

HCL TECHNOLOGIES LTD

May-21

Industry: IT

Target Rs: 1120

Recommendation: Accumulate

Accumulate Range Rs: 890-920

Key Data

Date	24.5.2021
BSE Code	532281
NSE Code	HCLTECH
52 Week High (Rs)	1074
52 Week Low (Rs)	469
Market Cap (Rs Cr)	252547
Face Value	2
CMP	Rs 930

Industry Snapshot

Customers	Open
Market Presence	Global
Govt Regulations	Medium
Msearch View	Positive

Shareholding March 2021

Promoters	60.33%
Public	39.67%

Promoters/ Management

Ms. Roshni Malhotra	Chairman
Mr. Shiv Nadar	MD
Mr. Anil Chandana	CFO
Mr. C Vijaykumar	CEO

Key Ratios

P/E	28.89
ROE	20.07%
P/Bv	5.80

Price Chart



Research Team

Prashanth Tapse

022-61507123

prashanth.tapse@mehtagroup.in

Q4FY21 Result Update:

Highest ever new deal win:

HCL Tech won 19 new large deals in Q4FY21 and it was across many industry verticals. New deal TCv hit an all-time high this quarter at US \$ 3.1Bn, increasing 49% YoY. For FY21, new deal TCv are US \$ 7.3Bn, which is 18% increase over FY20. In FY21, HCL Tech signed a total of 58 new large deals led by industries such as Financial Services, Life Sciences and Healthcare, Telecommunication, Manufacturing and Technology. It also announced the closure of its acquisition of the DWS Group, a leading Australian IT, business and management consulting group which delivers to multiple clients across a spectrum of industry verticals. Thus the booking and pipeline represent a well balanced mix of service lines, geographies and industries.

Margins took a hit but strong cash flow generation and guidance:

Its revenue came at US \$ 2,696mn, up 3.0% QoQ & 6.0% YoY basis. Growth was observed across all the geographies. Revenue in Constant Currency terms was up by 2.5% QoQ & 2.6% YoY. On operational front margins saw a dip in Q4FY21 by 517 bps QoQ mainly led by higher employee costs. Bottomline was a big miss due to one-off tax rate changes, which also impacted the margins significantly. Operating Cash Flow was at US \$ 2,602mn and Free Cash Flow at US \$ 2,340mn, up 49% and 58% respectively on full year basis. Management expects healthy double digit growth in revenues in FY22E mainly led by improved growth in IT & business services and ER&D.

Very strong and diversified growth in Services Business:

Strong growth pickup in Q4 in ITBS was led by Digital Transformation demand across Digital & Analytics, Cloud Migration, Cybersecurity, Digital Workplace. Engineering Services continues to grow healthy in spite of some YOY impact attributed to COVID Impact in automobile & aerospace industries. Mode 2 & Mode 3 revenue supported by delivering a double digit growth. Robust demand for HCL Tech's Mode 2 services should drive medium term services growth. Demand Pickup for Digital Engineering Services & Platforms and launch of cloud smart to maximise business value in near term.

Mview:

We continue to remain optimistic on HCLTech for medium to long term even after Q4 results which were below street expectations but however, we recommend investors to accumulate HCLTech in the range of Rs890-920/- on the back of healthy revenue growth visibility and reasonable valuations with attractive risk-reward. Q4numbers reported a sequential decline in consolidated profit mainly dented by wage hikes and a one-time bonus of over Rs 700 Cr which is a onetime cost adjustment. We expect a healthy deal pipeline and rising spend initiatives by clients would help HCLTech to deliver strong revenue growth in FY2022-23E. With HCL Tech signing 19 transformative deals across the verticals and new deal TCvs (Total Contract Value) remained at an all-time high during this quarter at \$3.1bn, up 49% y-o-y which provides healthy revenue visibility for FY2022-23E. Further, in terms of management guidance, HCL expects to grow in double digits in constant currency for FY22E and expects EBIT margin to be between 19.0% and 21.0% for FY22E. Hence based on all the above factors we maintained our BUY recommendation on HCLTech with a revised price target of Rs 1,120/- for 6-12 months.

About the Company:

HCL Technologies Ltd (HCL Tech) is an Indian MNC based out of Noida. It operates across sectors which offers an integrated portfolio of products and services through three business units. These are IT and Business Services (ITBS), Engineering and R&D Services (ERS), and Products and Platforms (P&P). HCL delivers holistic services across industry verticals to leading enterprises, including 250 of the Fortune 500 and 650 of the Global 2000. It has its presence across the globe serving in 50+ countries.

QUARTERLY FINANCIAL OVERVIEW

Profit & Loss Statement (Rs Cr)

Particulars	Q4FY21	Q4FY20	YoY	Q3FY21	QoQ	FY21	FY20	YoY
Revenue from operations	19641	18587	5.67%	19302	2%	75379	70676	7%
Expenses								
Cost of raw materials	334	403	-17%	556	-40%	1698	1536	11%
change in inventories	59	102		-47		-3	0	
employee benefit expense	10871	9083	20%	9447	15%	38853	34928	11%
Outsource cost	2644	2497	6%	2616	-100%	10158	10700	-5%
other expenses	1184	1644	-28%	1106	7%	4625	6196	-25%
Total expenses	15092	13729	10%	13678	10%	55331	53360	4%
EBITDA	4549	4858	-6%	5624	-19%	20048	17316	16%
EBITDA %	23.16%	26.14%		29.14%		26.60%	24.50%	
depreciation	1267	996	27%	1187	7%	4611	3420	35%
other income	244	147	66%	189	29%	927	589	57%
finance cost	159	124	28%	147	8%	511	505	1%
PBT	3367	3885	-13%	4479	-25%	15853	13980	13%
tax	2256	713		502		4684	2923	
PAT	1111	3172	-64.97%	3977	-72%	11169	11057	1%
PAT %	5.66%	17.07%		20.60%		14.82%	15.64%	
EPS	4.06	11.69		14.63		41.07	40.75	

TECHNICAL TREND





MSEARCH

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Disclosure of Interest Statement: Analyst ownership of the stock: No

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Msearch's Recommendation (Absolute Performance)

Buy : > 20% within the next 12 Months

Accumulate : 5% to 20% within the next 12 Months

Sell : < -20% within the next 12 Months

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SEBI registered RA Reg No INH000000552

Mehta Equities Limited, 903, 9th Floor, Lodha Supremus, Dr.E.Moses Road, Worli Naka, Worli,
Mumbai 400 018, India

Tel: +91 22 6150 7101, Fax: +91 22 6150 7102

Email: info@mehtagroup.in, Website: www.mehtagroup.in