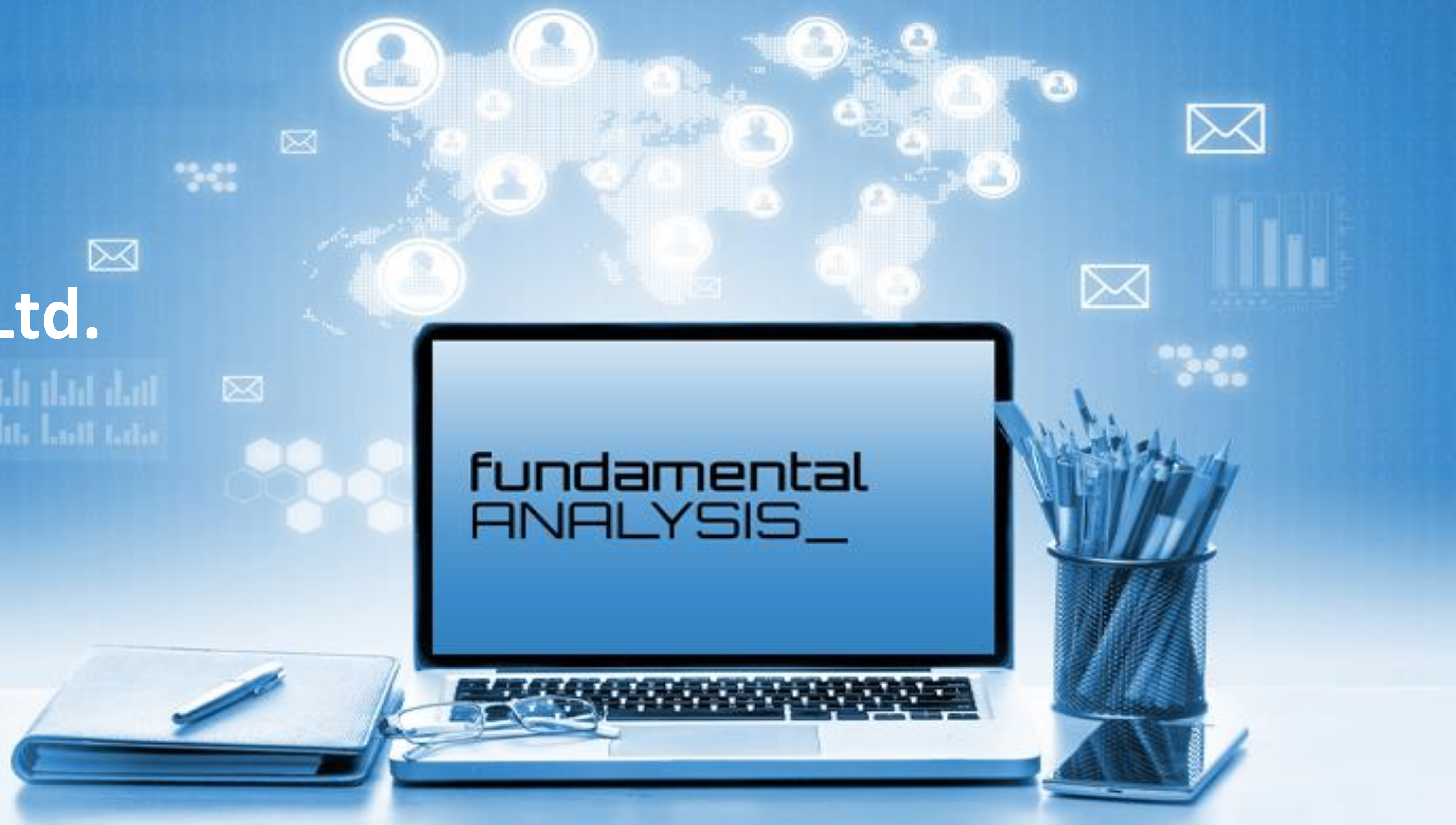
Stock Update

HCL Technologies Ltd.

Dec 06, 2021



RETAILRESEARCH

HCL Technologies Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
IT Consulting & Software	Rs. 1171	Buy at LTP & add more on dips to Rs. 1042-1062 band	Rs. 1271	Rs. 1339	2 quarters

HDFC Scrip Code	HCLTEC
BSE Code	532281
NSE Code	HCLTECH
Bloomberg	HCLT IN
CMP Dec 03, 2021	1171
Equity Capital (Rs Cr)	542.8
Face Value (Rs)	2.0
Equity Share O/S (Cr)	271.4
Market Cap (Rs Cr)	317,770
Book Value (Rs)	233.3
Avg. 52 Wk Volumes	7179211
52 Week High	1377.0
52 Week Low	843.0

Share holding Pattern % (Sept, 2021)	
Promoters	60.3
Institutions	34.8
Non Institutions	4.9
Total	100.0

* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst
Abdul Karim
Abdul.karim@hdfcsec.com

Our Take:

HCL Tech's reported net new deals worth US$ 2.25bn (+35% QoQ, +38% YoY), including 14 transformational deals (13 large service deals and one product deal across verticals) in Q2FY22 and TCV of new deal wins in Q1FY22 stood at US$ 1.664bn enabled by 8 large services deal wins and 4 significant product wins, many are transformational deals across the verticals. New deal total contract value (TCV) in FY21 stood at US$ 7.3bn, which is 18% increase over FY20. 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 earnings visibility going forward.

The company's strong order book & continuous ramp up on hiring driven by underlying macro should aid a 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 investments in last few years were in next-gen technologies which have helped to sustain momentum during these difficult times and positioned strongly to leverage the emerging market opportunities. HCL Tech has actively expanded its global footprint with its next-generation services and products.

Over the past two years the company has been steadily increasing its share of digital revenues driven by its 'Mode 2'and 'Mode 3' segment (contribution has increased from 23.4% in fiscal 2018 to 38.6% in fiscal 2021). The major acquisitions including Actian and C3i Solutions (in April 2019) and DWS (in September 2020) will further support this long term business expansion towards providing digital solutions.

We had **initiated coverage** on 06 July 2020, **re- initiated coverage** report on 07 Dec, 2020 and **stock Update** on 11 Aug, 2021 on HCL Technologies Ltd, and stock achieved targets before expiry of the call. Given healthy growth outlook and strong deal intake in Q2FY22, 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. The company continues to win multiyear deals in Cloud transformation, cyber security, etc. The company has a good track record in client acquisitions and engaging in vendor consolidation opportunities over the recent past. HCL Tech has strong presence in data science and engineering. The company expects healthy double digit growth in revenues in FY22E mainly led by improved growth in IT & business services and ER&D. With improvement in large deal wins, expansion in geographies, investment in sales & capabilities, we expect HCLT to register 13.2% CAGR in FY21-24E. HCL Tech could do well over the next few years driven by underpenetrated ERD opportunity, integrated deals in IT services and improving deliveries in digital. Its service line capabilities and drivers of growth are a lot more diverse today as opposed to IMS dependence of the past; this lends comfort on durability of growth. HCL Tech has strong R&D heritage, derives 15% of revenues from ERD and is the largest India based player with revenue of US$1.5 bn.

The stock is currently trading at a reasonable valuation of 18.4x Sept 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 1271 (20x Sept FY23E EPS) and the bull case fair value of the stock is Rs 1339 (21x Sept FY23E EPS) over the next two quarters. Investors can buy at LTP and add further on dips in the Rs 1042-1062 band (16.5x Sept FY23E EPS). At the LTP of Rs 1171, the stock is trading at 18.4x Sept FY23E EPS.**

Change in Estimates

Rs in Cr	FY22E		FY23E		FY24E
	Old	Revised	Old	Revised	New
Revenue	83819	84406	94362	96985	109572
EBIT	16772	16384	19374	19905	22628
APAT	13428	13324	15680	16104	18468
EPS	49.5	49.1	57.8	59.3	68.1

(Source: Company, HDFC sec)

Financial Summary (Consolidated)

Particulars (Rs Cr)	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue (USD mn)	2791	2507	11.3	2720	2.6	9936	10176	11413	12931	14417
Total Operating Income	20655	18594	11.1	20068	2.9	70678	75379	84406	96985	109572
EBITDA	4838	4951	-2.3	4908	-1.4	16693	20056	20786	24778	27814
Depreciation	922	935	-1.4	977	-5.6	2840	3985	4402	4872	5186
EBIT	3916	4016	-2.5	3931	-0.4	13853	16071	16384	19905	22628
APAT	3264	3142	3.9	3215	1.5	11062	12462	13324	16104	18468
Diluted EPS (Rs)	12.0	11.6	3.9	11.8	1.5	40.8	45.9	49.1	59.3	68.1
RoE-%						23.9	22.4	21.0	22.6	22.9
P/E (x)						28.7	25.5	23.8	19.7	17.2
EV/EBITDA						18.6	15.3	14.3	11.6	10.0

(Source: Company, HDFC sec)

Q2FY22 Result Update

- HCL Tech reported marginally better numbers in Q2FY22. HCL Tech expects revenue to grow in double digits in constant currency for FY22. EBIT margin is expected to be between 19% and 21% for FY22E.
- Consolidated revenue grew by 2.9% QoQ and 11.1% YoY to Rs 20,655 crore in Rupee terms. Revenue stood at US$ 2,791 mn; up 2.6% QoQ & up 11.3% YoY and revenue in Constant Currency stood up 3.5% QoQ and 10.5% YoY.
- EBIT was down by 0.4% QoQ and 2% YoY to Rs 3,916 crore. Net profit was up by 1.5% QoQ and 3.9% YoY to Rs 3,264 crore in Q2FY22. HCL Technologies' total tax expense in Q2FY22 was at Rs 846 crore, while it was Rs 894 crore in Q1FY22.
- On operating front, Mode 2 has been the prime driver of growth. Mode 1 business grew by 6.1% YoY and 2.8% QoQ, Mode 2 was up by 36.3% YoY and 12.5% QoQ and Mode 3 de grew 10.5% YoY and 7.6% QoQ. Mode1-2-3 contributed 60.9%, 25.8%, 13.3% to revenue in Q2FY22, respectively.
- On vertical front, the company reported all round growth across verticals and geographies YoY in constant currency basis. Growth momentum led by Life sciences & Healthcare (20.1% YoY cc), Telecommunications, Media, Entertainment and Publishing (13.4% YoY cc), Manufacturing (11.9% YoY cc), Technology & Services (10.8% YoY cc).
- Total headcount at 187,634 with net addition of 11,135 in the quarter vs. 7,522 in Q1FY22.

Key Updates

Strong deal momentum and recovery in vertical to drive growth

HCL's deal wins continued to remain strong, it reported net new deals worth US$ 2.25mn (+35% QoQ, +38% YoY), including 14 transformational deals (13 large service deals and one product deal) across verticals. It has seen strong client addition across all categories. On YoY basis, HCL tech added one client in US$100 mn+ client category, 12 in US$50 mn+ client category, US$20 mn+ clients increased by 18, US$10 mn+ clients increased by 18, and US$5 mn+ clients was up by 12. HCL witnessed strong booking performance in Q2FY22, TCV of new deal wins at US$ 2,245 mn registering 38% YoY growth enabled by 14 net new large deal wins.

HCL Tech has successfully completed the first phase in building a modern Digital Workplace for multinational energy company BP in 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. Overall, deal pipeline is looking robust and company has signed a number of large multi-year contracts across the various geographies. Among the various deals, Belgium-based Euroclear group, and Proximus Group, Germany based Lendico Contract, German multinational chemical company Wacker Chemie AG contract, US-based MKS Instruments deal, contract with Munich Re deals are key deals, the company signed over the last 2-3 months.

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.

Expanding into new geographies and strong hiring over the recent past

Recently, HCL has opened a new facility in Sri Lanka which will be its largest in the country, accommodating 4,000 employees. HCL Technologies recently surpassed a milestone of recruiting more than 1,000 local employees in Sri Lanka, including fresh graduates and seasoned industry professionals.

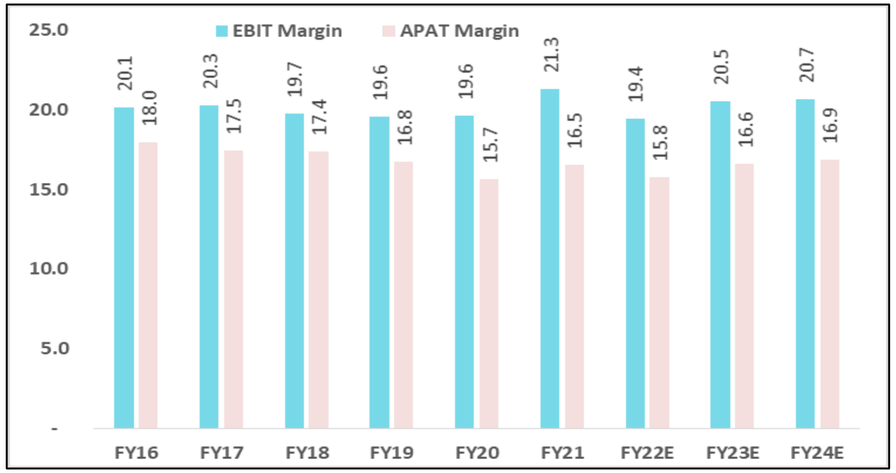
Besides, HCL is looking to expand into the South Korean market by partnering with HANCOM Inc., one of the leading software companies in that country. Both companies have signed a strategic partnership to share advanced software technology solutions and establish a mutual bridgehead for overseas expansion. HCL and HANCOM have signed a strategic partnership to share advanced software technology solutions and establish a mutual bridgehead for overseas expansion.

HCL Technologies will be adding 10,000 professionals to boost company's newly Amazon Web Services (AWS) Business Unit (AWS BU) to help enterprises worldwide accelerate their cloud transformation journey. This dedicated business unit within HCL will be supported by AWS engineering, solutions and business teams. HCL currently holds five AWS competencies, has more than 10,000 professionals trained on AWS and plans to boost this capacity to more than 20,000 specialists in the future.

Margins could ramp up led by operational efficiencies

HCL Tech EBIT margin was down by 50bps QoQ and 260bps YoY to 19.1% in Q2FY22, impacted by a decline in the high margin Products and Platforms business, while margin in the Services business was almost flat QoQ. Net profit margin stood at 15.8% in Q2FY22 vs. 16% in Q1FY22 and 16.9% in Q2FY21.

Margins (%)

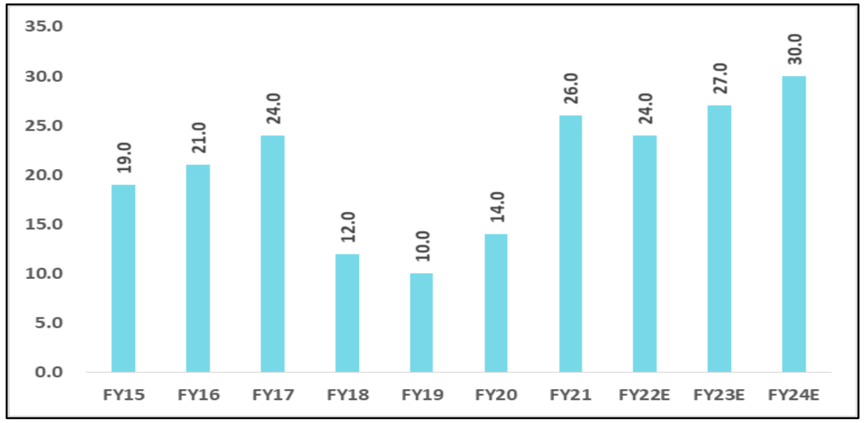


We see a wage hike, and investment in sales and marketing investments as margin headwinds in FY22. HCL Tech plans to invest in expanding geographies, investment in sales, product engineering, invest in talent and wage hikes going forward. Despite these headwinds, we expect the company could easily maintain > 19% of EBIT margin in FY23E and FY24E on account of rupee depreciation, lower travel cost and operating leverage due to revenue growth.

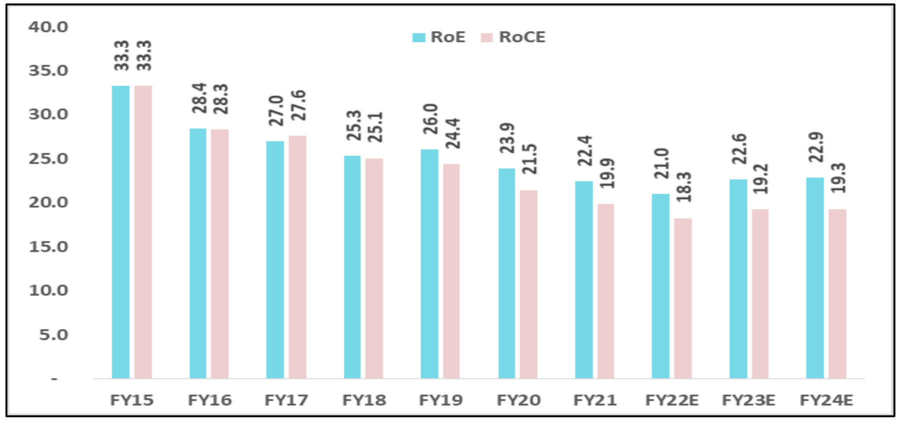
Strong fundamentals led by healthy debt protection metrics and liquidity

- 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 12%/14.9%/13% in FY22E/ FY23E/FY24E, respectively.
- The company has reported operating margin at 21.5-26.5% band over the past seven years and we expect 24.5% and 25.5% over the FY22E to FY24E, 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$ 2,696 mn and Net Cash at US$ 2,171 mn at the end of September 30th, 2021. 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 FY22E.
- 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 10 /- per share, being 75th consecutive quarter of dividend pay-out. Dividend payout stood at 56.6% and yield is 2.2%. HCL Tech's recent revision in payout policy (at least 75% of net income, up from 50%) over FY22-26 is a positive.

Dividend per share (Rs)



Return Ratio (%)



- 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.
- 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 future. Rise in net profit margin could help to increase its return ratios, we expect RoE at 21% to 23% over the FY22E to FY24E, respectively.

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.
- Circulation of new COVID variant Omicron across the geographies could impact its operations going forward and steep decline in revenues or sustained deterioration in margin can impact cash generation.
- HCL Tech 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.
- HCL Tech's IT Services attrition (on LTM basis) stood at 15.7% in Q2FY22 vs. 11.8% in Q1FY21 and 12.2% in Q2FY21. However even at these levels, it is lower than its peers.

Operating Metrics

Vertical Mix

(% of rev)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Manufacturing	19.9	18.7	20.9	20.7	18.1	19.8	18.1	17.7	17.2	17.9
Technology & Services	18.9	21.7	15.1	16.2	17.2	15.4	17.8	17.2	17.3	17.2
Financial Services	20.4	20.4	21.6	21.1	22.4	22.4	21.4	21.6	22.1	21.3
Life Sciences and Healthcare	12.8	12.6	12.2	12.5	13.7	12.9	13.6	14.1	14.7	15.3
Public Services	10.5	9.5	10.9	11.1	11.0	11.0	10.4	11.2	10.8	10.6
Retail & CPG	9.5	9.1	10.3	10.2	10.0	10.0	10.5	10.1	10	9.8
Telec, Media, Publish- & Entertain-	8.0	8.0	9.0	8.3	7.6	8.4	8.3	8.1	7.9	7.9
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Geographical split

(% of rev)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Americas	67.7	67.9	62.8	63.5	63.7	64.4	62.5	62.0	63.1	62.8
Europe	26.0	25.7	29.2	28.8	28.3	28.2	29.5	29.1	27.9	28.3
Rest of the World	6.3	6.4	8.0	7.8	8.0	7.4	8.0	8.9	9.0	8.9
Total	**100.0**	**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	Q2FY22
Mode 1	70.3	67.0	66.0	65.1	63.4	63.3	61.0	61.4	61.5	60.9
Mode 2	18.8	18.3	18.2	19.2	20.3	20.9	22.7	23.4	23.7	25.8
Mode 3	10.9	14.7	15.8	15.7	16.2	15.8	16.3	15.2	14.8	13.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Headcount, Attrition and Utilisation data

(Nos.)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	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	1,87, 634
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	1,74.541
Support	11,516	11,166	11,448	11,121	11,399	11,166	11,942	12,397	12,769	13,093
Net additions	5,935	3,223	2,050	1,250	-136	2,798	6,597	9,295	7,522	11,135
Voluntary LTM attrition (%)	17.3	16.9	16.8	16.3	14.6	16.9	10.2	9.9	11.8	15.7

Peer Comparison

Company, Rs in Cr	Mkt Cap, Cr	Sales			EBIT			PAT			ROE-%			P/E (x)		
		FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
TCS	1250575	189592	217405	241904	48078	56538	63128	38356	44746	49510	43.0	46.5	46.8	35.1	30.1	27.2
Infosys	739904	119909	138168	154198	28055	31997	36238	21874	25617	28573	30.3	35.9	36.4	33.2	28.4	25.4
Wipro	453061	78681	89459	99794	13161	15441	18707	12216	13654	16455	20.9	21.0	22.7	28.7	25.7	21.4
HCL Tech	317770	84406	96985	109572	16384	19905	22628	13324	16104	18468	21.0	22.6	22.9	23.8	19.7	17.2
Tech Mahindra	154202	44134	51418	58744	6690	7908	9109	5665	6509	7418	21.8	22.8	23.6	24.8	21.6	18.9

Financials (Consolidated)

Income Statement

(Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
Net Revenues	**70678**	**75379**	**84406**	**96985**	**109572**
Growth (%)	**17.0**	**6.7**	**12.0**	**14.9**	**13.0**
Operating Expenses	53985	55323	63620	72207	81758
EBITDA	**16693**	**20056**	**20786**	**24778**	**27814**
Growth (%)	**19.5**	**20.1**	**3.6**	**19.2**	**12.3**
EBITDA Margin (%)	**23.6**	**26.6**	**24.6**	**25.5**	**25.4**
Depreciation	2840	3985	4402	4872	5186
EBIT	**13853**	**16071**	**16384**	**19905**	**22628**
Other Income	684	1168	1062	1266	1527
Interest expenses	505	511	330	330	330
PBT	**14032**	**16728**	**17116**	**20841**	**23825**
Tax	2938	3663	3724	4668	5289
RPAT	**11094**	**13065**	**13392**	**16172**	**18536**
APAT	**11062**	**12462**	**13324**	**16104**	**18468**
Growth (%)	**9.3**	**12.7**	**6.9**	**20.9**	**14.7**
EPS	40.8	45.9	49.1	59.3	68.1

Balance Sheet

As at March	FY20	FY21	FY22E	FY23E	FY24E
SOURCE OF FUNDS					
Share Capital	543	543	543	543	543
Reserves	50724	59370	66181	74959	85286
Shareholders' Funds	**51267**	**59913**	**66724**	**75502**	**85829**
Long Term Debt	2848	3828	3828	3828	3828
Long Term Provisions & Others	4907	4901	4901	4901	4901
Minority Interest	**154**	**169**	**169**	**169**	**169**
Total Source of Funds	**59176**	**68811**	**75622**	**84400**	**94727**
APPLICATION OF FUNDS					
Net Block & Goodwill	37490	37145	33911	31935	29834
CWIP	400	312	312	312	312
Other Non-Current Assets	6596	5674	5674	5674	5674
Total Non Current Assets	**44486**	**43131**	**39897**	**37921**	**35820**
Trade Receivables	14131	13663	15031	17271	19513
Cash & Equivalents	11965	15673	24229	32971	43383
Other Current Assets	12324	13727	13741	13754	13769
Total Current Assets	**38420**	**43063**	**53001**	**63997**	**76665**
Short-Term Borrowings	1845	0	0	0	0
Trade Payables	1166	1726	1619	1860	2101
Other Current Liab & Provisions	20719	15657	15657	15657	15657
Total Current Liabilities	**23730**	**17383**	**17276**	**17517**	**17758**
Net Current Assets	14690	25680	35725	46480	58907
Total Application of Funds	**59176**	**68811**	**75623**	**84400**	**94727**

Cash Flow Statement

(Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
Reported PBT	14,032	16,728	17,116	20,841	23,825
Non-operating & EO items	-174	-740	-974	-1,370	-1,780
Interest Expenses	505	511	330	330	330
Depreciation	2,840	3,985	4,402	4,872	5,186
Working Capital Change	5,688	-4,521	-1,489	-2,012	-2,015
Tax Paid	-2,938	-3,663	-3,724	-4,668	-5,289
OPERATING CASH FLOW (a)	**19,953**	**12,300**	**15,661**	**17,993**	**20,257**
Capex	-7,957	-3,115	-1,168	-2,896	-3,086
Free Cash Flow	11,996	9,185	14,493	15,097	17,171
Investments	80	0	0	0	0
Non-operating income	174	740	974	1,370	1,780
INVESTING CASH FLOW (b)	**-7,703**	**-2,375**	**-194**	**-1,526**	**-1,305**
Debt Issuance / (Repaid)	992	-865	0	0	0
Interest Expenses	-505	-511	-330	-330	-330
FCFE	12,483	7,809	14,162	14,767	16,841
Share Capital Issuance	0	0	0	0	0
Dividend	-4,559	-7,056	-6,513	-7,327	-8,141
FINANCING CASH FLOW (c)	**-4,072**	**-8,432**	**-6,843**	**-7,657**	**-8,471**
NET CASH FLOW (a+b+c)	**8,178**	**1,493**	**8,624**	**8,810**	**10,480**

Key Ratios

Particulars	FY20	FY21	FY22E	FY23E	FY24E
Profitability Ratio (%)					
EBITDA Margin	23.6	26.6	24.6	25.5	25.4
EBIT Margin	19.6	21.3	19.4	20.5	20.7
APAT Margin	15.7	16.5	15.8	16.6	16.9
RoE	23.9	22.4	21.0	22.6	22.9
RoCE	21.5	19.9	18.3	19.2	19.3
Solvency Ratio (x)					
Net Debt/EBITDA	0.3	0.2	0.2	0.2	0.1
Net D/E	0.1	0.1	0.1	0.1	0.0
Per Share Data (Rs)					
EPS	40.8	45.9	49.1	59.3	68.1
CEPS	51.2	60.6	65.3	77.3	87.2
BV	188.9	220.8	245.9	278.2	316.3
Dividend	14.0	26.0	24.0	27.0	30.0
Turnover Ratios (days)					
Debtor days	73	66	65	65	65
Inventory days	0	0	0	0	0
Creditors days	6	8	7	7	7
Valuation (x)					
P/E	28.7	25.5	23.8	19.7	17.2
P/BV	6.2	5.3	4.8	4.2	3.7
EV/EBITDA	18.6	15.3	14.3	11.6	10.0
EV / Revenues	4.4	4.1	3.5	3.0	2.5
Dividend Yield (%)	1.2	2.2	2.0	2.3	2.6
Dividend Payout(%)	34.3	56.6	48.9	45.5	44.1

(Source: Company, HDFC sec)

One Year Price Chart

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.

Yellow 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.

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Disclosure:

I**, Abdul Karim, (MBA),** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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Any holding in stock – **No**

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193