retail, media and E&U. Supply constraints led to 33% of Covid related revenue impact, higher than that of peers because of high exposure to ER&D space.
  - **Strong Margin performance:** EBIT margin performance was impressive & was contained just to -40bps QoQ to 20.5% (Ple:19%, Cons: 19.5%). Margin break up Pre FX margins Bridge: -67bps D&A, -12bps high R&D expenditure in Products, ER&D, IT&BS, +14bps SG&A optimization 4) -70bps impact of lower volumes. HCLT mentioned that right shoring, automation & tight cost management initiatives and higher mode 3 mix contributed to a strong YoY EBIT margin performance. HCLT indicated that it will not provide a wage hike to employees in FY2021. Margins to be in 19.5% - 20.5% range. HCLT is looking to defend/expand margins in FY21-an impressive thing, in our view.
  - **Restoration of revenue guidance is positive:** HCLT expects cc growth of 1.5%-2.5% for the next 3 quarters which translated revenue decline of 0.8%-3.3% in FY21E. This compares with 0.9-2.2% CQGR implied by Infosys's revenue outlook and 2.4% by TCS's intent to achieve flat YoY cc growth by Q4FY21. Margins to be in 19.5% - 20.5% range. HCLT is looking to defend/expand margins in FY21-an impressive thing, in our view. Management believes worst is over and is confident of good growth trajectory- confidence is based on large deals, 40% higher pipeline compared to pre-Covid and stability across verticals such as financial services, healthcare, telecom and CPG.
- HCLT is seeing increased momentum in cost transformation initiatives and vendor consolidation with the clients in stressed sectors such as Energy and Auto. HCLT benefited from consolidation opportunity with a large client in Europe, and management indicated that it will further explore such opportunities. Digital transformation, cloud initiatives and cyber security are the areas where management is seeing increased demand from the clients.
- **Strong Resilience from Product business:** Product business declined was curtailed just at 2.1% YoY CC & it was helped by the strong demand for software products in ecommerce, digital marketing and security due to Covid impact. HCLT's security products obtained from IBM, BigFix and AppScan, benefited from the demand trend. HCLT added 100 new clients in the quarter, higher than the previous quarters. In the course of the last 12 months, HCLT has completed over 16,500 sales transactions across 11,000 unique customers, added 250 net new clients and has on boarded more than 2,400 partners HCLT believes that the products business is quite sticky and well diversified across geographies and verticals which help dilute Covid impact. HCLT expects stable performance from its products business for the rest of FY2021.

HCLT generates ~US\$1.7bn over the next 2-3 years & with limited capex & big acquisitions there surely is a scope for improvement in Payout ratio & will help in re-rating the stock which can provide massive upside from current levels.

- Capital allocation is the only headwind for valuation:** HCLT OCF generation was strong in this quarter (US\$2.3bn vs US\$1.3bn avg) post making the pending payment of IBM (\$812mn), Net cash is US\$ 1,330mn. The company has restricted quarterly dividend payout to Rs2/share resulting in payout ratio of just 22%. Limited payout was on account of conserving cash during pandemic & IBM payment. HCLT generates ~US\$1.7bn over the next 2-3 years & with limited capex & big acquisitions there surely **is a scope for improvement in Payout ratio & will help in re-rating the stock which can provide massive upside from current levels.**

Exhibit 1: Impressive OCF to EBITDA



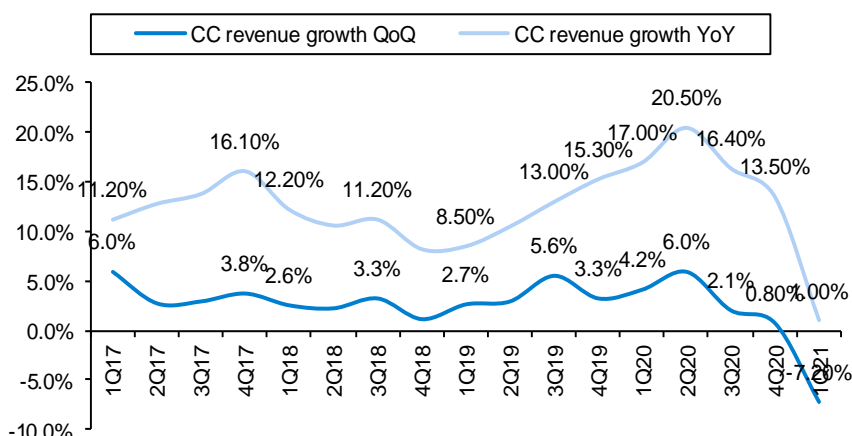
Source: Company, PL

- Roshni Nadar Malhotra appointed as Chairperson of the Board:** Roshni Nadar Malhotra has been appointed as the Chairperson of the Board, after Shiv Nadar stepped down from the position. HCLT indicated that the appointment of Roshni as chairperson was a part of HCLT's succession plan and will not lead to any change in strategy and direction of the company. Shiv Nadar retains the other role i.e. MD and Chief Strategy Officer. Shiv plays an instrumental role in deciding the strategic priorities of the organization.

Exhibit 2: Q1FY21: Quick view on results

(Rs m)	1Q21	4Q20	QoQ gr.	1Q20	YoY gr.	PL(e)	Var VS PL(e)
Sales (\$ m)	2,356	2,543	-7.4%	2,364	-0.3%	2,353	0.1%
Sales	1,78,410	1,85,900	-4.0%	1,64,270	8.6%	1,78,385	0.0%
EBIT Margin	45,660	47,200	-3.3%	34,020	34.2%	41,921	8.9%
EBIT Margin	25.6%	25.4%	20 bps	20.7%	488 bps	24%	209 bps
EBIT Margin	36,600	38,810	-5.7%	28,070	30.4%	33,893	8.0%
EBIT Margin	20.5%	20.9%	-36 bps	17.1%	343 bps	19.0%	151 bps
Adjusted PAT	29,230	31,530	-7.3%	22,220	31.5%	27,247	7.3%
EPS	10.8	11.6	-7.3%	8.2	31.5%	10.04	7.3%
Average (USD rate)	75.7	73.1	3.6%	69.5	9.0%	75.8	-0.1%

Source: Company, PL

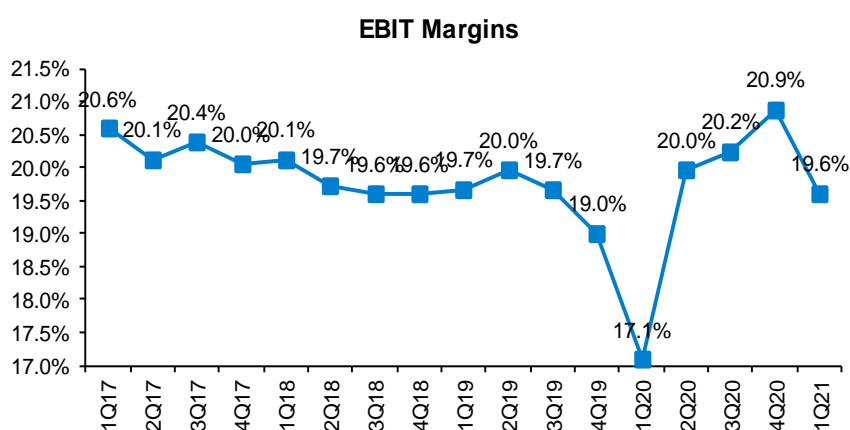
**Exhibit 3: Inline revenue performance**


Source: Company, PL

**Exhibit 4: Performance Metrics of Mode 1-2-3 business**

Revenues (US\$ mn)	Q1FY20	Q4FY20	Q1FY21	QoQ gr.	YoY gr.
Mode 1	1662	1656	1,494	-9.8%	-10.1%
Mode 2	444	488	479	-1.8%	7.9%
Mode 3	258	400	382	-4.5%	48.1%
<b>Total</b>	<b>2,364</b>	<b>2,544</b>	<b>2,355</b>	<b>-7.4%</b>	<b>-0.4%</b>
<b>Revenue mix (%)</b>					
Mode 1	70.3	65.1	63.4	-170 bps	-690 bps
Mode 2	18.8	19.2	20.3	110 bps	150 bps
Mode 3	10.9	15.7	16.2	50 bps	530 bps
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>		
<b>EBIT margin (%)</b>					
Mode 1	17.8	19.6	19.4	-20 bps	160 bps
Mode 2	13.2	18.1	17.4	-70 bps	420 bps
Mode 3	19	29.6	28.9	-70 bps	990 bps
<b>Total</b>	<b>17.1</b>	<b>20.9</b>	<b>20.5</b>	<b>-40 bps</b>	<b>340 bps</b>
<b>Growth (qoq c/c %)</b>					
Mode 1	4.1	-0.4	-9.5	-910 bps	-1360 bps
Mode 2	3.6	7.1	-1.6	-870 bps	-520 bps
Mode 3	6.5	-1.0	-4.7	-370 bps	-1120 bps
<b>Total</b>	<b>4.2</b>	<b>0.8</b>	<b>-7.2</b>	<b>-800 bps</b>	<b>-1140 bps</b>

Source: Company, PL

**Exhibit 5: Margins rebounded strong**


Source: Company, PL

## Valuations

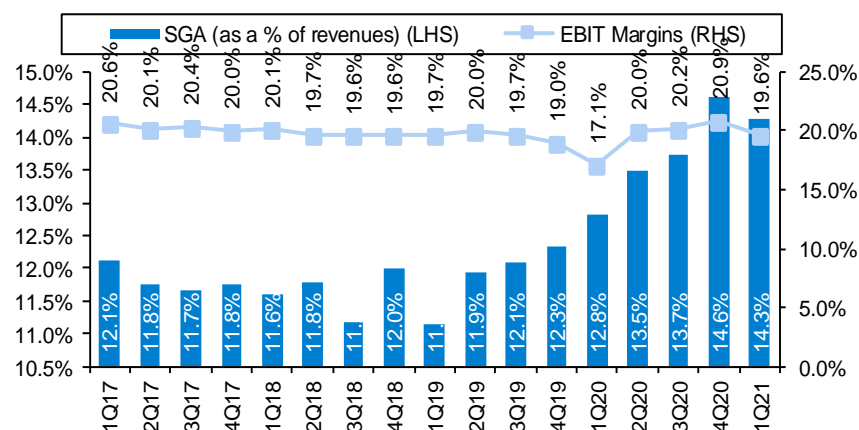
HCLT is looking to defend/expand margins in FY21-an impressive thing, in our view. Management believes worst is over and is confident of good growth trajectory-confidence is based on large deals, 40% higher pipeline compared to pre-Covid and stability across verticals such as financial services, healthcare, telecom and CPG. We expect revenue decline of 2.5% in FY21E. Due to strong margin performance, strong execution & strong recovery in FY22 on pent-up demand led to ~10% for FY22/23. We now value HCLT on 15X (33% discount to Infy) & arrive at changed TP of Rs.751 (earlier: Rs.591) on Sep-22 EPS of Rs. 50.1. Stock is trading at a very attractive valuation of 14.5X/13.0X on FY22E/23E EPS of Rs. 48.1/52.1 respectively. Upgrade to Buy from Hold.

HCLT OCF generation was strong in this quarter (US\$2.3bn vs US\$1.3bn avg) post making the pending payment of IBM (\$812mn), Net cash is US\$ 1,330mn. The company has restricted quarterly dividend payout to Rs2/share resulting in payout ratio of just 22%. Limited payout was on account of conserving cash during pandemic & IBM payment. HCLT generates ~US\$1.7bn over the next 2-3 years & with limited capex & big acquisitions there surely **is a scope for improvement in Payout ratio & will help in re-rating the stock which can provide massive upside from current levels.**

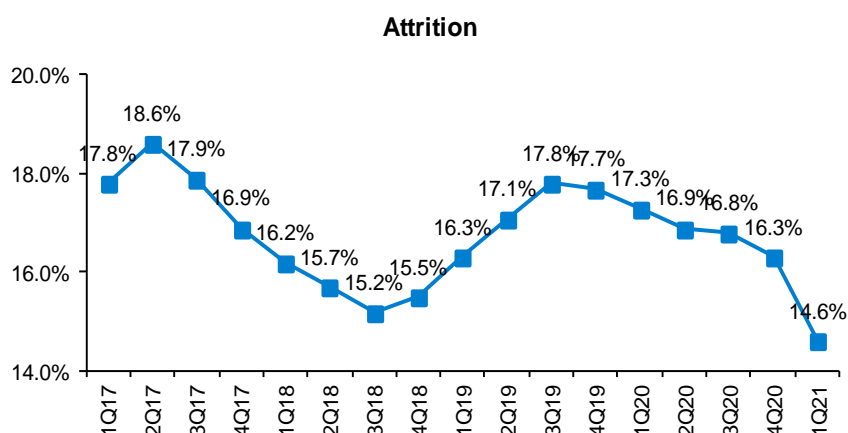
### Exhibit 6: Change in Estimates

Particulars	FY21E	FY22E	FY23E
<b>Revenue (US\$ m)</b>			
New	9,685	10,747	11,605
Old	9,336	10,163	10,963
Change (%)	3.7%	5.7%	5.9%
USD Revenue growth (%)	-2.5%	11.0%	8.0%
<b>EBIT Margins (%)</b>			
- New	20.5%	19.7%	19.5%
- Old	19.0%	19.3%	18.8%
Change (%)	150 bps	48 bps	74 bps
<b>EPS (Rs)</b>			
- New	42.9	48.1	52.1
- Old	39.7	44.1	46.9
Change (%)	8.0%	9.1%	11.1%

Source: Company, PL

**Exhibit 7: SGA expenses to be curtailed**


Source: Company, PL

**Exhibit 8: Attrition declined severely**


Source: Company, PL

**Exhibit 9: Geography-wise revenues**

(US\$ m)	1Q21	4Q20	QoQ gr.	1Q20	YoY gr.
US	1,500.5	1,612.3	-6.9%	1,600.2	-6.2%
Europe	666.6	729.8	-8.7%	612.2	8.9%
Asia Pacific	188.4	198.4	-5.0%	148.9	26.5%
<b>% Total</b>					
US	63.7%	63.4%	30 bps	67.7%	-400 bps
Europe	28.3%	28.7%	-40 bps	25.9%	240 bps
Asia Pacific	8.0%	7.8%	20 bps	6.3%	170 bps

Source: Company, PL

### Exhibit 10: Vertical Wise Break up

	Rev (USDmn)	Growth (%)		Contribution to revenues (%)	C/C growth (%)	
		QoQ	YoY		QoQ	YoY
<b>Total revenues</b>	<b>2,356</b>	<b>-7.4</b>	<b>3.4</b>	<b>100</b>	<b>-7.2</b>	<b>1</b>
Geographical split of revenues						
US	1,500.0	(6.9)	NA	63.7	(6.9)	(5.8)
Europe	667.0	(8.7)	NA	28.3	(8.5)	11.4
ROW	188.0	(5.0)	NA	8.0	(5.1)	31.2
Vertical split of revenues						
Financial services	528.0	(1.7)	NA	22.4	(1.7)	11.7
Manufacturing (new classification)	426.0	(19.0)	NA	18.1	(18.8)	(8.3)
Technology Services	405.0	(1.7)	NA	17.2	(1.2)	(8.8)
Retail & CPG	236.0	(9.2)	NA	10.0	(9.0)	6.7
Telecom, media, publishing, entertainment	179.0	(15.2)	NA	7.6	(15.5)	(4.4)
Energy-utilities-public sector	259.0	(8.2)	NA	11.0	(7.1)	7.0
Service line split of revenues (new classification)						
IT and Business Services	1,654.0	(7.9)	NA	70.2	(7.8)	(5.6)
Engineering and R&D Services	377.0	(9.1)	NA	16.0	(9.0)	(5.1)
Products & Platforms	325.0	(2.4)	NA	13.8	(2.1)	77.7

Source: Company, PL

### Exhibit 11: Revenues by project type

(US\$ m)	1Q21	4Q20	QoQ gr.	1Q20	YoY gr.
Fixed Price Projects	1,571.1	1,736.9	-9.5%	1,500.9	4.7%
Time & Material	784.4	806.1	-2.7%	862.7	-9.1%
<b>% of total Revenue</b>					
Fixed Price Projects	66.7%	68.3%	-160 bps	63.5%	320 bps
Time & Material	33.3%	31.7%	160 bps	36.5%	-320 bps

Source: Company, PL

**Exhibit 12: Client Metrics**

Particulars	1Q21	4Q20	QoQ gr.	1Q20	YoY gr.
US\$100m	15	15	0	12	3
US\$50m	29	30	-1	29	0
US\$20m	93	96	-3	93	0
US\$10m	173	171	2	172	1
US\$5m	320	308	12	293	27
US\$1m	848	791	57	633	215
<b>(US\$ m)</b>					
Top 5 Clients	327.4	384.0	-14.7%	392.4	-16.6%
Top 6-10 Clients	164.9	175.5	-6.0%	172.5	-4.4%
Top 10 Clients	492.3	559.5	-12.0%	564.9	-12.9%
Top 10-20 Clients	233.2	256.8	-9.2%	243.5	-4.2%
Top 20 Clients	725.5	816.3	-11.1%	808.4	-10.3%
Non-Top 20 Clients	1,630.0	1,726.7	-5.6%	1,555.2	4.8%
New business	2,355.5	145.0	1525.0%	108.7	2066.5%
Repeat business	0.0	2,398.0	-100.0%	2,254.9	-100.0%
<b>% of Total Revenue</b>					
Top 5 Clients	13.9%	15.1%	-120 bps	16.6%	-270 bps
Top 10 Clients	20.9%	22.0%	-110 bps	23.9%	-300 bps
Top 20 Clients	30.8%	32.1%	-130 bps	34.2%	-340 bps
New Clients Business	100.0%	5.7%	9430 bps	4.6%	9540 bps
Repeat Business	0.0%	94.3%	-9430 bps	95.4%	-9540 bps

Source: Company, PL



## Financials

### Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Net Revenues</b>	<b>7,06,800</b>	<b>7,31,800</b>	<b>8,16,755</b>	<b>8,93,596</b>
YoY gr. (%)	17.0	3.5	11.6	9.4
Employee Cost	4,43,080	4,50,382	5,14,613	5,65,319
Gross Profit	2,63,720	2,81,418	3,02,142	3,28,276
Margin (%)	37.3	38.5	37.0	36.7
SG&A Expenses	-	-	-	-
Other Expenses	-	-	-	-
<b>EBITDA</b>	<b>1,66,950</b>	<b>1,84,008</b>	<b>1,95,964</b>	<b>2,12,109</b>
YoY gr. (%)	19.5	10.2	6.5	8.2
Margin (%)	23.6	25.1	24.0	23.7
Depreciation and Amortization	28,400	33,963	34,655	37,950
<b>EBIT</b>	<b>1,38,550</b>	<b>1,50,045</b>	<b>1,61,309</b>	<b>1,74,159</b>
Margin (%)	19.6	20.5	19.7	19.5
Net Interest	-	-	-	-
Other Income	1,790	2,650	2,150	3,050
<b>Profit Before Tax</b>	<b>1,40,340</b>	<b>1,52,695</b>	<b>1,63,459</b>	<b>1,77,209</b>
Margin (%)	19.9	20.9	20.0	19.8
Total Tax	29,380	36,190	32,984	35,857
Effective tax rate (%)	20.9	23.7	20.2	20.2
<b>Profit after tax</b>	<b>1,10,960</b>	<b>1,16,505</b>	<b>1,30,475</b>	<b>1,41,352</b>
Minority interest	320	130	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>1,10,640</b>	<b>1,16,375</b>	<b>1,30,475</b>	<b>1,41,352</b>
YoY gr. (%)	9.3	5.2	12.1	8.3
Margin (%)	15.7	15.9	16.0	15.8
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,10,640</b>	<b>1,16,375</b>	<b>1,30,475</b>	<b>1,41,352</b>
YoY gr. (%)	9.3	5.2	12.1	8.3
Margin (%)	15.7	15.9	16.0	15.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,10,640	1,16,375	1,30,475	1,41,352
<b>Equity Shares O/s (m)</b>	<b>2,713</b>	<b>2,714</b>	<b>2,714</b>	<b>2,714</b>
<b>EPS (Rs)</b>	<b>40.8</b>	<b>42.9</b>	<b>48.1</b>	<b>52.1</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>3,56,650</b>	<b>4,21,372</b>	<b>4,36,020</b>	<b>4,49,268</b>
Tangibles	62,440	1,26,172	1,40,820	1,54,068
Intangibles	2,94,210	2,95,200	2,95,200	2,95,200
<b>Acc: Dep / Amortization</b>	-	-	-	-
Tangibles	-	-	-	-
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>3,56,650</b>	<b>4,21,372</b>	<b>4,36,020</b>	<b>4,49,268</b>
Tangibles	62,440	1,26,172	1,40,820	1,54,068
Intangibles	2,94,210	2,95,200	2,95,200	2,95,200
Capital Work In Progress	-	-	-	-
Goodwill	-	-	-	-
Non-Current Investments	770	770	770	770
Net Deferred tax assets	-	-	-	-
Other Non-Current Assets	90,500	87,270	87,270	87,270
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	-	-	-	-
Trade receivables	1,77,720	1,76,434	1,96,916	2,15,442
Cash & Bank Balance	1,53,730	1,17,505	1,95,815	2,86,913
Other Current Assets	52,790	45,372	50,639	55,403
<b>Total Assets</b>	<b>8,32,160</b>	<b>8,48,723</b>	<b>9,67,430</b>	<b>10,95,067</b>
<b>Equity</b>				
Equity Share Capital	1,341	1,341	1,341	1,341
Other Equity	5,15,520	6,15,640	7,13,958	8,23,153
<b>Total Network</b>	<b>5,16,860</b>	<b>6,16,981</b>	<b>7,15,299</b>	<b>8,24,494</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	50,920	50,920	50,920	50,920
Provisions	-	-	-	-
Other non current liabilities	50,210	29,272	32,670	35,744
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,08,890	1,46,360	1,63,351	1,78,719
Other current liabilities	-	-	-	-
<b>Total Equity &amp; Liabilities</b>	<b>8,32,160</b>	<b>8,48,723</b>	<b>9,67,430</b>	<b>10,95,067</b>

Source: Company Data, PL Research

### Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	1,40,340	1,52,695	1,63,459	1,77,209
Add. Depreciation	28,400	33,963	34,655	37,950
Add. Interest	-	-	-	-
Less Financial Other Income	1,790	2,650	2,150	3,050
Add. Other	-	-	-	-
Op. profit before WC changes	1,68,740	1,86,658	1,98,114	2,15,159
Net Changes-WC	47,420	(71,534)	(5,360)	(4,848)
Direct tax	(29,380)	(36,190)	(32,984)	(35,857)
<b>Net cash from Op. activities</b>	<b>1,86,780</b>	<b>78,934</b>	<b>1,59,770</b>	<b>1,74,454</b>
Capital expenditures	(1,50,090)	(98,685)	(49,303)	(51,199)
Interest / Dividend Income	-	-	-	-
Others	(420)	-	-	-
<b>Net Cash from Invt. activities</b>	<b>(1,50,510)</b>	<b>(98,685)</b>	<b>(49,303)</b>	<b>(51,199)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	11,060	-	-	-
Dividend paid	(22,220)	(25,726)	(32,157)	(32,157)
Interest paid	-	-	-	-
Others	11,160	9,251	-	-
<b>Net cash from Fin. activities</b>	<b>-</b>	<b>(16,474)</b>	<b>(32,157)</b>	<b>(32,157)</b>
<b>Net change in cash</b>	<b>36,270</b>	<b>(36,225)</b>	<b>78,310</b>	<b>91,099</b>
Free Cash Flow	36,690	(19,751)	1,10,467	1,23,255

Source: Company Data, PL Research

### Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Per Share(Rs)</b>				
EPS	40.8	42.9	48.1	52.1
CEPS	51.2	55.4	60.9	66.1
BVPS	190.5	227.4	263.6	303.8
FCF	13.5	(7.3)	40.7	45.4
DPS	7.0	8.0	10.0	10.0
<b>Return Ratio(%)</b>				
RoCE	27.0	24.3	22.5	21.2
ROIC	45.2	41.1	34.8	29.1
RoE	23.7	20.5	19.6	18.4
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.2)	(0.1)	(0.2)	(0.3)
Debtor (Days)	92	88	88	88
<b>Valuation(x)</b>				
PER	15.3	14.5	13.0	12.0
P/B	3.3	2.7	2.4	2.1
P/CEPS	12.2	11.2	10.2	9.4
EV/EBITDA	9.5	8.8	7.9	6.9
EV/Sales	2.2	2.2	1.9	1.6
Dividend Yield (%)	1.1	1.3	1.6	1.6

Source: Company Data, PL Research

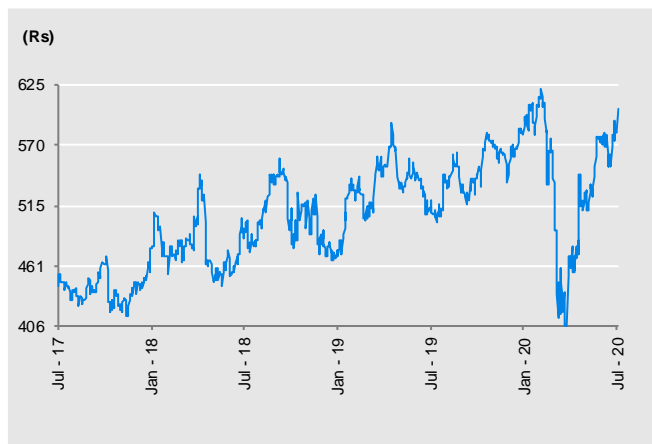
### Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
<b>Net Revenue</b>	<b>1,75,280</b>	<b>1,81,350</b>	<b>1,85,900</b>	<b>1,78,410</b>
YoY gr. (%)	17.9	15.5	16.3	8.6
Raw Material Expenses	1,10,610	1,11,760	1,11,510	1,07,280
Gross Profit	64,670	69,590	74,390	71,130
Margin (%)	36.9	38.4	40.0	39.9
<b>EBITDA</b>	<b>41,030</b>	<b>44,700</b>	<b>47,200</b>	<b>45,660</b>
YoY gr. (%)	17.3	22.6	31.2	34.2
Margin (%)	23.4	24.6	25.4	25.6
Depreciation / Depletion	6,060	8,000	8,390	9,060
<b>EBIT</b>	<b>34,970</b>	<b>36,700</b>	<b>38,810</b>	<b>36,600</b>
Margin (%)	20.0	20.2	20.9	20.5
Net Interest	-	-	-	-
Other Income	(30)	670	(130)	2,050
<b>Profit before Tax</b>	<b>34,940</b>	<b>37,370</b>	<b>38,680</b>	<b>38,650</b>
Margin (%)	19.9	20.6	20.8	21.7
Total Tax	8,350	6,910	7,070	9,290
Effective tax rate (%)	23.9	18.5	18.3	24.0
<b>Profit after Tax</b>	<b>26,590</b>	<b>30,460</b>	<b>31,610</b>	<b>29,360</b>
Minority interest	80	80	80	130
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>26,510</b>	<b>30,380</b>	<b>31,530</b>	<b>29,230</b>
YoY gr. (%)	4.4	16.4	22.8	31.5
Margin (%)	15.1	16.8	17.0	16.4
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>26,510</b>	<b>30,380</b>	<b>31,530</b>	<b>29,230</b>
YoY gr. (%)	4.4	16.4	22.8	31.5
Margin (%)	15.1	16.8	17.0	16.4
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>26,510</b>	<b>30,380</b>	<b>31,530</b>	<b>29,230</b>
Avg. Shares O/s (m)	2,713	2,714	2,714	2,714
<b>EPS (Rs)</b>	<b>9.8</b>	<b>11.2</b>	<b>11.6</b>	<b>10.8</b>

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Jul-20	Hold	591	579
2	08-May-20	Hold	548	512
3	12-Apr-20	Hold	501	469
4	18-Jan-20	BUY	691	599
5	03-Jan-20	BUY	628	585
6	07-Nov-19	BUY	1,258	1,148
7	24-Oct-19	BUY	1,258	1,095
8	03-Oct-19	BUY	1,210	1,077
9	18-Sep-19	BUY	1,210	1,058
10	08-Aug-19	BUY	1,210	1,023

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Cyient	Hold	450	437
2	HCL Technologies	Hold	591	579
3	Hexaware Technologies	Reduce	282	334
4	Infosys	BUY	1,037	831
5	L&T Technology Services	Hold	1,362	1,442
6	Larsen & Toubro Infotech	BUY	2,421	2,291
7	Mindtree	Reduce	888	978
8	Mphasis	Accumulate	943	887
9	NIIT Technologies	BUY	1,533	1,420
10	Persistent Systems	Reduce	447	514
11	Redington (India)	BUY	114	117
12	Sonata Software	Accumulate	400	313
13	Tata Consultancy Services	Hold	2,116	2,204
14	TeamLease Services	Hold	3,203	2,487
15	Tech Mahindra	Reduce	493	567
16	Wipro	BUY	257	225
17	Zensar Technologies	Accumulate	246	191

## PL's Recommendation Nomenclature (Absolute Performance)

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

## **ANALYST CERTIFICATION**

### **(Indian Clients)**

We/I, Mr. Aniket Pande- 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.

### **(US Clients)**

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report.

## **DISCLAIMER**

### **Indian Clients**

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at [www.plindia.com](http://www.plindia.com).

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is in the process of applying for certificate of registration as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

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

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Aniket Pande- 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.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

### **US Clients**

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

---

**Prabhudas Lilladher Pvt. Ltd.**

**3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209**

**[www.plindia.com](http://www.plindia.com)**