

April 24, 2022

RESULT REPORT Q4 FY22 | Sector: Information Technology

HCL Technologies

Muted performance on weak seasonality of Product and Platform business

Our view and valuation

Overall, the financial performance was below expectation due to weak seasonality in Product and Platform segment. The P&P segment declined by 24% QoQ affecting the overall growth. However, the IT services segment (contributing 73% to revenue) continues to deliver among industry leading growth at 5.2% QoQ in Q4FY22. We expect revenue growth to be more predictable and robust going ahead as IT services contribution rises in revenue mix. Deal booking remains strong and that offers strong growth visibility for FY23. We expect it to maintain 18% + EBIT margin for FY23 led by improving employing pyramid and positive operating leverage. Employee attrition should come in control over next few quarters. We expect revenue CAGR of 15.4% over FY22-24E, with average EBIT margin of 19.7%

Valuation remains attractive as it trades at PE of 16.4x on FY24E EPS. We maintain BUY Rating on the stock with revised target price of Rs 1,407/share at 21x on FY24E.

Result Highlights

- Reported revenue of Rs 226bn (up 0.5% QoQ in USD terms, up 1.2% QoQ in INR terms). The muted revenue performance was due to 24% QoQ decline in Product and Platform business (weak Q4 seasonality), which contributes 10% to revenue. IT Services segment (73% to revenue) posted robust growth of 5.2% QoQ.
- EBIT margin declined by 106 bps QoQ to 18%, led by higher employee cost. Management has guided that it would be able to achieve 18-20% EBIT margin band for FY23.
- Deal wins remained strong as TCV of new deals were at \$2,260 mn for the quarter, up 6% QoQ.
- Added 11,100 employees during the quarter, up 5.6% QoQ to reach 208,877 employees.
- LTM attrition increased by 220 bps QoQ to 21.9% in line with industry trend
- DSO improved by 3 days QoQ to 61 days.
- Declared final dividend of Rs 18/ share (total dividend of Rs 44/ share for FY22)
- Guided for 12-14% revenue growth in cc terms for FY23, with EBIT margin band of 18-20%.

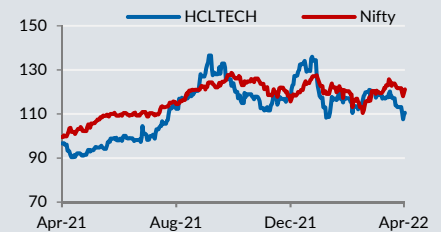
Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	225,970	229,657	226,934	-1.6%	-0.4%
EBITDA	50,530	53,280	51,244	-5.2%	-1.4%
EBITDA Margin (%)	22.36%	23.20%	22.58%	(84) bps	(22) bps
Adjusted PAT	35,940	34,826	33,364	3.2%	7.7%

Reco	: BUY
CMP	: Rs 1,099
Target Price	: Rs 1,407
Potential Return	: +28.0%

Stock data (as on April 22, 2022)

Nifty	17,172
52 Week h/l (Rs)	1378 / 891
Market cap (Rs/USD mn)	2990595 / 39100
Outstanding Shares (mn)	2,714
6m Avg t/o (Rs mn):	4,619
Div yield (%):	4.0
Bloomberg code:	HCLT IN
NSE code:	HCLTECH

Stock performance



	1M	3M	1Y
Absolute return	-6.3%	-5.6%	19.3%

Shareholding pattern (As of Mar'22 end)

Promoter	60.7%
FII+DII	33.7%
Others	5.4%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,407	1,556

Δ in earnings estimates

	FY22	FY23E	FY24E
EPS (New)	49.8	57.0	67.0
EPS (Old)	50.4	59.7	69.1
% change	-1.2%	-4.5%	-3.0%

Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Net Revenue	856,510	991,168	1,141,499
YoY Growth	13.6%	15.7%	15.2%
EBIDTA	201,920	240,045	283,301
YoY Growth	0.7%	18.9%	18.0%
PAT	135,150	154,689	181,880
YoY Growth	3.9%	14.5%	17.6%
ROE	22.2%	23.6%	24.7%
EPS	50	57	67
P/E	22.1	19.3	16.4
BV	228	255	287
P/BV	4.8	4.3	3.8

PIYUSH PANDEY

Lead Analyst

piyush.pandey@ysil.in

+91 22 68850521



Exhibit 1: Quarterly snapshot (Consolidated):

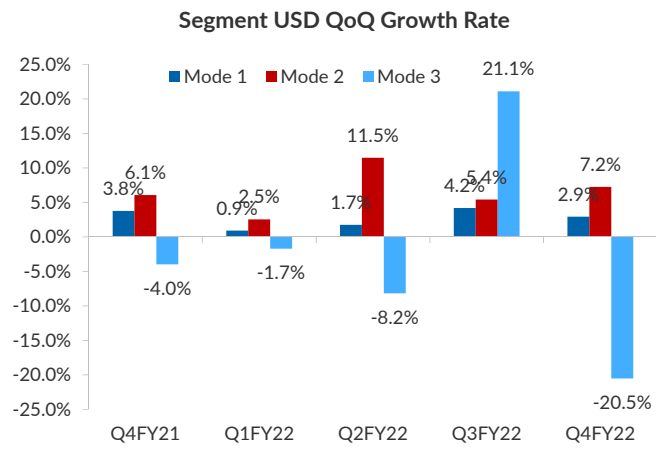
Particulars (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	yoy%	qoq%	FY22	FY21	yoy%
Sales (\$ mn)	2,696	2,720	2,791	2,978	2,993	11.0	0.5	11,482	10,175	12.8
Sales	196,420	200,680	206,550	223,310	225,970	15.0	1.2	856,510	753,790	13.6
EBITDA	50,970	49,080	48,380	53,930	50,530	(0.9)	(6.3)	201,920	200,560	0.7
EBITDA %	25.9	24.5	23.4	24.2	22.4	-359 bps	-179 bps	23.6	26.6	-303 bps
Depreciation	11,170	9,770	9,220	11,360	9,840	(11.9)	(13.4)	40,190	39,850	0.9
EBIT	39,800	39,310	39,160	42,570	40,690	2.2	(4.4)	161,730	160,710	0.6
EBIT Margin %	20.3	19.6	19.0	19.1	18.0	-226 bps	-106 bps	18.9	21.3	-244 bps
Other income	1430.0	1530.0	1280.0	1000.0	1170.0	(18.2)	17.0	8260.0	6440.0	28.3
PBT	41,700	41,250	41,230	44,300	43,210	3.6	(2.5)	169,990	167,150	1.7
Tax	11,910	8,940	8,460	9,820	7,210	(39.5)	(26.6)	34,430	36,630	(6.0)
PAT	29,790	32,310	32,770	34,480	36,000	20.8	4.4	135,560	130,520	3.9
Minority Interest	170	160	130	60	60	(64.7)	0.0	410	440	(6.8)
Net Income after MI	29,620	32,150	32,640	34,420	35,940	21.3	4.4	135,150	130,080	3.9
NPM (%)	15.2	16.1	15.9	15.4	15.9	76 bps	49 bps	15.8	17.3	-149 bps

KEY CON-CALL HIGHLIGHTS

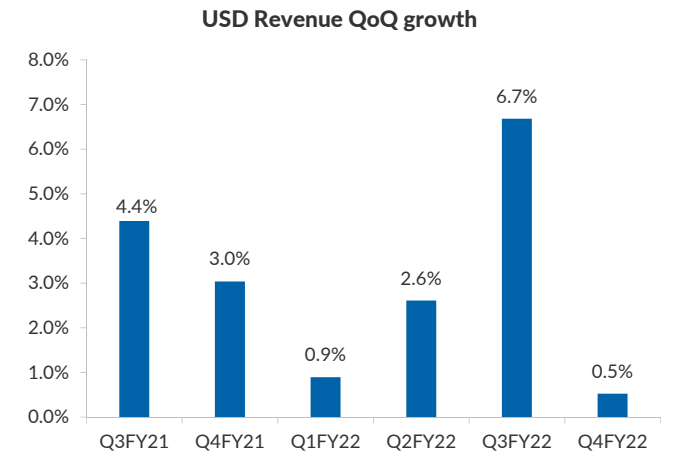
- Cloud migration and modernization continues to drive the growth of IT services
- The weak seasonality in License revenue of Product and Platform segment impacted the growth of overall company
- The IT services segment continues to post among industry leading growth rates.
- The aim of management is to convert license based revenue of P&P business to subscription based revenue that is more predictable.
- Customers are now more receptive to price increase discussions but it will take some time before it reflects in P&L.
- Telecom vertical was key contributor to Q4FY22 growth led by 5G related deals.
- The deal pipeline remains healthy and has good mix of small and mid sized deals. The deal pipeline is higher than it was at end of Q3FY22.
- Effective tax rate going ahead would be in 24-26% range.
- Net cash of Rs \$2.4bn as March 31, 2022.

Exhibit 2: Platform and Product segment had weak quarter

Exhibit 3: Sequential growth was below expectation



Source: Company, YES Sec



Source: Company, YES Sec

FINANCIALS

Exhibit 4: Balance Sheet

Y/e March 31 (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Share capital	2,780	2,710	5,430	5,430	5,430	5,430	5,430
Reserves & surplus	361,080	410,950	507,240	593,700	613,710	686,996	773,906
Shareholders' funds	363,860	413,660	512,670	599,130	619,140	692,426	779,336
Non-current liabilities	15,300	48,070	77,550	87,290	82,520	82,352	82,432
Long-term borrowings	3,380	29,770	28,480	38,280	39,230	37,269	35,405
Other non-current liabilities	11,920	18,300	49,070	49,010	43,290	45,084	47,027
Current liabilities	101,070	122,990	237,300	173,830	187,750	189,431	200,971
ST borrowings, Curr maturity	420	7,240	18,450	0	620	639	658
Other current liabilities	100,650	115,750	218,850	173,830	187,130	188,792	200,313
Total (Equity and Liabilities)	480,230	585,750	829,060	861,940	890,330	965,129	1,063,659
Non-current assets	234,650	288,530	444,860	431,430	409,920	433,042	440,521
Fixed assets (Net block)	122,740	140,620	217,360	202,650	177,890	185,211	190,472
Non-current Investments	3,030	850	770	890	1,030	1,030	1,030
Other non-current assets	106,530	143,510	226,730	227,890	231,000	246,801	249,019
Current assets	245,580	297,220	384,200	430,510	480,410	532,087	623,138
Cash & current investment	63,750	100,920	119,650	156,610	188,750	180,573	228,299
Other current assets	181,830	196,300	264,550	273,900	291,660	351,514	394,839
Total (Assets)	480,230	585,750	829,060	861,940	890,330	965,129	1,063,659
Total debt	3,800	37,010	46,930	38,280	39,850	37,907	36,063
Capital employed	379,580	470,000	610,210	688,110	703,200	776,337	863,346

Exhibit 5: Income Statement

Y/e March 31 (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net sales	505,710	604,280	706,780	753,790	856,510	991,168	1,141,499
Operating expenses	(391,300)	(464,590)	(539,850)	(553,230)	(654,590)	(751,123)	(858,198)
EBITDA	114,410	139,690	166,930	200,560	201,920	240,045	283,301
Depreciation	(14,520)	(21,480)	(28,400)	(39,850)	(40,190)	(47,576)	(54,792)
EBIT	99,890	118,210	138,530	160,710	161,730	192,469	228,509
Other income	11,110	7,830	1,470	6,440	8,260	9,739	9,242
Finance cost	0	0	0	0	0	0	0
Profit before tax	111,000	126,040	140,000	167,150	169,990	202,208	237,751
Tax (current + deferred)	(23,170)	(24,810)	(29,380)	(36,630)	(34,430)	(47,519)	(55,871)
Reported Profit / (Loss)	87,830	101,230	110,620	130,080	135,150	154,689	181,880
Adjusted net profit	87,830	101,230	110,620	130,080	135,150	154,689	181,880

Exhibit 6: Cash Flow Statement

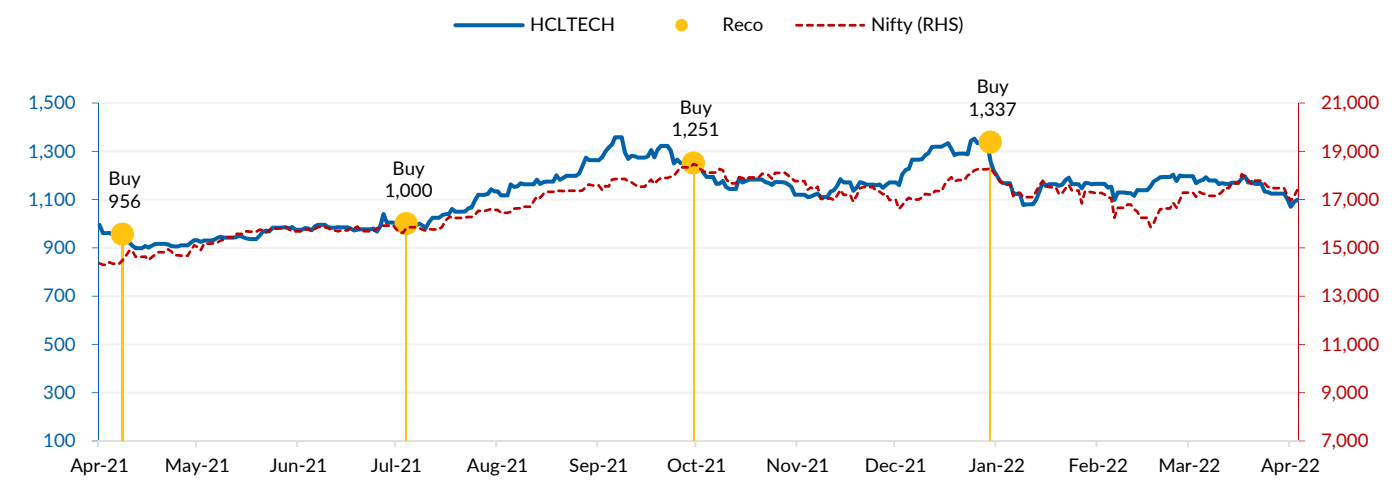
Y/e March 31 (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Profit before tax	111,000	126,040	140,000	167,150	169,990	202,208	237,751
Depreciation	14,520	21,480	28,400	39,850	40,190	47,576	54,792
Change in working capital	(32,953)	(1,740)	39,220	(53,660)	(4,190)	(58,540)	(32,216)
Total tax paid	(25,552)	(28,610)	(26,550)	(23,130)	(33,830)	(59,967)	(54,401)
Others	(5,700)	(6,020)	(1,610)	(5,980)	(4,980)	(4,339)	(3,842)
Cash flow from operations (a)	61,315	111,150	179,460	124,230	167,180	126,938	202,085
Capital expenditure	(44,207)	(39,360)	(105,140)	(25,140)	(15,430)	(54,897)	(60,053)
Change in investments	(14,801)	3,550	(47,610)	2,040	5,200	(3,120)	(3,275)
Others	3,568	(2,160)	(12,060)	3,840	4,070	2,324	1,625
Cash flow from investing (b)	(55,440)	(37,970)	(164,810)	(19,260)	(6,160)	(55,692)	(61,703)
Free cash flow (a+b)	5,875	73,180	14,650	104,970	161,020	71,246	140,381
Equity raised/(repaid)	(74)	(70)	2,720	0	0	0	0
Debt raised/(repaid)	(647)	33,210	9,920	(8,650)	1,570	(1,943)	(1,844)
Dividend (incl. tax)	(20,310)	(13,210)	(16,250)	(32,560)	(113,890)	(81,403)	(94,970)
Others	(35,103)	(54,570)	(40,000)	(24,640)	(11,220)	803	883
Cash flow from financing (c)	(56,134)	(34,640)	(43,610)	(65,850)	(123,540)	(82,542)	(95,931)
Net change in cash (a+b+c)	(50,258)	38,540	(28,960)	39,120	37,480	(11,297)	44,451

Exhibit 7: Ratio Analysis

Y/e March 31	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Growth (%)							
Revenue Growth	8.2	19.5	17.0	6.7	13.6	15.7	15.2
EBITDA Growth	11.0	22.1	19.5	20.1	0.7	18.9	18.0
EBIT Growth	5.4	18.3	17.2	16.0	0.6	19.0	18.7
Net Profit Growth	3.9	15.3	9.3	17.6	3.9	14.5	17.6
Profitability Ratios (%)							
EBITDA Margin	22.6	23.1	23.6	26.6	23.6	24.2	24.8
EBIT margin	19.8	19.6	19.6	21.3	18.9	19.4	20.0
Net Profit margin	17.4	16.8	15.7	17.3	15.8	15.6	15.9
RoA	21.3	22.2	19.6	19.0	18.5	20.7	22.5
RoE	25.3	26.0	23.9	23.4	22.2	23.6	24.7
RoCE	27.6	27.8	25.6	24.8	23.2	26.0	27.9
Liquidity Ratios							
Net debt/Equity (x)	(0.2)	(0.2)	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
Current ratio (x)	2.4	2.4	1.6	2.5	2.6	2.8	3.1
Quick ratio (x)	2.4	2.4	1.6	2.5	2.6	2.8	3.1
Valuation Ratios							
PER(x)	NA	NA	NA	NA	22.1	19.3	16.4
PCE(x)	NA	NA	NA	NA	17.0	14.7	12.6
Price/Book(x)	NA	NA	NA	NA	4.8	4.3	3.8
EV/EBITDA(x)	NA	NA	NA	NA	14.0	11.8	9.8

Dupont Analysis	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net margin (%)	17.4	16.8	15.7	17.3	15.8	15.6	15.9
Asset turnover (x)	1.1	1.1	1.0	0.9	1.0	1.1	1.1
Leverage factor (x)	1.4	1.4	1.5	1.5	1.4	1.4	1.4
Return on Equity (%)	25.3	26.0	23.9	23.4	22.2	23.6	24.7

Recommendation Tracker



DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

The information and opinions in this report have been prepared by YSL and are subject to change without any notice. The report and information contained herein are strictly confidential and meant solely for the intended recipient and may not be altered in any way, transmitted to, copied or redistributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of YSL.

The information and opinions contained in the research report have been compiled or arrived at from sources believed to be reliable and have not been independently verified and no guarantee, representation of warranty, express or implied, is made as to their accuracy, completeness, authenticity or validity. No information or opinions expressed constitute an offer, or an invitation to make an offer, to buy or sell any securities or any derivative instruments related to such securities. Investments in securities are subject to market risk. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Investors should note that each security's price or value may rise or fall and, accordingly, investors may even receive amounts which are less than originally invested. The investor is advised to take into consideration all risk factors including their own financial condition, suitability to risk return profile and the like, and take independent professional and/or tax advice before investing. Opinions expressed are our current opinions as of the date appearing on this report. Investor should understand that statements regarding future prospects may not materialize and are of general nature which may not be specifically suitable to any particular investor. Past performance may not necessarily be an indicator of future performance. Actual results may differ materially from those set forth in projections.

Technical Analysis reports focus on studying the price movement and trading turnover charts of securities or its derivatives, as opposed to focussing on a company's fundamentals and opinions, as such, may not match with reports published on a company's fundamentals.

YSL, its research analysts, directors, officers, employees and associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject YSL and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

YES Securities (India) Limited (YSL) distributes research and engages in other approved or allowable activities with respect to U.S. Institutional Investors through SEC 15a-6 rules and regulations under an exclusive chaperone arrangement with Brasil Plural Securities LLC. The views and sentiments expressed in this research report and any findings thereof accurately reflect YSL analyst's truthful views about the subject securities and or issuers discussed herein. YSL is not registered as a broker-dealer under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and is not a member of the Securities Investor Protection Corporation ("SIPC"). Brasil Plural Securities LLC is registered as a broker-dealer under the Exchange Act and is a member of SIPC. For questions or additional information, please contact Gil Aikins (gil.aikins@brasilplural.com) or call +1 212 388 5600.

DISCLOSURE OF INTEREST

Name of the Research Analyst : Piyush Pandey

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.



YES Securities (India) Limited

Registered Address: 2nd Floor, North Side, YES BANK House, Off Western Express Highway, Santacruz East, Mumbai - 400 055, Maharashtra, India.

Correspondence Address: 4th Floor, AFL House, Lok Bharti Complex, Marol Maroshi Road, Andheri East, Mumbai - 400059, Maharashtra, India.

☎ +91 22 68850521 | ✉ research@yasil.in
Website: www.yesinvest.in

Registration Nos.: CIN: U74992MH2013PLC240971 | SEBI Single Registration No.: NSE, BSE, MCX & NCDEX: INZ000185632 | Member Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 | MERCHANT BANKER: INM000012227 | RESEARCH ANALYST: INH000002376 | INVESTMENT ADVISER: INA000007331 | Sponsor and Investment Manager to YSL Alternates Alpha Plus Fund (Cat III AIF) SEBI Registration No.: IN/AIF3/20-21/0818 | AMFI ARN Code - 94338.

Details of Compliance Officer: Name: Vaibhav Purohit, Email id: compliance@yasil.in, Contact No: +91-22-6885 0278