

IT Services

Sector Update

Pickup in digital engineering spends

Quick Pointers:

- Engineering services vertical is staging a comeback with multiple deals in 3QFY21 like LTTS's 2 large deals wins (Global Oil & Gas Major, Schindler) and Cyient's partnership with Decipher & SPRINT.
- HCLT (ER&D accounts to 16% of revenues) to benefit from strong bounce-back given long-term ERD outsourcing business opportunity, leadership position and well-diversified business mix.

ER&D deal wins picked up aggressively since last month on account of pickup in discretionary spends. Indian IT players have won a number of large ER&D deals in last couple of months (detailed below). We believe drivers for large ER&D deals are 1) Building a digital core for large enterprises, 2) Carving Out Legacy Products for Software Cos & Enterprises and 3) IOT Managed Services Related Opportunities. Engineering is a core function in services led verticals (Exhibit 5) that will account for one fifths of digital engineering spend by 2025.

Although we clearly saw that companies cut discretionary spending in 2020, the cuts were short lived. Spending focus got shifted to build end-to-end connected resilient systems and implementation of digital engineering to save costs. ACN Consulting order book grew 9.3% YoY (+2.2% QoQ) indicating pickup in discretionary spends.

We had upgraded LTTS on Oct 20th on account of anticipation of pickup in discretionary spends, since then the stock rallied 26%. With 2 recent big deal wins & increasing discretionary spends, we believe LTTS revenue growth will pick up faster than expected and there will be improvement in margins too. Hence, we are increasing our EPS estimates by ~10% for FY22/23E. We assign 25X (earlier 22X) multiple, 12% premium to 5-year avg multiple of 23X to arrive at a changed TP of INR2509 (earlier: INR1860). We upgrade LTTS to BUY from Accumulate.

- Strong deal wins in 3QFY21:** Engineering services firms have won multiple deals in last 2 months indicating strong recovery in demand for ER&D. Globally firms are looking to build end-to-end connected systems that leads to growing investment in digital manufacturing (virtualization, 3D, digital twins), mobility, augmented reality, IoT, robotics, autonomous vehicles, and energy efficiency.
- LTTS's 3 key deal wins include** 1) USD100mn plus deal in plant engineering vertical from global oil & gas company being largest ever deal for LTTS vs average large deal size of 40-50\$mn for engineering services firms, 2) Schindler, Switzerland-based global leading provider of elevators & escalators selected LTTS to provide innovative digital engineering capabilities and 3) LTTS was selected as a consulting/professional services provider for Amazon to support Alexa integration in devices.

December 22, 2020

L&T Technology Services – Consolidated

Rating: BUY | CMP: Rs2,157 | TP: Rs2,509

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	56,192	54,847	65,803	77,655
EBITDA (Rs. m)	11,106	10,000	12,998	15,140
Margin (%)	19.8	18.2	19.8	19.5
PAT (Rs. m)	8,187	6,567	8,699	10,538
EPS (Rs.)	78.8	63.1	83.6	100.4
Gr. (%)	6.9	(19.9)	32.5	20.0
DPS (Rs.)	26.0	20.8	27.6	33.4
Yield (%)	1.2	1.0	1.3	1.6
RoE (%)	30.0	20.7	24.0	25.0
RoCE (%)	33.2	24.3	29.2	29.2
EV/Sales (x)	3.8	3.8	3.1	2.5
EV/EBITDA (x)	19.4	21.0	15.6	13.0
PE (x)	27.4	34.2	25.8	21.5
P/BV (x)	7.5	6.7	5.8	5.0

Cyient – Consolidated

Rating: BUY | CMP: Rs491 | TP: Rs584

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	44,275	40,889	45,352	50,661
EBITDA (Rs. m)	5,959	5,676	7,117	7,630
Margin (%)	13.5	13.9	15.7	15.1
PAT (Rs. m)	3,707	3,603	4,469	4,903
EPS (Rs.)	33.0	32.1	39.8	43.7
Gr. (%)	(25.4)	(2.8)	24.0	9.7
DPS (Rs.)	11.8	11.5	14.2	15.6
Yield (%)	2.4	2.3	2.9	3.2
RoE (%)	14.5	13.5	15.4	15.5
RoCE (%)	14.0	12.4	15.5	15.8
EV/Sales (x)	1.1	1.1	1.0	0.9
EV/EBITDA (x)	8.1	8.3	6.4	5.8
PE (x)	14.8	15.3	12.3	11.2
P/BV (x)	2.1	1.9	1.8	1.6

HCL Technologies – Consolidated

Rating: BUY | CMP: Rs870 | TP: Rs1,108

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	707	755	849	942
EBITDA (Rs. bn)	167	195	214	231
Margin (%)	23.6	25.8	25.3	24.5
PAT (Rs. bn)	111	124	145	155
EPS (Rs.)	40.8	45.7	53.6	57.2
Gr. (%)	10.8	12.0	17.3	6.8
DPS (Rs.)	7.0	10.0	12.0	12.0
Yield (%)	0.8	1.1	1.4	1.4
RoE (%)	23.7	21.8	21.6	19.8
RoCE (%)	27.0	26.0	25.3	23.3
EV/Sales (x)	3.2	3.0	2.6	2.2
EV/EBITDA (x)	13.5	11.7	10.3	9.1
PE (x)	21.3	19.1	16.2	15.2
P/BV (x)	4.6	3.8	3.2	2.8

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LTTS was recognized with the Frost & Sullivan 2020 Global Customer Value Leadership Award for its intelligent building experience management system, i-BEMS

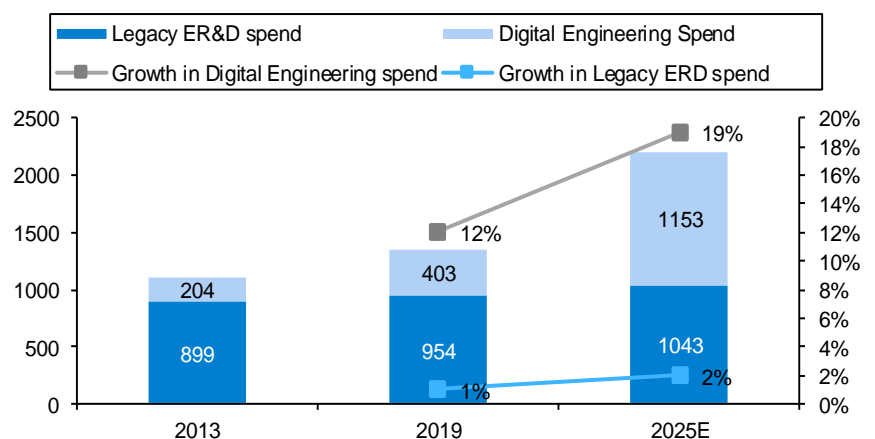
Cyient retains leadership position in engineering and R&D services by Zinnov Consulting for the seventh consecutive year

Digital Engineering spend will be 53% of ER&D spend by 2025 i.e. 2.9x increase.

Focus of ER&D spenders will be i) product development velocity ii) product ownership experience iii) Alternate revenue streams iv) Process & Quality control v) Biz Model & Tech convergence

- **Cyient** partnered with 1) SaaS Provider Decipher to support the global rollout of key cloud mining platform. 2) Partnership with SPRINT to enable Cyient identify new business opportunities, to lower its product development costs and to offer cutting edge geospatial solutions with higher precision.
- **KPIT** received an important strategic large deal from BMW Group for the next generation charging electronics program. The series order is spread over several years.
- **Tata Elxsi** has been selected as the global engineering services partner by Aesculap, a subsidiary of B. Braun, one of the world's leading manufacturers of medical devices and pharmaceutical products and services.
- **Wipro** won large multi-year deal with Marelli in automotive engineering services.
- Rolls-Royce will shift significant share of its capabilities in aerospace to Infy.

Exhibit 1: Digital engineering spend to increase by 19% over next 5 years



Source: Zinnov, PL

- ER&D spending across verticals such as Aerospace and Transportation decreased substantially as these sectors were heavily impacted by the pandemic. However, verticals such as Semiconductor, Telecom and Healthcare have remained buoyant in the face of COVID.
- **EV practice gaining good traction:** LTTS has opened a state-of-the-art EV lab to work on technologies that will improve the performance and endurance of electric vehicles. With Auto giants investing heavily in electric and autonomous vehicles, LTTS's EV practice is seeing good traction across top Auto OEMs and suppliers.

In a post-election survey by Deloitte in US, 76% of manufacturers said they intended to increase their investment in digital technology, roughly three times the rate of 2019. Increasingly, manufacturers are recognizing the importance of digital twins with 24% saying digital twins are a key investment in 2021.

Utilization of various wearables, including ECG and EKG monitors, sensors in combination with telemedicine has given rise to Internet of Medical Things (IoMT). As per IDC, Healthcare will deliver the strongest industry gains of 14.5% in IoT spending this year.

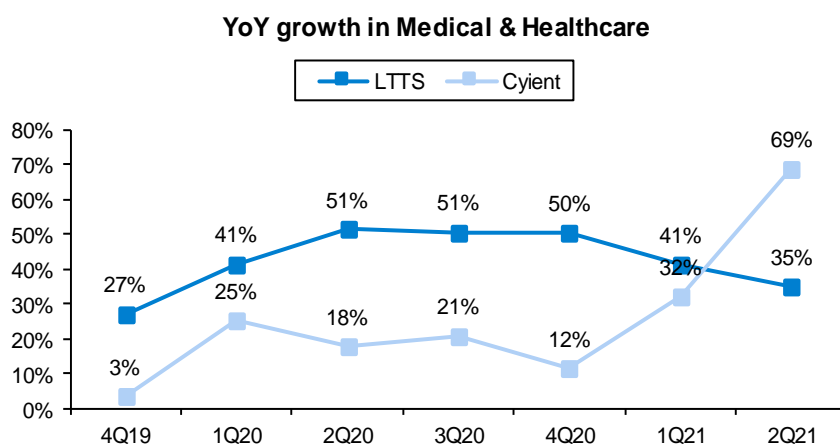
Exhibit 2: Commentary of Auto Manufacturers

General Motors	Co. announced in Nov 2020 that it would spend \$27 billion on autonomous and wholly electric vehicles through 2025. (up 35% from the earlier investment plan)
Ford	Co. is developing all-new electric versions of the F-150 & the Transit, the two most important, highest-volume commercial vehicles in their industry
Volkswagen	The Group will spend around EUR 73 billion on electrification, hybrid powertrains, and digital technology over the next five years.
Fiat Chrysler Automobiles	Co. plans to spend \$150 million to set up a global technology center in Hyderabad, to shift from legacy to digital through adoption of emerging technologies

Source: Company, PL

- Medical & Healthcare are fast growing:** Medical devices & healthcare is the only sector which has grown high double digit amid the pandemic. Though currently the vertical contributes only 13.2%/8.2% to LLTS/Cyient revenues, it is going to drive growth in coming quarters. LLTS is expanding their presence beyond the Med-tech sector, to target the Pharma and Provider space, as their spends are large in areas like digital therapeutics and Connected Hospitals. Cyient is looking to play a larger role in healthcare engineering services, including diagnostics and vaccine distribution, in the areas of cold-chain monitoring. Cyient has added one of the top three medical device manufacturers in 2QFY21.

Exhibit 3: Healthcare has grown high double digit amid the pandemic

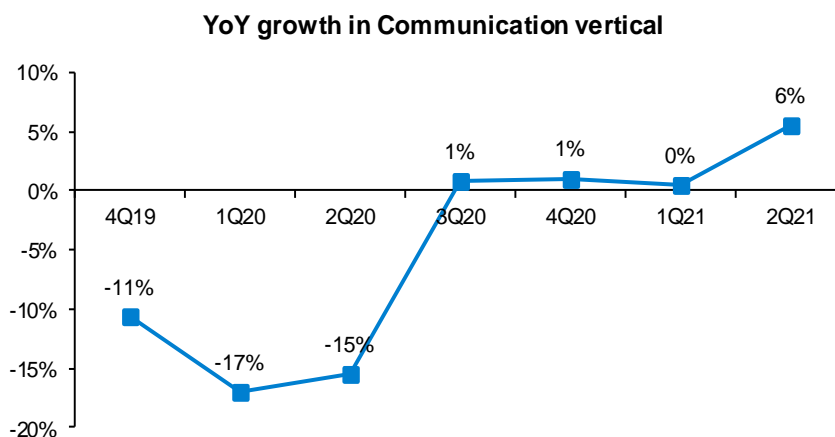


Source: Company, PL

- Significant acceleration in 5G rollout:** Cyient is seeing significant shift of 5G network rollouts that were planned for next 2 years to the current year or for the next 12 months. In the communications vertical, Cyient's expertise is around intelligent infrastructure design, smart operations and enterprise network efficiency. **Management estimated USD1bn worth of investments to be made for upgrading and creating new infrastructure in the mobile space and another USD250bn of investment (in the next 3-5 years) for connecting millions homes in Europe to a fiber based broadband rollout.**

- Tier 1 companies are also implementing their global strategy to accelerate and innovate the 5G ecosystem. **Capgemini** has launched Altran's 5G Lab and 5G Lab-as-a-Service (LaaS).
- Similarly, TechM partnered with Rakuten to setup up 5G labs and LaaS. Tech Mahindra's ERD business contributes ~US\$600-700 mn of revenues accounting for ~14% of overall revenues. Automotive is the largest vertical followed by aerospace.

Exhibit 4: Cyient is seeing significant investment in network transformation



Source: Company, PL

Exhibit 5: Engineering a core function of services led verticals will account for 20% of digital engineering spend by 2025

Digital engineering spend (USD Bn)	FY2019	FY2025E	6-Y CAGR	Key Areas of spend
BFSI	32	86	18%	Robo Investment Advisory Payments Tech Telematics based insurance Fraud Detection Management Customer Insights & Intelligence
Retail	19	59	21%	Transformation of in store shopping experience Connected products for monitoring and feedback Omni channel experiences Robotic automation
Healthcare Payers & Providers	18	51	19%	Remote patient monitoring Diagnosis prediction Healthcare robots Patient experience platforms Physician assistance tech
Media & Technology	11	38	23%	OTT AI/ML based content recommendation and tagging Targeted advertising using intelligent platforms

Source: Zinnov, PL

Exhibit 6: Engineering is driving core functions in many enterprises

Walt Disney	Driving the core organization structure Created a streaming video unit in 2018 to embrace online video. Launched ESPN Plus and Disney Plus
J. P. Morgan	Targeted Investments Spends 11 B on tech annually and focus areas include AI, ML, block chain, and big data
Walmart	Leadership to drive innovation Walmart appointed Suresh Kumar as CTO & CDO (eg. Google, Microsoft, Amazon, IBM)

Source: Zinnov, PL

Change in Estimates

LTTS

We believe with recent 2 big deal wins & increasing discretionary spends, LTTS revenue growth will pick up faster than expected & along with it there will be improvement in margins also. We have increased our revenue growth estimates for FY21/22/23 to -6.2%/17.4%/16.5% (earlier: -7.2%, 14.1%, 9.5%) and increased margin estimates by 25-50bps for FY22/23E. We increased our EPS estimates by avg 10% for FY22/23E led by revenue & margin improvement.

We assign 25X (earlier 22X) multiple, 12% premium to 5-year avg multiple of 23X to arrive at a changed TP of INR2509 (earlier: INR1860). We are estimating 16.9% revenue CAGR & 26.1% EPS CAGR for FY21-22E. LTTS is currently trading at 26.4X/22X on FY22/23 earnings of INR 83.6/100.4 respectively. Upgrade to Buy from Accumulate.

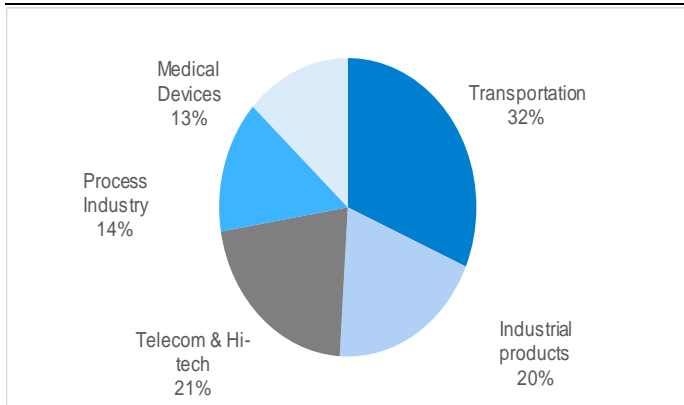
Exhibit 7: Change in Estimates

Change in Estimates	FY21E	FY22E	FY23E
USD revenues (US\$ m)			
- New	738	866	1,009
- Old	730	833	913
<i>Change (%)</i>	<i>1.0%</i>	<i>3.9%</i>	<i>10.5%</i>
EBIT Margin			
- New	14.4%	16.4%	16.1%
- Old	14.0%	15.9%	15.9%
<i>Change (%)</i>	<i>41 bps</i>	<i>50 bps</i>	<i>25 bps</i>
Recurring EPS - Fully diluted (Rs)			
- New	62.2	82.3	98.8
- Old	58.3	77.2	89.3
<i>Change (%)</i>	<i>6.6%</i>	<i>6.6%</i>	<i>10.7%</i>

Source: PL

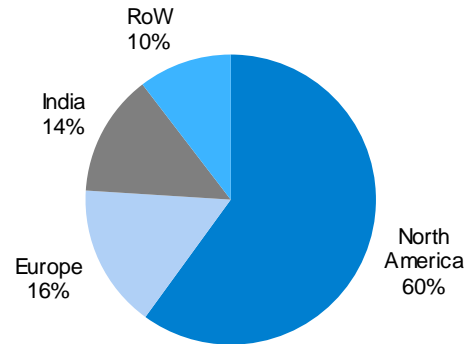
LTTS Trends

Exhibit 8: Well Diversified Mix



Source: Company, PL

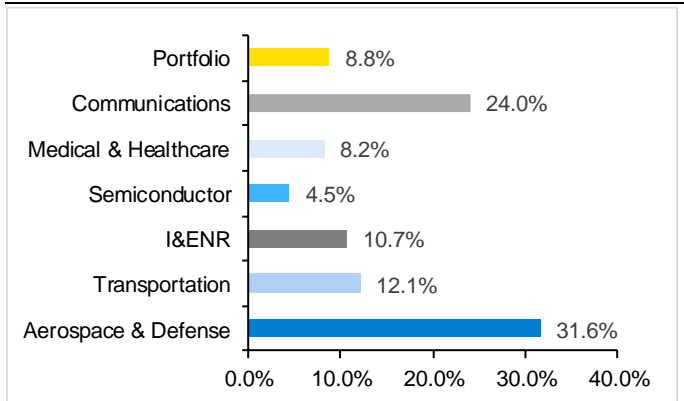
Exhibit 9: North America contributes 60% to revenues



Source: Company, PL

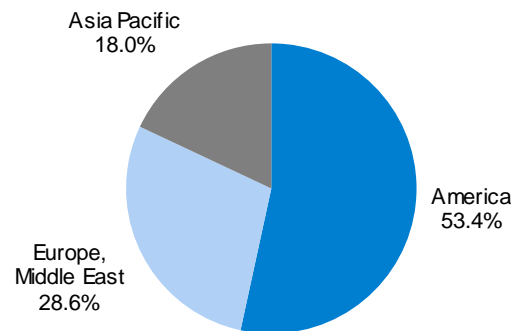
Cyient Trends

Exhibit 10: Aero space accounts to 31.6% of revenues



Source: Company, PL

Exhibit 11: Europe & Middle East accounts to 28.6% of revs



Source: Company, PL

L&T Technology Services - Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	56,192	54,847	65,803	77,655
YoY gr. (%)	10.7	(2.4)	20.0	18.0
Employee Cost	33,700	34,465	40,798	48,537
Gross Profit	22,492	20,382	25,005	29,118
Margin (%)	40.0	37.2	38.0	37.5
SG&A Expenses	11,386	10,382	12,007	13,978
Other Expenses	-	-	-	-
EBITDA	11,106	10,000	12,998	15,140
YoY gr. (%)	21.3	(10.0)	30.0	16.5
Margin (%)	19.8	18.2	19.8	19.5
Depreciation and Amortization	1,829	2,112	2,201	2,623
EBIT	9,277	7,888	10,797	12,517
Margin (%)	16.5	14.4	16.4	16.1
Net Interest	365	236	139	40
Other Income	2,091	1,203	1,000	1,600
Profit Before Tax	11,003	8,855	11,658	14,077
Margin (%)	19.6	16.1	17.7	18.1
Total Tax	2,778	2,262	2,939	3,519
Effective tax rate (%)	25.2	25.5	25.2	25.0
Profit after tax	8,225	6,593	8,719	10,558
Minority interest	38	26	20	20
Share Profit from Associate	-	-	-	-
Adjusted PAT	8,187	6,567	8,699	10,538
YoY gr. (%)	6.8	(19.8)	32.5	21.1
Margin (%)	14.6	12.0	13.2	13.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	8,187	6,567	8,699	10,538
YoY gr. (%)	6.8	(19.8)	32.5	21.1
Margin (%)	14.6	12.0	13.2	13.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	8,187	6,567	8,699	10,538
Equity Shares O/s (m)	104	104	104	104
EPS (Rs)	78.8	63.1	83.6	100.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	6,304	7,004	8,204	9,404
Tangibles	2,800	3,220	3,940	4,660
Intangibles	3,504	3,784	4,264	4,744
Acc: Dep / Amortization	5,102	7,214	9,415	12,038
Tangibles	2,364	3,537	4,758	6,215
Intangibles	2,738	3,677	4,656	5,823
Net fixed assets	1,202	(210)	(1,211)	(2,634)
Tangibles	436	(317)	(818)	(1,555)
Intangibles	766	107	(392)	(1,079)
Capital Work In Progress	-	-	-	-
Goodwill	5,365	5,365	5,365	5,365
Non-Current Investments	1,362	1,362	1,362	1,362
Net Deferred tax assets	(8)	(8)	(8)	(8)
Other Non-Current Assets	635	635	635	635
Current Assets				
Investments	5,849	5,949	6,049	6,149
Inventories	-	-	-	-
Trade receivables	11,777	11,495	13,791	16,275
Cash & Bank Balance	3,336	8,828	16,539	21,968
Other Current Assets	7,585	7,595	4,136	4,336
Total Assets	38,972	43,080	48,928	55,918
Equity				
Equity Share Capital	208	208	208	208
Other Equity	29,517	33,475	38,718	45,069
Total Network	29,725	33,683	38,926	45,277
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	702	702	702	702
Trade payables	2,079	2,029	2,435	2,873
Other current liabilities	6,241	6,441	6,641	6,841
Total Equity & Liabilities	38,972	43,080	48,928	55,918

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	10,965	8,829	11,658	14,077
Add. Depreciation	1,829	2,112	2,201	2,623
Add. Interest	(890)	(486)	(461)	(920)
Less Financial Other Income	2,091	1,203	1,000	1,600
Add. Other	-	-	-	-
Op. profit before WC changes	11,905	10,455	13,398	15,780
Net Changes-WC	(4,782)	222	(2,091)	(2,245)
Direct tax	(2,778)	(2,262)	(2,939)	(3,519)
Net cash from Op. activities	4,344	8,415	8,368	10,015
Capital expenditures	(700)	(700)	(1,200)	(1,200)
Interest / Dividend Income	1,255	722	600	960
Others	(100)	(100)	(100)	(100)
Net Cash from Invt. activities	455	(78)	(700)	(340)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(3,253)	(2,609)	(3,456)	(4,187)
Interest paid	(365)	(236)	(139)	(40)
Others	-	-	-	-
Net cash from Fin. activities	(3,618)	(2,845)	(3,595)	(4,227)
Net change in cash	1,181	5,491	4,073	5,449
Free Cash Flow	3,644	7,715	7,168	8,815

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	78.8	63.1	83.6	100.4
CEPS	96.3	83.5	104.8	126.5
BVPS	285.8	323.9	374.3	435.4
FCF	35.0	74.2	68.9	84.8
DPS	26.0	20.8	27.6	33.4
Return Ratio(%)				
RoCE	33.2	24.3	29.2	29.2
ROIC	32.6	30.0	47.4	52.6
RoE	30.0	20.7	24.0	25.0
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.4)	(0.6)	(0.6)
Debtor (Days)	76	76	76	76
Valuation(x)				
PER	27.4	34.2	25.8	21.5
P/B	7.5	6.7	5.8	5.0
P/CEPS	96.3	83.5	104.8	126.5
EV/EBITDA	19.4	21.0	15.6	13.0
EV/Sales	3.8	3.8	3.1	2.5
Dividend Yield (%)	1.2	1.0	1.3	1.6

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	14,230	14,466	12,947	13,138
YoY gr. (%)	8.1	7.7	(3.9)	(6.3)
Raw Material Expenses	8,303	8,415	8,402	8,161
Gross Profit	5,927	6,051	4,545	4,977
Margin (%)	41.7	41.8	35.1	37.9
EBITDA	2,864	2,683	2,059	2,328
YoY gr. (%)	18.5	7.7	(24.5)	(17.8)
Margin (%)	20.1	18.5	15.9	17.7
Depreciation / Depletion	472	485	492	527
EBIT	2,392	2,198	1,567	1,801
Margin (%)	16.8	15.2	12.1	13.7
Net Interest	89	94	107	109
Other Income	443	614	137	566
Profit before Tax	2,746	2,718	1,597	2,258
Margin (%)	19.3	18.8	12.3	17.2
Total Tax	687	655	417	595
Effective tax rate (%)	25.0	24.1	26.1	26.4
Profit after Tax	2,059	2,063	1,180	1,663
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,059	2,063	1,180	1,663
YoY gr. (%)	10.6	6.6	(42.2)	(19.4)
Margin (%)	14.5	14.3	9.1	12.7
Extra Ord. Income / (Exp)	-	-	(632)	-
Reported PAT	2,059	2,063	548	1,663
YoY gr. (%)	10.6	7.2	(73.2)	(19.4)
Margin (%)	14.5	14.3	4.2	12.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,059	2,063	548	1,663
Avg. Shares O/s (m)	106	106	163	105
EPS (Rs)	19.5	19.5	7.3	15.8

Source: Company Data, PL Research

Cyient - Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	44,275	40,889	45,352	50,661
YoY gr. (%)	(4.1)	(7.6)	10.9	11.7
Employee Cost	24,537	22,447	24,490	27,553
Gross Profit	19,738	18,442	20,862	23,108
Margin (%)	44.6	45.1	46.0	45.6
SG&A Expenses	13,779	12,766	13,745	15,478
Other Expenses	-	-	-	-
EBITDA	5,959	5,676	7,117	7,630
YoY gr. (%)	(7.5)	(4.8)	25.4	7.2
Margin (%)	13.5	13.9	15.7	15.1
Depreciation and Amortization	1,878	1,910	2,041	2,026
EBIT	4,081	3,765	5,076	5,603
Margin (%)	9.2	9.2	11.2	11.1
Net Interest	517	315	216	216
Other Income	1,250	1,177	950	1,000
Profit Before Tax	4,814	4,627	5,810	6,387
Margin (%)	10.9	11.3	12.8	12.6
Total Tax	1,076	1,146	1,452	1,597
Effective tax rate (%)	22.4	24.8	25.0	25.0
Profit after tax	3,738	3,481	4,357	4,791
Minority interest	-	-	-	-
Share Profit from Associate	(31)	122	112	112
Adjusted PAT	3,707	3,603	4,469	4,903
YoY gr. (%)	(24.2)	(2.8)	24.0	9.7
Margin (%)	8.4	8.8	9.9	9.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,707	3,603	4,469	4,903
YoY gr. (%)	(24.2)	(2.8)	24.0	9.7
Margin (%)	8.4	8.8	9.9	9.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,707	3,603	4,469	4,903
Equity Shares O/s (m)	110	110	110	110
EPS (Rs)	33.0	32.1	39.8	43.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	15,616	18,616	21,616	24,616
Tangibles	10,033	12,433	14,833	17,233
Intangibles	5,583	6,183	6,783	7,383
Acc: Dep / Amortization	10,644	12,554	14,595	16,622
Tangibles	5,828	6,879	8,001	9,116
Intangibles	4,816	5,676	6,594	7,506
Net fixed assets	4,972	6,062	7,021	7,994
Tangibles	4,205	5,554	6,832	8,117
Intangibles	767	507	189	(123)
Capital Work In Progress	4,163	4,163	4,163	4,163
Goodwill	5,374	5,374	5,374	5,374
Non-Current Investments	723	943	1,163	1,383
Net Deferred tax assets	18	18	18	18
Other Non-Current Assets	1,519	1,519	1,519	1,519
Current Assets				
Investments	-	100	200	300
Inventories	2,267	2,267	2,267	2,267
Trade receivables	7,262	7,282	8,076	9,022
Cash & Bank Balance	9,518	10,735	12,186	12,795
Other Current Assets	1,192	1,212	1,232	1,252
Total Assets	41,797	44,463	48,008	50,877
Equity				
Equity Share Capital	550	550	550	550
Other Equity	25,059	27,144	29,730	32,566
Total Network	25,609	27,694	30,280	33,116
Non-Current Liabilities				
Long Term borrowings	859	859	859	859
Provisions	1,151	1,251	1,351	1,451
Other non current liabilities	24	24	24	24
Current Liabilities				
ST Debt / Current of LT Debt	2,879	2,879	2,879	2,879
Trade payables	3,729	4,079	4,807	4,609
Other current liabilities	4,527	4,658	4,788	4,918
Total Equity & Liabilities	41,797	44,463	48,008	50,877

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	4,783	4,749	5,922	6,499
Add. Depreciation	1,878	1,910	2,041	2,026
Add. Interest	517	315	216	216
Less Financial Other Income	1,250	1,177	950	1,000
Add. Other	(1,250)	(1,177)	(950)	(1,000)
Op. profit before WC changes	5,928	5,798	7,229	7,742
Net Changes-WC	1,257	521	124	(953)
Direct tax	(1,076)	(1,146)	(1,452)	(1,597)
Net cash from Op. activities	6,109	5,172	5,900	5,192
Capital expenditures	(5,567)	(3,000)	(3,000)	(3,000)
Interest / Dividend Income	1,250	1,177	950	1,000
Others	(38)	(300)	(300)	(300)
Net Cash from Invt. activities	(4,355)	(2,123)	(2,350)	(2,300)
Issue of share cap. / premium	-	-	-	-
Debt changes	485	-	-	-
Dividend paid	(1,562)	(1,518)	(1,883)	(2,066)
Interest paid	(517)	(315)	(216)	(216)
Others	1,953	1	-	-
Net cash from Fin. activities	359	(1,832)	(2,099)	(2,282)
Net change in cash	2,113	1,217	1,451	610
Free Cash Flow	542	2,172	2,900	2,192

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	33.0	32.1	39.8	43.7
CEPS	50.8	50.1	59.2	63.0
BVPS	232.8	251.8	275.3	301.1
FCF	4.9	19.7	26.4	19.9
DPS	11.8	11.5	14.2	15.6
Return Ratio(%)				
RoCE	14.0	12.4	15.5	15.8
ROIC	16.0	13.8	17.6	17.7
RoE	14.5	13.5	15.4	15.5
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.3)	(0.3)	(0.3)
Debtor (Days)	60	65	65	65
Valuation(x)				
PER	14.8	15.3	12.3	11.2
P/B	2.1	1.9	1.8	1.6
P/CEPS	9.7	9.8	8.3	7.8
EV/EBITDA	8.1	8.3	6.4	5.8
EV/Sales	1.1	1.1	1.0	0.9
Dividend Yield (%)	2.4	2.3	2.9	3.2

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	11,060	10,736	9,917	10,033
YoY gr. (%)	(6.9)	(7.7)	(8.9)	(13.4)
Raw Material Expenses	6,422	6,327	5,825	5,375
Gross Profit	4,638	4,409	4,092	4,658
Margin (%)	41.9	41.1	41.3	46.4
EBITDA	1,533	1,382	947	1,589
YoY gr. (%)	(12.3)	(21.1)	(34.5)	(0.6)
Margin (%)	13.9	12.9	9.5	15.8
Depreciation / Depletion	470	478	484	484
EBIT	1,063	904	463	1,105
Margin (%)	9.6	8.4	4.7	11.0
Net Interest	129	134	100	107
Other Income	498	206	684	93
Profit before Tax	1,432	674	1,047	1,091
Margin (%)	12.9	6.3	10.6	10.9
Total Tax	333	208	272	252
Effective tax rate (%)	23.3	30.9	26.0	23.1
Profit after Tax	1,099	466	775	839
Minority interest	-	-	-	-
Share Profit from Associates	(16)	(15)	38	28
Adjusted PAT	1,083	451	813	867
YoY gr. (%)	17.3	(74.4)	(9.4)	(11.0)
Margin (%)	9.8	4.2	8.2	8.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,083	451	813	867
YoY gr. (%)	17.3	(74.4)	(9.4)	(11.0)
Margin (%)	9.8	4.2	8.2	8.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,083	451	813	867
Avg. Shares O/s (m)	113	113	113	113
EPS (Rs)	9.6	4.0	7.2	7.7

Source: Company Data, PL Research

HCL Technologies - Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	7,06,800	7,54,767	8,48,581	9,41,964
YoY gr. (%)	17.0	6.8	12.4	11.0
Employee Cost	4,43,080	4,56,700	5,23,952	5,88,865
Gross Profit	2,63,720	2,98,067	3,24,629	3,53,099
Margin (%)	37.3	39.5	38.3	37.5
SG&A Expenses	-	-	-	-
Other Expenses	-	-	-	-
EBITDA	1,66,950	1,94,703	2,14,314	2,30,644
YoY gr. (%)	19.5	16.6	10.1	7.6
Margin (%)	23.6	25.8	25.3	24.5
Depreciation and Amortization	28,400	35,979	36,032	39,990
EBIT	1,38,550	1,58,724	1,78,282	1,90,654
Margin (%)	19.6	21.0	21.0	20.2
Net Interest	-	-	-	-
Other Income	1,790	4,610	4,140	4,140
Profit Before Tax	1,40,340	1,63,334	1,82,422	1,94,794
Margin (%)	19.9	21.6	21.5	20.7
Total Tax	29,380	39,156	37,047	39,522
Effective tax rate (%)	20.9	24.0	20.3	20.3
Profit after tax	1,10,960	1,24,178	1,45,375	1,55,272
Minority interest	320	240	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,10,640	1,23,938	1,45,375	1,55,272
YoY gr. (%)	9.3	12.0	17.3	6.8
Margin (%)	15.7	16.4	17.1	16.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,10,640	1,23,938	1,45,375	1,55,272
YoY gr. (%)	9.3	12.0	17.3	6.8
Margin (%)	15.7	16.4	17.1	16.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,10,640	1,23,938	1,45,375	1,55,272
Equity Shares O/s (m)	2,713	2,714	2,714	2,714
EPS (Rs)	40.8	45.7	53.6	57.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	3,56,650	4,18,542	4,34,717	4,50,818
Tangibles	62,440	1,30,132	1,46,307	1,62,408
Intangibles	2,94,210	2,88,410	2,88,410	2,88,410
Acc: Dep / Amortization	-	-	-	-
Tangibles	-	-	-	-
Intangibles	-	-	-	-
Net fixed assets	3,56,650	4,18,542	4,34,717	4,50,818
Tangibles	62,440	1,30,132	1,46,307	1,62,408
Intangibles	2,94,210	2,88,410	2,88,410	2,88,410
Capital Work In Progress	-	-	-	-
Goodwill	-	-	-	-
Non-Current Investments	770	780	780	780
Net Deferred tax assets	-	-	-	-
Other Non-Current Assets	90,500	84,130	84,130	84,130
Current Assets				
Investments	-	-	-	-
Inventories	-	-	-	-
Trade receivables	1,77,720	1,81,971	2,04,589	2,27,104
Cash & Bank Balance	1,53,730	1,05,590	1,90,282	2,84,974
Other Current Assets	52,790	46,796	52,612	58,402
Total Assets	8,32,160	8,37,809	9,67,111	11,06,207
Equity				
Equity Share Capital	1,341	1,341	1,341	1,341
Other Equity	5,15,520	6,19,175	7,25,961	8,42,645
Total Networth	5,16,860	6,20,515	7,27,302	8,43,985
Non-Current Liabilities				
Long Term borrowings	50,920	31,000	31,000	31,000
Provisions	-	-	-	-
Other non current liabilities	50,210	30,191	33,943	37,679
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,08,890	1,50,953	1,69,716	1,88,393
Other current liabilities	-	-	-	-
Total Equity & Liabilities	8,32,160	8,37,809	9,67,111	11,06,207

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	1,40,340	1,63,334	1,82,422	1,94,794
Add. Depreciation	28,400	35,979	36,032	39,990
Add. Interest	-	-	-	-
Less Financial Other Income	1,790	4,610	4,140	4,140
Add. Other	-	-	-	-
Op. profit before WC changes	1,68,740	1,99,313	2,18,454	2,34,784
Net Changes-WC	47,420	(69,843)	(5,919)	(5,892)
Direct tax	(29,380)	(39,156)	(37,047)	(39,522)
Net cash from Op. activities	1,86,780	90,314	1,75,487	1,89,370
Capital expenditures	(1,50,090)	(97,871)	(52,206)	(56,090)
Interest / Dividend Income	-	-	-	-
Others	(420)	(10)	-	-
Net Cash from Invst. activities	(1,50,510)	(97,881)	(52,206)	(56,090)
Issue of share cap. / premium	-	-	-	-
Debt changes	11,060	(19,920)	-	-
Dividend paid	(22,220)	(32,157)	(38,588)	(38,588)
Interest paid	-	-	-	-
Others	11,160	11,504	-	-
Net cash from Fin. activities	-	(40,573)	(38,588)	(38,588)
Net change in cash	36,270	(48,140)	84,692	94,691
Free Cash Flow	36,690	(7,557)	1,23,281	1,33,279

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	40.8	45.7	53.6	57.2
CEPS	51.2	58.9	66.8	72.0
BVPS	190.5	228.7	268.0	311.0
FCF	13.5	(2.8)	45.4	49.1
DPS	7.0	10.0	12.0	12.0
Return Ratio(%)				
RoCE	27.0	26.0	25.3	23.3
ROIC	45.2	43.8	38.5	31.4
RoE	23.7	21.8	21.6	19.8
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.1)	(0.2)	(0.3)
Debtor (Days)	92	88	88	88
Valuation(x)				
PER	21.3	19.1	16.2	15.2
P/B	4.6	3.8	3.2	2.8
P/CEPS	17.0	14.8	13.0	12.1
EV/EBITDA	13.5	11.7	10.3	9.1
EV/Sales	3.2	3.0	2.6	2.2
Dividend Yield (%)	0.8	1.1	1.4	1.4

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	1,81,350	1,85,900	1,78,410	1,85,940
YoY gr. (%)	15.5	16.3	8.6	6.1
Raw Material Expenses	1,11,760	1,11,510	1,07,280	1,09,290
Gross Profit	69,590	74,390	71,130	76,650
Margin (%)	38.4	40.0	39.9	41.2
EBITDA	44,700	47,200	45,660	49,510
YoY gr. (%)	22.6	31.2	34.2	20.7
Margin (%)	24.6	25.4	25.6	26.6
Depreciation / Depletion	8,000	8,390	9,060	9,350
EBIT	36,700	38,810	36,600	40,160
Margin (%)	20.2	20.9	20.5	21.6
Net Interest	-	-	-	-
Other Income	670	(130)	2,050	1,360
Profit before Tax	37,370	38,680	38,650	41,520
Margin (%)	20.6	20.8	21.7	22.3
Total Tax	6,910	7,070	9,290	9,990
Effective tax rate (%)	18.5	18.3	24.0	24.1
Profit after Tax	30,460	31,610	29,360	31,530
Minority interest	80	80	130	110
Share Profit from Associates	-	-	-	-
Adjusted PAT	30,380	31,530	29,230	31,420
YoY gr. (%)	16.4	22.8	31.5	18.5
Margin (%)	16.8	17.0	16.4	16.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	30,380	31,530	29,230	31,420
YoY gr. (%)	16.4	22.8	31.5	18.5
Margin (%)	16.8	17.0	16.4	16.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	30,380	31,530	29,230	31,420
Avg. Shares O/s (m)	2,714	2,714	2,714	2,714
EPS (Rs)	11.2	11.6	10.8	11.6

Source: Company Data, PL Research

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Coforge	BUY	2,784	2,457
2	Cyient	BUY	492	485
3	HCL Technologies	BUY	1,101	830
4	Infosys	BUY	1,436	1,137
5	L&T Technology Services	Accumulate	1,860	1,754
6	Larsen & Toubro Infotech	BUY	3,465	3,259
7	Mindtree	BUY	1,625	1,441
8	Mphasis	BUY	1,711	1,382
9	Persistent Systems	BUY	1,368	1,189
10	Redington (India)	BUY	138	138
11	Sonata Software	BUY	427	339
12	Tata Consultancy Services	BUY	3,200	2,736
13	TeamLease Services	BUY	2,677	2,724
14	Tech Mahindra	BUY	1,042	848
15	Wipro	BUY	415	345
16	Zensar Technologies	BUY	215	225

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Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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