

Annual Report Analysis FY20 – Innovation is the focus

FY20 was an eventful year for HCL Tech with acquisition being consummated in HCL in June'19 and the focus on performance of Product & Platform Segment (and IBM portfolio). The Annual Report highlighted the focus of HCL Tech to evolve further as a Technology company with focus on building IP assets and driving innovation and filling gaps via acquisition. Significant inorganic investments over last three years have led to significant decline in OCF to FCF conversions. But, now with no meaningful investments in sight (organic as well as inorganic), FCF profile would improve materially – growth of about ~120% over FY20-22 (incremental US\$1bn on TMF basis as second tranche paid in Q1FY21).

Improvement in FCF and revival in business performance; Accumulate

OCF for Q1 stood at US \$ 819 mn, with OCF / NI conversion at 211.9%. FCF after Acquisition payment of \$812mn towards final tranche to IBM was down about \$60mn. With strong lead indicators and expectations of performance revival starting Q2, we are building in CC \$revenue and EPS CAGR of ~4%/7% over FY20-22E. With strong business momentum across units, RPO up 35% (up 22% for FY21E), confidence from guidance (1.5%-2.5% over next three quarters), decent transformational deal flow (53 deals in FY20) and attractive valuations of 15x FY22E, we maintain an ACCUMULATE Rating on HCL Tech with TP of Rs. 795 (valued at PER of 17x on FY22E earnings, implies 2PEG).

Takeaways from Chairperson

During the year, Roshni Nadar Malhotra took over charge of Chairperson (July'20) and highlighted that as global business environment is still impacted by pandemic and HCL will stick to core values and focus on more inclusive growth. Digital transformation for clients and within HCLT will drive its resilience furthermore (Detailed Vertical/Segment specific comments on page 3-4).

Takeaways from CEO's Address (C Vijaykumar)

- CVK highlighted that the growth for HCL Tech was driven by superior organic growth and acceleration of Mode 2 and 3 (digital and analytics, IoT, cloud native and cybersecurity).
- Continued investments were done to bring differentiation in HCL Tech such as ramp up in offerings by HCL Software (acquired selected IBM Products and on boarded 2,000+ partners and done 13,000+ sales transactions), acquired Strong Bridge-Envision (digital transformation consulting) and expanded partnership with Broadcom, created new division within Engineering and R&D business to drive an IP led strategy in that segment, acquired 'Sankalp' in semi-conductor space.
- Innovation for HCL Tech is also through "ideapreneurship" where employees filed 29 patents during the year and also generated 12,225 ideas which created verified value of about \$1.7Bn for the clients.
- COVID response to pandemic started with start of business continuity plan in End – Jan and HCL Tech received 99% positive response on a survey on pandemic response of HCL Tech by clients.

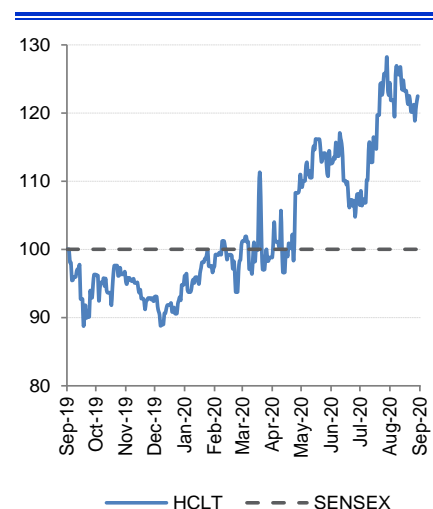
CMP	Rs 701
Target / Upside	Rs 795 / 13%
BSE Sensex	38,430
NSE Nifty	11,334

Scrip Details

Equity / FV	Rs 5,430mn / Rs 2
Market Cap	Rs 1,903bn
	US\$ 26bn
52-week High/Low	Rs 729/Rs 375
Avg. Volume (no)	60,39,060
NSE Symbol	HCLTECH
Bloomberg Code	HCLT IN

Shareholding Pattern Jun'20(%)

Promoters	60.0
MF/Banks/FIs	8.4
FIIs	27.7
Public / Others	4.0

Company Relative to Sensex**VP Research: Rahul Jain**

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Outlook confident backed by Digital Acceleration theme:

- HCL Tech is largely positive about the outlook with guidance of 1.5%-2.5% QoQ growth in CC terms for next three quarters and 40% increase in pipeline. Remaining Performance Obligation for FY20 stood at Rs. 666bn which up by 35% over FY19. However, revenue recognizable within 1 year has decreased to 36% from 40% - implies 22% growth and revenue coverage of about 32%.
- Digital Transformation is significantly accelerated across industries. Digital programs which were planned for completion in two to three years are now expected to close in months. This should drive improved growth momentum.
- The momentum sectors like Life Sciences and Healthcare, Online Grocery Distribution, Telecom and the Tech sector are creating demand. The impacted sectors like Retail, Auto, Travel, Hospitality have started to re-think on customer engagement to 'zero touch' interactions.
- HCL Tech is positive as it believes it has positioned itself as a technology company with a very strong portfolio of relevant capabilities – such as workplace transformation, cybersecurity transformation, digital scaling and cloud migration.

Industry Trends

HCL Tech highlighted some industry trends and noted that HCL Tech at forefront of each trend.

- **Demand for Digital Tech is growing:** As digital technologies transform business models around the globe, enterprises are investing in digital, analytics, cloud, internet of things (IoT), cybersecurity and other emerging technologies and focusing on business concerns like customer experience and real-time data insights.
- **Deals in DT segment to get larger:** As demand for digital technologies (DT) accelerates and cost savings create opportunities to replace traditional technologies, the market for large digital deals will grow.
- **IT players are investing / acquiring to fill gaps:** Technology services companies are investing in software products and platforms that transform them into end-to-end solution providers. Some are using mergers and acquisitions to acquire digital capabilities or access into newer geographies.
- **COVID Impact:** The demand for digital technology deal is strong. there have been delays in some engagements and short term economic slowdowns, But HCL expects there are opportunities for technology companies to grow in the medium and long term. The impact from COVID has been more Onsite given delayed start of operations by clients especially in the ER&D segments.
- **Investment in Delivery and Sales:** Industry players are investing in sales and delivery capabilities for the long term. They have been increasing their presence in client geographies to improve their delivery agility and reduce their dependence on work visas. They are opening delivery centers and innovation hubs at onshore and nearshore locations.

Vertical Commentary

- **Financial Services:** HCL Tech believes that Financial Services is at an inflection point with traditional banking and insurance organizations accelerating their digitalization programs. This acceleration is driven by open-banking advocates, P2P Fintechs who are un-leveling the playing field and investing more in technology. With multiple holistic solutions (API Hub, fully digital banking, Digital Avatar) and continuous focus on delivery innovation and client delight, HCL Tech believes it is ideally placed to sustain and enhance its competitive positioning in the FS Industry
- **Life Sciences & Healthcare Industries:** With COVID-19, this laggard industry is adopting new digital technologies. There is an immediate focus on using digital tech to reduce pressure on hospitals, delay in clinical trials, etc. HCL's offerings in LSH, including the new remote patient monitoring and telemedicine solutions, are ideally positioned to help businesses meet their goals holistically. Several top global Lifesciences companies and some of large Payers and Providers are part of client roster of HCL Tech.
- **Manufacturing:** The tone for Manufacturing commentary was negative. HCL Tech highlighted that frequent technology advances are keeping the manufacturing industry in a continual state of disruption, requiring enterprises to reinvent themselves and the way they operate. The COVID-19 pandemic has deeply impacted the industry, with industry leaders expecting a severe resource crunch for the foreseeable future.
- **Public Services Industries:** Travel, transportation, logistics and hospitality industries (TTLH); oil and gas industries (O&G); and aerospace and defence (A&D) industries are facing generational challenges as a result of the COVID-19 pandemic. TTLH companies are rethinking existing frameworks, processes and systems around transportation.
- **Retail and Consumer Packaged Goods Industries:** The impact of COVID on this segment has been differentiated as some of the big box and online retailers have seen very strong demand, while most of the retail enterprises have been severely impacted, (leading to employee furloughs and store closures). HCL Tech expects 4 trends to continue: 1) low/no touch interface with the customer due to social distancing. 2) online selling, (HCL's software product stack, Commerce and Unica) 3) flexible and adaptive supply network 4) making costs variable to prepare for an uncertain future.
- **Technology Industry:** HCL Tech highlighted that The technology industry is going through a period where a confluence of policy-related, technology, and industry changes which has created a foundation for upheaval and disruption – times where opportunistic strategies have offered handsome near-term rewards, where new entrants have had the potential to be the better operators, and where convergence in the ecosystem has created unprecedented opportunities for value players.
- **Telecom, Media and Entertainment Industries:** Within this vertical, clients are focusing on growing revenue via converged offerings and new business models with a “connected everything” approach. The advent of key technologies like 5G, artificial intelligence, internet of things (IoT), analytics, blockchain and mixed reality (AR/VR) is driving next-generation experiences and new revenue opportunities. HCL is well positioned to leverage these with already demonstrated by some engagements.

Business Segments

IT and Business Services (72% of revenues)

- HCL Tech expects a convergence in IT &BS Segment which will result in either end-to-end integrated deals that combine technology and business process requirements or agile digital opportunities that start with small projects and rapidly scale up to end-to-end digital transformation engagements.
- HCL Tech is positive on capturing opportunities due to comprehensive suite of offerings via NexGen enterprises - Digital Foundation, Digital Business and Digital Operations.
- **Digital Foundation** is large a set of capabilities under IMS. This includes - Hybrid Cloud Service Offerings, Digital Workplace Services, NextGen Network Services, Unified Service Management and Cybersecurity and GRC Services.
- **Digital Business** necessitates reimagining the existing business and technology architecture to create an adaptable, nimble and modular core. The acquisition of Strong-Bridge Envision earlier in the year has strengthened HCL's capabilities in guiding clients' digital prioritization and change management programs.
- **Partners:** HCL Tech has partnered with key strategic partners in this area including Adobe, Salesforce, Pega, Mulesoft, Denodo, TIBCO, Red Hat, Tableau, Appian, Blue Prism, Informatica, Software AG and own Products & Platform business segment
- **Digital Operations** includes product development, planning, sourcing, manufacturing and warehousing to logistics and services, all functions internally and externally must work in unison. The operations ecosystem must have the requisite capabilities, partnerships, technology and plan to propel efficiency and effectiveness. HCL's Digital Operations building blocks of Integrated IT Operations (IIOPS), Cybersecurity Fusion Centers (CSFC).

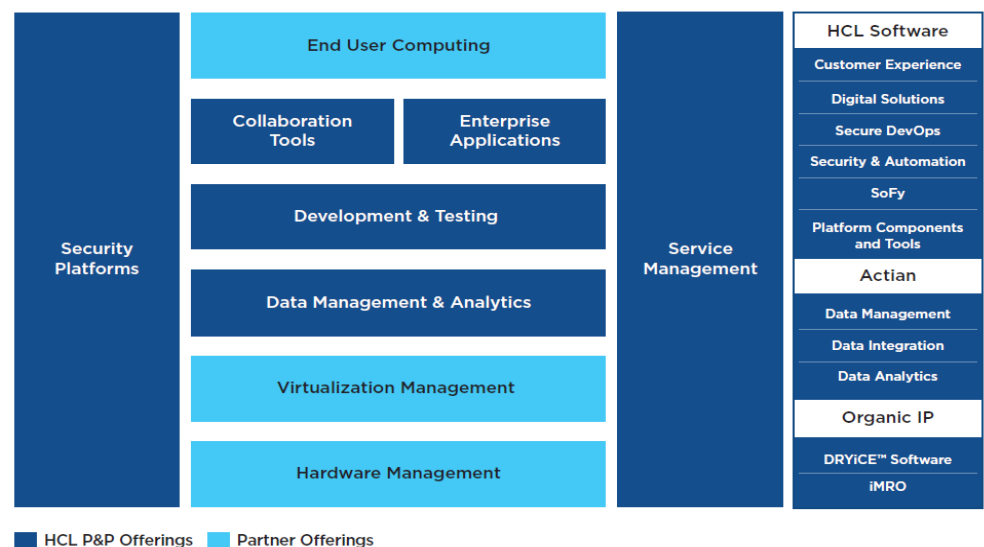
Engineering and R&D Services (17% of revenues)

- HCL's Engineering and R&D Services (**ERS**) primarily include services across the product lifecycle – from conceptualization, design, engineering and sustenance to new product introduction across varied products and platforms. Digital Engineering, which leverages the new technologies to build connected, smart and intelligent products, is driving the next phase of growth for the sector.
- HCL's ERS division provides Product Engineering, Platform Engineering and Operational Technology services to **65 of the Top 100 R&D spenders across 9 industries**. HCL ERS has partnered with over 330 global enterprises and has **long standing relationships with 90% of top 20 clients**.
- **ERS has a strong innovation culture, resulting in IP and strategic innovations**, building on that culture by leveraging alliances, startups and key academic research for co-creation and co-innovation with clients. HCL's solution-led approach, with a portfolio of 50+ solutions, helps clients accelerate development and monetize services.
- HCL's investments in over 80 engineering labs (Environmental compliance, certification and benchmarking) and Centers of Excellence (in niche areas such as highperformance computing, automation, imaging, big data and analytics, Industry 4.0, IoT, 5G, Robotics and others) have resulted in an ecosystem of comprehensive engineering services from concept to profit for clients across domains.

Products & Platform (11% of revenues)

The Products & Platforms segment comprises the HCL Software Division, Actian software and an IP partnership with DXC. The Product and Platform has had 450+ product releases (including 15 major releases). The key product offerings for P&P platform include Customer Experience, Digital Solutions, Secure DevOps, Security & Automation, DryICE Software, Actian, Banking and Platform Engineering IPs.

Exhibit 1: Software Product Framework highlights HCL Tech's software products widening coverage with its own Tech stacks across key areas.



Source: DART, Company

- HCL Software (started in 2019) now develops, markets, sells and supports more than 20 product families in the areas of Client Experience, Digital Solutions, DevSecOps, Automation/Security, etc.
- **Market Potential:** HCL Tech has highlighted market potential of some softwares: Low-code development offering (Domino): \$27Bn by 2022 (CAGR of 44%), Unified End Point Management offering (BigFix): \$9.67Bn by 2023 (CAGR from 2017 to 2022 is 37%), Application Security Testing Market (Appscan) is expected to have CAGR of 10%. Among the industry sectors, we see a lot of potential in banking and financial services, healthcare, government and consumer product firms.
- **Performance:** In FY20, HCL Software boarded nearly 9,000 clients and partners and completed over 10,000 sales transactions.
- **Major Product Release:** HCL Tech has done 15 major product releases (overall 450 product releases). The most notable among them is Domino v11 serving more than 15,000 clients indirectly via enterprise-grade apps powering businesses.
- **Outlook:** HCL believes The outlook for HCL Software is positive assuming the world economy continues to recover from the COVID-19 pandemic.
- **Action:** HCL acquired Actian in FY19, a leading global vendor of hybrid data management and analytics products. Actian plays a critical role in enhancing HCL's Mode 3 offerings in data management products and platforms. Actian is conducting Proof of Concepts and capitalizing on Actian's capabilities to create end to end hybrid data solutions.

- **IP partnership with DXC:** HCL has an IP partnership with DXC which leverages its functional expertise in banking and its product engineering capabilities to modernize the legacy product set across three key areas: Core Banking, Lending and Payments. Since inception, this partnership has positioned HCL as a full-service provider of platforms, solutions and services.

Amortization

The intangible asset amortization period for HCL Tech is as follows

Exhibit 2: Amortization Period

Asset	Life (In years)	Amount (INR Mn)
Software	3	2,110
Licensed IPRs	5 to 15	39,690
Customer relationships	1 to 10	64,540
Customer contracts	1 to 2	0
Technology	5 to 15	25,490
IPR including Brand	2 to 6	80
Non-Compete Agreements	3 to 5	30

Source: DART, Company

IBM IP: IBM IP deal was consummated in June 2019 where Customer related intangible (10-year life), Technology (7 to 10-year life), Goodwill were created worth INR 63.5Mn; Rs24.2bn and Rs62,1bn respectively.

Strong Bridge-Envision: Strong Bridge-Envision was consummated on 1st April 2019 where Customer relationships (9-year life), Customer Contracts (1-year life), Brand (2-year life) and Goodwill were created worth INR 560Mn; Rs100Mn; Rs50Mn and Rs1,850Mn respectively.

Sankalp Semiconductor: HCL Tech has created Customer Relationships (8.5-year life), Customer Contract (1.5-year life), Brand (2.5-year) and Non-Compete Agreement (3-year life) worth INR 300Mn, Rs80Mn, Rs30Mn and Rs20Mn respectively.

Leveraging Ecosystems

HCL Tech is focused on leveraging ecosystems with traditional system integrators and building new technologies (IP) by partnering with leading technology firms. HCL Tech has partnered with Google, Microsoft, DELL, IBM, Intel, CISCO, Adobe, Salesforce, ServiceNow, AWS, SAP. HCL is also using its' own start-up accelerator and innovation platform and contributing in large industry forums for better collaboration. HCL Tech also has key strategic partnerships with such companies as Arista, Cohesity, Docker, Mesosphere, Nutanix, Pure Storage, Rubrik, Citrix, VMware, HPI, HPE and NetApp.

Investing in new ecosystems and tech has already started with Quantum Computing (helping clients to identify and implement it), No-contact Car Buying Experience (developed AR application), Immersive Banking (deploying a concurrent, three-point spotlight on the existing core of a bank's business, new growth areas, as well as the ecosystems of the future), Decentralized Clinical Trials (Working with partners to develop an innovative solution that allows clients to conduct remote clinical trials with a core data platform and related services) and Smart Sports (sensor based solutions for Cricket Australia). HCL Tech has 225 delivery centers and 58 innovation labs (*some opening in FY21).

Human Resources – Localisation, reskilling, talent management

- In the United States, HCL has 17,920+ employees with 67.1% localization.
- Overall it has improved its gender diversity with a 30% increase in women occupying senior leadership roles in FY20.
- Focus on growth in select smaller cities in India to enable higher operational resilience, stability, and scalability is visible. The employee strength in the cities under New Vistas program in India is up by 26% YoY. HCL Tech has also built a skill development center in Lucknow.
- HCL Tech has introduced Techruit to HCL Talent Acquisition Suite with Resume Screening with AI /NLP, pre-qualification/interest check and Recruitment automation for interviews and assessments.
- In FY20, HCL Tech invested 4.1 million hours in training. 82,675 employees were trained in generic skills while 34,707 employees in digital skills. Our employees have invested over 68,000 learning hours in leadership and professional skills programs across talent segments.

Changes in KMP, Board and others during the year

Exhibit 3: Key Changes during the year

Key Management	No Change
Directors	<p>Dr. Mohan Chellappa was appointed as Non-Executive Independent Director</p> <p>Simon John England was appointed as Non-Executive Independent Director</p> <p>Shikhar Malhotra was appointed as Non-Executive Non-Independent Director</p> <p>James Phillip Adamczyk ceased to be director due to unfortunate event (demise).</p>
Auditors	Changed Old Auditors were S.R Batliboi (EY) and new auditors are B.S.R Batliboi (KPMG) due to end of term for old auditors.
Credit Ratings	No Change
Pledged Shares	No Change

Source: Company, DART

Exhibit 4: KMP Remuneration

Particulars of Remuneration	CEO	CFO	CS
	C Vijaykumar	Prateek Aggarwal	Manish Anand
Gross Salary (Rs Mn)	1,174	36	13
Stock Option (Number)	0	0	0
As a % of Net Income	1.1	0.0	0.0

Source: DART, Company

Exhibit 5: Shareholding pattern

Category of Shareholder (%)	FY2019	FY2020
Promoters	60.0	60.3
Public Shareholding	40.0	39.7
i) Mutual Funds	4.5	5.5
ii) Banks/Financial Institutions	0.0	1.6
iii) Central Govt. State Govt	0.0	0.0
iv) Alternative Investment Funds	0.0	0.1
v) Foreign Bank	0.0	0.0
v) FPI	28.7	26.4
Vi) FIIs	0.0	0.0
vi) Insurance Companies	3.1	2.1
vi)Non-Institutions	3.6	4.1
Shares held by custodians for GDRs and ADRs	0.0	0.0
Total	100.0	100.0

Source: DART, Company

Financial Performance – FY20

Profit & Loss Analysis

- **Revenues:** Revenues in \$ terms grew 15.1% YoY to \$10.1bn. In rupee terms, it grew 15% YoY to INR 706bn. Total Transformational deal stood at 53 in FY20 v/s 78 in FY19 given the sluggish economy. Growth in FY20 was quite broad based across business segment, supported by strong wins in FY20 and also ramp up of deal wins from FY19 supported revenue generation further. Growth for the year was led by strong inorganic additions in the P&P segment as well as sustained momentum in the Services segment on account of strong renewals (had robust exit rate in Q4FY19). Further growth momentum in P&P will remain intact in future due to cross selling of product as well as new product launches given strong exit rate (19% of Rev in Q4FY20 v/s 10% of Rev in Q1FY20). IT and business services grew by 13% YoY (75% of Revenue) and Engineering and R&D Services grew by 14% YoY (17% of Revenue).
- **Revenue per employee** stood at INR 4.7mn in FY20 vs INR 4.4mn in FY19, **Employee benefit expense per employee** stood at INR 2.3 mn in FY20 vs INR 2.1mn in FY19. Attrition rate on LTM basis has dropped to 16.30% vs 17.7% LY.
- **Client:** Top 5 client grew 5% (16% of Revenue), Top 6 – 10 client grew 12% (7% of Revenue), Top 11-20 client grew 27% (10% of Revenue), Rest client grew 16% (67% of Revenue).
- **Geographic Growth:** Americas grew 15% YoY (65% of Revenue), Europe grew 14% YoY (28% of Revenue) and Asia Pacific grew 15% YoY (7% of Revenue)
- **Vertical Growth:** BFSI grew 10% YoY (21% of Revenue) – In BFSI segment a client in financial service has seen some furloughs due to headwinds from 2 clients impacting company's revenue which was offset by digital engagements coming in from large American investment company and leading financial services group in Europe while Retail banks going for digital transformation. Manufacturing grew 31% YoY (20% of Revenue) in spite of Covid 19 impacting its sub vertical that is Aerospace and Automobile. Telecom grew 20% YoY (8% of Revenue), led by cloud adoption and 5G led solutions. Retail and CPG grew 17% YoY (10% of Revenue) on account of

increase in digital spends (won a \$20 mn deal from retailer in Australia). Hi-Tech grew 2% YoY (16% of Revenue). Healthcare 12% YoY (13% of Revenue), Energy-Utilities-Travel-Govt 19% YoY (11% of Revenue).

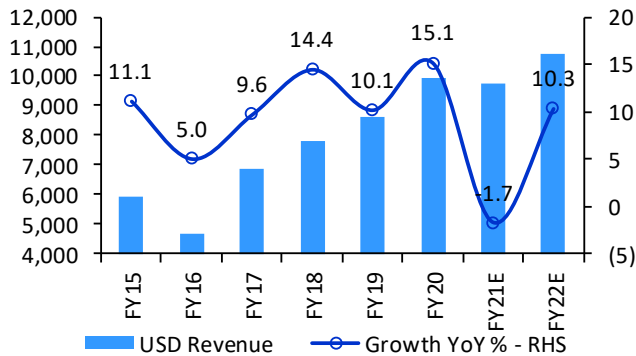
- **Gross Margin:** It improved 90bps YoY to 35.9%. on account of improved business mix. **EBITDA** Margin remained stable 23.5% vs 23.6% in FY20 due to 40bps gains in SG&A Exp as a % of Sales at 12.3%.
- **EBIT Margin** stood at 19.6% vs 20% LY. The stability in the margin (despite significant gains in D&A – up 32% YoY) was on account of IBM deal contributing well to the margins as Product and Platform services performing well at 31.6% on EBIT margin basis while IT and business services stood at 18% EBIT margins and Eng R&D services margin stood at 19%. Overall margins were driven by efficient operating model, cost management, Forex gains as well as better portfolio mix.

Balance Sheet and Cashflow Analysis

- **DSO** stood at 73 days in FY20 vs 70 days in FY19 as receivables increased by INR 24.2bn, **Payable days** stood at 12 days in FY20 vs 15 days in FY19 due to payables decreasing by INR 139mn.
- **Operating Cash flow** shown a robust increase of 49% YoY at INR 134bn in FY20 due to increase of 11% YoY in PBT while Non cash charges jumped 78% YoY at INR 34bn due to inclusion of amortization of INR 5bn of Intangibles and IP Products on account of acquisition and INR 6bn depreciation on Right of use assets. The non-cash charges comprised 26% of OCF in FY20 v/s 23% in FY19.
- **FCFF** generation remained strong by increasing 101% at INR 54bn in FY20 vs INR 27bn in FY19 in spite of 26% increase in Capex (**Business capex – Rs 18bn and Acquisition capex – Rs 61bn**) on account of strong performance in operating cash flow. **FCF/NI** stood at 49% vs 27% LY. **FCF/OCF** stood at 41% vs 30% LY. **FCF per share** remains flat at INR 20 in FY20 vs INR 10 LY (FCF Yield at about 3%) but is expected to jump significantly in FY21 (refer exhibit 11).

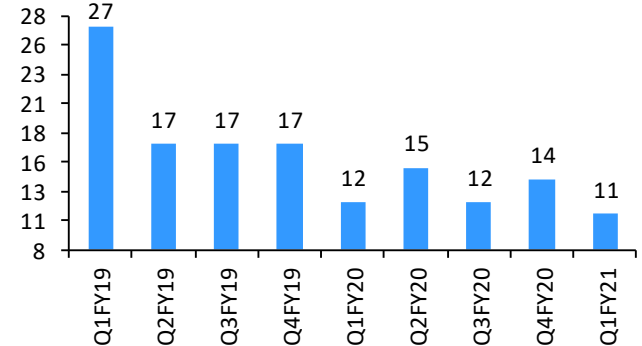
Charts – Financial Performance

Exhibit 6: Growth in revenues to revive in FY22E



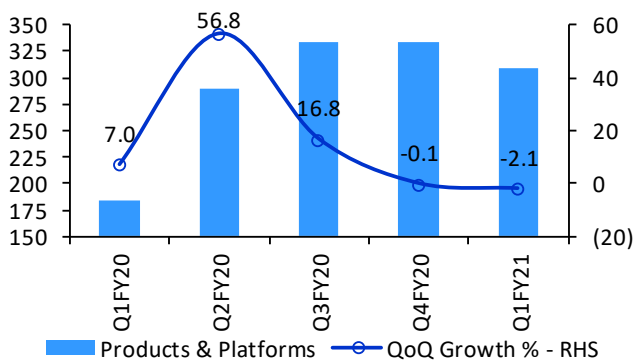
Source: Company, DART

Exhibit 7: Transformational deal momentum intact



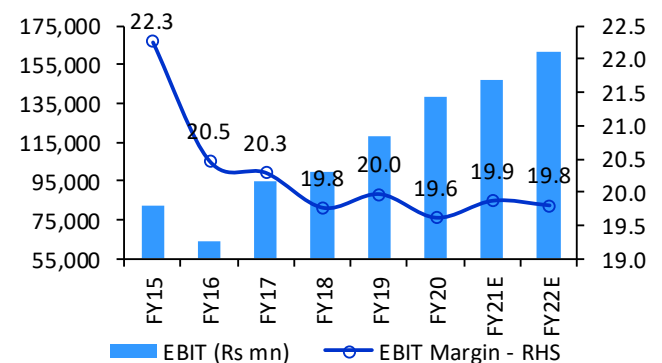
Source: Company, DART

Exhibit 8: P&P revenue momentum intact



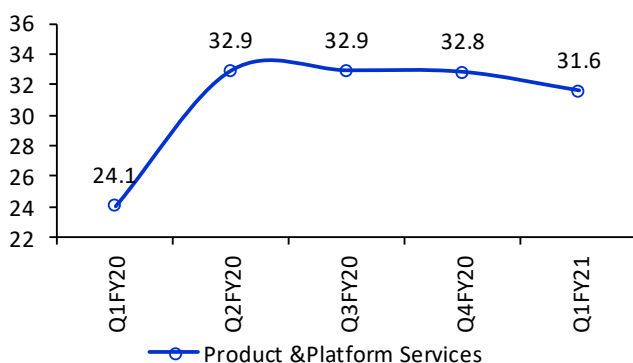
Source: Company, DART

Exhibit 9: OPM guidance suggest uptick hereon



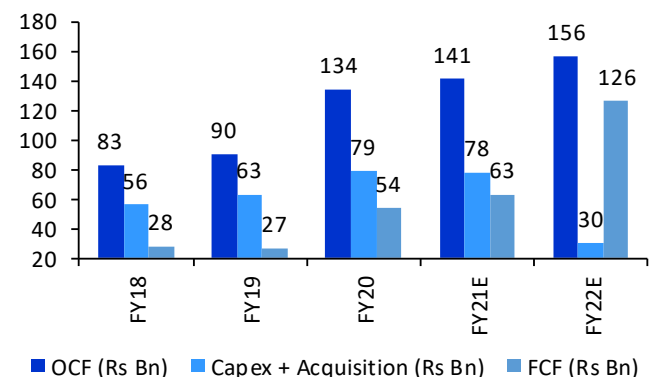
Source: Company, DART

Exhibit 10: Product & Platform OPM stood at 31.6%.



Source: Company, DART

Exhibit 11: OCF growth sustain; FCF conversion to improve as IBM payout done in Jun'20



Source: Company, DART

Exhibit 12: Operating Metrics

Particulars	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Revenue Growth in CC (QoQ)	2.7	3.0	5.6	3.3	4.2	6.0	2.1	0.8	(7.2)
Revenue Growth in CC (YoY)	8.5	10.5	13.0	15.3	17.0	20.5	16.4	13.5	1.0
OPM Margin (%)	19.7	20.0	19.7	19.0	17.1	20.0	20.2	20.9	20.5
Segment Amount (\$ mn)									
IT and Business Services	na	na	na	na	1,779	1,775	1,785	1,796	1,663
Engineering and R&D Services	na	na	na	na	400	421	425	415	384
Products & Platforms	na	na	na	na	184	290	333	333	309
Segment Growth CC QoQ (%)									
IT and Business Services					3.6	0.9	0.1	1.6	(7.8)
Engineering and R&D Services					5.6	5.4	0.7	(1.6)	(9.0)
Products & Platforms					7.0	56.8	16.8	(0.1)	(2.1)
Segmental OPM (%)									
IT and Business Services					16.6	17.5	17.8	19.1	18.8
Engineering and R&D Services					16.0	21.4	20.7	19.0	18.7
Products & Platforms					24.1	32.9	32.9	32.8	31.6
Vertical Amount (\$ mn)									
BFSI	489	483	476	481	480	557	549	537	528
Manufacturing	376	378	390	399	470	492	531	527	426
Telecom	150	151	203	196	189	209	229	211	179
Retail & CPG	187	210	225	228	225	249	262	259	236
Hi-Tech	374	382	412	426	447	383	384	412	405
Healthcare	263	271	286	296	303	321	310	318	323
Energy-Utilities-Travel-Govt	216	225	214	253	248	273	277	280	259
Vertical Growth YoY (%)									
BFSI	4.2	0.1	(2.8)	(5.7)	(1.9)	15.3	15.5	11.7	10.0
Manufacturing	(3.6)	(6.3)	(1.5)	1.9	25.1	30.3	36.4	32.1	(9.4)
Telecom	0.8	(0.8)	37.7	29.9	26.1	38.2	13.0	7.8	(5.3)
Retail & CPG	4.4	17.0	17.7	16.4	20.1	18.4	16.6	13.9	4.9
Hi-Tech	39.8	36.6	24.0	24.4	19.5	0.2	(6.7)	(3.2)	(9.3)
Healthcare	18.3	20.0	23.0	26.3	15.0	18.4	8.4	7.4	6.7
Energy-Utilities-Travel-Govt	3.1	9.9	5.3	17.0	15.0	21.8	29.8	10.7	4.4
Geography Amount (\$ mn)									
Americas	1,325	1,381	1,418	1,433	1,600	1,601	1,597	1,613	1,500
Europe	577	562	621	677	612	701	743	730	667
ROW	154	155	161	169	149	184	203	198	188
Geography Growth YoY (%)									
Americas	12	15	12	14	21	16	13	13	(6)
Europe	12	0	9	11	6	25	20	8	9
ROW	(17)	(5)	2	(3)	(3)	18	27	18	27
TCV									
Transformational deals	27	17	17	17	12	15	12	14	11
Client Amount (\$ mn)									
Top 5 Clients	349	363	383	387	392	388	387	384	327
Top 6-10 Clients	156	157	163	162	173	186	183	176	165
Top 11-20 Clients	197	197	205	212	243	263	270	257	233
Non-Top 20 Clients	1,351	1,381	1,451	1,515	1,555	1,648	1,704	1,727	1,630
Client Growth YoY (%)									
Top 5 Clients	28.7	24.7	22.0	16.6	12.3	6.8	0.9	(0.8)	(16.6)
Top 6-10 Clients	3.6	4.7	6.4	5.8	10.5	18.4	12.4	8.5	(4.4)
Top 11-20 Clients	(1.2)	(0.7)	3.0	5.0	23.4	33.5	31.7	21.3	(4.2)
Non-Top 20 Clients	7.0	7.2	9.9	12.2	15.2	19.3	17.4	14.0	4.8

Source: DART, Company

Exhibit 13: Operating Metrics 2

Particulars	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Client Data									
1mn \$ +	571	575	597	623	633	667	712	791	848
5mn \$ +	267	269	276	283	293	299	302	308	320
10mn \$ +	162	165	164	166	172	171	167	171	173
20mn \$ +	87	90	95	95	93	93	94	96	93
50mn \$ +	32	31	29	29	29	30	32	30	29
100mn \$ +	9	9	10	10	12	13	15	15	15
Total Employees									
	124,121	127,875	132,328	137,965	143,900	147,123	149,173	150,423	150,287
Gross Additions	12,558	11,683	13,191	14,249	16,332	13,430	11,502	10,278	7,005
Net Addition	4,040	3,754	4,453	5,637	5,935	3,223	2,050	1,250	-136
Attrition (LTM) (%)	16.3	17.1	17.8	17.7	17.3	16.9	16.8	16.3	14.6
Revenue by Contract									
T&M	781	802	808	827	863	833	819	806	784
FP	1,274	1,297	1,394	1,451	1,501	1,653	1,724	1,738	1,571
Revenue by Contract (YoY)									
T&M	3.1	5.0	3.7	5.7	10.5	3.9	1.3	-2.5	-9.1
FP	13.0	11.4	15.3	17.1	17.8	27.4	23.7	19.8	4.7

Source: DART, Company

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Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	6,04,280	7,06,780	7,39,489	8,18,251
Total Expense	4,64,590	5,39,850	5,56,019	6,16,448
COGS	3,92,680	4,52,950	4,62,711	5,15,116
Employees Cost	0	0	0	0
Other expenses	71,910	86,900	93,308	1,01,333
EBIDTA	1,39,690	1,66,930	1,83,470	2,01,802
Depreciation	21,480	28,400	36,616	39,897
EBIT	1,18,210	1,38,530	1,46,854	1,61,905
Interest	0	0	0	0
Other Income	8,050	2,301	4,224	5,155
Exc. / E.O. items	0	0	0	0
EBT	1,26,260	1,40,831	1,51,078	1,67,061
Tax	24,810	29,380	36,286	40,095
RPAT	1,01,450	1,11,451	1,14,792	1,26,966
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	1,01,450	1,11,451	1,14,792	1,26,966

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	2,710	5,430	5,430	5,430
Minority Interest	0	0	0	0
Reserves & Surplus	4,19,530	5,08,780	6,01,852	7,04,383
Net Worth	4,22,240	5,14,210	6,07,283	7,09,814
Total Debt	39,860	68,720	68,720	68,720
Net Deferred Tax Liability	0	0	0	0
Total Capital Employed	4,62,100	5,82,930	6,76,003	7,78,534

Applications of Funds

Net Block	58,010	85,420	1,26,804	1,16,907
CWIP	0	0	0	0
Investments	88,900	67,240	67,240	67,240
Current Assets, Loans & Advances	4,42,050	6,76,400	7,40,588	8,61,266
Inventories	0	910	910	910
Receivables	1,17,060	1,41,310	1,63,810	1,82,710
Cash and Bank Balances	59,290	48,480	90,168	1,91,946
Loans and Advances	22,200	69,890	69,890	69,890
Other Current Assets	2,43,500	4,15,810	4,15,810	4,15,810
Less: Current Liabilities & Provisions	1,26,860	2,46,130	2,58,630	2,66,880
Payables	1,11,480	2,35,650	2,48,150	2,56,400
Other Current Liabilities	15,380	10,480	10,480	10,480
<i>sub total</i>				
Net Current Assets	3,15,190	4,30,270	4,81,958	5,94,386
Total Assets	4,62,100	5,82,930	6,76,003	7,78,534

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	35.0	35.9	37.4	37.0
EBIDTA Margin	23.1	23.6	24.8	24.7
EBIT Margin	19.6	19.6	19.9	19.8
Tax rate	19.6	20.9	24.0	24.0
Net Profit Margin	16.8	15.8	15.5	15.5
(B) As Percentage of Net Sales (%)				
COGS	65.0	64.1	62.6	63.0
Employee	0.0	0.0	0.0	0.0
Other	11.9	12.3	12.6	12.4
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.1	0.1
Interest Coverage				
Inventory days	0	0	0	0
Debtors days	71	73	81	82
Average Cost of Debt	0.0	0.0	0.0	0.0
Payable days	67	122	122	114
Working Capital days	190	222	238	265
FA T/O	10.4	8.3	5.8	7.0
(D) Measures of Investment				
AEPS (Rs)	37.4	41.0	42.3	46.8
CEPS (Rs)	45.4	51.5	55.8	61.5
DPS (Rs)	4.9	6.0	8.0	9.0
Dividend Payout (%)	13.0	14.6	18.9	19.2
BVPS (Rs)	155.8	189.4	223.7	261.4
RoANW (%)	25.7	23.8	20.5	19.3
RoACE (%)	24.3	21.3	18.2	17.5
RoAIC (%)	31.2	29.6	26.2	27.6
(E) Valuation Ratios				
CMP (Rs)	701	701	701	701
P/E	18.7	17.1	16.6	15.0
Mcap (Rs Mn)	19,02,672	19,02,672	19,02,672	19,02,672
MCap/ Sales	3.1	2.7	2.6	2.3
EV	18,83,242	19,22,912	18,81,224	17,79,446
EV/Sales	3.1	2.7	2.5	2.2
EV/EBITDA	13.5	11.5	10.3	8.8
P/BV	4.5	3.7	3.1	2.7
Dividend Yield (%)	0.7	0.9	1.1	1.3
(F) Growth Rate (%)				
Revenue	19.5	17.0	4.6	10.7
EBITDA	22.1	19.5	9.9	10.0
EBIT	18.4	17.2	6.0	10.2
PBT	13.8	11.5	7.3	10.6
APAT	15.5	9.9	3.0	10.6
EPS	18.7	9.7	3.0	10.6

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	89,710	1,33,590	1,41,408	1,56,213
CFI	(30,730)	(1,23,740)	(78,000)	(30,000)
CFF	(16,540)	(31,260)	(21,720)	(24,435)
FCFF	27,050	54,370	63,408	1,26,213
Opening Cash	16,570	59,010	26,720	46,648
Closing Cash	59,010	37,600	68,408	1,48,426

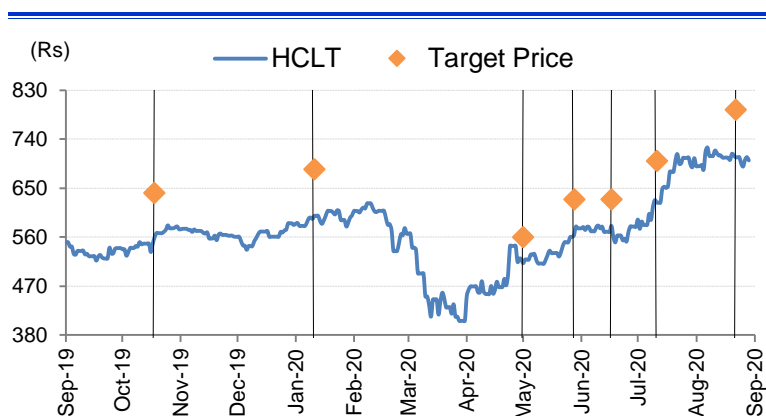
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Oct-19	Accumulate	642	560
Jan-20	Accumulate	685	599
May-20	Buy	560	512
Jun-20	Accumulate	630	563
Jun-20	Accumulate	630	580
Jul-20	Accumulate	700	623
Aug-20	Accumulate	795	706

*Price as on recommendation date

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