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FIRST LIGHT

17 January 2022

RESEARCH

BOB Economics Research | WPI

WPI eases in Dec'21

HCL Technologies | Target: Rs 1,610 | +20% | BUY

Major growth beat; mode-3 drives momentum

Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.70	(4bps)	29bps	57bps
India 10Y yield (%)	6.56	(3bps)	19bps	67bps
USD/INR	73.89	0.0	2.5	(1.1)
Brent Crude (US$/bbl)	84.47	(0.2)	13.6	49.7
Dow	36,114	(0.5)	1.3	16.5
Shanghai	3,555	(1.2)	(3.4)	(0.3)
Sensex	61,235	0.1	5.1	23.5
India FII (US$ mn)	**12-Jan**	**MTD**	**CYTD**	**FYTD**
FII-D	43.7	34.6	34.6	536.8
FII-E	(98.0)	348.4	348.4	(3,216.9)

Source: Bloomberg

SUMMARY

India Economics: WPI

- WPI inflation fell from 14.2% in Nov'21 to 13.6% in Dec'21. But the rate is still very high and not a major consolation. This was attributed to decrease in both fuel and power and manufactured products. Core inflation also softened but remained high at 11%. Food inflation however accelerated, led by vegetable. Going forward, WPI is likely to ease supported by a favourable base though absolute prices may not come down significantly. We expect WPI to average around 11.5-12% in FY22.

Click here for the full report.

HCL Technologies

- HCL Tech (HCLT) reported stellar growth of 6.7% QoQ USD, beating our estimate of 3.5%
- FY22 double digit growth guidance intact. FY22 EBIT margin guidance stands at 19-21%
- Factoring Q3FY22 numbers, we raise FY23/24 EPS by 1%/4%; maintain BUY with a revised TP of Rs1,610.

Click here for the full report.

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WHOLESALE INFLATION

14 January 2022

WPI eases in Dec'21

WPI inflation fell from 14.2% in Nov'21 to 13.6% in Dec'21. But the rate is still very high and not a major consolation. This was attributed to decrease in both fuel and power and manufactured products. Core inflation also softened but remained high at 11%. Food inflation however accelerated, led by vegetable. Going forward, WPI is likely to ease supported by a favourable base though absolute prices may not come down significantly. We expect WPI to average around 11.5-12% in FY22.

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Food inflation further up: Food inflation rose to a 23-month high of 9.2% in Dec'21 from 6.7% in Nov'21. This was led by sharp jump in prices of vegetables (31.6% in Dec'21 versus 3.9% in Nov'21) and cereals (5.1% versus 4%). Within vegetables, spike in tomato prices to 15-month high at 93.7% in Dec'21 (65.5% in Nov'21) was notable. This is in contrast to the CPI where the effects of base as well as value-chain costs exhibited negative inflation. Fruit prices on the other hand came down to 15.1% from 15.5%. Price of protein based items such as milk (2.1% versus 1.8%) and eggs (18.7% versus 14.7%) edged upwards. Within cereals, uptick was broad-based, with prices of wheat going up by 11.4% (10.1% in Nov'21) and that of paddy up marginally 0.2% (-0.2% in Nov'21). Prices of pulses also rose by 3.9% in Dec'21 from 2.9% in Nov'21.

Fuel and power inflation softens: Fuel and power inflation eased to 32.3% from 39.8% in Nov'21 but was still very high. While coal prices remained unchanged (3.1%) and contraction in electricity prices eased (-0.2% versus -0.6%), mineral oil index decelerated significantly (62.6% versus 79.9%). This was in line with easing international oil prices (49% in Dec'21 versus 84% in Nov'21). Within this index, prices of bitumen (43% versus 83%), ATF (62% versus 104%) and naphtha (70% versus 95%) slowed the most. Going ahead, with slight inching up seen in international oil prices (49.7% in Jan'22 so far) we expect strains could emerge on fuel inflation in the coming months.

Core inflation too eases: Core inflation in Dec'21 slowed for the second consecutive month to 11% from 12.2% in Nov'21. Manufactured products inflation was also down to 10.6% in Dec'21 from 11.9% in Nov'21. Of the 22 commodity indices, 15 indices rose at a slower pace in Dec'21 than Nov'21 led by basic metals, rubber and plastic products, manufactured food and computer and electronic products. Notably, in Dec'21, international commodity prices (CRB index) inched up by 0.3% (MoM), and have further increased by 2.4% in Jan'22. However, resurgence in global Covid-19 cases may pose downside risk to international commodity prices going forward.

RESULT REVIEW

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BUY
TP: Rs 1,610 | ▲ 20%

HCL TECHNOLOGIES | Technology & Internet | 14 January 2022

Major growth beat; mode-3 drives momentum

- **HCL Tech (HCLT) reported stellar growth of 6.7% QoQ USD, beating our estimate of 3.5%**
- **FY22 double digit growth guidance intact. FY22 EBIT margin guidance stands at 19-21%**
- **Factoring Q3FY22 numbers, we raise FY23/24 EPS by 1%/4%; maintain BUY with a revised TP of Rs1,610.**

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Significant growth beat: HCLT reported growth of 6.7% QoQ USD, outperforming our estimate of 3.5%. This growth is the highest yet among the four results announced. The growth was led by traction in mode-3 services which grew 20.3% QoQ USD (best growth in last 9 quarters). Products and platforms growth was driven by both renewals and new licenses. Mode-1 and 2 showed moderate growth of 4-5.5%. The growth was broad based geography wise. Within verticals, BFSI grew 5.7% while retail, media and entertainment and technology services grew roughly by double digits each. HCLT is seeing a lot of traction in ER&D services (driven by IoT) and cloud. It has guided for double digit revenue growth for full year.

Margin miss: EBIT margin stood at 19%, up 10bps QoQ, underperformed our estimate of 19.7%. SG&A expenses and employee costs both increased QoQ. Services margin dropped by 190bps, which was offset by P&P margins. 190 bps impact included: (1) 80bps from salary increments (2) 65bps from seasonal leaves (3) 40 bps impact from investments (4) 85bps retention and attrition costs.; offset by tailwinds of 60bps from operational efficiency, 20bps from cross currency.

TCV robust: TCV at USD2.13bn was flattish QoQ, up 64% YoY and a total of 16 new transformational deals were signed. Bookings and pipeline continue to be strong. The deal cycles have become shorter due to faster digital transformation adoption. Cloud has become one of the key deal win drivers for HCLT and AWS offerings have been expanded.

Attrition goes up: Attrition stood at 19.8% in Q3, up 410bps QoQ. Company hired ~10,000 employees in Q3. HCLT continues to invest in training to prepare itself for future demand. Management is leaning towards hiring more freshers and is planning to double its fresher hiring in FY23. It has set the campus hiring target for FY22 at 20,000.

Maintain BUY: Factoring in Q3 performance, we maintain BUY with a modest FY23/24 EPS upgrade of 1.4%/3.7% due to lukewarm margin commentary. We revise TP to Rs 1,610 (vs. Rs 1,560 earlier).

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	HCLT IN/Rs 1,337
Market cap	US$ 49.0bn
Free float	38%
3M ADV	US$ 69.2mn
52wk high/low	Rs 1,378/Rs 891
Promoter/FPI/DII	60%/27%/13%

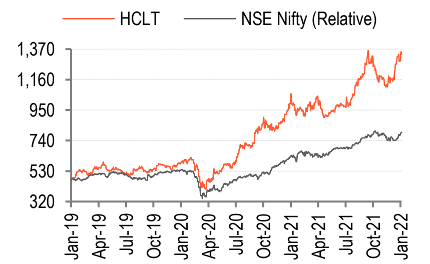
Source: NSE | Price as of 14 Jan 2022

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	753,790	858,319	981,214
EBITDA (Rs mn)	200,560	203,408	244,272
Adj. net profit (Rs mn)	130,660	133,013	152,610
Adj. EPS (Rs)	48.1	49.0	56.2
Consensus EPS (Rs)	48.1	49.8	56.7
Adj. ROAE (%)	22.9	20.3	20.9
Adj. P/E (x)	27.8	27.3	23.8
EV/EBITDA (x)	18.0	17.8	14.5
Adj. EPS growth (%)	17.8	1.8	14.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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