

# HCL Technologies (HCLT IN)

Rating: BUY | CMP: Rs1,251 | TP: Rs1,386

October 16, 2021

## Q2FY22 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	1,386		1,429	
Sales (Rs. m)	9,77,717	11,07,269	10,07,193	11,40,883
% Chng.	(2.9)	(2.9)		
EBITDA (Rs. m)	2,34,652	2,65,745	2,41,727	2,73,812
% Chng.	(2.9)	(2.9)		
EPS (Rs.)	58.5	66.0	60.0	67.8
% Chng.	(2.6)	(2.6)		

### Key Financials - Consolidated

Y/e Mar (Rs bn)	FY21	FY22E	FY23E	FY24E
Sales (Rs. bn)	754	841	978	1,107
EBITDA (Rs. bn)	193	200	235	266
Margin (%)	25.6	23.8	24.0	24.0
PAT (Rs. bn)	124	135	159	179
EPS (Rs.)	45.8	49.8	58.5	66.0
Gr. (%)	12.3	8.6	17.5	12.9
DPS (Rs.)	26.0	23.0	12.0	12.0
Yield (%)	2.1	1.8	1.0	1.0
RoE (%)	22.0	21.0	21.7	20.8
RoCE (%)	25.1	24.0	25.1	24.3
EV/Sales (x)	4.3	3.8	3.2	2.7
EV/EBITDA (x)	16.7	16.2	13.4	11.4
PE (x)	27.3	25.1	21.4	18.9
P/BV (x)	5.5	5.1	4.3	3.6

### Key Data

HCLT.BO | HCLT IN

52-W High / Low	Rs.1,378 / Rs.792	
Sensex / Nifty	61,306 / 18,339	
Market Cap	Rs.3,395bn/ \$ 45,114m	
Shares Outstanding	2,714m	
3M Avg. Daily Value	Rs.12425.64m	

### Shareholding Pattern (%)

Promoter's	60.33
Foreign	24.14
Domestic Institution	10.54
Public & Others	4.99
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	1.0	28.6	42.1
Relative	(4.0)	1.9	(5.5)

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## Healthy pipeline provides hope on growth ahead

### Quick Pointers:

- Net new deal TCV at US\$2.245 bn +38% YoY, +35% QoQ and highest ever net addition of 11,135 +6% QoQ in Q2 and ~34,500 on TTM basis +22% YoY indicate strength in demand.
- IT services (+4.1% QoQ USD) & ER&D (+5.3% QoQ USD) back on track; Products business spoiled the party (-8.3% QoQ USD) leading to miss in revenue.
- Improved capital allocation policy: DPS of Rs.2 in Q1FY21 (19% payout) increased to Rs.10 in Q2FY22 (83% payout)

**HCLT reported big miss on revenue with growth of 2.6% QoQ USD (Ple: 4.5%, 4.4%) led by decline in Products (P&P) business (-8.8% QoQ CC, ~12% of revenue) due to slippages in contract closures. Q3 being seasonally strong quarter for P&P management expects some portion of contract deferrals to close in Q3. Management has given guidance of 0-1% YoY CC for Product business which translates average growth of 5% QoQ USD in next 2 quarter to deliver growth of 0.2% YoY in P&P. IT services (+4.1% QoQ USD) & ER&D (+5.3% QoQ USD) reported strong growth after muted last quarter. Growth in ER&D is back led by digital engineering and strong recovery in asset heavy industries.**

**Strong new deal TCV of US\$2.245 bn +38% YoY, +35% QoQ, highest ever net addition of 11,135 employees in Q2, +6% QoQ, and management's positive commentary on demand momentum gives us the confidence that IT Services and ER&D will continue to perform well.**

**EBIT margin came at 19.0%, -65 bps QoQ (Ple:19.5%, Cons:19.3%). Decline in margins was mainly driven by impact of lower P&P revenue whereas Services margin was flat. LTM attrition increased sharply by 490 bps to 15.7%. Hiring was record high this quarter and similar trend is expected to continue next quarter. Management has added RSU plan (no additional cost incurred) to long term incentive plan to retain top talent (~top 3000 leadership). Our margin estimates remain unchanged at 19.5%; within guided range of 19-21%**

**Adhering to investors long standing demand, board has approved stable and improved dividend payout policy of 75% of Net Income cumulatively over FY22 to FY26. We have cut our estimates by 1%/2.6%/2.6% for FY22/23/24E led by cut in revenue estimates. We estimate revenue growth of 11.7%/13.2%/11.8% for FY22/23/24. We arrive at DCF based TP of INR 1386 (implied target multiple of 21x on FY24 EPS). HCLT is currently trading at 21.4/19 on FY23/24E EPS of INR 58.5/66 of respectively. Maintain Buy!**

- Miss on revenue led by slippages in Products business:** HCLT reported revenue of US \$ 2,791mn; +2.6% QoQ USD (Ple:4.5%, Cons: 4.4%), much lower than our & cons estimates. IT services (+4.1% QoQ USD) & ER&D (+5.3% QoQ USD) reported strong growth after muted last quarter. Miss in

*We believe HCLT is well positioned to capitalize on early-stage work in cloud migration opportunity. HCL Technologies positioned as a Leader in 2021 Gartner Magic Quadrant for Public Cloud IT Transformation Services*

revenue was led by slippages in one large and few mid-sized contract closures in Products business (-8% QoQ CC). Q2 is also seasonally weak quarter for products business.

- **Reduction in Products business growth guidance:** Products business has reported muted growth since Q3FY21 partly because of decline in 25% (discontinued portion) of P&P portfolio. Management has reduced full year FY22 growth guidance for products business to 0-1% vs earlier low single digit growth. We anticipate growth of 0.2% YoY USD in FY22 with average ~5% QoQ growth for next two quarters. Management mentioned that P&P business is seasonally strong in Q3 and some portion of contract slippages can be won in Q3.
- Strong growth in **ER&D (+5.3% QoQ USD)** is back post muted performance (average 2.5% QoQ USD) in last 4 quarters driven by strong demand in digital engineering and strong recovery in asset heavy industries.
- In IT Services growth was led by Manufacturing +8.1% QoQ CC and Life-Sciences and Healthcare +7% QoQ CC. Technology services grew +2.6% QoQ CC. Softness in growth in BFS +0.4% QoQ CC was due to product business. Excluding P&P impact, BFS grew 4.6% QoQ CC
- In terms of service lines, growth was driven by **Mode 2** (12.5% QoQ CC) with strong demand for cloud, digital and work place transformation. We believe HCLT is well positioned to capitalize on early-stage work in cloud migration opportunity & is witnessing good momentum in integrated (apps+infra deals). In Q2 it won a large integrated deal with leading European consumer goods company.
- **Strong net new deal TCV:** Strong deal momentum continued with Q2 TCV of new deal wins at US\$2.245 bn +38% YoY, +35% QoQ powered by 14 net new large deal wins. 13 large deals were won in services across verticals and 1 large product deal. There wasn't any large deal in Financial services but demand momentum is good from existing clients in this segment. HCLT's investments in building local presence in Germany and France is yielding results with HCLT winning several large deals in Europe this quarter.
- Some of significant large deals won this quarter are – 1) global Mexico manufacturing firm for apps and infra support and development, 2) 2 large healthcare contracts out of which one was won against larger peer, 3) Proximus deal is defining deal in networks and 5G space.
- **Negatively surprised by unchanged revenue guidance:** Management maintained revenue guidance of double digit growth unchanged. We are negatively surprised by management not giving material guidance despite strong demand environment and improved visibility. We believe seasonality in Product business must have led them to avoid giving guidance. We also think HCLT management has decided not to give exact guidance (even if they start to pick up on revenue growth ahead).
- **Miss in margins led by poor performance of Products business:** EBIT margin came at 19.0%, -65 bps QoQ (Ple:19.5%, Cons:19.3%). Decline in overall margins was mainly driven by 60bps impact from lower P&P revenue and 5bps impact due to forex fluctuations. Margin in services business was flat

Strong fresher intake of 5500 in Q2FY22 and around ~10-11K in coming quarters indicates strength in demand.

QoQ (19% in 1Q22 and 18.9% in 2Q22) despite headwinds from selective increments and higher hiring cost to backfill attrition which were offset by operating efficiency and revenue growth leverage. **Management has kept margin band (19-21%) unchanged**

- **Highest ever hiring in a quarter, sharp increase in attrition:** Net Addition of 11,135 employees during the quarter, +6% QoQ vs 7,522 net addition in last quarter. Management mentioned that hiring will remain strong next quarter also given strength in demand and high attrition rates. They have added 5500 freshers in Q2 vs ~3400 last quarter. And around 10-11k freshers are expected to hired in next 2 quarters. LTM attrition increased sharply by 490 bps to 15.7%.
- **RSU plan for retaining top talent:** Management has added RSUs to its long term incentive (LTI) program for retaining top talent (top ~3000 employees) in-line with competition. As part of this, RSU will be 30% of existing long term incentive plan and rest 70% will be cash award based on performance. There will not be any dilution of existing shareholders as HCL trust will be buying share from secondary market at market price. No extra costs will be incurred as portion of cash LTI is transformed to RSU.
- HCLT has set-up delivery center in Srilanka with 1000 employees. It is also expanding to Romania, Costa Rica and Philippines to diversify delivery and build resiliency.
- Net Income of INR 32,640 mn 3.9% YoY was supported by lower tax rate of 20.5% due to favourable tax assessment in Q2FY22. Management expects ETR to be 22-23% in FY22.
- **Strong cash flow generation:** DSO stood at 64 days, flat QoQ. Cash flow conversion was robust with OCF/NI to 106% and FCF/NI 88%. Net cash balance stands at \$2171 mn.
- **Stable and improved payout policy:** Management has been cognizant to investors long standing demand of higher dividend payout. Board approved a Payout policy that entails investor payouts of not less than 75% of Net Income cumulatively over 5 years FY22 to FY26. HCLT has improved capital allocation from INR 2 per share in Q1FY21 to Rs.4 in Q2FY21 and then to Rs.6 in Q3FY21 and now because of new dividend policy from Q2FY22 onwards for next three quarters dividend will increase to INR 10 per share.

#### Exhibit 1: Q2FY22: Quick view on results

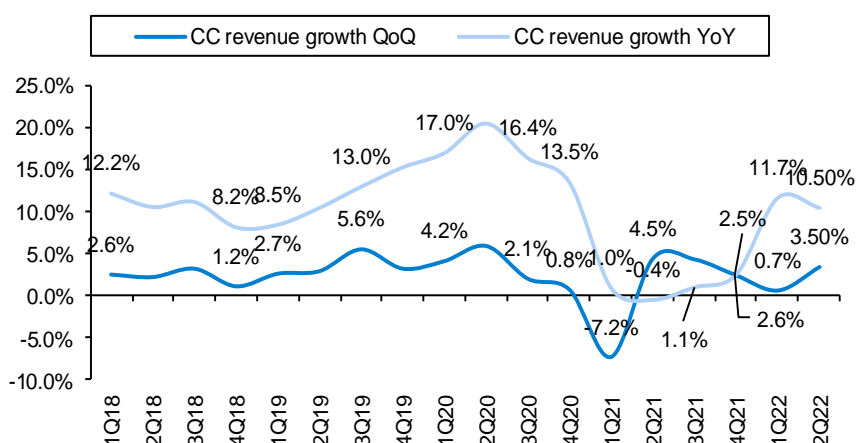
(Rs m)	2Q22	1Q22	QoQ gr.	2Q21	YoY gr.	PL(e)	Var VS PL(e)
Sales (\$ m)	2,791	2,720	2.6%	2,507	11.3%	2,841	-1.8%
Sales	2,06,550	2,00,680	2.9%	1,85,940	11.1%	2,10,498	-1.9%
EBIT Margin	48,380	49,080	-1.4%	49,510	-2.3%	50,520	-4.2%
EBIT Margin	23.4%	24.5%	-103 bps	26.6%	-320 bps	24%	-58 bps
EBIT Margin	39,160	39,310	-0.4%	40,160	-2.5%	41,047	-4.6%
EBIT Margin	19.0%	19.6%	-63 bps	21.6%	-264 bps	19.5%	-54 bps
Adjusted PAT	32,640	32,150	1.5%	31,420	3.9%	33,304	-2.0%
EPS	12.0	11.8	1.5%	11.6	3.9%	12.27	-2.0%
Average (USD rate)	74.0	73.8	0.3%	74.2	-0.2%	74.1	-0.1%

Source: Company, PL

**Exhibit 2: Products and partnership portfolio investments by HCLT**

Sr No.	Date	Target	Country	Business Description	Consideration (mn)	Sales (mn)
<b>Products</b>						
1	Jun-20	IP deal	US	IP deal with Temenos for 7 years	\$70.0	NA
2	May-20	Cisco's SON technology	US	Products and services that automate planning, config, optimization etc of radio networks	\$49.5	NA
3	Dec-18	Enterprise software products of IBM	US	7 products from IBM portfolio in areas of security, marketing and commerce. HCLT had strategic IP partnerships with IBM for 5 of the products.	\$1775	\$650
4	Jun-18	IP deal	US	IP partnership with Cisco	\$177.0	NA
5	Apr-18	Actian Corporation	US	Hybrid data management, analytics and integration company. HCLT will own 80% of the company with 19.5% with a private equity player	\$330.0	\$107.1
6	Jan-18	3 IP partnerships	US	3 IP partnerships- One with IBM, one with DXC and one with undisclosed global tech firm	\$300.0	\$105
7	Oct-17	Strategic IP partnership with IBM (6)	US	Extended IP partnership to include Notes, Domino, Smart Cloud Notes, Verse and Sametime products	\$60.0	\$30.0
8	Sep-17	Datawave	UK	Data management platform	NA	NA
9	Jul-17	Strategic IP partnership with IBM (5)	US	Extended IP partnership to cover marketing automation area	\$140.0	\$30-35
10	Apr-17	Strategic IP partnership with IBM (4)	US	Extended partnership to cover Information management and Database management systems	\$80.0	~\$25
11	Jan-17	Strategic IP partnership with IBM (3)	US	Extended partnership to cover Application security, B2B data transformation, testing automation and Mainframe management tools	\$155.0	\$50.0
12	Oct-16	Strategic IP partnership with IBM (2)	US	Extended IP partnership to cover API/web service enablement of mainframes	\$55.0	\$15.0
13	Jun-16	Strategic IP partnership with IBM (1)	US	To invest in and grow workload automation and DevOps software of a global tech major	\$350.0	\$100
<b>Total spend on products</b>					<b>US\$3.6+ bn</b>	<b>US\$1.1+ bn</b>
<b>Services</b>						
1	Sep-20	DWS	Australia	IT services	\$118.4	\$122.6
2	Sep-19	Sankalp Semiconductor	India	Advanced technology design services provider in semiconductor space	\$25.7	\$22.0
3	Mar-19	Strong-Bridge Envision	US	Digital consulting firm specialising in customer experience strategy, business transformation and change management.	\$45.0	\$45.0
4	Jun-18	H&D International Group	Germany	Integrated IT and engineering service provider in German automotive industry	\$35.0	\$86.3
5	Apr-18	C3i Solutions (Telere Marketing, Inc.)	US	Multi-channel customer engagement services for the life sciences and CPG verticals	\$65.0	\$199.0
6	Apr-17	Urban Fulfillment Services LLC	US	Mortgage BPO provider with 350 resources in US	\$30.0	\$48.0
7	Oct-16	Butler America Aerospace	US	Provider of engineering and design services to US aerospace and defense customers	\$85.0	\$85.4
8	Apr-16	Geometric (share swap deal)	India	PLM and engineering services	\$195.0	\$135.0
9	Feb-16	Volvo IT AB	Sweden	External IT services arm of Volvo	\$134.9	\$190.0
10	Jan-16	Point to Point (P2P)	UK	Workplace engineering services	\$10.0	\$11.5
11	Nov-15	Arrangement with CSC	US	To operate and expand the existing Core Banking business of CSC	\$53.4	NA
12	Oct-15	Powerteam LLC	US	Professional services for Microsoft Dynamics CRM	\$41.4	\$37.00
13	Oct-15	C2SiS	India	Engineering services firm	\$1.9	NA
14	Aug-15	Trygstad Technical Services Inc	US	Turnkey solutions for a large ISV	\$9.9	NA
<b>Total spend on services</b>					<b>US\$850.5 mn</b>	<b>US\$982+ mn</b>
<b>Total</b>					<b>US\$4.4+ bn</b>	<b>US\$2.04+ bn</b>

Source: Company, PL

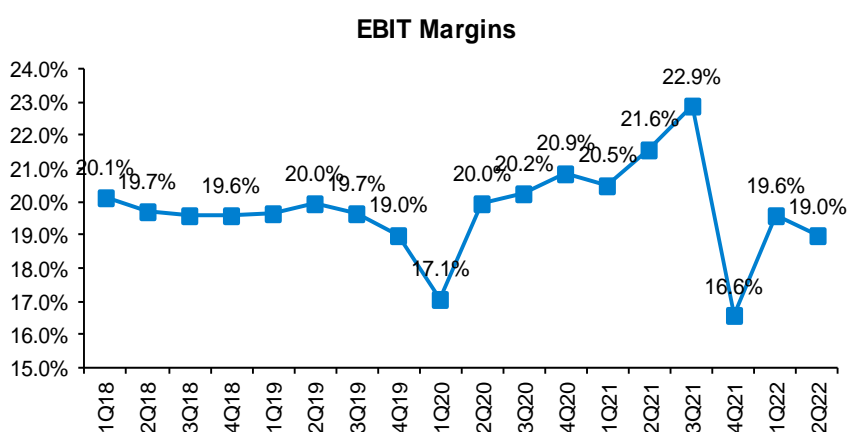
**Exhibit 3: Soft revenue performance**


Source: Company, PL

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

Revenues (US\$ mn)	Q2FY21	Q1FY22	Q2FY22	QoQ gr.	YoY gr.
Mode 1	1,587	1,671	1,700	1.7%	7.1%
Mode 2	524	646	720	11.5%	37.4%
Mode 3	396	403	370	-8.2%	-6.6%
<b>Total</b>	<b>2,507</b>	<b>2,720</b>	<b>2,790</b>	<b>2.6%</b>	<b>11.3%</b>
<b>Revenue mix (%)</b>					
Mode 1	63.3	61.5	60.9	10 bps	-200 bps
Mode 2	20.9	23.7	25.8	30 bps	310 bps
Mode 3	15.8	14.8	13.3	-40 bps	-100 bps
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>		

Source: Company, PL

**Exhibit 5: Margin subdued due to decline in P&P business**


Source: Company, PL

## Valuations

Strong new deal TCV of US\$2.245 bn +38% YoY, +35% QoQ, highest ever net addition of 11,135 employees in Q2, +6% QoQ, and management's positive commentary on demand momentum gives us the confidence that IT Services and ER&D will continue to perform well. Management has given guidance of 0-1% YoY CC for Product business which translates average growth of 5% QoQ USD in next 2 quarter to deliver growth of 0.2% YoY in P&P.

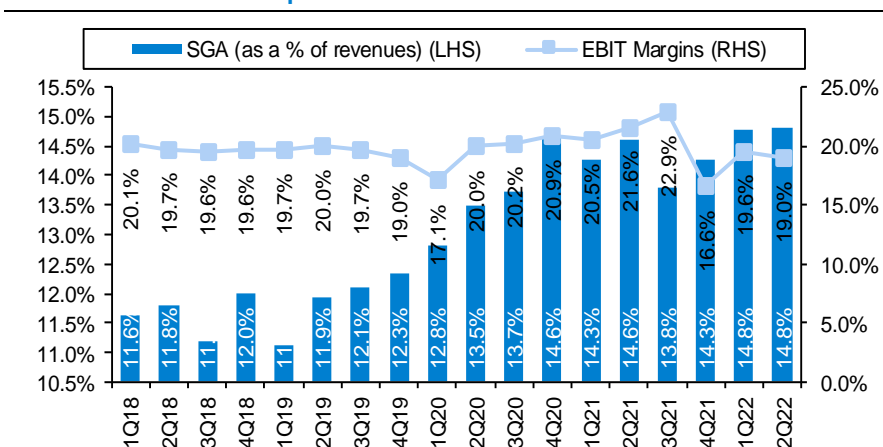
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### Exhibit 6: Change in Estimates

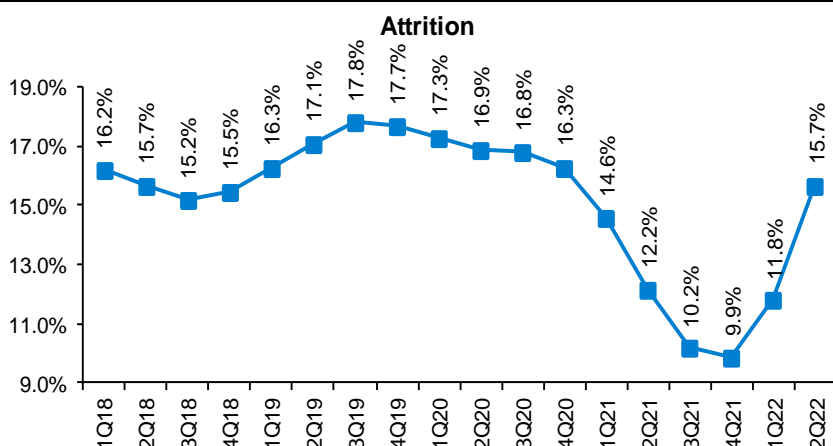
Particulars	FY22E	FY23E	FY24E
<b>Revenue (US\$ m)</b>			
New	11,366	12,865	14,380
Old	11,571	13,253	14,817
Change (%)	-1.8%	-2.9%	-2.9%
USD Revenue growth (%)	11.7%	13.2%	11.8%
<b>EBIT Margins (%)</b>			
- New	19.5%	19.8%	19.8%
- Old	19.6%	19.8%	19.8%
Change (%)	-13 bps	0 bps	0 bps
<b>EPS (Rs)</b>			
- New	49.8	58.5	66.0
- Old	50.3	60.0	67.8
Change (%)	-1.0%	-2.6%	-2.6%

Source: Company, PL

### Exhibit 7: Stable SGA expenses



Source: Company, PL

**Exhibit 8: Attrition increasingly sharply**


Source: Company, PL

**Exhibit 9: Geography-wise revenues**

(US\$ m)	2Q22	1Q22	QoQ gr.	2Q21	YoY gr.
US	1,752.7	1,716.1	2.1%	1,581.7	10.8%
Europe	789.9	758.8	4.1%	711.9	11.0%
Asia Pacific	248.4	244.8	1.5%	213.1	16.6%
<b>% Total</b>					
US	62.8%	63.1%	-30 bps	63.1%	-30 bps
Europe	28.3%	27.9%	40 bps	28.4%	-10 bps
Asia Pacific	8.9%	9.0%	-10 bps	8.5%	40 bps

Source: Company, PL

**Exhibit 10: Revenues by project type**

(US\$ m)	2Q22	1Q22	QoQ gr.	2Q21	YoY gr.
Fixed Price Projects	1,803.0	1,808.5	-0.3%	1,689.4	6.7%
Time & Material	988.0	911.1	8.4%	817.2	20.9%
<b>% of total Revenue</b>					
Fixed Price Projects	64.6%	66.5%	-190 bps	67.4%	-280 bps
Time & Material	35.4%	33.5%	190 bps	32.6%	280 bps

Source: Company, PL



### Exhibit 11: Vertical Wise Break up

	Rev (USD mn)	Growth		Contribution to revenues	C/C growth	
		QoQ	YoY		QoQ	YoY
<b>Total revenues</b>	2,791	2.6%	11.3%	100%	0.7%	11.7%
<b>Geographical split of revenues</b>						
US	1,753	2.1%	10.8%	62.8%	2.4%	11%
Europe	790	4.1%	11.0%	28.3%	5.8%	9%
ROW	248	1.5%	16.6%	8.9%	4.0%	15%
<b>Vertical split of revenues</b>						
Financial services	594	-1.1%	7.3%	21.3%	0.4%	6.3%
Manufacturing (new classification)	500	6.8%	12.6%	17.9%	8.1%	11.9%
Telecom, media, publishing, entertainment	220	2.6%	14.2%	7.9%	3.0%	13.4%
Retail & CPG	274	0.6%	4.9%	9.8%	0.9%	3.6%
Public Services	296	0.7%	10.3%	10.6%	1.9%	8.8%
Life sciences	427	6.8%	20.8%	15.3%	7.0%	20.1%
Technology & Services	480	2.0%	10.7%	17.2%	2.6%	10.8%
<b>Service line split of revenues</b>						
IT and Business Services	1,947	0.5%	17.8%	71.6%	5.2%	13.2%
Engineering and R&D Services	416	2.2%	10.4%	15.3%	5.4%	12.7%
Products & Platforms	356	1.7%	9.6%	13.1%	-8.0%	-5.5%

Source: Company, PL

### Exhibit 12: Client Metrics

Particulars	2Q22	1Q22	QoQ gr.	2Q21	YoY gr.
US\$100m	15	14	1	14	1
US\$50m	41	37	4	29	12
US\$20m	109	104	5	91	18
US\$10m	190	183	7	172	18
US\$5m	329	326	3	317	12
US\$1m	836	817	19	865	-29
<b>(US\$ m)</b>					
Top 5 Clients	354.5	353.5	0.3%	343.4	3.2%
Top 6-10 Clients	223.3	212.1	5.3%	180.5	23.7%
Top 10 Clients	577.7	565.7	2.1%	523.9	10.3%
Top 10-20 Clients	256.8	261.1	-1.7%	243.1	5.6%
Top 20 Clients	834.5	826.8	0.9%	767.0	8.8%
Non-Top 20 Clients	1,956.5	1,892.8	3.4%	1,739.6	12.5%
<b>% of Total Revenue</b>					
Top 5 Clients	12.7%	13.0%	-30 bps	13.7%	-100 bps
Top 10 Clients	20.7%	20.8%	-10 bps	20.9%	-20 bps
Top 20 Clients	29.9%	30.4%	-50 bps	30.6%	-70 bps

Source: Company, PL



## Financials

### Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
<b>Net Revenues</b>	<b>7,53,790</b>	<b>8,41,146</b>	<b>9,77,717</b>	<b>11,07,269</b>
YoY gr. (%)	6.6	11.6	16.2	13.3
Employee Cost	4,53,200	5,18,578	6,15,962	6,97,580
Gross Profit	3,00,590	3,22,568	3,61,755	4,09,690
Margin (%)	39.9	38.3	37.0	37.0
SG&A Expenses	-	-	-	-
Other Expenses	-	-	-	-
<b>EBITDA</b>	<b>1,93,280</b>	<b>2,00,298</b>	<b>2,34,652</b>	<b>2,65,745</b>
YoY gr. (%)	15.8	3.6	17.2	13.3
Margin (%)	25.6	23.8	24.0	24.0
Depreciation and Amortization	39,850	36,347	41,491	46,982
<b>EBIT</b>	<b>1,53,430</b>	<b>1,63,951</b>	<b>1,93,161</b>	<b>2,18,762</b>
Margin (%)	20.4	19.5	19.8	19.8
Net Interest	-	-	-	-
Other Income	6,570	6,680	6,270	6,270
<b>Profit Before Tax</b>	<b>1,60,000</b>	<b>1,70,631</b>	<b>1,99,431</b>	<b>2,25,032</b>
Margin (%)	21.2	20.3	20.4	20.3
Total Tax	35,100	35,273	40,739	45,859
Effective tax rate (%)	21.9	20.7	20.4	20.4
<b>Profit after tax</b>	<b>1,24,900</b>	<b>1,35,358</b>	<b>1,58,692</b>	<b>1,79,173</b>
Minority interest	570	290	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>1,24,330</b>	<b>1,35,068</b>	<b>1,58,692</b>	<b>1,79,173</b>
YoY gr. (%)	12.4	8.6	17.5	12.9
Margin (%)	16.5	16.1	16.2	16.2
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,24,330</b>	<b>1,35,068</b>	<b>1,58,692</b>	<b>1,79,173</b>
YoY gr. (%)	12.4	8.6	17.5	12.9
Margin (%)	16.5	16.1	16.2	16.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,24,330	1,35,068	1,58,692	1,79,173
<b>Equity Shares O/s (m)</b>	<b>2,714</b>	<b>2,714</b>	<b>2,714</b>	<b>2,714</b>
<b>EPS (Rs)</b>	<b>45.8</b>	<b>49.8</b>	<b>58.5</b>	<b>66.0</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>3,77,870</b>	<b>3,73,241</b>	<b>3,88,415</b>	<b>4,02,810</b>
Tangibles	86,370	93,461	1,08,635	1,23,030
Intangibles	2,91,500	2,79,780	2,79,780	2,79,780
<b>Acc: Dep / Amortization</b>	-	-	-	-
Tangibles	-	-	-	-
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>3,77,870</b>	<b>3,73,241</b>	<b>3,88,415</b>	<b>4,02,810</b>
Tangibles	86,370	93,461	1,08,635	1,23,030
Intangibles	2,91,500	2,79,780	2,79,780	2,79,780
Capital Work In Progress	-	-	-	-
Goodwill	-	-	-	-
Non-Current Investments	890	570	570	570
Net Deferred tax assets	-	-	-	-
Other Non-Current Assets	67,750	90,250	90,250	90,250
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	-	-	-	-
Trade receivables	1,75,250	2,02,797	2,35,724	2,66,958
Cash & Bank Balance	2,04,900	1,98,575	2,94,887	4,12,903
Other Current Assets	50,370	52,151	60,618	68,651
<b>Total Assets</b>	<b>8,77,030</b>	<b>9,17,584</b>	<b>10,70,464</b>	<b>12,42,142</b>
<b>Equity</b>				
Equity Share Capital	1,341	1,341	1,341	1,341
Other Equity	6,13,720	6,69,178	7,89,282	9,29,867
<b>Total Network</b>	<b>6,15,060</b>	<b>6,70,518</b>	<b>7,90,622</b>	<b>9,31,207</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	39,070	39,010	39,010	39,010
Provisions	-	-	-	-
Other non current liabilities	49,500	33,646	39,109	44,291
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,67,550	1,68,229	1,95,543	2,21,454
Other current liabilities	-	-	-	-
<b>Total Equity &amp; Liabilities</b>	<b>8,77,030</b>	<b>9,17,584</b>	<b>10,70,464</b>	<b>12,42,142</b>

Source: Company Data, PL Research

### Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	1,60,000	1,70,631	1,99,431	2,25,032
Add. Depreciation	39,850	36,347	41,491	46,982
Add. Interest	-	-	-	-
Less Financial Other Income	6,570	6,680	6,270	6,270
Add. Other	-	-	-	-
Op. profit before WC changes	1,99,850	2,06,978	2,40,922	2,72,015
Net Changes-WC	(14,410)	(67,003)	(8,617)	(8,174)
Direct tax	(35,100)	(35,273)	(40,739)	(45,859)
<b>Net cash from Op. activities</b>	<b>1,50,340</b>	<b>1,04,702</b>	<b>1,91,566</b>	<b>2,17,981</b>
Capital expenditures	(61,070)	(31,717)	(56,665)	(61,377)
Interest / Dividend Income	-	-	-	-
Others	(120)	320	-	-
<b>Net Cash from Invt. activities</b>	<b>(61,190)</b>	<b>(31,397)</b>	<b>(56,665)</b>	<b>(61,377)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(11,850)	(60)	-	-
Dividend paid	(83,608)	(73,961)	(38,588)	(38,588)
Interest paid	-	-	-	-
Others	57,478	(5,609)	-	-
<b>Net cash from Fin. activities</b>	<b>(37,980)</b>	<b>(79,630)</b>	<b>(38,588)</b>	<b>(38,588)</b>
<b>Net change in cash</b>	<b>51,170</b>	<b>(6,325)</b>	<b>96,312</b>	<b>1,18,016</b>
Free Cash Flow	89,270	72,985	1,34,901	1,56,604

Source: Company Data, PL Research

### Key Financial Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
<b>Per Share(Rs)</b>				
EPS	45.8	49.8	58.5	66.0
CEPS	60.5	63.2	73.8	83.3
BVPS	226.7	247.1	291.3	343.2
FCF	32.9	26.9	49.7	57.7
DPS	26.0	23.0	12.0	12.0
<b>Return Ratio(%)</b>				
RoCE	25.1	24.0	25.1	24.3
ROIC	40.8	35.7	34.8	30.2
RoE	22.0	21.0	21.7	20.8
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.3)	(0.2)	(0.3)	(0.4)
Debtor (Days)	85	88	88	88
<b>Valuation(x)</b>				
PER	27.3	25.1	21.4	18.9
P/B	5.5	5.1	4.3	3.6
P/CEPS	20.7	19.8	17.0	15.0
EV/EBITDA	16.7	16.2	13.4	11.4
EV/Sales	4.3	3.8	3.2	2.7
Dividend Yield (%)	2.1	1.8	1.0	1.0

Source: Company Data, PL Research

### Quarterly Financials (Rs m)

Y/e Mar	Q3FY21	Q4FY21	Q1FY22	Q2FY22
<b>Net Revenue</b>	<b>1,93,020</b>	<b>1,96,420</b>	<b>2,00,680</b>	<b>2,06,550</b>
YoY gr. (%)	6.4	5.7	12.5	11.1
Raw Material Expenses	1,11,950	1,24,680	1,21,970	1,27,580
Gross Profit	81,070	71,740	78,710	78,970
Margin (%)	42.0	36.5	39.2	38.2
<b>EBITDA</b>	<b>54,420</b>	<b>43,690</b>	<b>49,080</b>	<b>48,380</b>
YoY gr. (%)	21.7	(7.4)	7.5	(2.3)
Margin (%)	28.2	22.2	24.5	23.4
Depreciation / Depletion	10,270	11,170	9,770	9,220
<b>EBIT</b>	<b>44,150</b>	<b>32,520</b>	<b>39,310</b>	<b>39,160</b>
Margin (%)	22.9	16.6	19.6	19.0
Net Interest	-	-	-	-
Other Income	1,260	1,900	1,940	2,070
<b>Profit before Tax</b>	<b>45,410</b>	<b>34,420</b>	<b>41,250</b>	<b>41,230</b>
Margin (%)	23.5	17.5	20.6	20.0
Total Tax	5,440	10,380	8,940	8,460
Effective tax rate (%)	12.0	30.2	21.7	20.5
<b>Profit after Tax</b>	<b>39,970</b>	<b>24,040</b>	<b>32,310</b>	<b>32,770</b>
Minority interest	160	170	160	130
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>39,810</b>	<b>23,870</b>	<b>32,150</b>	<b>32,640</b>
YoY gr. (%)	31.0	(24.3)	10.0	3.9
Margin (%)	20.6	12.2	16.0	15.8
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>39,810</b>	<b>23,870</b>	<b>32,150</b>	<b>32,640</b>
YoY gr. (%)	31.0	(24.3)	10.0	3.9
Margin (%)	20.6	12.2	16.0	15.8
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>39,810</b>	<b>23,870</b>	<b>32,150</b>	<b>32,640</b>
Avg. Shares O/s (m)	2,714	2,714	2,714	2,714
<b>EPS (Rs)</b>	<b>14.7</b>	<b>8.8</b>	<b>11.8</b>	<b>12.0</b>

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Oct-21	BUY	1,429	1,279
2	06-Aug-21	BUY	1,239	1,050
3	20-Jul-21	BUY	1,094	1,000
4	02-Jul-21	BUY	1,055	986
5	26-Apr-21	BUY	1,010	956
6	05-Apr-21	BUY	1,168	1,001
7	18-Jan-21	BUY	1,160	990
8	04-Jan-21	BUY	1,152	951
9	22-Dec-20	BUY	1,108	870
10	19-Oct-20	BUY	1,101	830

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Affle (India)	BUY	1,411	1,123
2	Coforge	BUY	5,496	5,338
3	Cyient	BUY	1,145	1,055
4	HCL Technologies	BUY	1,429	1,279
5	Infosys	BUY	2,004	1,709
6	L&T Technology Services	BUY	4,880	4,624
7	Larsen & Toubro Infotech	BUY	5,902	5,738
8	Mindtree	BUY	4,804	4,364
9	Mphasis	BUY	3,690	3,089
10	Persistent Systems	BUY	3,994	3,714
11	Redington (India)	BUY	202	146
12	Sonata Software	BUY	936	883
13	Tata Consultancy Services	BUY	4,113	3,936
14	TeamLease Services	BUY	4,892	4,645
15	Tech Mahindra	BUY	1,551	1,399
16	Wipro	BUY	728	673
17	Zensar Technologies	BUY	496	479

## PL's Recommendation Nomenclature (Absolute Performance)

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

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