

HCL Technologies

Estimate change

TP change

Rating change


CMP: INR1,251
TP: INR1,430 (+14%)
Buy

Strong growth in Services to cushion product softness

Expect strong growth momentum in FY23E, maintain Buy

Bloomberg	HCLT IN
Equity Shares (m)	2,714
M.Cap.(INRb)/(USDb)	3394.5 / 45.1
52-Week Range (INR)	1377 / 792
1, 6, 12 Rel. Per (%)	-4/1/-10
12M Avg Val (INR M)	6354

Financials & Valuations (INR b)

Y/E Mar	2021	2022E	2023E
Sales	754	846	976
EBIT Margin (%)	20.4	19.4	20.0
PAT	119	133	155
EPS (INR)	43.8	49.1	57.2
EPS Gr. (%)	7.5	12.1	16.6
BV/Sh. (INR)	227	233	240

Ratios

RoE (%)	21.0	21.4	24.2
RoCE (%)	18.7	19.2	21.8
Payout (%)	59.4	75.0	75.0

Valuations

P/E (x)	28.6	25.5	21.9
P/BV (x)	5.5	5.4	5.2
EV/EBITDA (x)	17.4	16.5	14.0
Div Yield (%)	2.1	2.9	3.4

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	60.3	60.3	60.3
DII	11.4	10.6	10.1
FII	23.2	24.1	25.6
Others	5.1	5.0	4.0

FII Includes depository receipts

- HCLT delivered a 2QFY22 revenue growth of 3.5% QoQ (CC), 40bp below our estimate. While the decline in the Products and Platforms vertical (-8% QoQ CC) due to a delay in deal closure was disappointing, Services (IT + ER&D, 5.2% QoQ CC) came in better than expected. EBIT margin fell 60bp QoQ to 19% and was in line. The management reiterated its guidance of double-digit USD revenue growth and 19-21% EBIT margin for FY22, although it lowered its Products and Platforms growth to 0-1% (from low-single digits).
- New deal TCV of USD2.3b (+38% YoY, 14 large deals) in 2QFY22 was better than expected.
- We are encouraged by the strong performance in the Services business, especially the ER&D vertical, where the demand environment remains favorable. With the management expressing confidence in continued growth momentum in the business in 2H, this should drive growth in FY22.
- There is a big divergence between revenue growth and employee addition at HCLT over the last four quarters (*Exhibit 1 and 2*), which stands out v/s its peers. We view HCL's pre-emptive employee additions (~35k over four quarters, +22% YoY) as a smart move and a safeguard against the current supply crunch. It also points to the management's confidence in growth acceleration in the Services business over the next few quarters, which should help usher revenue growth and employee productivity back to its historical levels. We expect HCLT to deliver USD revenue growth of 14.1% in Services over FY21-23E.
- While we continue to see potential in HCLT's Products and Platforms business and expect it to return to high single-digit growth in FY23E, we view the guidance cut to be a drag on valuation in the near term, due to elevated uncertainty in the business and relative lack of comfort in its business potential.
- On a combined basis, HCLT should deliver FY21-23E USD revenue growth of 13.1%. We expect the EBIT margin to stabilize at 20% in FY23E, which should help it deliver a 14.3% PAT CAGR over FY21-23E.
- We positively view the revision in HCLT's payout policy (at least 75% of net income, up from 50%) over FY22-26 and expect it to be welcomed by shareholders. A higher payout should improve the return metrics for the company as well as help total return generation in the stock.
- We tweak our FY23E EPS estimate by 2% due to a slower pickup in high margin Products and Platforms business. We maintain our **Buy** rating as we expect traction in the Services business in 2HFY22E and FY23E, driven by higher IMS/Cloud-focused deals. Our TP of INR1,430/share implies 25x FY23E EPS.

Tad miss on topline, margin in line, and guidance intact

- In USD terms, revenue grew 11.3% YoY (est. 12%), operating profit fell 2% (we estimated a decline of 1.5%), and PAT rose 4% (est. 0.3%) in 2QFY22.
- In 1HFY22, USD revenue/INR EBIT/INR PAT grew by 13%/2%/7% YoY.
- Revenue in constant currency terms grew 3.5% QoQ in 2QFY22, a tad lower than our estimate of 3.9%.
- Growth was strong within Services, with IT Services/ER&D clocking 5.2%/5.4% QoQ growth. However, its 2QFY22 performance was impacted by a decline in the Products and Platforms business (-8% QoQ CC). The management said that the Products and Platforms business has a miss of ~USD25m v/s its earlier estimate.
- Mode-1/2 (60.9%/25.8% of the business) grew 2.8%/12.5% QoQ CC. However, Mode-3 (13.3% of the business) declined by 7.6% QoQ CC.
- Growth was driven by Manufacturing (+8.1% QoQ CC), Lifesciences and Healthcare (+7%), and Financial Services (excluding Products and Platforms at +4.6% QoQ CC). Retail and CPG clocked a softer growth (0.9% QoQ CC).
- TCV of new deal wins in 2QFY22 stood at USD2.3b, up 38% YoY from 14 large deal wins.
- Margin dipped by 60bp QoQ to 19%. EBIT margin is in line with our estimate and was impacted by a decline in the high margin Products and Platforms business, while margin in the Services business was flat QoQ.
- PAT rose 4% YoY to INR33b as against our expectation of INR31b, a beat of 3.6%, led by lower ETR.
- The management guided at double-digit revenue growth in CC terms for FY22.
- It expects EBIT margin in the 19-21% range for FY22.
- In 2QFY22, operating/free cash flow stood at USD466m/USD390m. Cash conversion was at an OCF/Ni of 106% and a FCF/Ni of 88.5%.
- Gross/net cash stood at USD2.7b/USD2.2b at the end of 2QFY22.
- Attrition in IT Services (LTM) stood at 15.7%, up 390bp QoQ. Net additions stood at a record high of 11,135 in 2QFY22.
- The company declared a dividend of INR10/share.

Key highlights from the management commentary

- A sequential decline in Products and Platforms was led by an end of quarter delay in deal signings. The impact was from products acquired from IBM and was led by one large and several small contracts. While none of these contracts have been closed yet, the management is confident of closing majority of them in 3QFY22.
- Despite a revenue miss of ~USD25m in the Products business, the management remains confident of breaching the gap with a strong growth momentum in the Services business.
- New deal TCV grew 38% YoY to USD2.3b from 14 large deal wins.
- The management expects the growth momentum to continue in the Services business going forward on strong headcount addition and deal ramp-ups.
- The Products and Platform segment, which was anticipated to grow in low to mid-single digits, is now expected to grow at 0-1% YoY in FY22.
- The management has maintained its margin guidance band of 19-21%.

Valuations offer a safety margin

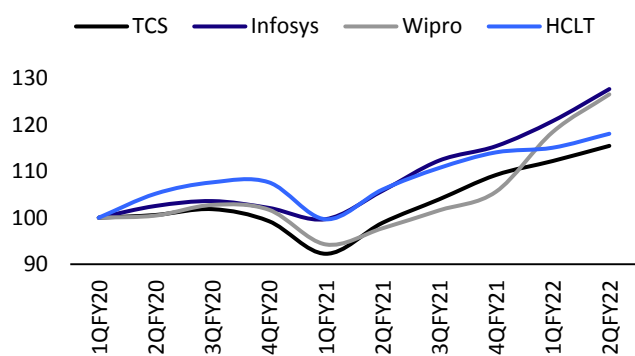
- Higher exposure to IMS (~37% of revenue), comprising a larger share of non-discretionary spend, offers a better resilience to its portfolio in the current context, with increased demand for Cloud, Network, Security, and Digital workplace services.
- Strong sequential growth within services, robust headcount addition, healthy deal wins, and a solid pipeline indicates an improved outlook. While the Products business will be soft in FY22E, we expect high single-digit growth for FY23E led by HCLT's capabilities to rightly align and sell these products in the long run.
- Given its deep capabilities in the IMS space and strategic partnerships, investments in Cloud, and Digital capabilities, we expect HCLT to emerge stronger on the back of an expected increase in enterprise demand for these services. The stock is currently trading ~22x FY23E EPS, which offers a margin of safety. Our TP is based on 25x FY23E EPS. We maintain our **Buy** rating.

Quarterly performance

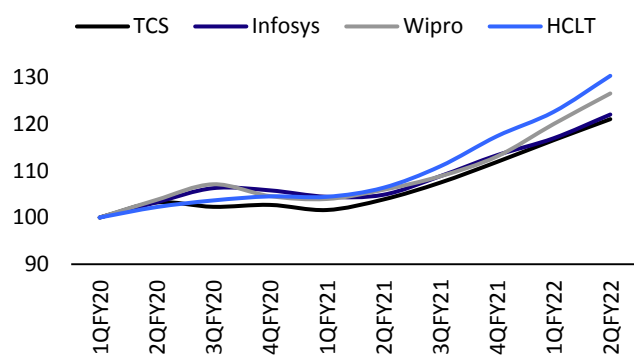
Y/E March	FY21				FY22				(INR b)		
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	FY21	FY22E	FY22E Var. (%/bp)
Revenue (USD m)	2,356	2,507	2,617	2,696	2,720	2,791	2,880	2,971	10,175	11,361	2,808 -0.6
QoQ (%)	-7.4	6.4	4.4	3.0	0.9	2.6	3.2	3.2	2.4	11.7	3.3 -65bp
Revenue (INR b)	178	186	193	196	201	207	216	223	754	846	208 -0.7
YoY (%)	8.6	6.1	6.4	5.7	12.5	11.1	11.9	13.5	6.7	12.2	11.9 -84bp
GPM (%)	39.9	41.2	42.0	36.5	39.2	38.2	38.8	39.0	39.9	38.8	38.3 -7bp
SGA (%)	12.4	12.7	12.0	12.6	12.8	13.0	12.8	12.8	12.4	12.9	12.6 42bp
EBITDA	46	50	54	44	49	49	52	55	193	205	50 -1.7
EBITDA Margin (%)	25.6	26.6	28.2	22.2	24.5	23.7	24.1	24.6	25.6	24.2	23.9 -22bp
EBIT	37	40	44	33	39	39	42	44	153	164	40 -1.1
EBIT Margin (%)	20.5	21.6	22.9	16.6	19.6	19.0	19.4	19.8	20.4	19.4	19.0 -6bp
Other income	2	1	1	2	2	2	2	2	7	8	2 -0.5
ETR (%)	24.0	24.1	24.1	30.2	21.7	20.5	24.0	24.0	25.4	22.6	24.0 -348bp
Adjusted PAT	29	31	34	24	32	33	33	35	119	133	31 3.6
QoQ (%)	-7.3	7.5	9.2	-30.5	34.7	1.5	2.0	5.5			-2.0 355bp
YoY (%)	31.7	18.5	13.0	-24.3	10.0	3.9	-3.0	47.2	7.4	12.1	0.3 363bp
EPS	10.8	11.6	12.6	8.8	11.8	12.0	12.3	12.9	43.8	49.1	11.6 3.6

Key performance indicators

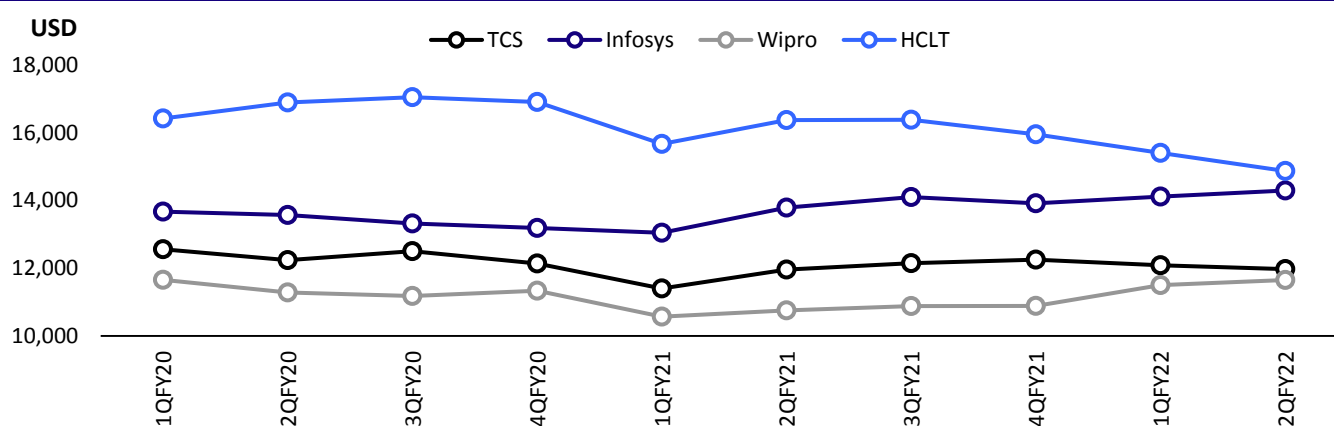
Y/E March	FY21				FY22				FY21	FY22E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenue (QoQ CC %)	-7.2	4.5	3.5	2.5	0.7	3.5			1.1	
Costs (as a percentage of revenue)										
COGS	60.1	58.8	58.0	63.5	60.8	61.8	61.2	61.0	60.1	61.2
SGA	12.4	12.7	12.0	12.6	12.8	13.0	12.8	12.8	12.4	12.9
Margins										
Gross Margin	39.9	41.2	42.0	36.5	39.2	38.2	38.8	39.0	39.9	38.8
EBIT Margin	20.5	21.6	22.9	16.6	19.6	19.0	19.4	19.8	20.4	19.4
Net Margin	16.4	16.9	17.8	12.2	16.0	15.8	15.4	15.8	15.8	15.7
Operating metrics										
Headcount (k)	150	153	160	169	176	188			169	
Attrition (%)	14.6	12.2	10.2	9.9	11.8	15.7			9.9	
Fixed Price	66.7	67.4	68.4	67.7	66.5	64.6			67.6	
Key verticals (YoY CC %)										
BFSI	0.0	-2.5	-0.5	3.6	8.8	6.3			4.2	
Manufacturing	-15.5	-11.5	-13.1	-12.8	5.3	11.9			-11.9	
Key geographies (YoY CC %)										
North America	1.2	-1.3	2.2	2.9	13.5	10.7			-0.5	
Europe	-0.3	-2.6	-1.0	-0.3	5.1	9.0			1.5	

Exhibit 1: HCLT's revenue growth has lagged peers...

Source: Company, MOFSL

Exhibit 2: ...but employee additions remain strong

Source: Company, MOFSL

Exhibit 3: Expect the divergence in employee productivity at HCLT to reverse over the next few quarters

Source: Company, MOFSL

**Key highlights from the management commentary****Demand and industry outlook**

- HCLT reported a 3.5% QoQ (CC) growth in 2QFY22, aided by strong growth (5.2%) in Services, but was offset by an 8% decline in the Products and Platforms business.
- A sequential decline in Products and Platforms was led by an end of quarter delay in deal signings. The impact was from products acquired from IBM and was led by one large and several small contracts. While none of these contracts have been closed yet, the management is confident of closing majority of them in 3QFY22.
- Despite a revenue miss of ~USD25m in the Products business, the management remains confident of breaching the gap with a strong growth momentum in the Services business.
- New deal TCV grew 38% YoY to USD2.3b from 14 large deal wins.
- The company has a renewal rate of 97-98% within the Services business.
- It continues to win a number of large deals in Cloud, Digital, and Cyber Security. Verticals of Manufacturing, Retail CPG, and Hi-Tech saw large deal wins in 2QFY22. While the Financial Services vertical did not see a large deal in 2QFY22, momentum in that business continues to remain strong, led by large clients.

Margin performance

- Margin in 2QFY22 stood at 19%, a decline of 60bp QoQ, due to a drop in margin for Products, while margin for the Services business was flat QoQ.
- The company benefitted from a favorable tax ruling in 2QFY22.

Outlook

- The management expects the growth momentum to continue in the Services business going forward on strong headcount addition and deal ramp-ups.
- The Products and Platform segment, which was anticipated to grow in low to mid-single digits, is now expected to grow at 0-1% YoY in FY22.
- The management has maintained its margin guidance band of 19-21%.

Shareholder payout policy

- HCLT has announced a dividend payout policy, which implies a distribution of at least 75% of net income over a five-year period. Consequently, it has revised its quarterly dividends to INR10/share (from INR6/share) for FY22.

RSU plan for senior employees

- The company has proposed to convert its variable cash awards to a mix of 70% cash and 30% RSU.
- Subject to shareholder approval, the plan proposes to allocate 11.1m shares to almost 3,000 senior leaders. The plan will be offered as tenure-based vesting by FY25.
- The plan will not result in a dilution in shareholder holding as these shares will be purchased from the open market.
- The plan is also margin neutral as ~30% of existing cash awards are being converted into RSU.

Other highlights

- HCLT hired 5.5k freshers during 2Q (3.5k in 1QFY22) and intends to add 20k freshers in FY22.

Exhibit 4: Broad based growth within geographies

Geographies	Contribution to revenue (%)	CC QoQ growth (%)	CC YoY growth (%)
Americas	62.8	2.4	10.7
Europe	28.3	5.8	9.0
RoW	8.9	2.0	14.9

Source: Company, MOFSL

Exhibit 5: Manufacturing and Life Sciences and Healthcare posts robust growth

Verticals	Contribution to revenue (%)	CC QoQ growth (%)	CC YoY growth (%)
Financial Services	21.3	0.4	6.3
Manufacturing	17.2	8.1	11.9
Technology	17.3	2.6	10.8
Life Sciences and Healthcare	15.3	7.0	20.1
Telecom MP&E	7.9	3.0	13.4
Retail and CPG	9.8	0.9	3.6
Public Services	10.6	1.9	8.8

Source: Company, MOFSL

Exhibit 6: ITS and ERS posted robust growth in 2QFY22

Segments	Contribution to revenue (%)	CC QoQ growth (%)	CC YoY growth (%)
IT and Business Services	72.6	5.2%	13.2
Engineering and R&D Services	15.7	5.4%	12.7
Products and Platforms	11.7	-8.0%	-5.5

Source: Company, MOFSL

Valuations offer a safety margin

- Higher exposure to IMS (~37% of revenue), comprising a larger share of non-discretionary spend, offers a better resilience to its portfolio in the current context, with increased demand for Cloud, Network, Security, and Digital workplace services.
- Strong sequential growth within services, robust headcount addition, healthy deal wins, and a solid pipeline indicates an improved outlook. While the Products business will be soft in FY22E, we expect high single-digit growth for FY23E led by HCLT's capabilities to rightly align and sell these products in the long run.
- Given its deep capabilities in the IMS space and strategic partnerships, investments in Cloud, and Digital capabilities, we expect HCLT to emerge stronger on the back of an expected increase in enterprise demand for these services. The stock is currently trading ~22x FY23E EPS, which offers a margin of safety. Our TP is based on 25x FY23E EPS. We maintain our **Buy** rating.

Exhibit 7: Revisions to our estimates

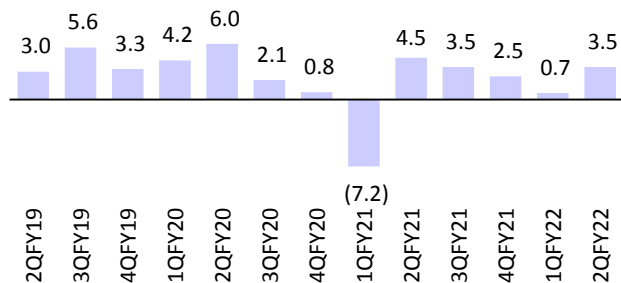
	Revised		Earlier		Change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
USD:INR	74.4	75.0	74.1	75.6	0.5%	-0.8%
Revenue (USD m)	11,361	13,010	11,368	13,086	-0.1%	-0.6%
Growth (%)	11.7	14.5	11.7	15.1	-10bp	-60bp
EBIT margin (%)	19.4	20.0	19.7	20.2	-20bp	-20bp
PAT (INR b)	133	155	133	159	0.5%	-2.1%
EPS (INR)	49.1	57.2	48.8	58.5	0.5%	-2.1%

Source: MOFSL

Story in charts

Exhibit 8: HCLT reports a growth on the back of...

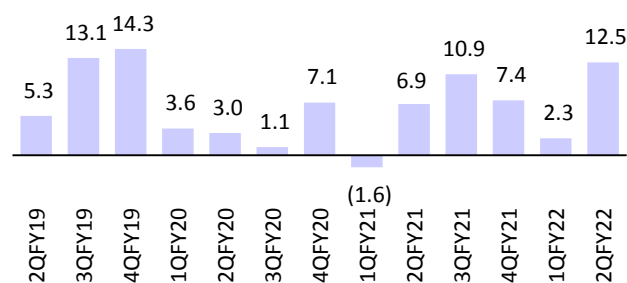
■ Revenue growth (QoQ CC %)



Source: Company, MOFSL

Exhibit 9: ...growth traction in its Mode-2 business

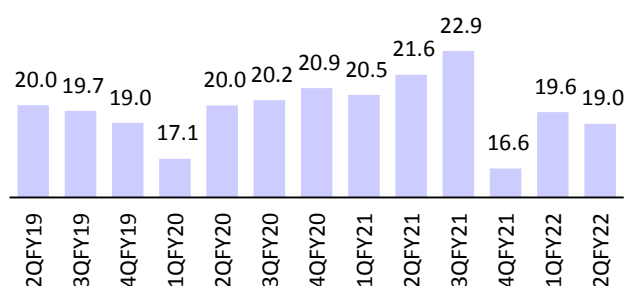
■ Mode 2 growth (QoQ CC %)



Source: Company, MOFSL

Exhibit 10: Margin dipped 60bp QoQ...

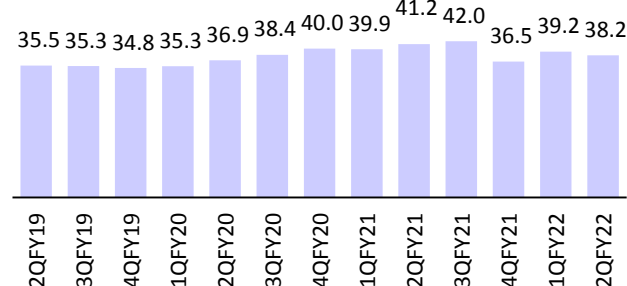
■ EBIT margins (%)



Source: Company, MOFSL

Exhibit 11: ...largely due to gross margin

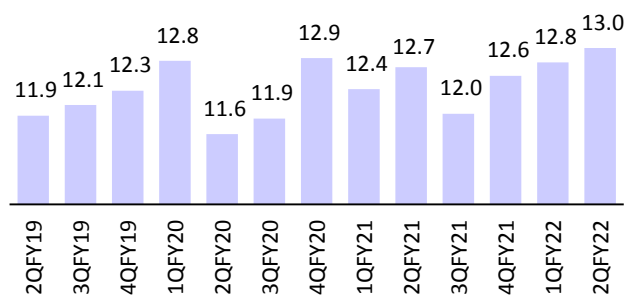
■ Gross margins (%)



Source: Company, MOFSL

Exhibit 12: SG&A expenses increases marginally

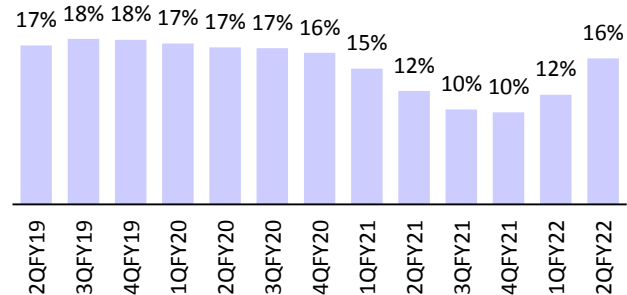
■ SG&A expenses (as % of sales)



Source: Company, MOFSL

Exhibit 13: Attrition increases in 2QFY22

■ Attrition (LTM) - IT services (excl involuntary)



Source: Company, MOFSL

Operating metrics

Exhibit 14: Operating metrics

	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22
Service line wise (%)									
IT and Business Services	71.4	70.2	70.6	70.2	70.8	70.4	71.9	71.6	72.6
Engineering and R&D Services	16.9	16.7	16.3	16.0	15.7	15.5	14.8	15.3	15.7
Products and Platform	11.7	13.1	13.1	13.8	13.5	14.1	13.3	13.1	11.7
Vertical wise (%)									
BFSI	22.4	21.6	21.1	22.4	22.1	21.4	21.6	22.1	21.3
Manufacturing	18.7	20.9	20.7	18.1	17.7	18.1	17.7	17.2	17.2
Technology and Services	16.5	15.1	16.2	17.2	17.3	17.8	17.2	17.3	17.3
Retail and CPG	10.0	10.3	10.2	10.0	10.4	10.5	10.1	10.0	9.8
Telecom MP&E	8.4	9.0	8.3	7.6	7.7	8.3	8.1	7.9	7.9
Life Sciences	12.9	12.2	12.5	13.7	14.1	13.6	14.1	14.7	15.3
Public Services	11.0	10.9	11.1	11.0	10.7	10.4	11.2	10.8	10.6
Geography-wise (%)									
US	64.4	62.8	63.4	63.7	63.1	62.5	62.0	63.1	62.8
Europe	28.2	29.2	28.7	28.3	28.4	29.5	29.1	27.9	28.3
RoW	7.4	8.0	7.9	8.0	8.5	8.0	8.9	9.0	8.9
Client-wise (%)									
Top five clients	15.6	15.2	15.1	13.9	13.7	13.5	13.2	13.0	12.7
Top 10 clients	23.1	22.4	22.0	20.9	20.9	21.0	20.9	20.8	20.7
Top 20 clients	33.7	33.0	32.1	30.8	30.6	30.9	30.8	30.4	29.9

Source: Company, MOFSL:

Financials and valuations

Income Statement

(INR b)

Y/E June	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Sales	409	467	506	604	707	754	846	976
Change (%)	14.6	14.2	8.2	19.5	17.0	6.7	12.2	15.3
Cost of Goods Sold	268	309	332	393	453	467	533	610
Gross Profit	141	158	173	212	254	287	313	366
Selling and Admin Exp.	52	55	59	72	87	93	109	125
EBITDA	89	103	114	140	167	193	205	241
As a percentage of Net Sales	21.8	22.1	22.6	23.1	23.6	25.6	24.2	24.7
Depreciation	6	8	15	21	28	40	40	46
EBIT	83	95	100	118	139	153	164	195
As a percentage of Net Sales	20.4	20.3	19.8	19.6	19.6	20.4	19.4	20.0
Other Income	10	9	11	8	2	7	8	10
PBT	94	104	111	126	140	160	173	205
Tax	19	23	23	25	29	41	39	49
Rate (%)	20.4	21.7	20.9	19.6	20.9	25.4	22.6	24.0
PAT	74	82	88	101	111	119	134	156
Net Income	74	85	88	101	111	119	133	155
Change (%)	1.9	13.5	3.8	15.3	9.3	7.4	12.1	16.6

Balance Sheet

(INR b)

Y/E June	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Reserves	280	335	368	422	517	615	631	650
Net Worth	280	335	368	422	517	615	631	650
Loans	10	5	4	40	51	39	39	39
Other liabilities	13	13	13	15	55	55	60	68
Capital Employed	303	353	385	477	623	709	731	757
Gross Block	163	225	274	335	511	546	580	619
Less: Depreciation	55	64	78	100	128	168	208	254
Net Block	107	161	196	235	383	378	372	365
Other assets	40	39	40	57	65	69	74	83
Investments	111	114	83	55	105	140	140	140
Curr. Assets	139	151	165	243	279	291	320	357
Debtors	107	108	123	146	178	175	207	236
Cash and Bank Balance	7	13	17	59	38	65	57	56
Other Current Assets	24	30	25	37	64	50	57	65
Current Liab. and Prov.	95	111	99	111	209	168	175	188
Net Current Assets	44	40	66	131	70	123	145	170
Application of Funds	303	353	385	477	623	709	731	757

Financials and valuations

Ratios

Y/E June	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Diluted (INR)								
EPS	52.8	28.9	31.3	36.8	40.7	43.8	49.1	57.2
Cash EPS	56.8	32.9	36.4	44.6	51.2	58.5	63.8	74.1
Book Value	199.4	118.6	131.4	153.5	190.4	226.7	232.7	239.7
DPS	22.0	12.0	6.0	4.0	8.0	26.0	36.8	42.9
Payout (%)	41.7	41.6	23.1	50.4	19.6	59.4	75.0	75.0
Valuation (x)								
P/E	23.7	43.4	40.0	34.0	30.7	28.6	25.5	21.9
Cash P/E	22.0	38.1	34.3	28.1	24.4	21.4	19.6	16.9
EV/EBITDA	19.8	34.2	30.5	24.5	20.4	17.4	16.5	14.0
EV/Sales	4.3	7.5	6.9	5.7	4.8	4.5	4.0	3.5
Price/Book Value	6.3	10.5	9.5	8.2	6.6	5.5	5.4	5.2
Dividend Yield (%)	1.8	1.0	0.5	0.3	0.6	2.1	2.9	3.4
Profitability Ratios (%)								
RoE	28.2	26.5	25.0	25.6	23.6	21.0	21.4	24.2
RoCE	24.5	23.6	22.2	22.8	21.3	18.7	19.2	21.8
Turnover Ratios								
Debtors (Days)	96	84	88	88	92	85	89	88
Asset Turnover (x)	3.8	2.9	2.6	2.6	1.8	2.0	2.3	2.7

Cash Flow Statement

Y/E June	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
(INR b)								
CF from Operations	80	90	102	123	149	166	209	201
Chg. in Working Capital	-8	5	-35	-34	-16	30	-30	-27
Net Operating CF	72	95	68	88	134	196	179	174
Net Purchase of FA	-11	-62	-49	-61	-18	-18	-34	-39
Net Purchase of Invest.	-7	-2	30	29	-105	-40	0	0
Net Cash from Inv.	-18	-64	-19	-32	-124	-57	-34	-39
Issue of shares/other adj.	0	0	0	0	0	0	0	0
Proceeds from LTB/STB	5	9	-1	35	-15	-79	0	0
Dividend Payments	-31	-34	-20	-51	-16	-33	-117	-136
Net CF from Finan.	-26	-25	-21	-16	-32	-112	-117	-136
Free Cash Flow	61	33	18	28	115	179	145	135
Net Cash Flow	29	6	27	41	-22	27	28	-1
Forex difference	-35	0	-27	5	0	1	-37	0
Opening Cash Balance	13	7	13	13	60	38	66	57
Closing Cash Balance	7	13	13	60	38	66	57	55

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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