

## HCL Tech to acquire DWS Limited....

HCL Tech has announced its intent to acquire DWS Limited (DWS) for Australian \$158.2 million (~₹ 849.2 crore) valuing the company at 0.94x EV/Sales (based on FY20 Sales) and ~21x FY20 EPS. The acquisition is subject to regulatory approvals and is expected completion timeline is by December 2020. The acquisition will add ~1% to company's top line in FY22E and will also help the company in expanding its presence in Australia and New Zealand. The company will also be able to cross sell and up sell to existing clients of DWS. Although DWS's PAT margins (~4.4%) are lower than HCL Tech's PAT margins (15.7%), we believe the company's global model will help DWS improve margins in coming quarters. Strategic acquisition coupled with improving organic growth keeps us positive on the stock from a long term perspective

### Rationale for acquisition

DWS generates 29% of revenues from Banking & Financials, 43% from Government & Defence, 6% from utilities and 7% from IT services and others 15%. DWS has over 700 employees and offices in Melbourne, Sydney, Adelaide, Brisbane, and Canberra, delivers business and technology innovation to large clients across a spectrum of verticals. HCL Tech currently has 1600 employees in Australia and this acquisition will further help in scaling up its presence in Australia & New Zealand. In addition, HCL Tech will also be able to cross sell and up sell its product and services to DWS clients. In addition, we believe considering the company's global model we expect the company will be able to improve DWS margins by higher offshoring.

### Valuation & Outlook

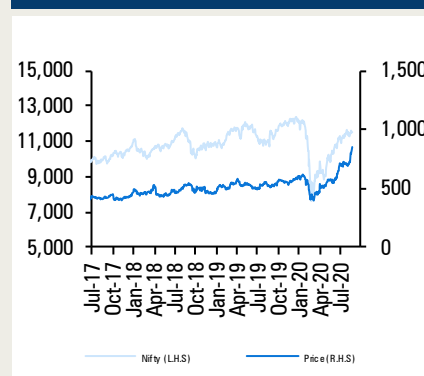
We believe the acquisition of DWS will boost the company's revenue and geographic presence. Further, the acquisition also has scope for margin expansion led by higher offshoring. In addition, the company's recent upward revision in Q2FY21E revenues & margins, coupled with improving organic growth keeps us positive on the stock from a long term perspective. Further, considering opportunities in cloud consumption, cyber Security, automation, app modernisation, we remain optimistic on HCL Tech's revenue trajectory. Further, we expect various cost rationalisation measures of the company to drive margin improvement in coming quarters. This has prompted us to revise our EPS estimates and target price upwards. However, recent run up in price factors in most of the positives and hence, maintain BUY rating on the stock with a revised target price of ₹ 885/per share (17x FY22E EPS).



#### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	226,960.9
Total Debt (₹ Crore)	4,693.0
Cash & Equivalents (₹ Crore)	11,965.0
EV (₹ Crore)	219,688.9
52 week H/L	850 / 375
Equity capital	542.3
Face value	₹ 2

#### Price Chart



#### Key Highlights

- Acquisition of DWS will add ~1% to FY22E revenues and it also has scope for margin expansion led by higher offshoring
- The company's recent upward revision in Q2FY21E revenues & margins, coupled with improving organic growth keeps us positive on the stock from a long term perspective
- Revise target price upwards maintain HOLD

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#### Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR FY(20-22E)
Net Sales	50,570	60,427	70,678	73,330	83,230	8.5%
EBITDA	11,440	13,968	16,694	18,956	21,473	13.4%
Margins (%)	22.6	23.1	23.6	25.9	25.8	
Net Profit	8,780	10,122	11,062	12,433	97	12.9%
EPS (₹)	31.5	37.3	40.8	45.8	52.0	
P/E	26.5	22.4	20.5	18.3	16.1	
RoNW (%)	24.1	24.5	21.6	20.3	19.6	
RoCE (%)	29.2	26.9	23.0	22.9	23.0	

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 1: Profit and loss statement		₹ crore			
	FY19	FY20	FY21E	FY22E	
<b>Total operating Income</b>	<b>60,427</b>	<b>70,678</b>	<b>73,330</b>	<b>83,230</b>	
Growth (%)	19.5	17.0	3.8	13.5	
Direct costs	39,268	45,295	45,282	51,270	
S,G&A expenses	7,191	8,690	9,093	10,487	
Total Operating Expenditure	46,459	53,985	54,375	61,757	
<b>EBITDA</b>	<b>13,968</b>	<b>16,694</b>	<b>18,956</b>	<b>21,473</b>	
Growth (%)	22.1	19.5	13.5	13.3	
Depreciation	2,148	2,841	3,317	3,505	
Amortisation	-	-	-	-	
Net Other Income	805	178	301	340	
PBT	12,625	14,031	15,940	18,308	
Forex adjustments	-	-	-	-	
Total Tax	2,481	2,938	3,507	4,211	
<b>PAT</b>	<b>10,122</b>	<b>11,062</b>	<b>12,433</b>	<b>14,097</b>	
Growth (%)	15.3	9.3	12.4	13.4	
EPS (₹)	37.3	40.8	45.8	52.0	
Growth (%)	18.4	9.2	12.4	13.4	

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet		₹ crore			
	FY19	FY20	FY21E	FY22E	
<b>Liabilities</b>					
Equity Capital	542	543	543	543	
Reserve and Surplus	40,824	50,724	60,670	71,243	
Total Shareholders funds	41,366	51,267	61,213	71,786	
Total Debt	3,701	4,693	3,443	2,443	
Other liabilities + Provisions	1,830	4,907	4,946	5,093	
Minority Interest / Others	103	154	154	154	
<b>Total Liabilities</b>	<b>47,000</b>	<b>61,021</b>	<b>69,757</b>	<b>79,477</b>	
<b>Assets</b>					
Net Block + CWIP	5,528	8,542	7,791	7,199	
Intangible assets + Goodwill	17,595	29,348	29,348	29,348	
Investments	85	77	77	77	
Liquid investments	2,220	6,989	6,989	6,989	
Inventory	91	91	94	107	
Debtors	11,706	14,131	14,666	16,646	
Loans and Advances	1,667	3,422	3,550	3,550	
Other Current Assets	6,521	8,811	9,142	10,376	
Cash	7,872	4,976	7,456	14,936	
Total Current Assets	30,077	38,420	41,897	52,605	
Total Current Liabilities	11,575	21,885	15,876	16,271	
Net Current Assets	18,502	16,535	26,021	36,334	
Other non current assets	5,290	6,519	6,519	6,519	
<b>Application of Funds</b>	<b>47,000</b>	<b>61,021</b>	<b>69,757</b>	<b>79,477</b>	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement		₹ crore			
	FY19	FY20	FY21E	FY22E	
PBT	12,625	14,031	15,940	18,308	
Depreciation & Amortisation	2,148	3,420	3,317	3,505	
(Inc)/dec in Current Assets	(3,518)	(3,162)	(998)	(3,227)	
Inc/(dec) in CL and Provisions	1,052	1,602	(5,970)	542	
Taxes paid	(2,621)	(2,558)	(3,507)	(4,211)	
<b>CF from operating activities</b>	<b>8,971</b>	<b>13,359</b>	<b>8,482</b>	<b>14,578</b>	
(Inc)/dec in Investments	3,193	(4,452)	301	340	
(Inc)/dec in Fixed Assets	(6,266)	(7,922)	(2,567)	(2,913)	
<b>CF from investing activities</b>	<b>(3,073)</b>	<b>(12,374)</b>	<b>(2,265)</b>	<b>(2,573)</b>	
Issue/(Buy back) of Equity	-	-	-	-	
Inc/(dec) in loan funds	3,623	(246)	(1,250)	(1,000)	
Dividend paid & dividend tax	(1,321)	(1,625)	(2,487)	(3,524)	
Inc/(dec) in debentures	-	-	-	-	
Others	(3,764)	(1,297)	-	-	
<b>CF from financing activities</b>	<b>(1,471)</b>	<b>(3,168)</b>	<b>(3,737)</b>	<b>(4,524)</b>	
Net Cash flow	4,427	(2,183)	2,480	7,481	
Exchange difference	(183)	42	-	-	
Opening Cash	1,699	5,934	4,976	7,456	
Bank bal + unclaimed dvd.	-	-	-	-	
<b>Cash &amp; bank c/f to balance sh</b>	<b>7,872</b>	<b>4,976</b>	<b>7,456</b>	<b>14,936</b>	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios		₹ crore			
	FY19	FY20	FY21E	FY22E	
<b>Per share data (₹)</b>					
EPS	37.3	40.8	45.8	52.0	
Cash EPS	45.3	51.2	58.1	64.9	
BV	152.6	189.0	225.6	264.6	
DPS	8.0	9.5	9.2	13.0	
Cash Per Share	29.0	18.3	27.5	55.1	
<b>Operating Ratios (%)</b>					
EBIT Margin	19.6	19.6	21.3	21.6	
PBT Margin	20.9	19.9	21.7	22.0	
PAT Margin	16.8	15.7	17.0	16.9	
Debtor days	71	73	73	73	
<b>Return Ratios (%)</b>					
RoE	24.5	21.6	20.3	19.6	
RoCE	26.9	23.0	22.9	23.0	
RoIC	33.8	29.4	29.3	32.4	
<b>Valuation Ratios (x)</b>					
P/E	22.4	20.5	18.3	16.1	
EV / EBITDA	15.8	13.2	11.4	9.7	
EV / Net Sales	3.7	3.1	2.9	2.5	
Market Cap / Sales	3.8	3.2	3.1	2.7	
Price to Book Value	5.5	4.4	3.7	3.2	
<b>Solvency Ratios</b>					
Debt/EBITDA	0.3	0.3	0.2	0.1	
Debt/EBITDA	0.3	0.3	0.2	0.1	
Current Ratio	1.5	1.1	1.5	1.7	
Quick Ratio	1.5	1.1	1.5	1.7	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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