

HCL Tech

Refer to important disclosures at the end of this report

Strong Q3 performance; guidance tad lower than expectations

- HCLT delivered strong 3.5% QoQ CC revenue growth, beating our expectations, led by robust 8.3% growth in the products and platform business. EBITM expanded by 130bps sequentially to 22.9%, driven by revenue acceleration and offshore shift.
- HCLT signed 13 new transformational deals (>USD25mn TCV) in Q3 across verticals, including Life Sciences & Healthcare, Technology and Financial Services. Deal bookings grew 13% YoY. The deal pipeline remains robust at closer to an all-time high.
- The company expects revenue growth of 2-3% QoQ CC in Q4 (organic growth 1-2%). Q4 guidance is tad lower than expectations (compared to 0.5%-2.5% from Infosys and 1.5%-3.5% from Wipro). It expects EBITM to be in the range of 21%-21.5% for FY21.
- We raise our FY21/22/23E EPS by 8.4%/4.5%/4.1% on solid Q3 performance, better margins and uptick in demand environment. We maintain Buy with a revised TP of Rs1,130 (earlier Rs 1,090) based on 20x FY23E EPS.

What we liked? EBIT margin expansion, solid performance of products and platform business and healthy cash generation.

What we did not like? Lower-than-expected Q4 guidance, muted growth in BFSI

Strong revenue performance led by Mode 2 and Mode 3: HCLT delivered 3.5% QoQ CC revenue growth, above its guidance of 1.5-2.5%, on the back of strong demand in Mode 2 and Mode 3 offerings. Mode 2 revenue grew 10.9% QoQ CC, led by traction in cloud native and digital programs. Mode 3 clocked 7.1% QoQ CC on the back of strong new license sales and robust renewals. Within verticals, Telecommunication & Media (12.1% QoQ CC), Technology Services (6.8% QoQ CC) and Manufacturing (5.6% QoQ CC) led growth in Q3. BFSI reported muted performance. Some of BFSI clients purchase product licenses from HCLT; however, fulfilment happens through partners and thus, such revenues are booked under Technology & Services. Management indicated that adjusted for such accounting, underlying momentum in BFSI remains healthy and revenue grew 2%-2.5% QoQ. The Products and Platforms business reported healthy 9.3% YoY growth in Q3. Management remains confident on business growth prospects but sound caution on extrapolating such trends in future. Cash generation remained robust in Q3 with ~93% OCF/EBITDA.

EBITM expands 130bps sequentially: HCLT's Q3FY21 EBITM expanded by 130bps QoQ to 22.9% despite a wage hike (-50bps). Revenue acceleration and SG&A leverage (+80bps), offshore shift (+50bps), catch up revenues in Mode 2 and ER&D (+40bps), and cost optimization measures helped in negating the impact of salary hikes. The company expects 80-90bps impact from the salary hike (for Level E4 and above) in Q4. HCLT has upped its FY21 EBITM guidance to 21%-21.5% (earlier 20-21%), implying a ~200bps margin decline in Q4 to achieve the upper end of guidance.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Information Technology \(page 11\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	604,280	706,780	755,475	854,793	948,826
EBITDA	139,690	166,930	201,097	217,718	233,747
EBITDA Margin (%)	23.1	23.6	26.6	25.5	24.6
APAT	101,230	110,620	134,022	139,884	153,590
EPS (Rs)	37.3	40.8	49.4	51.5	56.6
EPS (% chg)	18.3	9.2	21.2	4.4	9.8
ROE (%)	25.7	23.4	23.5	21.4	21.0
P/E (x)	26.5	24.3	20.0	19.2	17.5
EV/EBITDA (x)	18.7	15.6	12.8	11.4	10.3
P/BV (x)	6.4	5.1	4.3	3.9	3.5

Source: Company, Emkay Research

CMP	Target Price
Rs 990 as of (January 15, 2021)	Rs 1,130 (▲) 12 months
Rating	Upside
BUY (■)	14.2 %

Change in Estimates

EPS Chg FY21E/FY22E (%)	8.4/4.5
Target Price change (%)	3.6
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	49.4	51.5
Consensus	45.7	51.2
Mean Consensus TP (12M)	Rs 1,047	

Stock Details

Bloomberg Code	HCLT IN
Face Value (Rs)	2
Shares outstanding (mn)	2,714
52 Week H/L	1,099 / 375
M Cap (Rs bn/USD bn)	2,686 / 36.76
Daily Avg Volume (nos.)	8,534,952
Daily Avg Turnover (US\$ mn)	102.7

Shareholding Pattern Sep '20

Promoters	60.3%
FII's	24.9%
DII's	10.6%
Public and Others	4.1%

Price Performance

(%)	1M	3M	6M	12M
Absolute	12	15	61	66
Rel. to Nifty	5	(7)	18	42

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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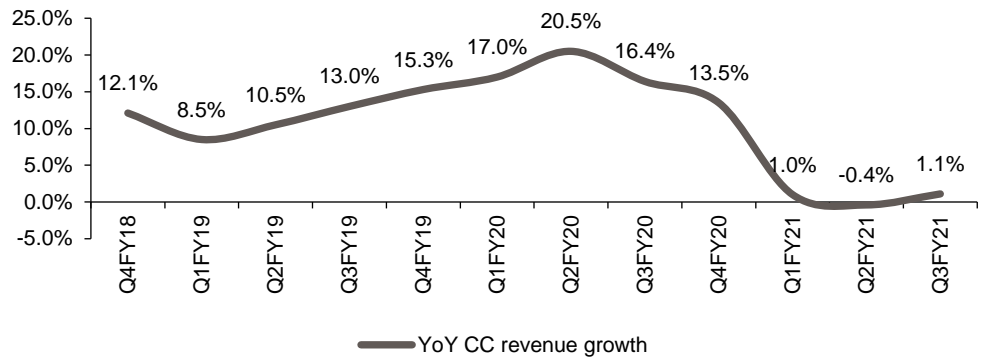
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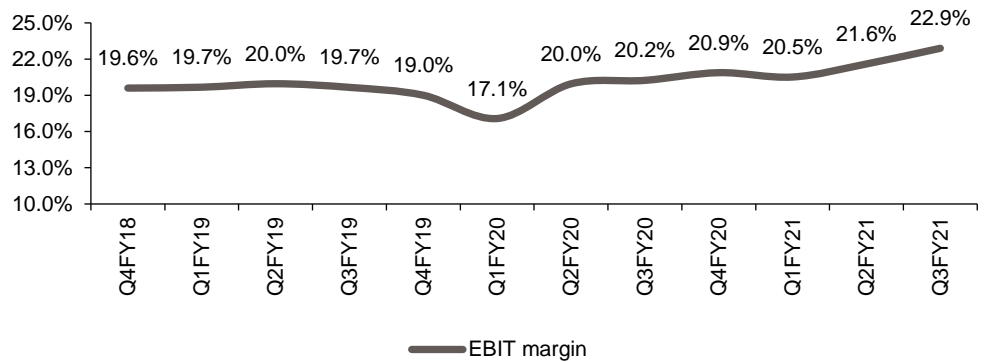
Story in Charts

Exhibit 1: YoY CC growth rebounded to 1.1% in Q3FY21



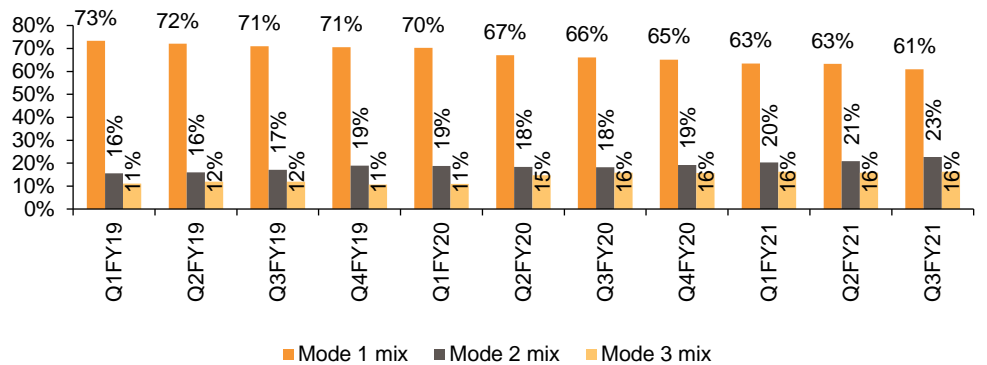
Source: Company, Emkay Research

Exhibit 2: EBIT margin expanded further by 130bps sequentially



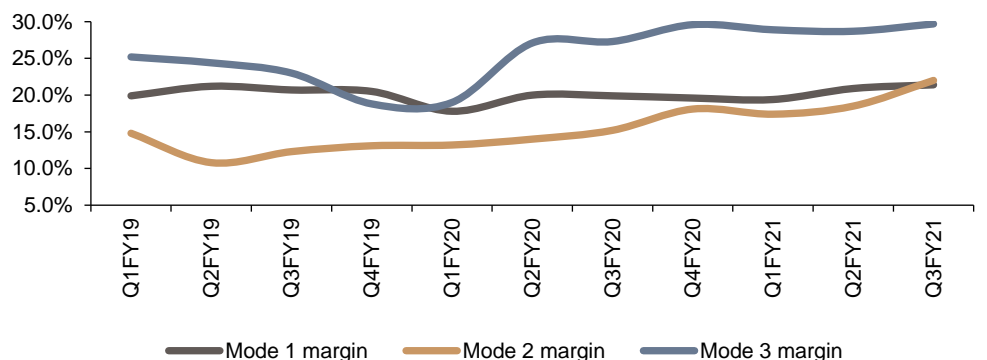
Source: Company, Emkay Research

Exhibit 3: Mode 2 mix of revenue has been increasingly steadily over the past few quarters



Source: Company, Emkay Research

Exhibit 4: Growing scale of Mode-2 offerings drives improvement in margins which augurs well for overall margins



Source: Company, Emkay Research

Exhibit 5: Actual vs Estimates

(in Rs mn)	Actual	Estimates		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenues (in USD mn)	2,617	2,570	2,590	1.8%	1.0%	Revenue beat expectations on the back of strong traction in Mode 2 and Products & Platforms.
Sales	193,020	189,702	191,123	1.7%	1.0%	
EBIT	44,160	40,380	40,327	9.4%	9.5%	Margins were above our and Street estimates, partly boosted by one-off factors.
EBIT, margin	22.9%	21.3%	21.1%	160 bps	180 bps	
PAT	39,820	31,456	32,109	26.6%	24.0%	Strong operating performance and lower ETR led to beat on net profit.

Source: Company, Emkay Research

Exhibit 6: Quarterly Snapshot

Rs mn	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	YoY (%)	QoQ (%)	FY21TD	FY20TD	YoY (%)
Revenues(USD mn)	2,543	2,543	2,356	2,507	2,617	2.9	4.4	7,479	7,393	1.2
Revenue	181,350	185,900	178,410	185,940	193,020	6.4	3.8	557,370	520,880	7.0
Operating Expenditure	136,650	138,700	132,750	136,430	138,600	1.4	1.6	407,780	401,150	1.7
Cost of revenues	111,760	111,510	107,280	109,290	111,950	0.2	2.4	328,520	331,570	(0.9)
as % of sales	61.6	60.0	60.1	58.8	58.0			58.9	63.7	
SG&A expenses	24,890	27,190	25,470	27,140	26,650	7.1	-1.8	79,260	69,580	13.9
as % of sales	13.7	14.6	14.3	14.6	13.8			14.2	13.4	
EBITDA	44,700	47,200	45,660	49,510	54,420	21.7	9.9	149,590	119,730	24.9
Depreciation	8,000	8,390	9,060	9,350	10,270			28,680	20,010	43.3
EBIT	36,700	38,810	36,600	40,160	44,150	20.3	9.9	120,910	99,720	21.2
Other Income	670	(130)	2,050	1,360	1,260			4,670	1,920	143.2
PBT	37,370	38,680	38,650	41,520	45,410	21.5	9.4	125,580	101,640	23.6
Total Tax	6,910	7,070	9,290	9,990	5,440			24,720	22,310	10.8
Adjusted PAT	30,460	31,610	29,360	31,530	39,970	31.2	26.8	100,860	79,330	27.1
(Profit)/loss from JV's/Ass/MI	-80	-80	-130	-110	-160	100.0	45.5	-400	-240	
APAT after MI	30,380	31,530	29,230	31,420	39,810	31.0	26.7	100,460	79,090	27.0
Reported PAT	30,380	31,530	29,230	31,420	39,810	31.0	26.7	100,460	79,090	27.0
Reported EPS	11.2	11.6	10.8	11.6	14.7	31.0	26.7	37	29	27.0

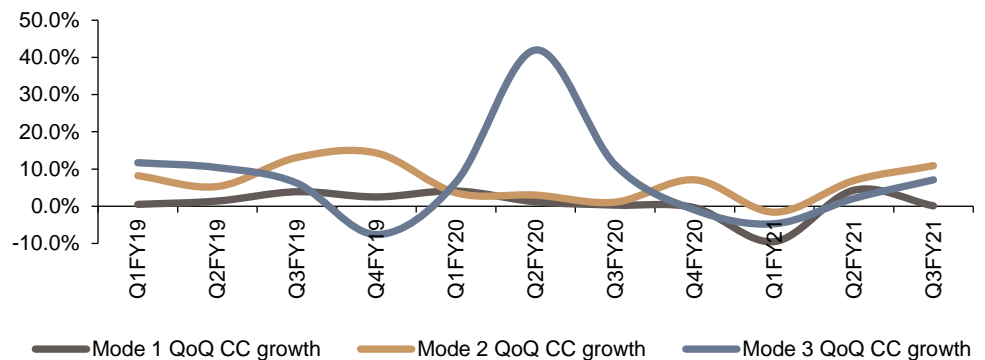
Margins (%)						(bps)	(bps)			
EBIDTA	24.6	25.4	25.6	26.6	28.2	355	157	26.8	23.0	385
EBIT	20.2	20.9	20.5	21.6	22.9	264	127	21.7	19.1	255
EBT	20.6	20.8	21.7	22.3	23.5	292	120	22.5	19.5	302
PAT	16.8	17.0	16.4	16.9	20.6	387	373	18.0	15.2	284
Effective Tax rate	18.5	18.3	24.0	24.1	12.0	(651)	(1,208)	19.7	22.0	(227)

Source: Company, Emkay Research

Mode 2 and Mode 3 drive revenue growth in Q3; guides for 2-3% QoQ CC growth for Q4

HCLT has guided for 2-3% QoQ CC revenue growth for Q4 (organic growth 1-2%). This compares with 0.5% -2.5% QoQ CC implied by Infosys's guidance and Wipro's Q4 guidance of 1.5%-3.5%. Revenue growth for Q3 was driven by strong traction in Mode 2 and Mode 3 offerings. Mode 2 revenue grew 10.9% QoQ CC, led by demand in cloud native and digital programs. Mode 3 has clocked 7.1% QoQ CC on the back of strong new license sales and robust renewals. Across verticals, revenue growth was led by Telecommunication and Media (12.1% QoQ CC), Technology and Services (6.8%), Manufacturing (5.6%) and Retail & CPG (3.7%). Financial Services (-0.4%), Lifesciences & Healthcare (0%) and Public services (0.5%) were flat for the quarter. Geographically, Europe led growth (6.3% QoQ CC) followed by Americas (3.2% QoQ CC). All business segments reported positive QoQ CC growth led by Products & Platforms (8.3%), IT and Business Services, (2.7%) and Engineering and R&D services (2.5%). HCLT remained confident about maintaining revenue growth momentum on the back of strong deal intake (13% YoY), healthy deal pipeline (near an all-time high), broad-based growth uptick, improving demand environment, and captive carve-out opportunities. HCLT is seeing increased demand in cloud, workplace transformation, cybersecurity, digital transformation offerings and vendor consolidation opportunities. The company suggested that recovery remains slow in asset-heavy industries (Aero, Auto, Industrial Manufacturing, Office Automation, etc.) under ER&D, while asset-light industries (Technology, Communication, etc.) are doing well. Overall, HCLT expects ER&D business to reach pre-Covid levels in a couple of quarters.

Exhibit 7: Mode 2 and Mode 3 drove revenue growth in Q3



Source: Company, Emkay Research

Exhibit 8: Revenues by vertical

Particulars	As a % of revenues				
	Q3FY21	Q2FY21	Q3FY20	QoQ (%)	YoY (%)
Financial Services	21%	22%	21.6%	1.1%	1.9%
Manufacturing	18%	18%	20.9%	6.7%	-10.9%
Technology & Services	18%	17%	15.1%	7.4%	21.3%
Life Sciences & Healthcare	14%	14%	12.2%	0.7%	14.7%
Public Services	10%	11%	10.9%	1.5%	-1.8%
Retail & CPG	11%	10%	10.3%	5.4%	4.9%
Telecommunications, Media, Publishing & Entertainment	8%	8%	9.0%	12.5%	-5.1%
Total	100%	100%	100%	4.4%	2.9%

Source: Company, Emkay Research

Exhibit 9: Revenues by service line

Particulars	As a % of revenues				
	Q3FY21	Q2FY21	Q3FY20	QoQ (%)	YoY (%)
IT & Business Services	70.4%	70.8%	70.2%	3.8%	3.2%
Engg and R&D services	15.5%	15.7%	16.7%	3.1%	-4.5%
Products & Platforms	14.1%	13.5%	13.1%	9.0%	10.7%
Total	100.0%	100.0%	100.0%	4.4%	2.9%

Source: Company, Emkay Research

Exhibit 10: Revenues by geography

Particulars	As a % of revenues				
	Q3FY21	Q2FY21	Q3FY20	QoQ (%)	YoY (%)
US	62.5%	63.1%	62.8%	3.4%	2.4%
Europe	29.5%	28.4%	29.2%	8.4%	3.9%
Rest of the world	8.0%	8.5%	8.0%	-1.8%	2.9%
Total	100.0%	100.0%	100.0%	4.4%	2.9%

Source: Company, Emkay Research

Exhibit 11: Mode 1-2-3 revenue mix

Particulars	As a % of revenues				
	Q3FY21	Q2FY21	Q3FY20	QoQ (%)	YoY (%)
Mode 1	61.0%	63.3%	66.0%	0.6%	-5.0%
Mode 2	22.7%	20.9%	18.2%	13.4%	28.5%
Mode 3	16.3%	15.8%	15.8%	7.8%	6.2%
Total	100.0%	100.0%	100.0%	4.4%	2.9%

Source: Company, Emkay Research

Exhibit 12: Client numbers

No. of clients	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
US\$ 1mn+	597	623	633	667	712	791	848	865	814
US\$ 5mn+	276	283	293	299	302	308	320	317	312
US\$ 10mn+	164	166	172	171	167	171	173	172	173
US\$ 20mn+	95	95	93	93	94	96	93	91	97
US\$ 50mn+	29	29	29	30	32	30	29	29	31
US\$ 100mn+	10	10	12	13	15	15	15	14	15

Source: Company, Emkay Research

Exhibit 13: Segmental performance

Segmental performance	Q3FY21	Q2FY21	QoQ (%)	Q3FY20	YoY (%)
IT Business & Services					
Revenue (\$ mn)	1,843	1,774	3.9%	1,786	3.2%
EBIT (\$ mn)	387	351	10.2%	317	22.1%
EBIT (%)	21.0%	19.8%	121	17.8%	324
Engineering and R&D Services					
Revenue (\$ mn)	405	394	2.8%	424	-4.5%
EBIT (\$ mn)	99	87	13.4%	88	12.7%
EBIT (%)	24%	22.2%	228	20.7%	374
Products & Platforms					
Revenue (\$ mn)	368	338	8.8%	334	10.4%
EBIT (\$ mn)	113	103	9.4%	110	2.8%
EBIT (%)	31%	30.5%	18	32.9%	-227

Source: Company, Emkay Research

Exhibit 14: Changes in estimates

(All fig in Rs mn except EPS)	FY21E			FY22E			FY23E		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenues(USD mn)	10,091	10,174	0.8	11,204	11,397	1.7	12,156	12,485	2.7
YoY growth, %	1.6%	2.4%		11.0%	12.0%		8.5%	9.5%	
Revenues	749,460	755,475	0.8	840,278	854,793	1.7	923,846	948,826	2.7
EBIT	157,686	162,845	3.3	170,570	177,739	4.2	184,545	191,642	3.8
EBIT mgns, %	21.0	21.6		20.3	20.8		20.0	20.2	
Net profits	123,684	134,022	8.4	133,873	139,884	4.5	147,498	153,590	4.1
EPS (Rs)	45.6	49.4	8.4	49.3	51.5	4.5	54.4	56.6	4.1

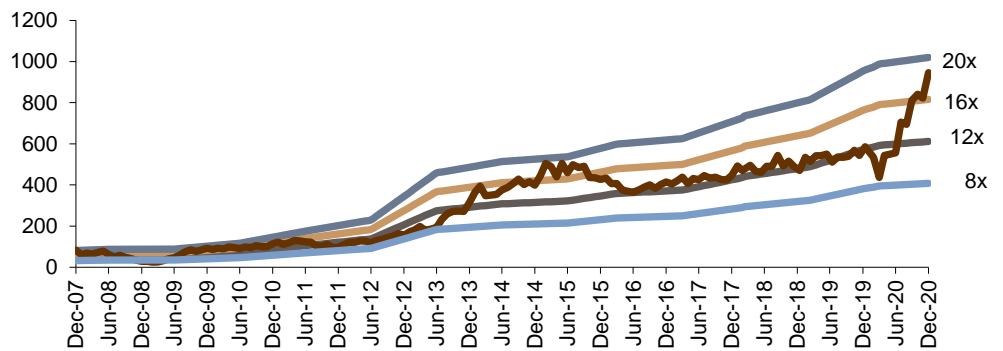
Source: Company, Emkay Research

Exhibit 15: Key Assumptions

	FY20	FY21E	FY22E	FY23E
Growth in Revenues (USD mn)	15.1%	2.4%	12.0%	9.5%
USD/INR	71.1	74.3	75.0	76.0
INR revenues growth	17.0%	6.9%	13.1%	11.0%
EBIT margins	19.6%	21.6%	20.8%	20.2%
EPS growth (%)	9.2%	21.2%	4.4%	9.8%

Source: Company, Emkay Research

Exhibit 16: HCLT's 1-year forward P/E band



Source: Company, Emkay Research

Exhibit 17: Valuation Summary

Co Name	CMP	Reco.	Target Price	US\$ revenue growth (%)			EPS			P/E			EV/EBIT		
				FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
TCS	3,233	HOLD	3,150	0.4	15.0	11.0	87.2	106.6	121.0	37.1	30.3	26.7	28.6	23.6	20.7
Infosys	1,345	BUY	1,550	6.2	17.0	12.5	45.5	54.9	61.8	29.5	24.5	21.8	21.9	18.1	15.9
Wipro	439	HOLD	420	-1.6	10.0	8.0	19.7	21.5	23.1	22.2	20.4	19.0	17.4	15.4	14.2
HCL Tech	990	BUY	1,130	2.4	12.0	9.5	49.4	51.5	56.6	20.0	19.2	17.5	15.8	14.0	12.6
Tech Mahindra	1,007	BUY	1,160	-1.6	9.5	9.0	49.2	55.8	64.4	20.5	18.0	15.6	15.8	13.0	11.0
Mphasis	1,667	HOLD	1,560	5.7	12.0	10.0	64.9	76.7	86.7	25.7	21.7	19.2	18.6	15.9	13.8
Mindtree	1,697	SELL	1,490	-2.5	12.0	11.0	58.5	65.0	74.4	29.0	26.1	22.8	21.0	19.0	16.4
Persistent Systems	1,629	BUY	1,790	10.8	13.0	13.0	54.0	66.7	81.3	30.2	24.4	20.0	23.3	18.5	14.6
Coforge	2,638	HOLD	2,740	4.4	15.1	13.0	76.0	99.8	119.0	34.7	26.4	22.2	25.1	20.0	16.6
Firstsource Solutions	91	BUY	120	12.6	11.3	8.4	6.1	7.2	8.0	14.9	12.6	11.4	12.2	10.2	8.7

Source: Company, Emkay Research

Other takeaways

- **Q3FY21 performance:** Revenue grew 4.4%/2.9% QoQ/YoY (3.5%/1.1% QoQ/YoY CC) to USD2.62bn. EBITM expanded 130bps sequentially to 22.9%, which was the highest in the last 24 quarters. HCLT signed 13 new transformational deals in Q3 across verticals, including Life Sciences & Healthcare, Technology and Financial Services. Deal bookings rose 13% YoY in Q3. The deal pipeline remains closer to the all-time high. It is seeing strong demand in both transformational and cost optimization deals.
- **Outlook:** HCLT has guided for revenue growth of 2-3% QoQ CC in Q4FY21, including DWS contribution (~1%). EBITM is expected to be in the range of 21%-21.5% for FY21. Wage hike impact for Q4 is expected to be 80-90bps. HCLT expects revenue growth to accelerate over the next five years (vs. last 5 years). The company expects some costs such as travel costs to start coming back in the next few quarters, albeit not at pre-Covid levels. The deal pipeline remains robust as the company is seeing heightened demand in the areas of Digital, Cloud and products & platform segments. The company is confident of acceleration of order bookings in coming quarters as clients' decision making gathers pace. ER&D services is expected to reach pre-Covid levels in a couple of quarters.
- **Other takeaways:**
 - Tax expenses for the quarter were low due to 1) the reversal of a provision for an uncertain tax position set up in prior years and 2) reduction in tax liability due to a change in the method of calculating tax deduction, basis evaluation of recent judicial rulings. The company expects 21.5-22% ETR in Q4FY21.
 - Revenue growth in the products and platforms business was driven by new license deals (USD91mn TCV in Q3, grew 250% YoY) across new and existing clients. 350 new footprint wins in Q3.
 - 90% of the headcount added during Q3 was at offshore locations.
 - Localization in US stands at 69.8%.
 - HCLT is looking to scale up its delivery center in Vietnam as it plans for it to be a solid base for engineering services.
 - The company added 4,022 freshers in Q3 and has on-boarded 6,480 freshers YTD FY21. It plans to hire more 5,000 freshers in Q4.
 - Return-to-office metrics for Dec'20 – India 6.9%, APMEA – 22.5%, Europe 7% and Americas – 4%.
 - The company announced an interim dividend of Rs4 per share.

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	604,280	706,780	755,475	854,793	948,826
Expenditure	464,590	539,850	554,377	637,075	715,079
EBITDA	139,690	166,930	201,097	217,718	233,747
Depreciation	21,480	28,400	38,252	39,979	42,105
EBIT	118,210	138,530	162,845	177,739	191,642
Other Income	8,050	1,790	5,885	9,373	13,752
Interest expenses	0	0	0	0	0
PBT	126,260	140,320	168,731	187,112	205,394
Tax	24,810	29,380	34,213	46,778	51,349
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	(220)	(320)	(496)	(450)	(456)
Reported Net Income	101,230	110,620	134,022	139,884	153,590
Adjusted PAT	101,230	110,620	134,022	139,884	153,590

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	2,713	5,427	5,427	5,427	5,427
Reserves & surplus	419,527	516,339	612,369	687,125	764,732
Net worth	422,240	521,766	617,797	692,552	770,159
Minority Interest	0	384	384	384	384
Loan Funds	41,966	79,614	65,450	60,450	60,450
Net deferred tax liability	(21,903)	(21,946)	(21,920)	(21,920)	(21,920)
Total Liabilities	442,303	579,818	661,711	731,467	809,074
Net block	234,960	382,890	382,708	368,803	354,062
Investment	59,020	106,070	105,770	165,770	235,770
Current Assets	270,820	320,430	338,467	383,036	425,206
Cash & bank balance	59,290	48,430	78,833	89,389	99,355
Other Current Assets	64,520	93,370	86,931	98,360	109,180
Current liabilities & Provision	122,497	229,572	165,234	186,142	205,964
Net current assets	148,323	90,858	173,233	196,894	219,242
Misc. exp	0	0	0	0	0
Total Assets	442,303	579,818	661,711	731,467	809,074

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	119,850	139,800	162,845	177,739	191,642
Other Non-Cash items	(639)	(7,970)	3,874	0	0
Chg in working cap	(20,749)	(19,120)	(6,945)	(13,105)	(12,381)
Operating Cashflow	93,991	123,774	165,328	166,757	183,313
Capital expenditure	(64,530)	(83,819)	(83,070)	(26,073)	(27,364)
Free Cash Flow	29,461	39,955	82,259	140,684	155,949
Investments	28,815	(45,930)	300	(60,000)	(70,000)
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(35,716)	(129,750)	(82,770)	(86,073)	(97,364)
Equity Capital Raised	(37,919)	1	0	0	0
Loans Taken / (Repaid)	36,864	9,242	(14,164)	(5,000)	0
Dividend paid (incl tax)	(13,201)	(16,231)	(37,991)	(65,128)	(75,983)
Other Financing Cash Flow	(1,668)	2,104	0	0	0
Financing Cashflow	(15,924)	(4,884)	(52,156)	(70,128)	(75,983)
Net chg in cash	42,351	(10,860)	30,403	10,556	9,966
Opening cash position	16,939	59,290	48,430	78,833	89,389
Closing cash position	59,290	48,430	78,833	89,389	99,355

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	23.1	23.6	26.6	25.5	24.6
EBIT Margin	19.6	19.6	21.6	20.8	20.2
Effective Tax Rate	19.6	20.9	20.3	25.0	25.0
Net Margin	16.8	15.7	17.8	16.4	16.2
ROCE	31.7	27.5	27.2	26.9	26.7
ROE	25.7	23.4	23.5	21.4	21.0
RoIC	40.9	37.0	36.1	37.3	40.3

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	37.3	40.8	49.4	51.5	56.6
CEPS	45.2	51.2	63.5	66.3	72.1
BVPS	155.7	192.3	227.7	255.2	283.8
DPS	4.1	8.0	14.0	24.0	28.0

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	26.5	24.3	20.0	19.2	17.5
P/CEPS	21.9	19.3	15.6	14.9	13.7
P/BV	6.4	5.1	4.3	3.9	3.5
EV / Sales	4.3	3.7	3.4	2.9	2.5
EV / EBITDA	18.7	15.6	12.8	11.4	10.3
Dividend Yield (%)	0.4	0.8	1.4	2.4	2.8

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	(0.2)	(0.1)	(0.2)	(0.3)	(0.4)
Net Debt/EBIDTA	(0.5)	(0.4)	(0.6)	(0.9)	(1.2)
Working Cap Cycle (days)	53.8	21.9	45.6	45.9	46.1

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	19.5	17.0	6.9	13.1	11.0
EBITDA	22.1	19.5	20.5	8.3	7.4
EBIT	18.4	17.2	17.6	9.1	7.8
PAT	15.3	9.3	21.2	4.4	9.8

Quarterly (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Revenue	181,350	185,900	178,410	185,940	193,020
EBITDA	44,700	47,200	45,660	49,510	54,420
EBITDA Margin (%)	24.6	25.4	25.6	26.6	28.2
PAT	30,380	31,530	29,230	31,420	39,810
EPS (Rs)	11.2	11.6	10.8	11.6	14.7

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoters	60.0	60.0	60.3	60.3	60.3
FII	28.0	27.7	26.4	25.6	24.9
DII	8.6	8.4	9.1	10.0	10.6
Public and Others	3.4	3.9	4.1	4.0	4.1

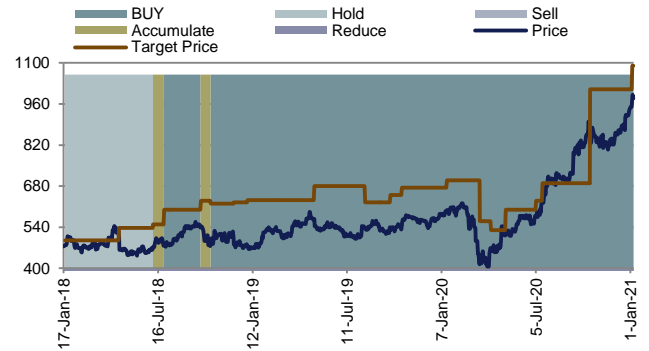
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
4-Jan-21	980	1,090	12m	Buy	Dipeshkumar Mehta
18-Dec-20	891	1,010	12m	Buy	Dipeshkumar Mehta
16-Oct-20	827	1,010	12m	Buy	Dipeshkumar Mehta
17-Jul-20	623	690	12m	Buy	Manik Taneja
5-Jul-20	579	630	12m	Buy	Manik Taneja
25-Jun-20	550	600	12m	Buy	Manik Taneja
18-Jun-20	579	600	12m	Buy	Manik Taneja
26-May-20	524	600	12m	Buy	Manik Taneja
8-May-20	518	600	12m	Buy	Manik Taneja
10-Apr-20	469	530	12m	Buy	Manik Taneja
20-Mar-20	445	560	12m	Buy	Manik Taneja
3-Feb-20	579	700	12m	Buy	Manik Taneja
17-Jan-20	599	700	12m	Buy	Manik Taneja
8-Jan-20	586	675	12m	Buy	Manik Taneja
1-Jan-20	572	675	12m	Buy	Manik Taneja
21-Nov-19	568	675	12m	Buy	Manik Taneja
23-Oct-19	548	675	12m	Buy	Manik Taneja
1-Oct-19	530	650	12m	Buy	Manik Taneja
14-Aug-19	538	625	12m	Buy	Manik Taneja
3-Jul-19	526	680	12m	Buy	Manik Taneja
9-May-19	568	680	12m	Buy	Rahul Jain
8-Apr-19	548	633	12m	Buy	Rahul Jain
29-Jan-19	494	633	12m	Buy	Rahul Jain
9-Jan-19	469	633	12m	Buy	Rahul Jain
2-Jan-19	473	633	12m	Buy	Rahul Jain
7-Dec-18	481	625	12m	Buy	Rahul Jain
24-Oct-18	490	620	12m	Buy	Rahul Jain
5-Oct-18	542	630	12m	Accumulate	Rahul Jain
27-Jul-18	482	600	12m	Buy	Rahul Jain
10-Jul-18	490	550	12m	Accumulate	Rahul Jain
6-Jul-18	472	550	12m	Accumulate	Rahul Jain
2-May-18	500	538	12m	Hold	Rahul Jain
5-Apr-18	481	495	12m	Hold	Rahul Jain
19-Jan-18	479	495	12m	Hold	Rahul Jain

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Information Technology



Analyst: Dipesh Mehta

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Sector

IT Services, ITeS and Software

Analyst bio

Dipesh is a seasoned Equities professional who has covered Technology sector for over 15 years. Dipesh has completed his B.E. in Information Technology from Sardar Patel University and MMS in Finance from Mumbai University.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Information Technology	13.96	13.68	-2%	-28	100.00
BirlaSoft*	0.00	0.11	NA	11	0.78
Coforge	0.00	0.00	NA	0	0.00
eClerx Services*	0.00	0.00	NA	0	0.00
Firstsource Solutions	0.00	0.00	NA	0	0.00
HCL Tech	1.37	1.52	11%	14	10.86
Infosys	6.17	6.47	5%	29	46.33
Intellect Design*	0.00	0.00	NA	0	0.00
L&T Infotech*	0.23	0.00	-100%	-23	0.00
Majesco*	0.00	0.00	NA	0	0.00
Mindtree	0.09	0.00	-100%	-9	0.00
Mphasis	0.17	0.19	13%	2	1.39
MPS*	0.00	0.00	NA	0	0.00
NIIT*	0.00	0.00	NA	0	0.00
Nucleus Software*	0.00	0.00	NA	0	0.00
Oracle Financial Services*	0.09	0.00	-100%	-9	0.00
Persistent Systems	0.00	0.57	NA	57	4.08
Ramco Systems*	0.00	0.00	NA	0	0.00
TCS	4.20	3.25	-22%	-94	23.32
Tech Mahindra	0.80	0.82	3%	2	5.90
Wipro	0.83	0.75	-10%	-8	5.35
Cash	0.00	0.28	NA	28	1.99

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	16-Jan-20	16-Jul-20	15-Oct-20	15-Dec-20	14-Jan-21
EAP - Information Technology	100.0	103.6	115.2	147.3	152.3	180.6
BSE200 Neutral Weighted Portfolio (ETF)	100.0	104.2	111.9	139.9	144.5	171.4

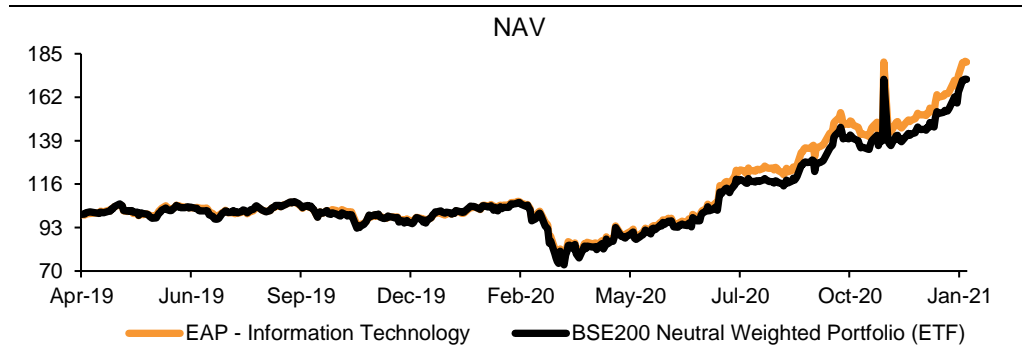
*Performance measurement base date 1st April 2019 | Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Information Technology	18.6%	22.6%	56.8%	74.3%
BSE200 Neutral Weighted Portfolio (ETF)	18.7%	22.5%	53.2%	64.5%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 16 Jan 2021 01:27:48 (SGT)

Dissemination Date: 16 Jan 2021 01:28:48 (SGT)

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