

April 22, 2022

Q4FY22 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	ACCUMULATE		BUY	
Target Price	1,169		1,295	
Sales (Rs. m)	9,83,068	11,16,892	9,88,232	11,17,447
% Chng.	(0.5)	-		
EBITDA (Rs. m)	2,23,566	2,56,885	2,29,696	2,65,471
% Chng.	(2.7)	(3.2)		
EPS (Rs.)	54.5	62.5	56.9	65.8
% Chng.	(4.3)	(5.1)		

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. bn)	754	857	983	1,117
EBITDA (Rs. bn)	193	200	224	257
Margin (%)	25.6	23.4	22.7	23.0
PAT (Rs. bn)	124	135	148	170
EPS (Rs.)	45.8	49.8	54.5	62.5
Gr. (%)	12.3	8.8	9.3	14.8
DPS (Rs.)	26.0	44.0	12.0	12.0
Yield (%)	2.4	4.0	1.1	1.1
RoE (%)	22.0	21.9	21.8	21.1
RoCE (%)	25.1	24.6	25.4	24.9
EV/Sales (x)	3.7	3.3	2.8	2.4
EV/EBITDA (x)	14.6	14.1	12.3	10.2
PE (x)	24.0	22.1	20.2	17.6
P/BV (x)	4.8	4.8	4.1	3.4

Key Data

HCLT.BO | HCLT IN

52-W High / Low	Rs.1,378 / Rs.891
Sensex / Nifty	57,912 / 17,393
Market Cap	Rs.2,983bn/ \$ 39,166m
Shares Outstanding	2,714m
3M Avg. Daily Value	Rs.4621.89m

Shareholding Pattern (%)

Promoter's	60.95
Foreign	18.97
Domestic Institution	14.68
Public & Others	5.40
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(5.9)	(9.2)	15.6
Relative	(6.9)	(4.5)	(4.8)

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HCL Technologies (HCLT IN)

Rating: ACCUMULATE | CMP: Rs1,099 | TP: Rs1,169

Declining margin profile

Quick Pointers:

- FY23 EBIT margin guidance reduced to 18-20% (vs reported margin of 18.9% in FY22 and 19%+ margins pre-covid)
- FY22 new deal TCV is \$8.3 bn, 14% YoY and ACV is higher by 21% YoY.

We downgrade HCLT to 'Accumulate' (earlier Buy) as we cut DCF based target price to Rs. 1169 (earlier Rs. 1295) led by 1) decline in margin profile, 2) volatility in P&P revenue dragging down overall revenue growth, 3) increase in risk free rate and 4) moderation in terminal growth rate. We cut EPS estimates by 4%/5% for FY23/24, led by cut in EBIT margin estimates by ~50-70 bps.

Q4 reported weak revenue (0.5% QoQ USD) due to decline in P&P business (-24.4% QoQ USD) and moderation in ER&D growth (3.5% QoQ USD). IT services revenue grew 4.6% QoQ USD. We believe growth in new deal TCV (14% YoY) and ACV (21% YoY) for FY23 is strong, but revenue guidance of 12-14% YoY for FY23 is lower due to volatility and declining trajectory of P&P (12% of total revenue). We anticipate recovery in P&P business to be slow because – 1) it is run as a software start-up and 2) 25% of P&P portfolio is declining in high double digit. Growth in ER&D business (16% of revenue) is also lower than ER&D peers for FY22.

We assign DCF based TP of Rs 1169 with implied target multiple of 19x (earlier 21x) on FY24 EPS. HCLT is currently trading at 20x/18x on FY23/24E EPS of INR 54.5/62.5 respectively with Revenue/EPS CAGR of 12.4%/12% over FY22-24E.

- Miss in revenue:** HCLT reported revenue of \$2,993 mn; +1.1% QoQ CC (Ple: 1.4%, Cons: 1.5%), +0.5% QoQ USD (Ple: 0.9%, Cons: 1%). Miss in revenue was due to higher than expected decline in P&P business (-24.4% QoQ USD). IT Services (+4.6% QoQ USD) and ER&D (+3.5 QoQ USD) grew at healthy rate in Q4.
- Strong deal TCV; ACV up 21% YoY for the full year:** Strong deal momentum continued with new deal TCV at \$2260 mn +6% QoQ. TCV declined -27% YoY because of high base in 4Q21. IT Services and ER&D won TCV of \$2216 mn with 6 new wins, while Products business won TCV of \$54 mn with 4 new wins. FY22 new deal TCV is \$8.3 bn, 14% YoY and ACV is higher by 21% YoY. Pipeline is higher on QoQ basis and is second highest pipeline.
- P&P business is likely to be a drag on FY23 revenue:** Management provided revenue guidance of 12-14% YoY CC for FY23. Even though ACV is up 21% YoY, revenue guidance is lower because of potential decline in P&P revenue.

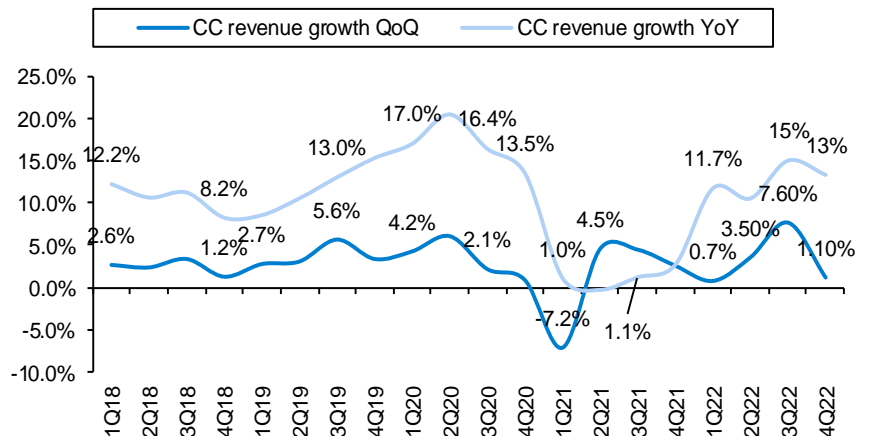
- **Miss in margins:** EBIT margin came at 18%, -100 bps QoQ (Ple: 18.2%, Cons: 18.2%). Decline in margins was mainly due to lower margin in P&P (19.1%, -1280bps QoQ) due to seasonal weakness in revenue. IT Services segmental margin came at 17.5% (90bps QoQ). ERD segment margin is at 19.1% (50bps QoQ). FY22 EBIT margin is 18.9% (vs guidance of 19-21%)
- **Margin guidance reduced to 18-20%:** EBIT margin guidance for FY23 has been reduced to 18-20% factoring in headwinds from higher manpower costs, investments in new geographies, return of travel and facility costs.
- **Continued strong hiring; Attrition inched up:** HCLT added 11,100 employees in Q4, total headcount is up 5.6% QoQ and 24% YoY. LTM attrition increased to 210bps QoQ to 21.9%.
- Management expects ETR in FY23 to be around 24-26% whereas cash ETR is expected to be 20-22%.
- P&P business comprises of three revenue streams – 67% of revenue comes from subscription and support services, 5% from professional services and remaining from product license sales which is lumpy in nature. Management's aim is to convert license based products to subscription based products.
- **Strong cash flow generation:** DSO stood at 61 days, 3 days lower QoQ. Cash flow conversion was robust with OCF/NI at 125.3% and FCF/NI 113% for the quarter.
- Board declared final dividend of Rs. 18 per share taking dividend payout ratio to 88.4% for FY22 higher than guided range of 75%.
- Overall revenue grew 12.7% YoY CC led by growth of 14.5% YoY CC in IT Services, 16.8% YoY CC in ER&D and -1.3% YoY CC decline in P&P.

Exhibit 1: Q4FY22: Quick view on results

(Rs m)	4Q22	3Q22	QoQ gr.	4Q21	YoY gr.	PL(e)	Var VS PL(e)
Sales (\$ m)	2,993	2,978	0.5%	2,696	11.0%	3,003	-0.3%
Sales	2,25,970	2,23,310	1.2%	1,96,420	15.0%	2,25,849	0.1%
EBIT Margin	50,530	52,420	-3.6%	43,690	15.7%	50,342	0.4%
EBIT Margin	22.4%	23.5%	-111 bps	22.2%	12 bps	22%	7 bps
EBIT Margin	40,690	42,510	-4.3%	32,520	25.1%	41,082	-1.0%
EBIT Margin	18.0%	19.0%	-103 bps	16.6%	145 bps	18.2%	-18 bps
Adjusted PAT	35,940	34,430	4.4%	23,870	50.6%	33,044	8.8%
EPS	13.3	12.7	4.6%	8.8	50.8%	12.18	8.9%
Average (USD rate)	75.5	75.0	0.7%	72.9	3.6%	75.2	0.4%

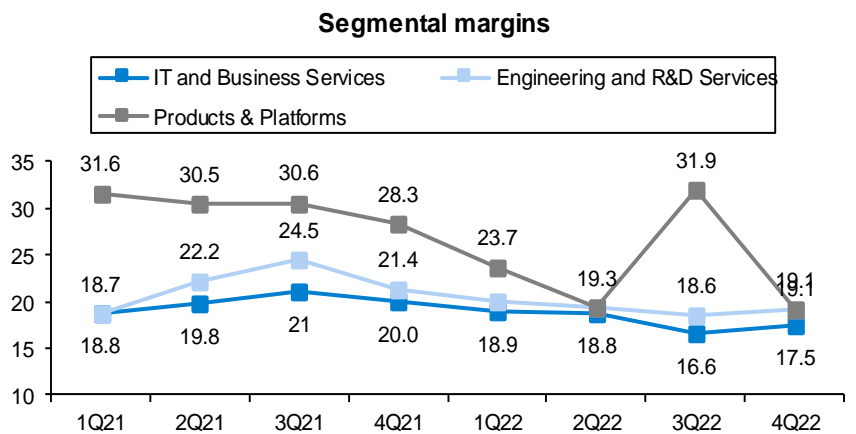
Source: Company, PL

Exhibit 2: Softness in growth



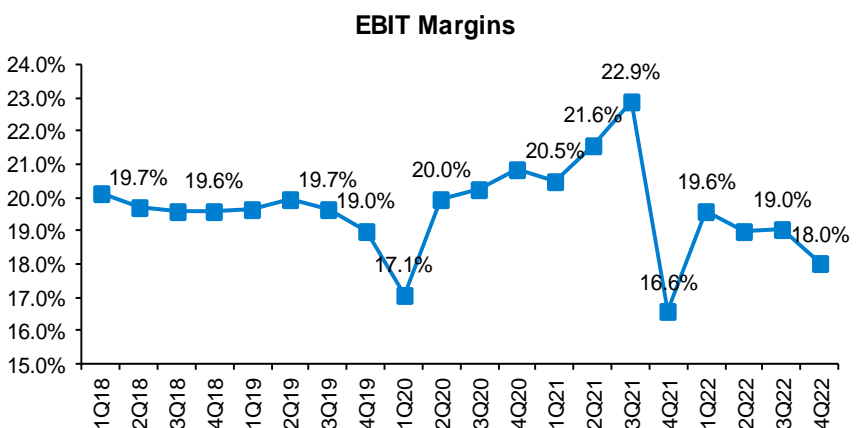
Source: Company, PL

Exhibit 3: Sharp decline in P&P margins due to decline in revenues



Source: Company, PL

Exhibit 4: Declining margin profile

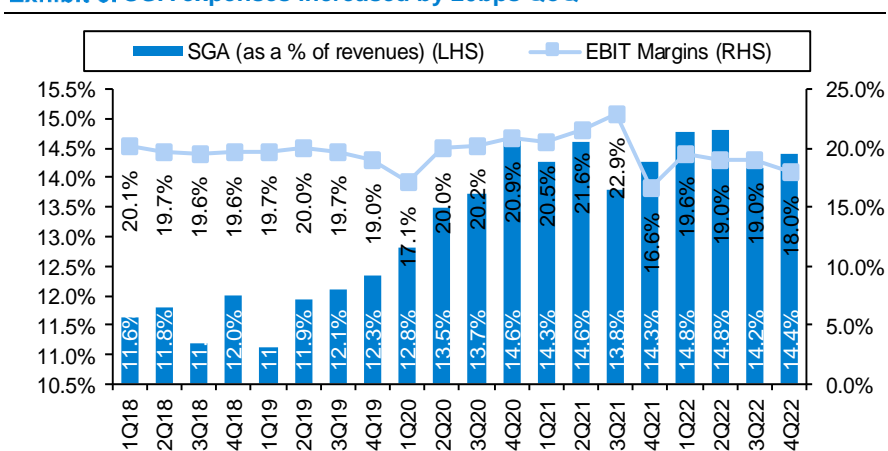


Source: Company, PL

Exhibit 5: Performance Metrics of Mode 1-2-3 business

Revenues (US\$ mn)	Q4FY21	Q3FY22	Q4FY22	QoQ gr.	YoY gr.
Mode 1	1,656	1,771	1,823	2.9%	10.1%
Mode 2	630	759	814	7.2%	29.2%
Mode 3	410	448	356	-20.5%	-13.2%
Total	2,696	2,978	2,993	0.5%	11.0%
Revenue mix (%)					
Mode 1	61.4	59.5	60.9	140 bps	-50 bps
Mode 2	23.4	25.5	27.2	170 bps	380 bps
Mode 3	15.2	15	11.9	-310 bps	-330 bps
Total	100	100	100		

Source: Company, PL

Exhibit 6: SGA expenses increased by 20bps QoQ


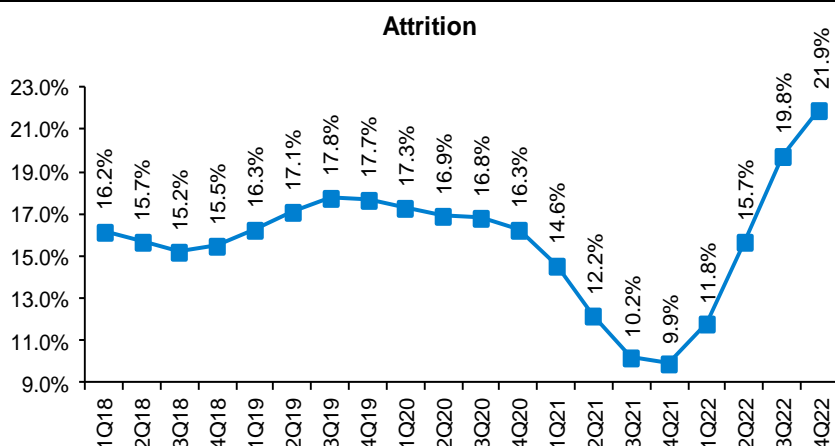
Source: Company, PL

Exhibit 7: Change in Estimates

Particulars	FY23E	FY24E
Revenue (US\$ m)		
New	12,935	14,505
Old	13,003	14,512
Change (%)	-0.5%	0.0%
USD Revenue growth (%)	12.7%	12.1%
EBIT Margins (%)		
- New	18.5%	18.8%
- Old	19.0%	19.5%
Change (%)	-50 bps	-76 bps
EPS (Rs)		
- New	54.5	62.5
- Old	56.9	65.8
Change (%)	-4.3%	-5.1%

Source: Company, PL

Exhibit 8: Attrition rises sharply



Source: Company, PL

Exhibit 9: Geography-wise revenues

(US\$ m)	4Q22	3Q22	QoQ gr.	4Q21	YoY gr.
US	1,879.6	1,878.8	0.0%	1,671.5	12.5%
Europe	847.0	842.6	0.5%	784.5	8.0%
Asia Pacific	266.4	259.0	2.8%	239.9	11.0%
% Total					
US	62.8%	63.1%	-30 bps	62.0%	80 bps
Europe	28.3%	28.3%	0 bps	29.1%	-80 bps
Asia Pacific	8.9%	8.7%	20 bps	8.9%	0 bps

Source: Company, PL

Exhibit 10: Revenues by project type

(US\$ m)	4Q22	3Q22	QoQ gr.	4Q21	YoY gr.
Fixed Price Projects	1,903.5	1,950.3	-2.4%	1,825.1	4.3%
Time & Material	1,089.5	1,027.2	6.1%	870.8	25.1%
% of total Revenue					
Fixed Price Projects	63.6%	65.5%	-190 bps	67.7%	-410 bps
Time & Material	36.4%	34.5%	190 bps	32.3%	410 bps

Source: Company, PL

Exhibit 11: Vertical Wise Break up

	Rev (USD mn)	Growth		Contribution to revenues
		QoQ	YoY	
Total revenues	2,993	0.5%	11.0%	100%
Geographical split of revenues				
US	1,880	0.0%	12.5%	62.8%
Europe	847	0.5%	8.0%	28.3%
ROW	266	2.8%	11.0%	8.9%
Vertical split of revenues				
Financial services	626	-0.4%	7.4%	20.9%
Manufacturing (new classification)	539	3.4%	12.9%	18.0%
Telecom, media, publishing, entertainment	257	6.7%	17.9%	8.6%
Retail & CPG	281	-6.4%	3.3%	9.4%
Public Services	320	3.4%	6.1%	10.7%
Life sciences	446	4.0%	17.3%	14.9%
Technology & Services	524	-4.4%	13.0%	17.5%
Service line split of revenues				
IT and Business Services	2,200	4.6%	13.5%	73.5%
Engineering and R&D Services	491	3.7%	20.6%	16.4%
Products & Platforms	305	-24.1%	-12.9%	10.2%

Source: Company, PL

Exhibit 12: Client Metrics

Particulars	4Q22	3Q22	QoQ gr.	4Q21	YoY gr.
US\$100m	16	15	1	15	1
US\$50m	43	42	1	35	8
US\$20m	118	110	8	96	22
US\$10m	208	198	10	178	30
US\$5m	349	346	3	318	31
US\$1m	882	864	18	809	73
(US\$ m)					
Top 5 Clients	347.2	363.3	-4.4%	355.9	-2.4%
Top 6-10 Clients	245.4	241.2	1.8%	207.6	18.2%
Top 10 Clients	592.6	604.4	-2.0%	563.4	5.2%
Top 10-20 Clients	278.3	271.0	2.7%	266.9	4.3%
Top 20 Clients	871.0	875.4	-0.5%	830.3	4.9%
Non-Top 20 Clients	2,122.0	2,102.1	0.9%	1,865.6	13.7%
% of Total Revenue					
Top 5 Clients	11.6%	12.2%	-60 bps	13.2%	-160 bps
Top 10 Clients	19.8%	20.3%	-50 bps	20.9%	-110 bps
Top 20 Clients	29.1%	29.4%	-30 bps	30.8%	-170 bps

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	7,53,790	8,56,510	9,83,068	11,16,892
YoY gr. (%)	6.6	13.6	14.8	13.6
Employee Cost	4,53,200	5,31,750	6,19,333	7,03,642
Gross Profit	3,00,590	3,24,760	3,63,735	4,13,250
Margin (%)	39.9	37.9	37.0	37.0
SG&A Expenses	-	-	-	-
Other Expenses	-	-	-	-
EBITDA	1,93,280	2,00,410	2,23,566	2,56,885
YoY gr. (%)	15.8	3.7	11.6	14.9
Margin (%)	25.6	23.4	22.7	23.0
Depreciation and Amortization	39,850	38,740	41,699	47,394
EBIT	1,53,430	1,61,670	1,81,868	2,09,491
Margin (%)	20.4	18.9	18.5	18.8
Net Interest	-	-	-	-
Other Income	6,570	8,560	6,070	6,070
Profit Before Tax	1,60,000	1,70,230	1,87,938	2,15,561
Margin (%)	21.2	19.9	19.1	19.3
Total Tax	35,100	34,580	40,232	46,033
Effective tax rate (%)	21.9	20.3	21.4	21.4
Profit after tax	1,24,900	1,35,650	1,47,706	1,69,528
Minority interest	570	490	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,24,330	1,35,160	1,47,706	1,69,528
YoY gr. (%)	12.4	8.7	9.3	14.8
Margin (%)	16.5	15.8	15.0	15.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,24,330	1,35,160	1,47,706	1,69,528
YoY gr. (%)	12.4	8.7	9.3	14.8
Margin (%)	16.5	15.8	15.0	15.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,24,330	1,35,160	1,47,706	1,69,528
Equity Shares O/s (m)	2,714	2,712	2,712	2,712
EPS (Rs)	45.8	49.8	54.5	62.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	3,77,870	3,52,060	3,80,830	3,95,699
Tangibles	86,370	80,460	1,09,230	1,24,099
Intangibles	2,91,500	2,71,600	2,71,600	2,71,600
Acc: Dep / Amortization	-	-	-	-
Tangibles	-	-	-	-
Intangibles	-	-	-	-
Net fixed assets	3,77,870	3,52,060	3,80,830	3,95,699
Tangibles	86,370	80,460	1,09,230	1,24,099
Intangibles	2,91,500	2,71,600	2,71,600	2,71,600
Capital Work In Progress	-	-	-	-
Goodwill	-	-	-	-
Non-Current Investments	890	90	90	90
Net Deferred tax assets	-	-	-	-
Other Non-Current Assets	67,750	57,770	57,770	57,770
Current Assets				
Investments	-	-	-	-
Inventories	-	-	-	-
Trade receivables	1,75,250	2,06,710	2,37,014	2,69,278
Cash & Bank Balance	2,04,900	1,88,750	2,73,734	3,87,405
Other Current Assets	50,370	84,950	60,950	69,247
Total Assets	8,77,030	8,90,330	10,10,388	11,79,490
Equity				
Equity Share Capital	1,341	1,341	1,341	1,341
Other Equity	6,13,720	6,17,800	7,32,961	8,69,945
Total Network	6,15,060	6,19,140	7,34,302	8,71,286
Non-Current Liabilities				
Long Term borrowings	39,070	39,230	39,230	39,230
Provisions	-	-	-	-
Other non current liabilities	49,500	43,290	39,323	44,676
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,67,550	1,87,750	1,96,614	2,23,378
Other current liabilities	-	-	-	-
Total Equity & Liabilities	8,77,030	8,90,330	10,10,388	11,79,490

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	1,60,000	1,70,230	1,87,938	2,15,561
Add. Depreciation	39,850	38,740	41,699	47,394
Add. Interest	-	-	-	-
Less Financial Other Income	6,570	8,560	6,070	6,070
Add. Other	-	-	-	-
Op. profit before WC changes	1,99,850	2,08,970	2,29,636	2,62,955
Net Changes-WC	(14,410)	(42,070)	(1,408)	(8,444)
Direct tax	(35,100)	(34,580)	(40,232)	(46,033)
Net cash from Op. activities	1,50,340	1,32,320	1,87,997	2,08,479
Capital expenditures	(61,070)	(12,930)	(70,468)	(62,264)
Interest / Dividend Income	-	-	-	-
Others	(120)	800	-	-
Net Cash from Invt. activities	(61,190)	(12,130)	(70,468)	(62,264)
Issue of share cap. / premium	-	-	-	-
Debt changes	(11,850)	160	-	-
Dividend paid	(83,608)	(1,19,286)	(32,544)	(32,544)
Interest paid	-	-	-	-
Others	57,478	(17,214)	-	-
Net cash from Fin. activities	(37,980)	(1,36,340)	(32,544)	(32,544)
Net change in cash	51,170	(16,150)	84,984	1,13,671
Free Cash Flow	89,270	1,19,390	1,17,529	1,46,215

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	45.8	49.8	54.5	62.5
CEPS	60.5	64.1	69.8	80.0
BVPS	226.7	228.3	270.8	321.3
FCF	32.9	44.0	43.3	53.9
DPS	26.0	44.0	12.0	12.0
Return Ratio(%)				
RoCE	25.1	24.6	25.4	24.9
ROIC	40.8	35.7	33.3	29.7
RoE	22.0	21.9	21.8	21.1
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.2)	(0.3)	(0.4)
Debtor (Days)	85	88	88	88
Valuation(x)				
PER	24.0	22.1	20.2	17.6
P/B	4.8	4.8	4.1	3.4
P/CEPS	18.2	17.1	15.7	13.7
EV/EBITDA	14.6	14.1	12.3	10.2
EV/Sales	3.7	3.3	2.8	2.4
Dividend Yield (%)	2.4	4.0	1.1	1.1

Source: Company Data, PL Research

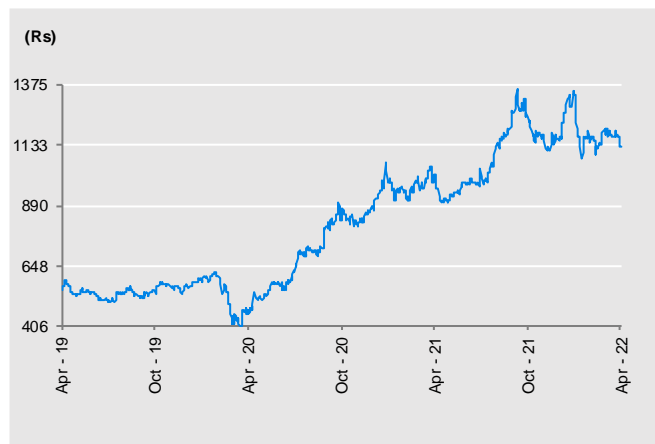
Quarterly Financials (Rs m)

Y/e Mar	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Net Revenue	2,00,680	2,06,550	2,23,310	2,25,970
YoY gr. (%)	12.5	11.1	15.7	15.0
Raw Material Expenses	1,21,970	1,27,580	1,39,280	1,42,920
Gross Profit	78,710	78,970	84,030	83,050
Margin (%)	39.2	38.2	37.6	36.8
EBITDA	49,080	48,380	52,420	50,530
YoY gr. (%)	7.5	(2.3)	(3.7)	15.7
Margin (%)	24.5	23.4	23.5	22.4
Depreciation / Depletion	9,770	9,220	9,910	9,840
EBIT	39,310	39,160	42,510	40,690
Margin (%)	19.6	19.0	19.0	18.0
Net Interest	-	-	-	-
Other Income	1,940	2,070	2,030	2,520
Profit before Tax	41,250	41,230	44,540	43,210
Margin (%)	20.6	20.0	19.9	19.1
Total Tax	8,940	8,460	9,970	7,210
Effective tax rate (%)	21.7	20.5	22.4	16.7
Profit after Tax	32,310	32,770	34,570	36,000
Minority interest	160	130	140	60
Share Profit from Associates	-	-	-	-
Adjusted PAT	32,150	32,640	34,430	35,940
YoY gr. (%)	10.0	3.9	(13.5)	50.6
Margin (%)	16.0	15.8	15.4	15.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	32,150	32,640	34,430	35,940
YoY gr. (%)	10.0	3.9	(13.5)	50.6
Margin (%)	16.0	15.8	15.4	15.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	32,150	32,640	34,430	35,940
Avg. Shares O/s (m)	2,714	2,714	2,713	2,709
EPS (Rs)	11.8	12.0	12.7	13.3

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Apr-22	BUY	1,295	1,187
2	16-Jan-22	BUY	1,398	1,337
3	04-Jan-22	BUY	1,400	1,326
4	21-Dec-21	BUY	1,402	1,160
5	16-Oct-21	BUY	1,386	1,251
6	05-Oct-21	BUY	1,429	1,279
7	06-Aug-21	BUY	1,239	1,050
8	20-Jul-21	BUY	1,094	1,000
9	02-Jul-21	BUY	1,055	986
10	26-Apr-21	BUY	1,010	956

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Affle (India)	BUY	1,535	1,270
2	Coforge	BUY	5,559	4,512
3	Cyient	BUY	1,258	944
4	HCL Technologies	BUY	1,295	1,187
5	Infosys	Accumulate	1,899	1,749
6	L&T Technology Services	BUY	5,428	5,190
7	Larsen & Toubro Infotech	BUY	6,369	5,472
8	Mindtree	BUY	4,778	3,958
9	Mphasis	BUY	3,755	3,312
10	Persistent Systems	BUY	5,160	4,792
11	Redington (India)	BUY	200	150
12	Sonata Software	BUY	1,065	765
13	Tata Consultancy Services	BUY	4,221	3,696
14	TeamLease Services	Accumulate	4,647	4,034
15	Tech Mahindra	BUY	1,837	1,499
16	Wipro	BUY	735	606
17	Zensar Technologies	BUY	453	384

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
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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