

# HCL Technologies Ltd.



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Service business driving revenue growth; new deal wins and strategic partnerships

CMP INR 1,072	Target INR 1,119	Potential Upside 4.3%	Market Cap (INR Mn) INR 29,01,320	Recommendation HOLD	Sector Information Technology
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## Result Highlights of Q3FY23:

- HCL Tech witnessed strong revenue growth of 13.1% YoY CC which was led by their Services business which grew 15.4% YoY CC; and strong revenue growth of 5.0% QoQ CC which was led by HCL Software.
- Constant Currency Revenue was up 5.0% QoQ & up 13.1% YoY. Whereas INR Revenue stood at ₹ 2,670 Mn, up 19.6% YoY and up 8.2% sequentially. It recorded USD Revenue of US\$ 3,244 Mn, up 5.3% QoQ & up 9.0% YoY. Services Revenue (ITBS and ERS) was up 2.2% QoQ & up 15.4% YoY in Constant Currency. Mode-2 Revenue up 27.0% YoY in Constant Currency.
- Profitability was at all-time high with EBIT at ₹ 523 Mn (up 22.8% YoY) and PAT at ₹ 409 Mn (up 19% YoY). EBIT Margin were at 19.6%, up 165 bps QoQ and Net Margin at 15.3%, up 117 bps QoQ.

## MARKET DATA

Shares outs (Mn)	2712
Equity Cap (INR Mn)	5,430
Mkt Cap (INR Mn)	29,01,320
52 Wk H/L (INR)	1359/877
Volume Avg (3m K)	3668
Face Value (INR)	2
Bloomberg Code	HCTHY IN Equity

## KEY FINANCIALS

INR Millions	FY20	FY21	FY22	FY23E	FY24E
Revenue	7,06,780	7,53,790	8,56,510	8,97,611	9,94,913
EBITDA	1,66,940	2,00,570	2,05,300	2,25,060	2,54,392
Adj PAT	1,10,620	1,30,100	1,31,830	1,43,458	1,51,879
Adj. EPS (INR)	40.76	47.94	48.58	52.87	55.97
EBITDA Margin (%)	23.6%	26.6%	23.9%	25.1%	25.6%
NPM (%)	15.7%	16.5%	15.4%	16.0%	15.3%
P/E	22.3x	19.9x	22.6x	22.2x	20.9x

Source: Company, KRChoksey Research

**Revenue growth led by Services business:** The company delivered a strong performance this quarter across all key metrics like revenue growth, margin expansion, booking growth and people metrics. The strong revenue growth of 13.1% YoY CC was led by their Services business which grew 15.4% YoY CC; and strong revenue growth of 5.0% QoQ CC which was led by HCL Software. Revenue at ₹ 2670 Mn is up 19.6% YoY, on the back of strong Services business growth of 22% YoY. The booking growth was led by IT operating model transformation, cloud adoption and large vendor consolidation deals. The company is expected to deliver industry leading growth over the medium term backed by their strong market positioning. The top performing verticals were Lifesciences and Healthcare, Manufacturing and Telecom and Media delivering sequential growth of 5.5%, 4.9% and 4.5% in constant currency respectively.

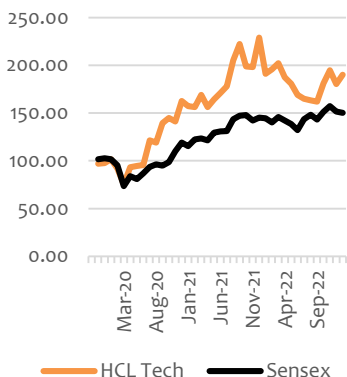
**Sequential improvement in EBITDA margin:** In Q3FY23, HCL Tech crossed important milestones of ₹ 500 Mn and ₹ 400 Mn for EBIT and PAT respectively for the very first time. Profitability was at all-time high with EBIT at ₹ 523 Mn (up 22.8% YoY) and PAT at ₹ 409 Mn (up 19% YoY). EBIT Margin were at 19.6%, up 165 bps QoQ and Net Margin at 15.3%, up 117 bps QoQ led by rupee depreciation and a slight shift in revenue mix towards higher margin businesses.

**Net Additions and Attrition rate:** With a net addition of 2,945 employees during the quarter, it has taken the closing headcount to 2,22,270. The LTM attrition rate stands at 21.7%.

ROIC stands at 30% and 37% for the Company and Services business, respectively. Cash conversion continues to be healthy with LTM OCF/NI at 111% and FCF/NI at 100%. Diluted EPS (LTM) stands at ₹ 53.36, up 13.1% YoY.

## SHARE PRICE PERFORMANCE

### Share Price Performance



## MARKET INFO

SENSEX	59,970
NIFTY	17,858

## SHARE HOLDING PATTERN (%)

Particulars	Sep-22 (%)	Jun-22 (%)	Mar-22 (%)
Promoters	60.72	60.72	60.72
FIIIs	17.17	17.91	18.97
DIIIs	16.52	15.54	14.68
Others	5.36	5.61	5.63
Total	100.0	100.0	100.0

\*Dec 22 Shareholding pattern not available

7.8%

Revenue CAGR between FY22 and FY24E

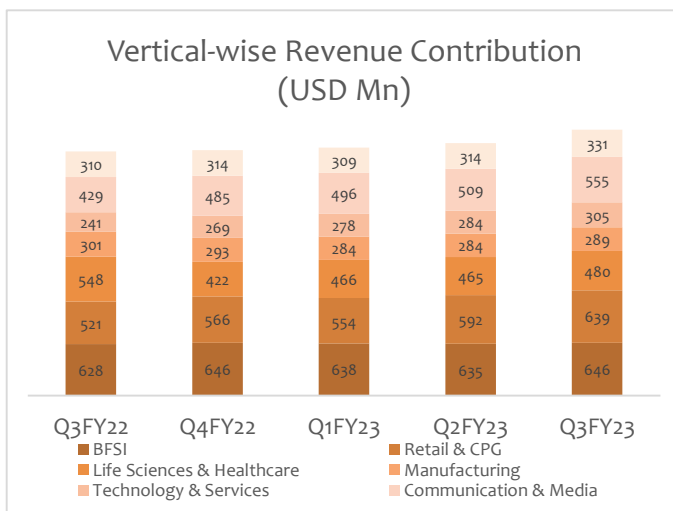
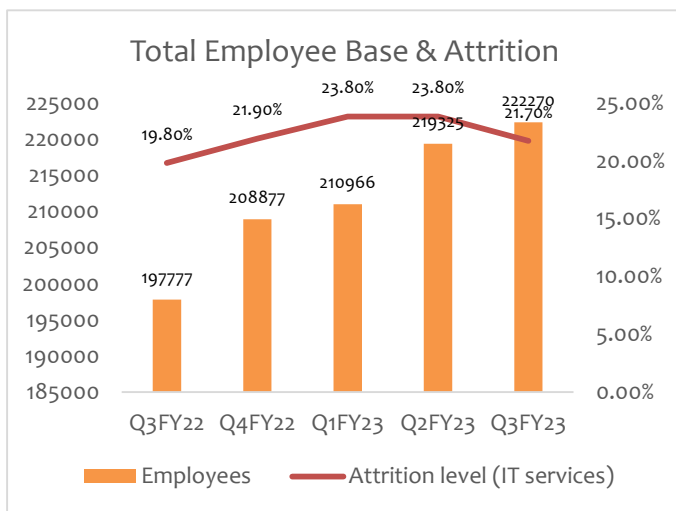
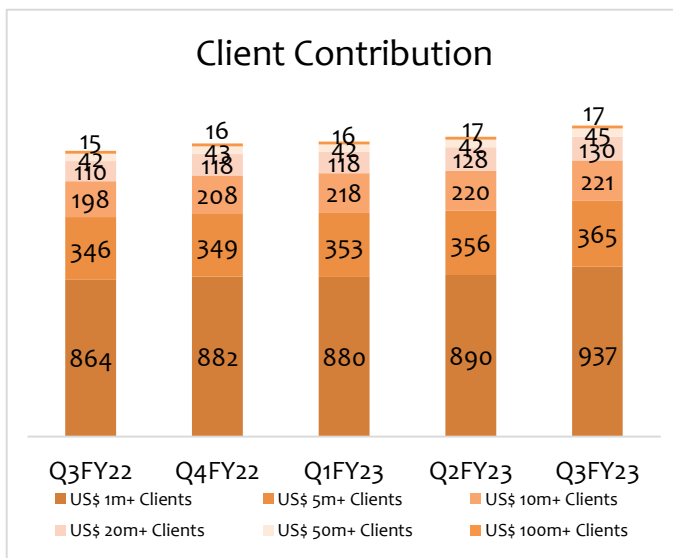
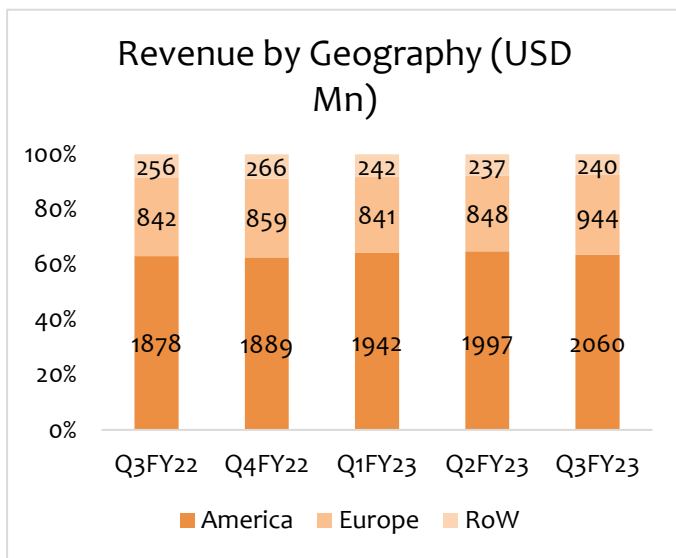
7.3%

Adj. PAT CAGR between FY22 and FY24E

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**Key Concall Highlights:** (1) HCL Tech won 17 large deals – 7 services and 10 software. TCV (New Deal wins) were at US\$ 2,347 Mn, up 10% YoY and ACV were up 1.9% YoY led by themes including operating model transformation, cloud adoption and vendor consolidation across industry verticals (2) Entered into a solidified multi-year partnership with Skudoria Ferrari for F1 with the focus on supplying high precision performance technology and to increase brand awareness (3) HCL software segment recorded significant growth of 30.5% in third quarter in constant currency (4) The geographical growth was led by Europe 7.2% sequentially in constant currency followed by America at 0.5% QoQ in constant currency (5) The top performing verticals were Lifesciences and Healthcare, Manufacturing and Telecom and Media delivering sequential growth of 5.5%, 4.9% and 4.5% in constant currency respectively (6) Addition of 3 new clientele in the 50 million dollar category and 2 in the 20 million dollar category on a QoQ basis (7) The Bookings increased 10% YoY on total contract basis (8) The top 3 deals wins this quarter gave them a PCB of close to a billion dollars (9) Management has guided that Q4 will be a seasonally weak quarter as a PLP performance would peaks in Q3 with renew them a new deal signings. Management has guided 13.5-14% YoY growth for company revenue in constant currency and 16-16.5% YoY growth in service revenue in constant currency for FY23. EBIT margin guidance has been narrowed to 18.0% – 18.5% (10) Business from Financial services was affected majorly due to furloughs which is expected to improve in coming quarters (11) It made a net addition 2,945 employees during the quarter and added 5,892 freshers, taking the closing headcount to 2,22,270. The LTM attrition rate is at 21.7%

**Valuation and view:** . It is uniquely positioned as the only IT Service provider globally to be rated as a leader in all six Gartner IT Services Magic Quadrants. With seasonal strength in products business and strong momentum in services business, it is likely to be the second highest in services business in FY23 among the Tier I IT players. The company delivered a significant performance with strong broad based growth across verticals and geographies. Large deal wins, healthy pipeline, new strategic partnerships and IMS capabilities is likely to improve its future outlook. The company is currently trading at a PE multiple of 21. We have maintained the target price to INR 1,119 with a P/E multiple of 19.9x to the FY24 estimated EPS of INR 56, an upside of 4.3% over the CMP. Accordingly, we maintain our rating to “HOLD” to the stock.



Source: Company, KRChoksey Research

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## KEY FINANCIALS

### Exhibit 1: Profit & Loss Statement

Particulars (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
Revenue	7,06,780	7,53,790	8,56,510	8,97,611	9,94,913
Employee Cost	4,40,180	4,45,910	5,27,600	5,53,168	6,08,198
SG&A and Other Cost	99,660	1,07,310	1,23,610	1,19,382	1,32,323
<b>EBITDA</b>	<b>1,66,940</b>	<b>2,00,570</b>	<b>2,05,300</b>	<b>2,25,060</b>	<b>2,54,392</b>
Depreciation	28,410	39,850	43,260	54,524	66,363
<b>EBIT</b>	<b>1,38,530</b>	<b>1,60,720</b>	<b>1,62,040</b>	<b>1,70,536</b>	<b>1,88,029</b>
Other income, net	5,429	9,407	7,470	17,618	17,717
Finance costs	3,649	2,837	2,840	2,325	2,495
<b>Pre-tax Income</b>	<b>1,40,310</b>	<b>1,67,290</b>	<b>1,66,670</b>	<b>1,85,830</b>	<b>2,03,251</b>
Income tax expense	29,380	36,630	34,280	41,812	50,813
<b>Net profit Before EI &amp; MI</b>	<b>1,10,930</b>	<b>1,30,660</b>	<b>1,32,390</b>	<b>1,44,018</b>	<b>1,52,439</b>
Minority Interest, MI	310	560	560	560	560
<b>Net profit after MI</b>	<b>1,10,620</b>	<b>1,30,100</b>	<b>1,31,830</b>	<b>1,43,458</b>	<b>1,51,879</b>
Diluted EPS (INR)	40.76	47.94	48.58	52.87	55.97
Shares in Million	2,714	2,714	2,714	2,714	2,714

Source: Company, KRChoksey Research

### Exhibit 2: Cash Flow Statement

Particulars (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
Net Cash Generated From Operations	1,71,190	1,72,852	1,86,971	2,13,011	2,50,641
Net Cash Flow from/(used in) Investing Activities	-41,020	-37,940	-32,605	-53,857	-67,654
Net Cash Flow from Financing Activities	33,670	-30,791	7,927	-8,126	2,714
Others	1,63,024	69,190	1,01,544	1,21,186	1,33,363
Net Inc/Dec in cash equivalents	816	34,931	60,749	29,842	52,338
Opening Balance	1,91,937	1,92,753	1,37,170	1,97,919	2,27,761
Closing Balance Cash and Cash Equivalents	1,92,753	2,27,684	1,97,919	2,27,761	2,80,098

Source: Company, KRChoksey Research

### Exhibit 3: Key Ratios

Key Ratio	FY20	FY21	FY22	FY23E	FY24E
EBIT Margin (%)	19.6%	21.3%	18.9%	19.0%	18.9%
Tax rate (%)	20.9%	21.9%	20.6%	22.5%	25.0%
Net Profit Margin (%)	15.7%	16.5%	15.4%	16.0%	15.3%
RoE (%)	23.7%	22.0%	20.3%	20.0%	19.3%
RoCE (%)	20.7%	20.2%	18.6%	17.4%	17.1%
EV/EBITDA (x)	14.2	11.5	11.0	9.8	8.5
EPS (INR per share)	40.8	47.9	48.6	52.9	56.0

Source: Company, KRChoksey Research

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## Exhibit 4: Balance Sheet

Particulars (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
Property, Plant and Equipment	58,440	56,420	42,637	41,970	43,261
Right-of-use Asset	26240	23920	23920	23920	23920
CWIP	4,000	3,210	3,210	3,210	3,210
Intangible Assets	2,94,210	2,91,500	2,91,500	2,91,500	2,91,500
Other non current assets	64,640	68,160	68,160	68,160	68,160
Investments	380	470	470	470	470
<b>Total non current assets</b>	<b>4,47,910</b>	<b>4,43,680</b>	<b>4,29,897</b>	<b>4,29,230</b>	<b>4,30,521</b>
Cash & equivalent	83850	137170	197919	227761	280098
Accounts receivable (Net)	1,41,340	1,36,630	1,51,858	1,72,145	1,90,805
Unbilled revenue	36,380	38,620	55,830	61,480	70,871
Investment securities, available for sale	69,880	67,730	67,730	67,730	67,730
Other current assets	52,800	50,370	50,370	50,370	50,370
<b>Total current assets</b>	<b>3,84,250</b>	<b>4,30,520</b>	<b>5,23,707</b>	<b>5,79,485</b>	<b>6,59,874</b>
<b>Total Assets</b>	<b>8,32,160</b>	<b>8,74,200</b>	<b>9,53,604</b>	<b>10,08,715</b>	<b>10,90,395</b>
Equity Share Capital	5,426	5,427	5,427	5,427	8,141
Other Equity	5,11,434	6,09,633	6,80,457	7,44,541	8,13,869
Equity Attributable to Owners of the Company	5,16,860	6,15,060	6,85,885	7,49,968	8,22,010
Non controlling Interest	5,280	5,850	5,850	5,850	5,850
<b>Total Equity</b>	<b>5,22,140</b>	<b>6,20,910</b>	<b>6,91,735</b>	<b>7,55,818</b>	<b>8,27,860</b>
Operating Lease Liability	24,720	22,670	22,670	22,670	22,670
Other liabilities	25,490	26,820	26,820	26,820	26,820
Borrowings	50,920	39,070	35,163	31,256	31,256
<b>Total non current liabilities</b>	<b>1,01,130</b>	<b>88,560</b>	<b>84,653</b>	<b>80,746</b>	<b>80,746</b>
Trade Payables	15,816	24,275	23,409	22,111	24,346
Current portion of capital lease obligations	1,639	1,877	1,877	1,877	1,877
Short term loans	21,096	824	12,658	8,438	8,438
Accrued employee costs	29,931	41,339	39,743	35,327	35,327
Deferred revenues	25,378	31,940	34,538	38,034	42,156
Income Tax Liabilities	10,089	13,347	13,862	15,235	18,514
Other current liabilities	1,04,940	51,129	51,129	51,129	51,129
<b>Total Current Liabilities</b>	<b>2,08,890</b>	<b>1,64,730</b>	<b>1,77,216</b>	<b>1,72,152</b>	<b>1,81,789</b>
<b>Total liabilities</b>	<b>8,32,160</b>	<b>8,74,200</b>	<b>9,53,604</b>	<b>10,08,715</b>	<b>10,90,395</b>

Source: Company, KRChoksey Research

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HCL Technologies Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
16-Jan-23	1,072	1,119	HOLD	Buy	More than 15%
13-Oct-22	952	1119	BUY	Accumulate	5% – 15%
13-Jul-22	918	1119	BUY	Hold	0 – 5%
22-Jan-21	1102	1391	BUY	Reduce	-5% – 0
				Sell	Less than – 5%

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