

CMP: ₹ 1101

Target: ₹ 1220 (11%)

Target Period: 12 months

HOLD

April 24, 2022

## Guidance of 12-14% CC growth in FY23

**About the stock:** HCL Technologies (HCLT) offers IT, ER&D and products to BFSI, retail, health, telecommunication, manufacturing, media & hi-tech verticals.

- HCL Tech has 250 Fortune 500 and 650 global 2000 clients
- It has grown organically and inorganically (13% CAGR over FY17-22)

**Q4FY22 Results:** HCLT reported strong growth in IT services.

- Revenue in IT services grew 5.2% QoQ in CC terms. That of P&P declined 24% QoQ in CC terms
- EBIT margin of services business was up 80 bps QoQ
- Dividend for FY22 at ₹44 per share (88% pay out)

**What should investors do?** HCLT's share price has grown by ~2.9x over the past five years (from ~₹ 376 in April 2017 to ~₹ 1,101 levels in April 2022).

- We maintain **HOLD** rating

**Target Price and Valuation:** We value HCLT at ₹ 1220 i.e. 22x P/E on FY24E EPS

**Key triggers for future price performance:**

- The company continues to win multiyear deals in Cloud transformation, cyber security, etc as new deal bookings continue to be strong
- Guided for 12-14% revenue growth in CC for FY23E, mainly led by improved growth in IT & business services and ER&D
- However, margins are expected to be under pressure for a few more quarters. We expect ~130 bps EBIT margin decline over FY22-24E
- With improvement in large deal wins, expansion in geographies, investment in sales & capabilities, we expect HCLT to register 12.9% CAGR in FY22-24E

**Alternate Stock Idea:** Apart from HCLT, in our IT coverage we also like TechM.

- Key beneficiary of uptick communication spend
- BUY with target price of ₹ 1,850

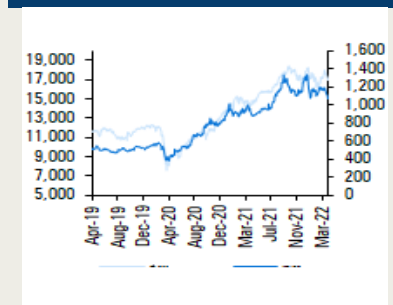
### Particulars

Particular	Amount
Market Cap (₹ Crore)	298,774.5
Total Debt (₹ Crore)	3,923.0
Cash & Equivalent (₹ Crore)	18,875.0
EV (₹ Crore)	283,822.5
52 week H/L	1377 / 891
Equity capital	543.0
Face value	₹ 2

### Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoters	60.3	60.3	60.3	60.7
FII	23.2	22.3	20.4	19.0
DII	11.0	12.2	13.4	12.7
Public	5.5	5.2	5.9	7.6

### Price Chart



### Recent Event & Key risks

- Revenue guidance of 12-14% in CC and EBIT margin guidance of 18-20% for FY23
- **Key Risk:** (i) Higher than guided numbers (ii) weaker than expected P&P performance

### Research Analyst

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### Key Financial Summary

Key Financials	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR FY(22-24E)
Net Sales	70,678	75,379	85,651	12.9	98,555	108,903	12.8
EBITDA	16,694	19,482	20,041	14.2	21,515	23,469	8.2
Margins (%)	23.6	25.8	23.4		21.8	21.6	
Net Profit	11,062	12,435	13,516	9.8	13,927	15,031	5.5
EPS (₹)	40.8	45.8	49.8		51.4	55.4	
P/E	27.0	24.0	22.1		21.4	19.9	
RoNW (%)	21.6	20.8	21.8		21.3	22.0	
RoCE (%)	23.0	23.5	24.2		25.2	26.1	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

- Reported term:** It reported rupee revenues of ₹ 22,597 crore, up 1.2% QoQ, 15% YoY while dollar revenues came in at US\$2,993 million (mn), up 0.5% QoQ, 11% YoY. IT business reported 4.6% QoQ to US\$2,199 mn while ER&D business reported revenues of US\$490 mn, up 3.6% QoQ. P&P business reported decline of 24.4% QoQ to US\$304 mn
- In CC terms:** The company reported 1.1% QoQ revenue growth. IT business reported 5.2% QoQ growth while ER&D reported growth of 3.9% QoQ. P&P business reported decline of 24% QoQ. **The company is guiding 12-14% revenue growth in FY23**
- Vertical wise, in CC terms, Telecommunications, Manufacturing, life sciences have reported strong growth of 6.8%, 4.3%, 4.1% while BFSI, Retail, Technology & services reported weak growth of +0.4%, -5.6%, -3.8% QoQ, respectively. Geography wise America, Europe reported relatively weak growth of 0.2%, 2.3% QoQ, respectively
- At the company level, it reported EBIT margin decline 110 bps QoQ to 17.9% while services margin (IT+ER&D) declined 80 bps. The company indicated that out of these 80 bps, 60 bps was due to recovery of furlough impact last quarter while 20 bps was due to operating efficiency. **The company is guiding 18-20% EBIT margin for FY23.** The company indicated that salary hikes in FY23 would be higher than that of FY22
- HCLT remains confident on the demand environment and do not see any near term headwinds as far as the demand is concerned. The company order book (net new deals) remains strong at US\$2.2 billion (bn) for Q4 while that of FY22 was at US\$8.3 bn (~16% CAGR in FY20-22)
- The company declared dividend of ₹ 18 per share while total dividend for FY22 was at ₹ 44 per share i.e. dividend payout of 88%, which is higher than their guided number. The company earlier guided for minimum 75% dividend payout for FY22-26. The company reiterated that guidance since they are not looking at any near term acquisitions
- HCLT is looking to continue its investments in P&P business. It invests US\$200 mn per year into R&D for this business. The company's portfolio includes 20 products, which have high growth market opportunities as per management. HCLT also indicated that revenue mix of this business is as follows: 67% of the revenue comes from subscription, 5% from professional services and rest from license sales. It also indicated that as licensing pie will go down and subscription pie will grow as per their plan and hence lumpiness in revenue will come down
- HCLT saw an addition of 11,100 employees in Q4FY22, taking its overall full-time employee headcount to 208,877. Attrition increased 210 bps QoQ to 21.9%
- The company indicated that it is pushing for better pricing and some of the new/niche deals are coming with a better pricing. However, it maintained that pricing increase would be gradual in nature

**Exhibit 1: Variance Analysis**

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Revenue	22,597	22,781	19,642	15.0	22,331	1.2	Revenue was up 1.2% QoQ, IT services business grew by 5.2% QoQ in CC while P&P business declined 24% QoQ in CC
Cost of sales (including employee expenses)	14,672	14,716	12,650	16.0	14,309	2.5	
Gross Margin	7,925	8,064	6,992	13.3	8,022	-1.2	
Gross margin (%)	35.1	35.4	35.6	-53 bps	35.9	-85 bps	
Selling & marketing costs	2,872	2,848	2,470	16.3	2,780	3.3	
EBITDA	5,053	5,217	4,522	11.7	5,242	-3.6	
EBITDA Margin (%)	22.4	22.9	23.0	-66 bps	23.5	-111 bps	
Depreciation	984	1,071	1,117	-11.9	991	-0.7	
EBIT	4,069	4,146	3,405	19.5	4,251	-4.3	
EBIT Margin (%)	18.0	18.2	17.3	67 bps	19.0	-103 bps	EBIT margin of services business ( IT sevicees and ER&D together) improved by 80bps QoQ due to base impact
Other income	252	193	190	NA	203	24.1	
PBT	4,321	4,339	3,595	20.2	4,454	-3.0	
Tax paid	721	998	1,191	-39.5	997	-27.7	PAT was higher due to lower tax expenses
PAT	3,594	3,327	2,387	50.6	3,443	4.4	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
(₹ Crore)							
Revenue	98,199	98,555	0.4	107,931	108,903	0.9	Revenue growth marginally upwards on guidance backed by strong new order wins
EBIT	18,724	17,436	-6.9	20,687	19,185	-7.3	
EBIT Margin (%)	19.1	17.7	-138 bps	19.2	17.6	-155 bps	We trim down margin due to costs pressures in IT services as well on pressure on P&P business ( high margin business)
PAT	14,893	13,927	-6.5	16,166	15,031	-7.0	
EPS (₹)	55	51	-6.5	60	55	-7.0	

Source: Company, ICICI Direct Research

**Key Metrics**

**Exhibit 3: Geography wise break-up**

	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
<b>Revenue by geography (%)</b>					
Americas	62.0	63.1	62.8	63.1	62.8
Europe	29.1	27.9	28.3	28.3	28.3
RoW	8.9	9.0	8.9	8.7	8.9
<b>Growth QoQ (%) - Constant Currency</b>					
Americas	2.0	2.6	2.4	7.3	0.2
Europe	0.7	-3.9	5.8	9.1	2.3
RoW	13.3	2.4	4.0	4.5	3.5

Revenue growth was lower in key markets of Americas & Europe

Source: Company, ICICI Direct Research

Exhibit 4: Industry wise break-up

	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
<b>Revenue by verticals (%)</b>					
Financial Services	21.6	22.1	21.3	21.1	20.9
Manufacturing	17.7	17.2	17.9	17.5	18.0
Lifesciences & Healthcare	14.1	14.7	15.3	14.4	14.9
Public Services	11.2	10.8	10.6	10.4	10.7
Retail & CPG	10.1	10.0	9.8	10.1	9.4
Telecommunications, Media, Publishing & Entertainment	8.1	7.9	7.9	8.1	8.6
Technology & Services	17.2	17.3	17.2	18.4	17.5
<b>Growth QoQ (%) - Constant currency</b>					
Financial Services	3.3	2.9	0.4	6.3	0.4
Manufacturing	0.3	-2.2	8.1	5.7	4.3
Lifesciences & Healthcare	6.6	5.4	7.0	0.9	4.1
Public Services	9.9	-3.4	1.9	6.1	3.2
Retail & CPG	-0.9	-0.1	0.9	11.5	-5.6
Telecommunications, Media, Publishing & Entertainment	-0.1	-1.9	3.0	11.3	6.8
Technology & Services	-0.6	1.6	2.6	14.0	-3.8

Financial services, retail CPG reported muted growth

Source: Company, ICICI Direct Research

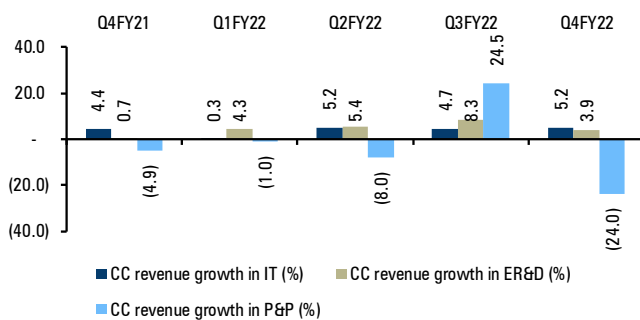
Exhibit 5: Segment offering wise break-up

	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
<b>Client metrics</b>					
US\$1-5 million	491	491	507	518	533
US\$10-20 million	82	79	81	88	90
US\$50-100 million	20	23	26	27	27
US\$100 million+	15	14	15	15	16
<b>Headcount, Utilization &amp; Attrition</b>					
Total Employees	168,977	176,499	187,634	197,777	208,877
Attrition - IT Services (LTM)	9.9	11.8	15.7	19.8	21.9

Attrition was up by 180bps

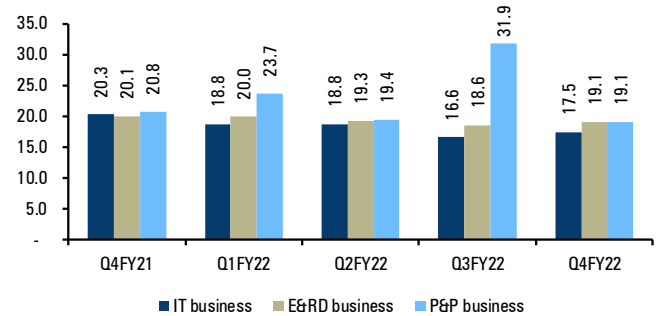
Source: Company, ICICI Direct Research

Exhibit 6: Revenue growth trend in all three business in CC



Source: ICICI Direct Research, Company

Exhibit 7: EBIT margin trend across businesses



Source: ICICI Direct Research, Company

## Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
	FY21	FY22	FY23E	FY24E
<b>Total operating Income</b>	<b>75,379</b>	<b>85,651</b>	<b>98,555</b>	<b>108,903</b>
Growth (%)	6.7	13.6	15.1	10.5
Direct costs	46,550	54,701	63,637	70,678
S,G&A expenses	9,348	10,909	13,404	14,756
Total Operating Expenditure	55,898	65,610	77,041	85,435
<b>EBITDA</b>	<b>19,482</b>	<b>20,041</b>	<b>21,515</b>	<b>23,469</b>
Growth (%)	16.7	2.9	7.4	9.1
Depreciation	3,985	3,874	4,079	4,284
Amortisation	-	-	-	-
Net Other Income	657	856	1,076	724
PBT	16,154	17,023	18,511	19,909
Forex adjustments	-	-	-	-
Total Tax	3,663	3,458	4,535	4,878
<b>PAT</b>	<b>12,435</b>	<b>13,516</b>	<b>13,927</b>	<b>15,031</b>
Growth (%)	12.4	8.7	3.0	7.9
EPS (₹)	45.8	49.8	51.4	55.4
Growth (%)	12.4	8.8	3.0	7.9

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
	FY21	FY22	FY23E	FY24E
PBT	16,154	17,023	18,511	19,909
Depreciation & Amortisation	4,611	4,326	4,079	4,284
(Inc)/dec in Current Assets	1,049	(2,383)	(6,645)	(3,760)
Inc/(dec) in CL and Provisions	1,992	1,834	4,280	2,569
Taxes paid	(3,445)	(3,443)	(4,535)	(4,878)
<b>CF from operating activities</b>	<b>19,618</b>	<b>16,900</b>	<b>14,565</b>	<b>17,400</b>
(Inc)/dec in Investments	(2,762)	2,994	1,076	724
(Inc)/dec in Fixed Assets	(1,753)	(1,555)	(1,713)	(1,713)
<b>CF from investing activities</b>	<b>(5,742)</b>	<b>1,477</b>	<b>(637)</b>	<b>(989)</b>
Issue/(Buy back) of Equity	-	-	-	-
Inc/(dec) in loan funds	(251)	(60)	(500)	(500)
Dividend paid & dividend tax	(3,256)	(12,135)	(10,445)	(12,025)
Inc/(dec) in debentures	-	-	-	-
Others	(1,155)	(1,942)	-	-
<b>CF from financing activities</b>	<b>(11,180)</b>	<b>(14,508)</b>	<b>(10,945)</b>	<b>(12,525)</b>
Net Cash flow	2,696	3,869	2,983	3,886
Exchange difference	65	120	-	-
Opening Cash	4,976	8,888	12,636	15,619
Bank bal +unclaimed dvd.	-	-	-	-
<b>Cash &amp; bank c/f to balance sheet</b>	<b>8,888</b>	<b>12,636</b>	<b>15,619</b>	<b>19,505</b>

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>				
Equity Capital	543	543	543	543
Reserve and Surplus	59,370	61,371	64,853	67,859
Total Shareholders funds	59,913	61,914	65,396	68,402
Total Debt	3,828	3,923	3,423	2,923
Other liabilities+Provisions	4,901	4,329	4,657	4,840
Minority Interest / Others	169	92	92	92
<b>Total Liabilities</b>	<b>68,811</b>	<b>70,258</b>	<b>73,568</b>	<b>76,257</b>
<b>Assets</b>				
Net Block+ CWIP	8,364	8,055	7,932	7,718
Intangible assets+ Goodwill	29,093	27,160	24,917	22,560
Investments	89	103	103	103
Liquid investments	6,773	6,239	6,239	6,239
Inventory	94	161	123	136
Debtors	13,663	15,476	17,864	19,740
Loans and Advances	4,841	3,008	6,329	6,994
Other Current Assets	8,792	10,521	11,495	12,702
Cash	8,888	12,636	15,619	19,505
Total Current Assets	43,051	48,041	57,669	65,316
Total Current Liabilities	17,383	18,775	22,728	25,114
Net Current Assets	25,668	29,266	34,942	40,202
Other non current assets	5,597	5,674	5,674	5,674
<b>Application of Funds</b>	<b>68,811</b>	<b>70,258</b>	<b>73,568</b>	<b>76,257</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	45.8	49.8	51.4	55.4
Cash EPS	60.5	64.1	66.4	71.2
BV	220.8	228.3	241.1	252.2
DPS	24.3	23.6	38.5	44.3
Cash Per Share	32.8	46.6	57.6	71.9
<b>Operating Ratios (%)</b>				
EBIT Margin	20.6	18.9	17.7	17.6
PBT Margin	21.4	19.9	18.8	18.3
PAT Margin	16.5	15.8	14.1	13.8
Debtor days	66	66	66	66
<b>Return Ratios (%)</b>				
RoE	20.8	21.8	21.3	22.0
RoCE	23.5	24.2	25.2	26.1
RoIC	29.2	31.5	33.7	38.0
<b>Valuation Ratios (x)</b>				
P/E	24.0	22.1	21.4	19.9
EV / EBITDA	14.7	14.2	13.0	11.8
EV / Net Sales	3.8	3.3	2.8	2.5
Market Cap / Sales	4.0	3.5	3.0	2.7
Price to Book Value	5.0	4.8	4.6	4.4
<b>Solvency Ratios</b>				
Debt/EBITDA	0.2	0.2	0.2	0.1
Debt/EBITDA	0.2	0.2	0.2	0.1
Current Ratio	1.6	1.6	1.6	1.6
Quick Ratio	1.6	1.5	1.6	1.6

Source: Company, ICICI Direct Research

**Exhibit 12: ICICI Direct coverage universe (IT)**

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
HCL Tech (HCLTEC)	1,102	1,220	HOLD	299,046	49.8	51.4	55.4	22.1	21.5	19.9	24.2	25.2	26.1	21.8	21.3	22.0
Infosys (INFTEC)	1,585	2,000	HOLD	666,768	52.0	60.9	70.9	30.5	26.0	22.3	36.0	36.8	39.6	29.2	30.5	32.8
TCS (TCS)	3,613	4,120	HOLD	1,322,015	104.7	119.3	133.0	34.5	30.3	27.2	51.4	50.8	49.5	43.0	43.2	41.5
Tech M (TECMAH)	1,307	1,850	BUY	127,019	64.7	76.8	86.2	20.2	17.0	15.2	22.8	24.4	24.4	20.4	21.4	21.2
Wipro (WIPRO)	538	750	BUY	294,893	21.8	25.6	28.8	24.7	21.0	18.7	22.5	26.2	29.0	21.6	25.4	28.5
LTI (LTINFNC)	5,094	6,000	HOLD	89,258	130.8	140.3	165.9	38.9	36.3	30.7	32.3	29.0	29.6	26.1	24.1	24.4
Mindtree (MINCON)	3,871	4,090	HOLD	63,796	100.3	109.8	127.9	38.6	35.3	30.3	38.0	35.4	34.5	30.2	27.4	26.6
Coforge (NIITEC)	4,129	5,300	HOLD	25,147	115.2	146.7	163.1	35.8	28.1	25.3	28.6	30.9	29.7	25.0	27.1	25.9
TeamLease (TEASER)	3,953	4,500	BUY	6,758	68.2	101.0	125.1	58.0	39.1	31.6	16.3	19.9	20.3	15.7	18.7	19.0
Infoedge (INFEDG)	4,656	5,800	BUY	58,513	37.1	51.0	55.1	125.6	91.4	84.5	13.1	16.7	16.7	9.9	12.6	12.6

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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