

CMP: Rs 580

Outlook: Positive (Not Rated)

Technical TP: 623-690

Stock Info

BSE	539336
NSE	HCLTECH
Bloomberg	HCLT IN
Reuters	HCLT.BO
Sector	Computers-Software
Face Value (Rs)	2
Equity Capital (Rs Cr)	543
Mkt Cap (Rs Cr)	157,638
52w H/L (Rs)	624 / 375
Avg Yearly Vol (in 000')	3392

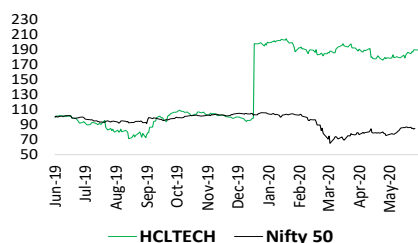
Shareholding Pattern %

(As on March, 2020)

Promoters	60.0
FII	27.7
DII	8.3
Public & Others	4.0

Stock Performance (%)	3m	6m	12m
HCLTECH	28.7	1.5	6.9
NIFTY	20.6	-14.8	-10.9

HCLTECH Vs Nifty



Peer Group Comparison

in Cr. (FY20)	Wipro	HCLTECH	TECHM
Revenue	61,023	70,676	36,868
EBITDA	12,228	17,316	5,726
PAT	9,722	11,057	4033
Adj. EPS(Rs)	16.7	40.8	46.2
Adj. PE (x)	13.0	14.2	13.5
ROE%	17.5	21.5	19.2
Mkt Cap	1,23,180	1,57,638	51,933

Company Background

HCL Technologies is a next-generation global technology company that helps enterprises reimagine their businesses for the digital age. Technology products, services and engineering are built on four decades of innovation, with a world-renowned management philosophy, a strong culture of invention and risk-taking, and a relentless focus on customer relationships. With a worldwide network of R&D, innovation labs and delivery centers, and 150,000+ 'Ideapreneurs' working in 46 countries, HCL generated consolidated revenues of USD 9.94 billion for 12 Months Ended 31st March, 2020.

Key highlights from Q4FY20:

- HCL technology (HCLTECH) reported good performance as revenue stood at Rs.18,587 crore (16.24% YoY/2.49% QoQ). Higher revenue for the quarter was largely due to 3% growth in revenue of ITBS (IT & business services) as well as 2% growth in revenue of P&P (Products & Platforms). While the revenue of ITBS stood higher at Rs 13130 crore that of P&P stood at Rs 2417 crore for the quarter. Meanwhile the revenue of Engineering and R&D was flat at RS 3040 crore.
- EBITDA for the quarter stood at Rs 4,858 cr thereby registering 35.17% growth on a YoY basis EBITDA margin during the quarter was up by 25bps QoQ/331bps YoY. Expansion in margin is largely due to higher margin for ITBS as well as that of positive forex exchange rates.
- The PBT was up by 5.40% to Rs 3885 crore after accounting for lower other income, lower interest and higher depreciation. With taxation stand lower by 3.91% to Rs 713 crore, the PAT was up by 7.74% QoQ to Rs 3172 crore.

Q4FY20 Result Snapshot

Rs Cr (consolidated)	Q4FY20	Q4FY19	Y-o-Y	Q3FY20	Q-o-Q
Net Revenue	18,587	15,990	16.24%	18,135	2.49%
EBITDA	4,858	3,594	35.17%	4,629	4.95%
EBITDAM %	26.1%	22.5%	366bps	25.5%	61bps
PAT	3,172	2,550	24.39%	2,944	7.74%
PATM %	17.1%	15.9%	112bps	16.2%	83bps
EPS	11.7	9.4	24.15%	10.9	7.56%

Valuation and View:

At CMP of 580, HCL TECH currently trades at a PE of 14.2x to its FY20 EPS of Rs 40.8. The Company's Management expects near term revenue and margin pressure led by COVID 19 pandemic, however it expects stability in Q2 and pick-up in growth from Q3 onwards. Considering opportunities in cloud consumption, cyber security, automation, app modernisation, we remain optimistic on its revenue trajectory in long term. Additionally, easing of seasonality pressure in the products & platforms business within IBM driven by renewals would ensure growth. **Hence, we are bullish on the company's medium to long term outlook.**

Rs Cr (consolidated)	FY19	FY20	FY21E	FY22E
Net Revenue	60,427	70,676	74,117	80,258
EBITDA	13,926	17,316	17,438	19,060
EBITDAM %	23.0%	24.5%	23.5%	23.7%
PAT	10,120	11,057	10,963	12,308
PATM %	16.7%	15.6%	18.2%	20.1%
EPS	36.8	40.8	40.5	45.6
PE	15.7	14.2	14.7	12.5

Source: Arihant Research, Company Filings, Bloomberg consensus

Q4FY20 Conference call highlights

- HCL Tech has about 1.5% of its resources that that was not billed part of the last quarter and full of April (WFH is about 96% and WFO is nearly 2.5%). Significant part of this business billing loss is recovered in first week of May'20. Supply side challenges are largely resolved barring few issues related to access to labs (client site) or visa related factors.
- ER&D business got impacted the most due to COVID as some of the work in this segment needs to be done on client's site. Vertical wise the business segments especially in Manufacturing vertical (especially clients in Auto/Aero) is getting impacted and rest other verticals continues to do well.
- P&P business very limited impact due to COVID as customer base is very well distributed across markets/geographies. Experiencing strong velocity on renewals and new wins are coming in Security/Commerce product lines. Incremental revenues are tracking as was thought at the time of the acquisition (US\$160mn run rate for the quarter – ahead of \$156mn guided year ago).
- The HCL Tech management expects uncertainty in near term due to pricing pressure, lower demand and cut in discretionary spends. Management expects Q1FY21 revenue to dip and stabilize in Q2FY21 with growth inH2FY21.
- Deal wins in Q4 FY20 were steady with order book up ~12% YoY. However, the new deal pipeline softened compared to Q3 FY20; while there are signs of improvement in new deal pipeline in May-20.
- The management proposed Final dividend of Rs.2 /- per share (on double the number of shares post 1:1 bonus issue) and assured investors of continuity in quarterly dividend payouts.
- Net cash as of Q4FY20 stands at US\$1.4bn which is good enough to take care of US\$800mn required towards second tranche of payment towards IBM IP acquisition.

Technical Chart & View



The stock had fallen from the levels of 623 to 375. The current price action is now retracing the entire fall. The stock after 4 weeks of consolidation gave a breakout. Further, the momentum indicator is gaining strength. This suggests upside momentum. On the upside the stock may test 623 – 690 levels in couple of months.

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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