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Stock Update

HCL Technologies Ltd.

11-Aug-2021

RETAIL RESEARCH

HCL Technologies Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
IT Consulting & Software	Rs. 1063.7	Buy in the Rs 1053 -1074 band & add more on dips to Rs 945-965 band	Rs. 1155	Rs. 1240	2 quarters

HDFC Scrip Code	HCLTEC
BSE Code	532281
NSE Code	HCLTECH
Bloomberg	HCLT IN
CMP Aug 10, 2021	1063.7
Equity Capital (Rs cr)	542.0
Face Value (Rs)	2.0
Equity Share O/S (cr)	271.0
Market Cap (Rs cr)	288,666
Book Value (Rs)	221.4
Avg. 52 Wk Volumes	7179211
52 Week High	1073.6
52 Week Low	677.0

Share holding Pattern % (June, 2021)	
Promoters	60.3
Institutions	34.6
Non Institutions	5.1
Total	100.0

Retail Research Risk Rating:

Green*		

*** Refer at the end for explanation on Risk Ratings**

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Our Take:

HCL Tech's new deal total contract value (TCV) in FY21 stood at US$ 7.3bn, which is 18% increase over FY20. In FY21, US$ 50 mn+ clients increased by 5% on YoY basis. HCLT Tech's TCV of new deal wins in Q1FY22 stood at US$ 1664 mn registering 37% YoY growth enabled by 8 large services deal wins and 4 significant product wins, many are transformational deals across the verticals. Most deals won are spread over 3-5 years. Robust growth is expected in services, led by strong deal momentum. Thus, deal pipeline is at all-time high, its robust deal pipeline and positive demand environment could bring better earning visibility going forward. Company's strong order bookings & continuous ramp up on hiring driven by underlying macro should aid a 'strong quarter in Q2' and fairly normalised growth in H2FY22. Also, on the back of strong deal pipeline and clients spending more on cloud and digital transformations, the company has guided a double digit revenue growth for FY22E with EBIT margins expected to be in the band of 19-21%. HCL Tech's incremental investments are routed behind new geographies, capabilities and talent.

HCL Tech's investments in last few years were in next-gen technologies which have helped to sustain in good stead during these difficult times and positioned strongly to leverage the emerging market opportunities. This growth momentum was driven by its continued leadership in digital transformation and cloud businesses, and a strong stability in the products and platforms segment, all of which continue to open diverse growth avenues. Besides, the company has launched HCL Now, which is the Cloud version of its acquired products. This is strengthening partnerships of HCLT with hyperscalers.

HCL Tech has created a new leadership team to drive growth in some key markets in Asia. HCL has appointed Joonho Moon, Terry Tai and Nguyen Ha Tuan as country sales heads for South Korea, Taiwan and Vietnam, respectively. HCL will use its engineering, research and development (R&D) services to enter these markets and it will be led by Sanjay Gupta, corporate vice president. Asia is categorized under 'Rest of World' geography which contributed 8.4% in FY21 and 9% in Q1FY22 to HCL's total revenue, growing 13.6% over FY20 and in growing 2.4% QoQ and 20% YoY in Q1FY22. HCL Tech has actively expanded its global footprint with its next-generation services and products. South Korea is the highest rated country for innovation and leads in new digital technologies such as 5G and internet of things (IoT). Taiwan is the nerve centre of the global semiconductor industry, which is expected to exponentially grow in the coming decade. Vietnam is one of the fastest growing digital economies and is transforming its society to leapfrog into a knowledge economy.

HCL Technologies Ltd.

We had **initiated coverage** on 06 July 2020 and **re- initiated coverage** report on HCL Technologies Ltd on 07 Dec, 2020, and stock achieved its targets before expiry of call. Given healthy growth outlook and strong deal intake in Q1FY22, we have now revised earnings and increased target price for the stock.

Valuation & Recommendation:

HCL Tech is the third-largest Indian IT services company by revenue, after TCS and Infosys. The company has a strong globally diversified presence and provides comprehensive IT services to an established customer base. It has strong expertise in engineering and R&D services and its end-customers are spread across industry segments. HCL Tech has low customer concentration with its five-largest, 10-largest and 20- largest clients contributing to 13%, 20.9% and 30.4% of total revenue, respectively, in Q1FY22.

The company has a good track record in client acquisitions and engaging in vendor consolidation opportunities over the recent past. HCL has signed a total of 58 new large deals led by industries such as Financial Services, Life Sciences and Healthcare, Telecommunication, Manufacturing and Technology in FY21 and won 8 large services deals and 4 significant product deals in Q1FY22. HCL Tech has strong presence in data science and engineering. Further, taking into the consideration the opportunities in cloud consumption, cyber security, automation, app modernisation, we remain optimistic on HCL Tech's revenue and margin trajectory as well as cost rationalisation efforts going forward.

The stock is currently trading at a reasonable valuation of 18.4x FY23E EPS which is at a steep discount to TCS and Infosys. Strong deal pipeline, strong profitability, solid operating cash generation and zero debt status could re-rate the stock which can eventually result in reduction of difference between HCL Tech valuation and other Tier-1 IT companies like TCS and Infosys. **We believe the base case fair value of the stock is Rs 1155 (20x FY23E EPS) and the bull case fair value of the stock is Rs 1240 (21.5x FY23E EPS) over the next two quarters. Investors can buy in the 1053-1074 band and add further on dips in the Rs 945-965 band (16.5x FY23E EPS). At the LTP of Rs 1063.7, the stock is trading at 18.4x FY23E EPS.**

HCL Technologies Ltd.

Financial Summary (Consolidated)

Particulars (Rs Cr)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY20	FY21	FY22E	FY23E
Revenue (USD mn)	2720	2356	15.4	2696	0.9	9936	10176	11354	12582
Total Operating Income	20068	17841	12.5	19642	2.2	70678	75379	83819	94362
EBITDA	4908	4566	7.5	5097	-3.7	16693	20056	21174	24247
Depreciation	977	906	7.8	1117	-12.5	2840	3985	4402	4872
EBIT	3931	3660	7.4	3980	-1.2	13853	16071	16772	19374
APAT	3214	2923	10.0	2962	8.5%	11062	12462	13428	15680
Diluted EPS (Rs)	11.8	10.8	10.0	8.8	8.5%	40.8	45.9	49.5	57.8
RoE-%						23.9	22.4	21.2	22.1
P/E (x)						26.1	23.2	21.5	18.4
EV/EBITDA (x)						16.9	13.8	12.6	10.7

(Source: Company, HDFC sec)

HCL Tech Q1FY22 results key takeaway

- HCL Tech Q1FY22 numbers were below expectation, though it witnessed strong booking performance in Q1FY22. Consolidated revenue grew by 2.2% QoQ and 12.5% YoY to Rs 20,068 crore in Rupee terms. Revenue stood at US$ 2,720 mn; up 0.9% QoQ & up 15.4% YoY and revenue in Constant Currency stood up 0.7% QoQ and 11.7% YoY. Strong growth momentum in ER&D services (+4.3 QoQ CC) was supported by life-sciences and hi-tech vertical while products & platform declined 1% QoQ in CC, impacted by the exit from the IP partnership (Celerit).
- EBIT decreased by 1.2% QoQ and grew by 7.4% YoY to Rs 3,931 crore. EBIT margin stood at 19.6%, was down by 67bps QoQ and 90bps YoY to 19.6% in Q1FY22. EBIT margins declined mainly on account of pandemic impact, employee hiring and retention cost along with higher n SG&A and R&D expenses. Adjusted net profit stood at Rs 3,214 crore in Q1FY22 vs. 2962 crore in Q4FY21 and Rs 2,923 crore in Q1FY21, Previous quarter, net profit was impacted on the back of lower operating profit and higher tax expense. Adj net profit margin stood at 16% in Q1FY22 vs. 12.2% in Q4FY21 and 16.4% in Q1FY21.
- Mode 2 has been the prime driver of growth, up 29% YoY and 2.3% QoQ in constant currency, led by IT and Business Services growth, grew by 13.0% YoY led by Digital and Cloud transformation momentum, Engineering and R&D Services grew by 10.7% YoY and Products & Platforms grew by 6.0% YoY. Mode 1 business grew by 8.1% YoY and 0.8% QoQ, Mode 2 was up by 29% YoY and

2.3% QoQ and Mode 3 grew 3.6% YoY and it was down by 2% QoQ. Mode1-2-3 contibuted 61.5%, 23.7%, 14.8% to revenue in Q1FY22, respectively.

- Total headcount at 176,499 with net addition of 7,522 in the year. IT Services attrition (on LTM basis) at 11.8% in Q1FY22 (down from 14.6% last year), reflective of the effectiveness of increased employee engagement initiatives and large scale upskilling programs. As per management, while overall industry level attrition has been rising, for HCL it was rising relatively at a slower pace. HCLT highlighted that special retention bonuses and allowance for niche talents and focus on hiring freshers will help the company manage supply.
- The company's revenue is expected to grow in double digits in constant currency for FY22 and EBIT margin is expected to be between 19 – 21% for FY22.

Key updates

Strong deal momentum and recovery in vertical to drive growth

HCL Tech's new deal TCV grew 37% YoY to US$ 1.7bn in Q1FY22, led by eight large service deal wins and four products wins including Financial Services, Life Sciences and Healthcare. This was down QoQ from a record US$ 3.1bn in Q4FY21. In FY21, HCL had signed a total of 58 new large deals led by industries such as Financial Services, Life Sciences and Healthcare, Telecommunication, Manufacturing and Technology. For FY21, New Deal TCV are US$ 7.3bn, which is 18% increase over FY20. On the supply side, HCL Tech is looking to diversify offshoring talent and delivery through hiring in Srilanka, Vietnam and Philippines. It has also invested in near shore centres for innovation & delivery in Canada, Mexico & Eastern Europe. The company expects robust growth in the coming quarters on the back of increased deal ramp up.

In July 2020, HCL Tech announced a five-year global agreement to provide digital transformation & managed services to The Mosaic Company, as well as the largest US producer of phosphate & potash. As part of the agreement, HCL will manage and transform Mosaic's global application and infrastructure environments to enhance the company's agility & ability to drive growth in the marketplace. HCL will deploy a scaled Agile/DevSecOps delivery model across North America and South America to deliver process-led transformative services across applications, infrastructure & business analytics environments. This partnership with Mosaic capitalises on HCL's strong focus on the agriculture business, mining, and chemical segments. Besides, HCL Tech has successfully completed the first phase in building a modern Digital Workplace for multinational energy company BP on July 2021. This multi-year strategic partnership with HCL will help transform BP's workplace services, enabling it to drive efficiency and create a standardized end-user experience.

Improvement in signing large deal wins, expansion of presence in other geographies, investment in sales & capabilities, inorganic growth and opportunities in captive carve outs bring earning visibility going forward. The company expects revenue to grow in double digits in constant currency for FY22E and EBIT margin is expected to be between 19 – 21% for FY22E.

Digital transformation to drives growth

HCL tech could see benefit in the medium term from accelerated cloud migration and digital transformation by customers. HCL Tech has strong track record for dealing with clients across the geographies, verticals and services over the past and the company has been actively participating in signing deals amid vendor consolidation scenario. We expect revenue to rise by double-digit percentages annually in FY22E and FY23E. We believe HCL is well-positioned to capture market opportunities with its Mode 1-2-3 strategy, which covers various stages of digital transformation. Mode 2 provides next-generation services, such as cloud and cyber security services, while Mode 3 delivers software solutions aimed at specific opportunities.

HCL Tech's higher exposure in IMS could be a key growth driver in medium term

Over the recent past, Cloud has been a highlighted area for large corporates and industry has witnessed a significant acceleration in Cloud adoption and migration work amid COVID pandemic. Cloud could be among the biggest areas of spends from corporates in the medium term. Adoption of multi-Cloud environments, Cloud migration and maintenance could continue in the industry.

HCL Tech has high exposure to Infra Outsourcing and Management Services (over 30% of total revenue) and the company has wide experience in in hybrid managed infrastructure, data centre outsourcing, and managed Cloud services, comprising a larger share of non-discretionary spends. Therefore, the company could be able to capture increased demand for Cloud services. HCL Tech plans to tap the US$ 300bn cloud opportunity by 2023. Taking into the consideration its expertise in Infrastructure Management Services (IMS) & app modernisation and focus on integrated deals, we expect healthy double digit growth in revenues in FY22E.

Acquisition of DWS to expand its presence in the Australia and New Zealand region

HCL has acquired 100% stake in DWS Limited, a leading Australian IT, business and management consulting group for $120.5Mn (AUD 158.2 Mn). The company has completed acquisition of DWS effective January 5, 2021. The acquisition is a step towards enhancing the group's presence in the Australia and New Zealand region. DWS has over 700 employees and offices in Melbourne, Sydney, Adelaide, Brisbane and

Canberra. It delivers business and technology innovation to large clients across a spectrum of verticals. The acquisition also helps the Group expand its coverage of clients and use the acquired customer base to offer its expanded portfolio of services.

Recent collaboration with IBM and T-Hub collaborate to modernise security operations and explore emerging technologies

HCL Tech has collaborated with IBM Security to help unify and streamline threat management for clients via a modernised security operation centre (SOC) platform. As part of the collaboration, HCL's Cybersecurity Fusion Centers will be designed to take advantage of IBM's Cloud Pak for Security, to help create a unified security platform to connect security teams, tools, and processes across the threat lifecycle. This collaboration builds on HCL and IBM's recent alliance expansion to help organizations with digital transformation.

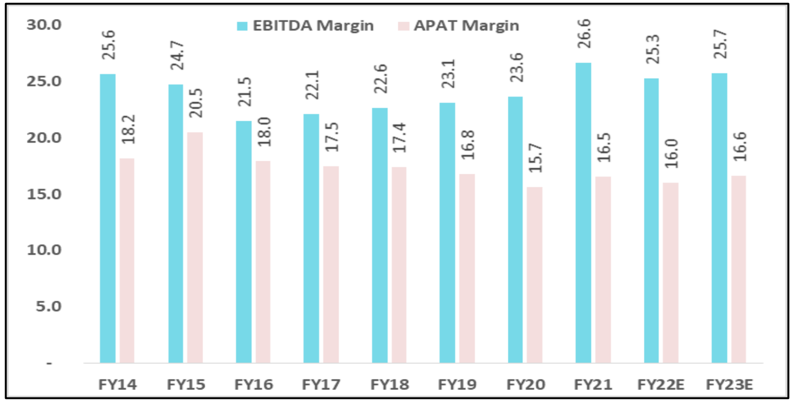
On 05 Aug, 2021, T-Hub has partnered with HCL Technologies to explore innovation opportunities in emerging technologies like quantum computing and deep technologies such as artificial intelligence, machine learning and analytics. T-Hub will help start-ups to get access to HCL Tech's open innovation programme called eSTiP. This partnership will help us tap T-Hub's innovation expertise and ecosystem of start-ups, corporates, and investors to accelerate its open innovation initiatives.

Margins could ramp up led by operational efficiencies

HCL Tech EBIT margin was down by 67bps QoQ and 90bps YoY to 19.6% in Q1FY22. Adj net profit margin stood at 16% in Q1FY22 vs. 12.2% in Q4FY21 and 16.4% in Q1FY21. We see a wage hike, lower Products and Platforms growth, and sales and marketing investments as margin headwinds in FY22. This should offset the benefits from growth-led positive operating leverage and reversal of COVID-related costs in Q1FY22.

HCL Tech plans to invest in expanding geographies, investment in sales, product engineering, invest in talent and wage hikes going forward. Despite considering these headwinds, we expect the company could easily maintain > 20% of EBIT margin in FY22E and FY23E on account of rupee depreciation, lower travel cost and operating leverage due to revenue growth.

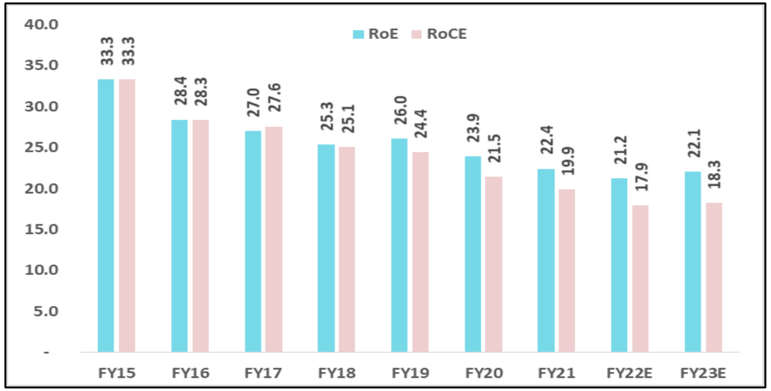
Margins (%)



Strong fundamentals led by healthy debt protection metrics and liquidity

- The company has reported stable and strong revenue growth in the past. In FY21, the company generated total revenue of Rs 78,379 crore, and revenue grew 13.3% and net profit at 11.7% at a CAGR over the past seven years. We expect consolidated revenue to grow by 11.2% and 12.6% in FY22E and FY23E, respectively.
- The company has reported operating margin at 21.5-26.5% band over the past seven years and we expect 25.3% and 25.7% in FY22E and FY23E, respectively, supported by cost rationalisation efforts.
- Debt protection metrics are robust, backed by minimal debt of Rs 3,828 crore and sizeable networth of Rs 59,913 crore, and cash and cash equivalents stood at Rs 15,661 crore as on 31 March, 2021. Total debt to equity ratio stood at 0.1x as on 31 March, 2021.
- The company has healthy cash on its balance sheet, which it plans to utilise for M&A, investment in digital capability (that the company lags) and captive takeover. Gross cash stands at US$ 2,584 mn and net cash at US$ 2,053 mn at the end of June 30th, 2021.
- Further, the company may consider a buyback going forward, as company has declared Rs 26 per share as a dividend to the shareholders including Rs 10 per share as a special dividend in FY21. The Company has declared dividend of Rs 6 /- per share, being 74th consecutive quarter of dividend pay-out.
- The net working capital cycle was moderate and reduced to 58 days in FY21 vs. 67days in FY20 due to the decrease in debtor and increase in creditor days.

Return ratio (%)



Dividend Per share (Rs)

(Source: Company, HDFC sec)

- We expect the FCF to remain positive, going forward, even after factoring in annual capex. Because of cost rationalization efforts, the company could see growth in profitability as well as better return ratios in the future. Rise in net profit margin could help to increase its return ratios, we expect 21.2% and 22.1% in FY22E and FY23E, respectively. Dividend payout stood at 56.6% and yield is 2.4x.

What could go wrong?

- Indian rupee appreciation against the USD, pricing pressure, retention of the skilled headcounts, strict immigration norms and rise in visa costs are key concerns.
- Company has to compete with Indian IT majors such as TCS, Infosys, Cognizant, and Wipro; and also global players such as IBM, Accenture, and Computer Sciences Corporation.
- The large size as well as multiple acquisitions and increased participation in the products business as against services, which is its core strength, could cause execution challenges. However, the management's track record of integrating and scaling up acquired businesses gives comfort.
- HCL Tech suffers from the return-dilutive (for some time) IP acquisitions though these have led to margin accretion. Goodwill on the books due to continuous acquisitions can come for testing for impairment especially during downturns.
- Any reputation loss on account of breach in compliance can impact the growth prospects and new order inflows of the company.

HCL Technologies Ltd.

Operating Metrics

Vertical contribution

(% of rev)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Manufacturing	19.9	18.7	20.9	20.7	18.1	19.8	18.1	17.7	17.2
Technology & Services	18.9	21.7	15.1	16.2	17.2	15.4	17.8	17.2	17.3
Financial Services	20.4	20.4	21.6	21.1	22.4	22.4	21.4	21.6	22.1
Life Sciences and Healthcare	12.8	12.6	12.2	12.5	13.7	12.9	13.6	14.1	14.7
Public Services	10.5	9.5	10.9	11.1	11.0	11.0	10.4	11.2	10.8
Retail & CPG	9.5	9.1	10.3	10.2	10.0	10.0	10.5	10.1	10
Telecom, Media, Publish- & Entertain-	8.0	8.0	9.0	8.3	7.6	8.4	8.3	8.1	7.9
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Geographic contribution

(% of rev)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Americas	67.7	67.9	62.8	63.5	63.7	64.4	62.5	62.0	63.1
Europe	26.0	25.7	29.2	28.8	28.3	28.2	29.5	29.1	27.9
Rest of the World	6.3	6.4	8.0	7.8	8.0	7.4	8.0	8.9	9.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Business lines

(% of rev)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Mode 1	70.3	67.0	66.0	65.1	63.4	63.3	61.0	61.4	61.5
Mode 2	18.8	18.3	18.2	19.2	20.3	20.9	22.7	23.4	23.7
Mode 3	10.9	14.7	15.8	15.7	16.2	15.8	16.3	15.2	14.8
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

HCL Technologies Ltd.

Headcount, Attrition and Utilisation data

(Nos.)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Total headcount	1,43,900	1,47,123	1,49,173	1,50,423	1,50,287	1,47,123	1,59,682	1,68,977	1,76,499
Technical	1,32,384	1,35,957	1,37,725	1,39,302	1,38,888	1,35,957	1,47,740	1,56,580	1,63,730
Support	11,516	11,166	11,448	11,121	11,399	11,166	11,942	12,397	12,769
Net additions	5,935	3,223	2,050	1,250	-136	2,798	6,597	9,295	7,522
Voluntary LTM attrition (%)	17.3	16.9	16.8	16.3	14.6	16.9	10.2	9.9	11.8

Change in Estimates

Rs in Cr	FY21		FY22E		FY23E
	Estimates	Actual	Old	Revised	New
Revenue	75095	75379	85424	83819	94362
EBIT	15466	16072	17646	16772	19374
APAT	11943	12462	13652	13428	15680
EPS	44.1	45.9	50.4	49.5	57.8

Peer Comparison

Company, Rs in Cr	Mkt Cap, Cr	Sales			EBIT			PAT			ROE-%			P/E (x)		
		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
TCS	1250575	164177	189268	213831	42481	50030	58814	33356	39494	45851	39.1	44.3	47.8	37.0	31.2	26.9
Infosys	714758	100472	116649	133838	24621	27604	32326	19351	22174	25790	27.3	30.2	34.9	36.3	31.7	27.3
Wipro	426909	61943	73003	80462	12014	13021	14652	10795	11720	13100	19.4	20.8	21.2	31.0	27.6	24.2
HCL Tech	288666	75379	83819	94362	16071	16772	19374	12462	13428	15680	22.4	21.2	22.1	23.2	21.5	18.4

HCL Technologies Ltd.

Financials (Consolidated)

Income Statement

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Net Revenues	**60427**	**70678**	**75379**	**83819**	**94362**
Growth (%)	**19**	**17**	**7**	**11**	**13**
Operating Expenses	46458	53985	55323	62645	70115
EBITDA	**13969**	**16693**	**20056**	**21174**	**24247**
Growth (%)	**22.1**	**19.5**	**20.1**	**5.6**	**14.5**
EBITDA Margin (%)	**23.1**	**23.6**	**26.6**	**25.3**	**25.7**
Depreciation	2148	2840	3985	4402	4872
EBIT	**11821**	**13853**	**16071**	**16772**	**19374**
Other Income	978	684	1168	1279	1815
Interest expenses	174	505	511	330	330
PBT	**12625**	**14032**	**16728**	**17721**	**20859**
Tax	2481	2938	3663	4225	5110
RPAT	**10144**	**11094**	**13065**	**13496**	**15748**
APAT	**10123**	**11062**	**12462**	**13428**	**15680**
Growth (%)	**15**	**9**	**13**	**8**	**17**
EPS	37.3	40.8	45.9	49.5	57.8

Balance Sheet

As at March	FY19	FY20	FY21	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	271	543	543	543	543
Reserves	41095	50724	59370	66285	74638
Shareholders' Funds	**41366**	**51267**	**59913**	**66828**	**75181**
Long Term Debt	2977	2848	3828	3828	3828
Long Term Provisions & Others	1830	4907	4901	4901	4901
Minority Interest	**103**	**154**	**169**	**169**	**169**
Total Source of Funds	**46276**	**59176**	**68811**	**75726**	**84079**
APPLICATION OF FUNDS					
Net Block & Goodwill	22888	37490	37145	33911	31935
CWIP	235	400	312	312	312
Other Non-Current Assets	5730	6596	5674	5674	5674
Total Non Current Assets	**28853**	**44486**	**43131**	**39897**	**37921**
Trade Receivables	11706	14131	13663	14134	15979
Cash & Equivalents	10092	11965	15673	25530	34242
Other Current Assets	7924	12324	13727	13741	13754
Total Current Assets	**29722**	**38420**	**43063**	**53405**	**63976**
Short-Term Borrowings	724	1845	0	0	0
Trade Payables	1305	1166	1726	1919	2160
Other Current Liab & Provisions	10270	20719	15657	15657	15657
Total Current Liabilities	**12299**	**23730**	**17383**	**17576**	**17817**
Net Current Assets	17423	14690	25680	35829	46159
Total Application of Funds	**46276**	**59176**	**68811**	**75726**	**84079**

HCL Technologies Ltd.

Cash Flow Statement

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Reported PBT	12,622	13,980	15,853	17,721	20,859
Non-operating & EO items	-761	-174	-740	-974	-1,370
Interest Expenses	124	251	298	330	330
Depreciation	2,073	3,420	4,611	4,402	4,872
Working Capital Change	-2,466	-1,560	3,041	-292	-1,618
Tax Paid	-2,621	-2,558	-3,445	-4,225	-5,110
OPERATING CASH FLOW (a)	**8,971**	**13,359**	**19,618**	**16,961**	**17,963**
Capex	-6,293	-7,957	-3,115	-1,168	-2,896
Free Cash Flow	2,678	5,402	16,503	15,793	15,067
Investments	-420	80	0	0	0
Non-operating income	7,610	1,740	7,400	9,742	13,700
INVESTING CASH FLOW (b)	**897**	**-6,137**	**4,285**	**8,574**	**10,804**
Debt Issuance / (Repaid)	3,614	-246	-251	0	0
Interest Expenses	-71	-136	-139	-330	-330
FCFE	6,221	5,020	16,113	15,463	14,737
Share Capital Issuance	0	0	0	0	0
Dividend	-5,321	-1,625	-3,256	-6,513	-7,327
FINANCING CASH FLOW (c)	**-1,778**	**-2,007**	**-3,646**	**-6,843**	**-7,657**
NET CASH FLOW (a+b+c)	**8,090**	**5,215**	**20,257**	**18,692**	**21,111**

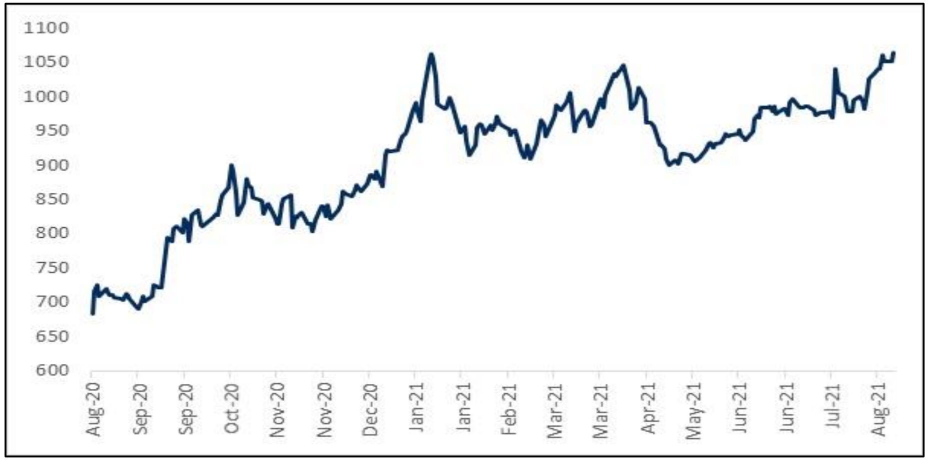
Key Ratios

Particulars	FY19	FY20	FY21	FY22E	FY23E
Profitability Ratio (%)					
EBITDA Margin	23.1	23.6	26.6	25.3	25.7
EBIT Margin	19.6	19.6	21.3	20.0	20.5
APAT Margin	16.8	15.7	16.5	16.0	16.6
RoE	26.0	23.9	22.4	21.2	22.1
RoCE	24.4	21.5	19.9	17.9	18.3
Solvency Ratio (x)					
Net Debt/EBITDA	0.3	0.3	0.2	0.2	0.2
Net D/E	0.1	0.1	0.1	0.1	0.1
Per Share Data (Rs)					
EPS	37.3	40.8	45.9	49.5	57.8
CEPS	45.2	51.2	60.6	65.7	75.7
BV	152.8	189.5	221.4	246.9	277.7
Dividend	10.0	14.0	26.0	24.0	27.0
Turnover Ratios (days)					
Debtor days	71	73	66	62	62
Inventory days	0	0	0	0	0
Creditors days	8	6	8	8	8
Valuation (x)					
P/E	28.5	26.1	23.2	21.5	18.4
P/BV	7.0	5.6	4.8	4.3	3.8
EV/EBITDA	20.2	16.9	13.8	12.6	10.7
EV / Revenues	4.7	4.0	3.7	3.2	2.7
Dividend Yield (%)	0.9	1.3	2.4	2.3	2.5
Dividend Payout(%)	26.8	34.3	56.6	48.5	46.7

(Source: Company, HDFC sec)

HCL Technologies Ltd.

One Year Stock Price Chart



(Source: Company, HDFC sec)

HDFC Sec Retail Research Rating description

Green rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Blue Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

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