

**IDEA2ACT : HCL Tech**

Reco Price	12-months Target Price
BUY @ ₹ 950-974	₹ 1140

HCL Tech is one of the biggest IT companies in India. It has been the most proactive to experiment with pricing strategies, having entered into revenue-sharing agreements with clients. Further, the company has developed expertise in infrastructure services. Its ERP offerings and consulting abilities have improved after the acquisition of Axon. This enhances HCL Tech's full services ability and its standing in winning large, total-outsourcing deals. Services to manufacturing industry clients contribute significantly to revenue.

Knocking on the door of a trillion-dollar market**Incremental addressable opportunity of US\$1trn over 2020-24:**

HCLT sees a massive opportunity within the IT services, enterprise software, and ER&D markets over 2020-24. Personalisation, demand for niche skills, fluid delivery model, and higher ESG awareness are some emerging trends, while existing trends like automation & AI, hybrid cloud and customer experience has accelerated and should drive good business momentum for the next few years. Healthcare seems to be at the inflexion point, while cloud migration could be a US\$150bn opportunity.

Cloud migration driving growth in Services: HCLT's infra services are on a good wicket, with a particular focus on cloud migration and managed services, in addition to network transformation and moving the on-premises data centres to the cloud. Overall revenue growth should remain healthy. Cross-sell opportunities between services and products include leveraging products' geographical presence and creating end-to-end solutions. HCLT expects modest single-digit growth in the Products business and will endeavour to increase the share of high-growth products.

Stable outlook on profitability: Products should continue to deliver strong Ebit margins, though HCLT sees investment opportunities in sales for driving growth. ERS should deliver slightly higher margins than Services. HCLT expects its fluid delivery model to boost the offshore mix for the sector by 5-10ppt over the next few years, with lower realisations and wage inflation being offset by better offshore profitability. Overall, management indicated comfort on the 20% Ebit-margin band.



Valuations: HCLT is currently trading at ~16.5x FY22 ii (significant discount to its largecap peers like TCS). We expect the company to post a \$ Revenue growth 12.7 and a \$ Revenue CAGR of 2.3 in FY 22ii.

Technically, the stock is trading in a strong higher top higher bottom chart structure, indicating a positive bias according to the dow theory. The stock has given a double bottom breakout on the daily chart. **If the current impulse move accentuates the way it should, we expect HCL Tech to trend higher and test our immediate target price of Rs1140 during the next 1-Year. We recommend a Buy Rating on the stock.**

Previous Recommendations:

Date	Stock Name	Reco Price	Target Price	P & L %	Status
26-May-20	Emami Limited	205	241	18%	Target Achieved
2-Jul-20	ITC	201	235	17%	Target Achieved (₹225 + Dividend ₹10.15 exdate 6th Jul 2020)
2-Jul-20	NHPC	19.5	24	23%	Target Achieved
15-Jul-20	HCL Tech	610	695	14%	Target Achieved
30-Jul-20	INDIGO	920	1074	17%	Target Achieved
11-Aug-20	JB Chemicals & Pharmaceuticals	750	867	16%	Target Achieved
13-Aug-20	UPL	480	555	16%	Target Achieved
18-Aug-20	Crompton Consumer	256	299	17%	Target Achieved
28-Aug-20	Sudarshan Chemical	474	557	18%	Target Achieved
14-Sep-20	Apollo Tyres	114.5	138	21%	Target Achieved
1-Oct-20	Manappuram Finance Ltd	155.5	186	4%	Open
16-Oct-20	Cyient Ltd	370	440	19%	Target Achieved
28-Oct-20	Amara Raja Batteries	770	898	17%	Target Achieved
2-Nov-20	SIS (I) Ltd	363	423	17%	Target Achieved
3-Dec-20	Bharat Electronics	112	139.0	24%	Target Achieved
16-Dec-20	RBL Bank	233	273	17%	Target Achieved
6-Jan-21	Alembic Pharmaceuticals	1075	1252	-13%	Open
15-Jan-21	Hindustan Petroleum Corporation Ltd	229	274	4%	Open
5-Feb-21	State Bank of India	351.5	429	10%	Open
1-Mar-21	Cummins India	772	914	11%	Open



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