

Q1-FY22 Result Update

Target: ₹ 1150

- ❑ The company reported good results for the quarter under review. Revenue from operations improved by 12.5% year-on-year to ₹200,680 million on a reported basis. In constant currency (CC) terms the revenue grew by 11.7% YoY. The company reported healthy revenue growth led by better performance across all regions - Americas, Europe & RoW.
- ❑ Mode-2 business grew by 29.0% YoY. Segment wise, all segment's – IT business services, Engineering services and Product Platforms led growth during for the quarter by 13.0%, 10.7% & 6.0% YoY respectively. All verticals led growth – Financial Services, Manufacturing, Technology, Retail, Telecommunications, Life sciences and Public Services grew by 8.8%, 5.3%, 14.9%, 11.4%, 17.0%, 22.1% and 6.5% YoY respectively.
- ❑ On profitability front, the EBITDA from operations for the quarter increased by 6.4% year-on-year at ₹50,620 million with a margin of 25.2%. The company achieved the reported PAT of ₹32,050 million, an increase of 9.3% year-on-year with a net margin of 16.0% translating into EPS of ₹11.81 per share for the quarter.
- ❑ HCL won 8 new large deals in Q1-FY22 and 4 significant product wins worth \$1.67 billion registering growth of 37% YoY. The new large deal wins were from across the industry verticals of oil and gas, financial services and technology.
- ❑ IT services attrition is at 11.8% in Q1-FY22 compared to 14.6% last year due to company's effectiveness of increased employee engagement and large scale up skilling programs. The total headcount is at 176,499 with strong net addition of 7,522 during the quarter.
- ❑ The management has given a revenue growth guidance of double digits in constant currency for FY22. EBIT margin guidance expected between 19% to 21% for FY22. The management declared an interim dividend of ₹6 per share for the quarter.
- ❑ With continuity of robust growth across Mode-2 and Mode-3 business (38.5% of revenue combined), we expect the growth momentum to continue supported by strong products, deal pipeline and ramp up of large deals. We maintain our **BUY** rating on the stock with a revised target price of **₹1150 per share**.

Financials:

(In ₹ mn)	Q1-FY22	Q1-FY21	Chg	3M-FY22	3M-FY21	Chg
Net Sales	200,680	178,420	12.5%	200,680	178,420	12.5%
Operating Expense	150,060	130,850	14.7%	150,060	130,850	14.7%
EBITDA	50,620	47,570	6.4%	50,620	47,570	6.4%
Other Income	2,550	2,950	-13.6%	2,550	2,950	-13.6%
Depreciation	11,280	10,650	5.9%	11,280	10,650	5.9%
EBIT	41,890	39,870	5.1%	41,890	39,870	5.1%
Interest	890	1,250	-28.8%	890	1,250	-28.8%
PBT	41,000	38,620	6.2%	41,000	38,620	6.2%
Tax	8,870	9,270	-4.3%	8,870	9,270	-4.3%
Exceptional Items	-	-		-	-	
PAT	32,130	29,350	9.5%	32,130	29,350	9.5%
Minority /Other Adj.	(80)	(40)		(80)	(40)	
Consolidated PAT	32,050	29,310	9.3%	32,050	29,310	9.3%

Margins	Q1-FY22	Q1-FY21	Chg BPS	3M-FY22	3M-FY21	Chg BPS
Operating Margin %	25.2%	26.7%	-144	25.2%	26.7%	-144
Net Margin %	16.0%	16.4%	-44	16.0%	16.4%	-44

Consolidated Financials:

(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
Net Sales	706,760	753,790	871,381	958,519
Operating Expense	533,940	553,310	639,626	703,589
EBITDA	172,820	200,480	231,755	254,930
Other Income	6,230	9,270	10,716	11,788
Depreciation	34,200	46,110	38,341	42,175
EBIT	144,850	163,640	204,130	224,543
Interest	5,050	5,110	5,110	5,110
Misc. items	-	-	-	-
PBT	139,800	158,530	199,020	219,433
Tax	29,230	46,840	58,803	64,835
Minority Interest	-	(240)	-	-
PAT	110,570	111,450	140,217	154,598

Margins	FY-20	FY-21	FY-22E	FY-23E
Sales Growth %	17.0%	6.7%	15.6%	10.0%
Operating Margin %	24.5%	26.6%	26.6%	26.6%
Net Margin %	15.6%	14.8%	16.1%	16.1%

(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
Liabilities				
Equity Share Capital	5,430	5,430	5,430	5,430
Reserves & Surplus	507,240	430,100	570,317	724,915
Total Shareholder's Funds	512,670	435,530	575,747	730,345
Minority Interest	1,540	-	-	-
Long-Term Liabilities	28,480	2,070	2,070	2,070
Other Long-term Liabilities	48,200	15,820	15,820	15,820
Deferred Tax Liability	(22,300)	(6,680)	(6,680)	(6,680)
Short-term Liabilities	237,300	100,190	115,820	127,402
Total	805,890	546,930	702,776	868,957
Assets				
Net Fixed Assets	378,900	202,560	312,662	305,342
Long-Term L&A	15,060	-	-	-
Non Current Investments	770	50,410	50,410	50,410
Other Non-Current Assets	26,960	16,820	16,820	16,820
Current Asset	384,200	277,140	322,885	496,385
Total	805,890	546,930	702,776	868,957

Key Ratios	FY-20	FY-21	FY-22E	FY-23E
EPS (₹)	40.7	41.1	51.7	57.0
P/E (x)	24.4	24.2	19.2	17.4
P/B (x)	5.3	6.2	4.7	3.7
ROE	21.6%	25.6%	24.4%	21.2%

Source: Company, Anand Rathi Research

Key Risks:

- US H1-B Visa regulations.
- Foreign currency fluctuations.
- Employee attrition.



Rating and Target Price history:

HCLTECH's rating history & price chart



Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on 23 July 2021 close.

HCLTECH's rating details

Date	Rating	Target Price (₹)	Share Price (₹)
22-Oct-18	Buy	590	490
15-Apr-20	Buy	540	458
18-Sep-20	Buy	931	807
21-Jan-21	Buy	1125	994
28-Apr-21	Buy	1075	924
23-Jul-21	Buy	1150	994

Source: Bloomberg, Anand Rathi Research

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Ratings Guide (12 months)	Buy	Hold	Sell
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