

HCL Technologies



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Announces intent to acquire Australian IT firm DWS, to expand presence in ANZ region

CMP INR 802	Target INR 893	Potential Upside 11.3%	Market Cap (INR Mn) INR 2,177,174	Recommendation ACCUMULATE	Sector Information Technology
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MARKET DATA

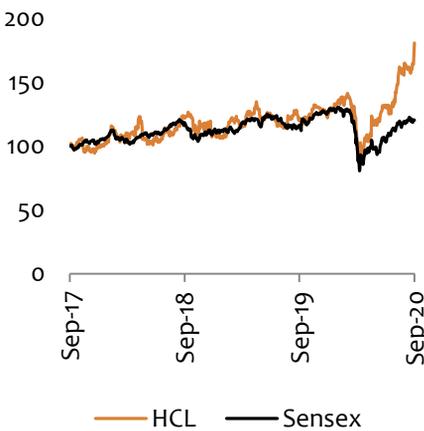
Shares O/S (Mn)	2713
Equity Cap (INR Mn)	5,427
Mkt Cap (INR Mn)	2,177,174
52 Wk H/L (INR)	808/376
Volume Avg (3m K)	6780
Face Value (INR)	2
Bloomberg Code	HCLT IN

KEY FINANCIALS

Particulars (INR Mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD Mn)	8,632	9,936	9,952	10,919	11,857
Revenue	604,270	706,780	746,432	818,931	889,277
EBIT	118,540	138,530	156,490	172,585	186,717
APAT	101,230	110,620	125,966	139,560	151,450
FDEPS (INR)	37.3	40.8	46.4	51.4	55.8
EBIT margin (%)	19.6	19.6	21.0	21.1	21.0
PAT margin (%)	16.8	15.7	16.9	17.0	17.0
PE ratio (x)	21.5	19.7	17.3	15.6	14.4
EV/EBIT (x)	17.7	15.0	12.9	11.5	10.4

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



To acquire Australia-based IT firm DWS Limited, expand presence in ANZ region

HCL Technologies has announced its intent to acquire Australia-based IT, business and management consulting firm DWS Limited. DWS - listed on the Australian Securities Exchange (ASX) - employed 772 people as of June-end, has offices in Melbourne, Sydney, Adelaide, Brisbane and Canberra and provides a range of IT services including Digital Transformation, Application Development & Support, Program & Project Management and Consulting, mainly in Australia and New Zealand. The acquisition will be done by a process of Scheme of Arrangement to be approved by courts in Australia. It will be subject to the approvals of Australia's Foreign Investment Review Board, Australian Competition Commission and New Zealand's Overseas Investment Office. The transaction will also require approval of DWS shareholders. The acquisition will be done through HCL Australia Services Pty. Limited, a wholly owned step-down subsidiary of HCL Technologies.

The acquisition will help HCL Technologies to expand its service and client portfolio in the ANZ region and cross-sell its existing services to newer clients and verticals. A majority of DWS' FY20 revenue came from the Government and Defence vertical (43%), with BFSI accounting for the second-largest share (28-29%), with the balance revenue coming from varied industries including FMCG, Retail, Healthcare, Utilities, Resources and Transport. DWS' cash flow metrics are fairly healthy, with operating cash flow in FY20 at 112.5% of adjusted EBITDA.

Transaction financials – Revenue, EBITDA multiples of <1x and 6.6x very reasonable

HCL Technologies will pay AUD 1.20 per share for DWS' equity, which is at 32% premium to the share price close as on Friday September 18, 2020. This translates to an equity value of AUD 158.2 million for DWS, plus approximately AUD 4 million in dividends declared by DWS in its recent annual earnings announcement. DWS earned revenue of AUD 167.9 million in FY20 (June-ending FY), thus implying a revenue multiple of less than 1x. From an EBITDA multiple perspective, DWS earned 17% adjusted EBITDA margin in FY20, implying an EV/EBITDA multiple of 6.6x, including DWS net debt of AUD 24.6 million. The transaction is expected to close by December 2020, subject to regulatory approvals. On full consolidation, DWS will add around 1.1% to HCL Technologies' FY22E revenue and 0.7% to EBITDA.

Outlook and View: At the CMP, HCL Technologies' stock trades at 15.6x/14.4x FY22E/FY23E EPS, respectively. We remain positive on HCL Technologies' business given its strong position in cloud infrastructure services, well-established ER&D practice and product differentiator, and the recent upgrade in business outlook also bodes well and reflects strong traction in deal wins across verticals. **We maintain our ACCUMULATE rating on the stock, with a revised target price of INR 893, as we roll forward our valuation to FY23E EPS, giving a target PE multiple of 16x FY23E EPS.**

MARKET INFO

SENSEX	38,757
NIFTY	11,440

SHARE HOLDING PATTERN (%)

Particulars	Jun-20	Mar-20	Dec-19
Promoters	60.33	60.33	59.98
FIIs	25.62	26.42	27.66
DIIs	10.01	9.12	8.42
Others	4.05	4.13	3.96
Total	100	100	100



Revenue CAGR between FY21 and FY23E



PAT CAGR between FY21 and FY23E

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KEY FINANCIALS

Exhibit 1: Balance Sheet

Particulars (INR Mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	2,751	5,426	5,426	5,426	5,426
Reserves	414,949	511,434	573,914	618,244	674,465
Net worth	417,700	516,860	579,340	623,670	679,891
Borrowings	51,122	72,016	62,705	53,394	44,082
Minority interest	4,540	5,280	5,280	5,280	5,280
Operating lease liability	-	24,720	24,720	24,720	24,720
Other liabilities	15,390	25,490	25,490	25,490	25,490
Accounts payable	18,028	15,816	15,266	16,735	18,197
Other current liabilities	82,190	171,977	175,691	182,490	189,060
Total current liabilities	100,218	187,794	190,956	199,225	207,257
Total Liabilities	588,970	832,160	888,491	931,779	986,720
Gross block	158,434	191,274	209,934	234,502	261,181
Depreciation	100,424	128,834	161,573	197,098	235,479
Net block	58,010	62,440	48,361	37,404	25,702
Intangible assets	176,950	294,210	294,210	294,210	294,210
Investments in equity investees/affiliates	350	380	380	380	380
Other investments	3,550	-	-	-	-
Right of use assets	-	26,240	26,240	26,240	26,240
Other assets	52,940	64,640	64,640	64,640	64,640
Accounts receivable	117,060	141,340	153,377	172,761	194,910
Unbilled revenue	29,040	36,380	44,990	56,091	65,782
Investment securities, available for sale	22,200	69,880	69,880	69,880	69,880
Cash and bank	91,710	83,850	133,613	157,373	192,177
Other current assets	37,160	52,800	52,800	52,800	52,800
Total current assets	297,170	384,250	454,660	508,905	575,549
Total Assets	588,970	832,160	888,491	931,779	986,720

Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 2: Profit & Loss Statement

Particulars (INR Mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD mn)	8,632	9,936	9,952	10,919	11,857
Revenue	604,270	706,780	746,432	818,931	889,277
Employee cost	383,160	440,180	452,702	496,171	539,681
SG&A expenses	71,850	86,900	89,572	98,272	106,713
R&D expenses	9,250	12,760	14,929	16,379	17,786
EBITDA	140,010	166,940	189,230	208,110	225,098
Depreciation & Amortisation	21,470	28,410	32,740	35,525	38,381
EBIT	118,540	138,530	156,490	172,585	186,717
Interest Cost	1,743	3,649	3,683	2,483	1,469
Other Income	9,463	5,429	7,036	6,948	6,853
PBT	126,260	140,310	159,843	177,050	192,101
Income tax	24,810	29,380	33,567	37,181	40,341
PAT before minority interest	101,450	110,930	126,276	139,870	151,760
Minority interest	220	310	310	310	310
PAT after minority interest	101,230	110,620	125,966	139,560	151,450
Diluted EPS (INR)	37.3	40.8	46.4	51.4	55.8

Source: Company, KRChoksey Research

Exhibit 3: Free Cash Flow Analysis

Particulars (INR Mn)	FY19	FY20	FY21E	FY22E	FY23E
Net cash generated from Operations	101,142	141,810	141,222	152,869	166,022
Net cash flow from Investing Activities	-41,576	-41,020	-18,661	-24,568	-26,678
Net cash flow from Financing Activities	-3,302	-99,974	-72,797	-104,541	-104,541
Net inc/(dec) in cash equivalents	56,264	816	49,763	23,760	34,803
Opening balance	74,205	91,710	83,850	133,613	157,373
Other adjustments	-38,759	-8,676	0	0	0
Closing cash and cash equivalents	91,710	83,850	133,613	157,373	192,177

Source: Company, KRChoksey Research

Exhibit 4: Ratio Analysis

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Tax rate (%)	19.6	20.9	21.0	21.0	21.0
RoE (%)	25.8	23.7	23.0	23.2	23.2
RoCE (%)	22.6	20.7	20.1	20.7	21.1
Current ratio (x)	2.7	1.8	2.2	2.4	2.7
EBITDA margin (%)	23.2	23.6	25.4	25.4	25.3
EBIT margin (%)	19.6	19.6	21.0	21.1	21.0
Net profit margin (%)	16.8	15.7	16.9	17.0	17.0
PE ratio (x)	21.5	19.7	17.3	15.6	14.4
EV/EBITDA (x)	15.0	12.4	10.7	9.6	8.7
EV/EBIT (x)	17.7	15.0	12.9	11.5	10.4

Source: Company, KRChoksey Research

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Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

ANALYST CERTIFICATION:

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