

11th August, 2020

HCL Technology – BUY

CMP : 1,060.0
Target Price : 1,215
Upside : 14%
Stop Loss : 990(closing basis)

About the Company

HCL Technologies was originally incorporated as HCL Overseas Limited. The name was changed to HCL Consulting Limited on 14 July 1994. On 6 October 1999, the company was renamed 'HCL Technologies Limited' for "a better reflection of its activities. Between 1991 and 1999, the company expanded its software development capacities to the US, European and APAC markets. HCL Technology is Indian multinational information Technology (IT) company headquarter in Noida, Uttar Pradesh. The company has offices in 44 countries including United States, France, Germany, and United Kingdom. HCL Technologies is a next-generation global technology company that helps enterprises reimagine their businesses for the digital age. HCL Technology provides service across industry, including 250 of Fortune 500 and 650 of Global 2000 client. In Q1 FY20 company revenue stood at \$2,363.6 Mn. Total employee base of 143,900 with net addition in current quarter of 5,935 employees. Company offer products, solutions, services, Mode 1-2-3 strategy Mode 1 Application, Infrastructure, Engineering and Digital Process operations, Mode 2 Digital & Analytics, Cloud Native Service, Cybersecurity & GRC, IoT Works, Enterprise Studio, Mode 3 HCL Software, DRYICE, Actian.

Investment Thesis

Top Line

In FY20 company is expected to grow between 14.0% to 16.0%CC which imply 3.5% to 4.0%CC QoQ growth and EBIT margin is expected to be in range of 18.5% to 19.5%. In Q1 FY20 revenue grew at 4.2%CC QoQ and 17.0%CC YoY, growth was largely driven by large deal and growth in manufacturing, Technology and services vertical. The YoY 17.0%CC growth was highest from last seven and half year with organic growth comprise of 14%. Whereas net income stood at US\$ 320Mn de grow at 12.3% QoQ and 10.1% YoY. Company has bifurcated its service line in three different strategies MODE 1, MODE 2, MODE 3. In Q1FY20 MODE 1 contributes 70.3%, MODE 2 contributes 18.8% and MODE 3 contributes 10.9% of revenue. In current quarter HCL closed acquisition of 7 IBM product at \$1.8Bn largely through internal accruals and for Security, Marketing, Commerce, and Digital solution.

EBIT margin

In the Q1 FY20 EBIT margins stood at 17.01% lower on QoQ basis, forex headwind (15bps), visa cost (15bps to 20bps) and SG&A impact (50bps) and addition (110bps) in ERS business (Engineering and R&D services).

Deal wins & client contribution

In Q1 FY20 HCL Technology show strong deal momentum with 12 transformation deal across its service line lead by Financial Services, Manufacturing and Retail. Top 5 and Top 10 clients de growth as compared to previous year Top 20 client is in line with previous long term mix. Top 5 clients contribute 16.6% of revenue, Top 10 clients contribute 23.9%, Top 20 client contributes 34.2% and Top non 20 clients contributes 65.8%. Revenue earns from existing client stood at 95.4% and new client added 4.6%.

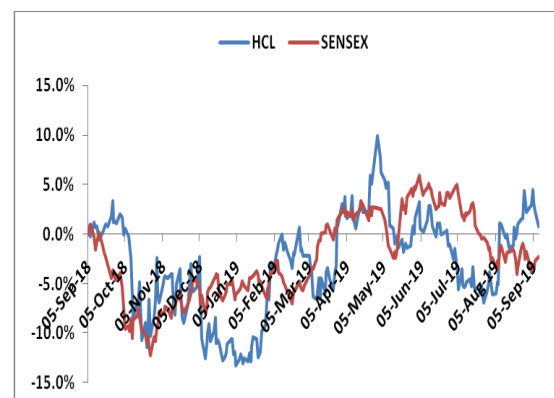
Attrition Rate and Total Employee

In current quarter company has total employee of 143,900 added by technical 132,384 and support 11,516 with net added of 5,935. Attrition rate stood at 17.3% decrease by 40bps but is still high as compare to previous quarter.

Stock Details	
Market Cap (RsCr)	1,43,916.91
BSE Code	532281
NSE Code	HCLTECH
Sector/Index	IT Consulting & Software/ S&P BSE SENSEX
Year End	March
52 w.High/Low	1,190/920.15
Shares in Issue	1,35,62,78,868
BSE Sensex	37,145.45
NSE Nifty	11,003.05

Shareholding Pattern	
Indian Promoters	43.54%
Foreign Promoters	16.47%
DII's	7.98%
FII's	28.63%
Other	3.38%

Key Ratios	
Div Yield	0.72%
TTM PE	15.06
ROE	26.26
TTM EPS (INR)	73.13



Q1 Updates

At the beginning of Q1FY2020 HCL Technology completed acquisition of strong-bridge Envision. HCL Technology became premier partner with Google Cloud Platform (GCP) which will help client migrate application and offer next-generation service to accelerate building new applications on GCP, earlier it has adopted Anthos Google Clouds platform, which has build and manage hybrid cloud service and modernize application. HCL launch ADvantage platform to providing service such as digital stores and libraries for quick launcher as well as ability to integrate data. The advantage is to reduce 20% to 30% implementation cost, 20% faster time-to-market based on integrated DevOps framework, 30% faster code development with automated generation. HCL launch cyber security fusion center, Opening of CSFC represents company's mission to support secure business growth by providing customers with a single point of contact for the enterprise security lifecycle, for detection to remediation. HCL partner with Cherwell software global leader of service management offers easy customization of new IT services and digital services. Joint demo with Sierra Wireless provider of device-to-cloud solution, smart logistics to efficiently monitor inventory management and improve traceability. On 10th May 2019 company has amalgamated list of company (HCL Comnet Limited, HCL Eagle Limited, HCL Technologies Solutions Limited, Concept2silicon Systems Private Limited with HCL Technology) to enable optimum utilization of resources and Synchronization of synergies. Avon appointed HCL Technology as Information Technology (IT) infrastructure service partner to support ongoing Digital Transformation.

Financials

Particulars	FY17	FY18	FY19	FY20E	FY21E
Net Revenue	47,568.0	50,569.0	60,427.0	68,584.65	77,843.57
EBIT	9,556.0	9,863.0	11,853.0	13,974.74	15,479.73
EBIT Growth	53.1%	3.2%	20.2%	18%	11%
EBIT Margin	20.1%	19.5%	19.6%	20.4%	19.9%
Net Profit	8,606.0	8,721.0	10,120.0	11,805.92	13,032.23
Growth	53.6%	1.3%	16.0%	16.7%	10.4%
Net Profit Margin	18.1%	17.2%	16.7%	17.2%	16.7%
EPS	60.39	62.74	74.69	87.05	96.09

Key Business Highlights

In Q1 FY20 Financial service vertical contributes 20.30% of revenue higher among verticals but increase marginally by 0.4%CC QoQ. Growth of financial service is broad-based, but due to client specific issues in two key accounts, However management indicated that 1 account is stabilizing and will likely see revival in H2 FY20 or in Q4 FY20. Manufacturing vertical is the top 3 contributor in terms of deal transformation and contributes 19.9% of revenue grew at 18.4%CC QoQ. Technology and service vertical contributes 18.9% of revenue grew at 5.0%CC QoQ. Retail & CPG vertical contributes 9.5% of revenue de grow 1.4%CC QoQ. Telecommunication, Media, Publishing & Entertainment vertical contributes 8.0% of revenue and QoQ de grow at 2.7%CC. Lifesciences & Healthcare vertical contributes 12.8% of revenue QoQ grew at 2.4%CC. Public service vertical contributes 10.50% of revenue de grow at 0.2%CC QoQ.

Valuation

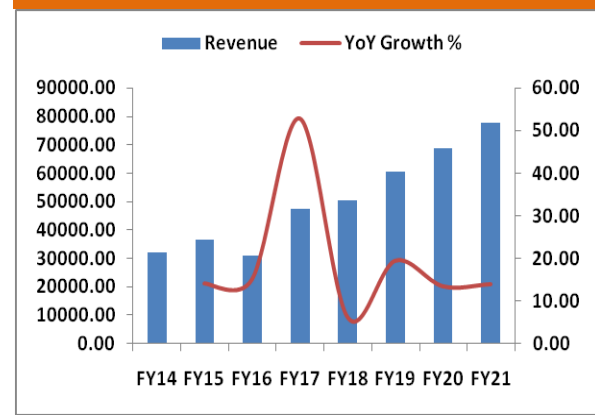
High deal win and high organic growth have increased company confidence to increase guidance for the current year. The stock offers 20.1% revenue cagr (FY16-FY21) and 18.4% PAT cagr in the same period, 0.72% dividend yield in current year. Our price target of Rs 1,215 with 12.65x PE multiples to its FY21 earning of Rs 96.09 per share, implying an upside of 14%.

Risk & Concern

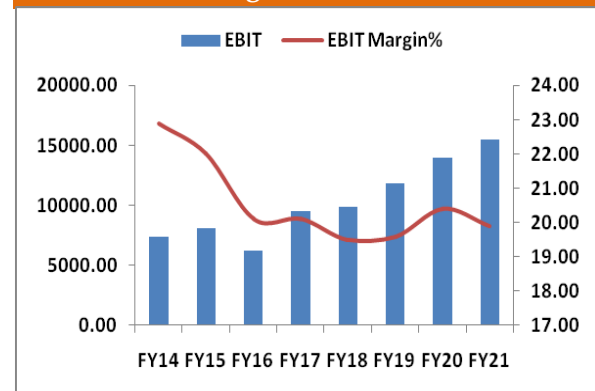
Currency rate (INR currency appreciation)
Client specific situation.
Constrain spending on IT.
Cross currency .

Graphs & Charts

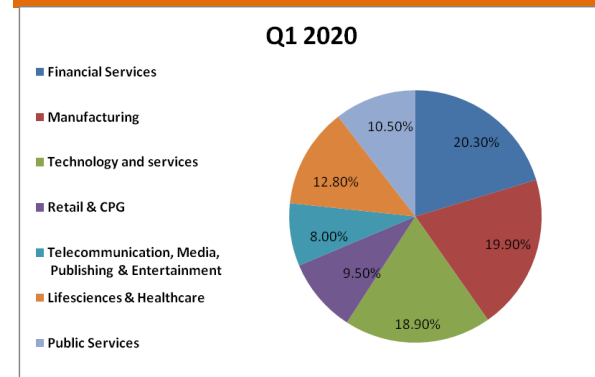
Net Sales Trend



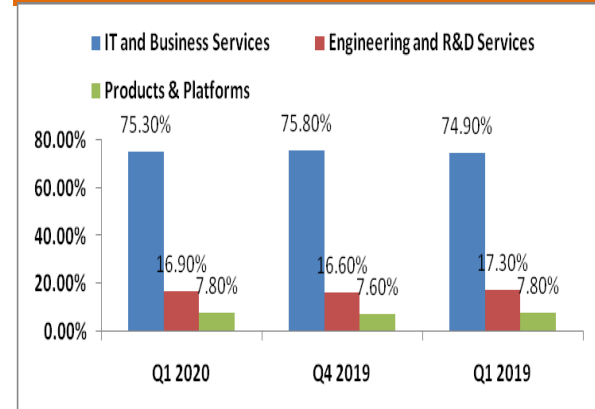
EBIT & EBIT Margin Trend



Revenue from Vertical



Service Line



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