

HCL Tech

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Slight miss in Q4 operating performance; FY24 guidance better than expectations

CMP	Target Price
Rs 1,038 as of (April 20, 2023)	Rs 1,150 (▼) 12 months
Rating	Upside
BUY (■)	10.8 %

HCLT delivered a tad weaker-than-expected operating performance in Q4FY23 due to weak discretionary spending. Revenue declined 1.2% CC QoQ, impacted by seasonality in Software (-14.6% CC QoQ) and decline in ER&D (-3.8%). Services revenue grew by 0.6% CC QoQ in Q4, led by Financial Services (6.9%), HLS (3.6%) and Retail and CPG (0.6%), while Telecom (-5.6%), Manufacturing (-3.5%) and Technology (-1.6%) remained weak. Net new deal intake remained healthy at USD2.07bn in Q4, led by operating model transformation, cloud adoption and vendor-consolidation deals across Financial Services, Manufacturing and HLS. HCLT has guided 6-8% CC revenue growth for FY24 (implied CQGR of 1.4-2.1% over Q1-Q4) and EBITM of 18-19%. Management has guided for 6.5-8.5% growth in Services business in FY24, implying 1.4-2.2% CQGR over the next four quarters. It observed project cancellations and delays in decision-making/ramp-ups in discretionary spending, while RTB spending has not seen much stress. HCLT is well-positioned to weather the storm, given its comprehensive service offerings and well-balanced portfolio across RTB and discretionary spends. We have cut our earnings estimates by 1.9-2.8% for FY24E/25E, factoring in Q4 miss and higher ETR. We maintain our BUY rating with a TP of Rs1,150/share at 17x Mar-25E EPS (earlier 1,160).

Results summary: Revenue declined by 0.3% QoQ to USD3.24bn (-1.2% QoQ/+10.5% YoY CC), below our estimate of USD3.27bn. EBITM fell by ~150bps QoQ to 18.1% on account of seasonality in the software business (-120bps) and a dip in services margin (-30bps). The services business's EBITM declined by ~30bps QoQ to 17.4% due to decline in ER&D margin (-50bps), partially negated by efficiencies in the IT business (+20bps). Net profit stood at Rs39.8bn, higher than our estimate, due to higher other income and lower ETR. HCLT signed 10 large services deals and three software deals with a total new deal TCv of USD2.07bn in Q4. Financial Services grew by 6.9% CC QoQ on account of large deals ramp-up and strong demand for IT modernization and cloud. Manufacturing performance was subdued (-3.5%) due to the completion of projects. **What we liked:** Strong growth in Financial Services and America, better-than-expected guidance, healthy deal intake, moderation in attrition and healthy cash generation (OCF/EBITDA at ~130% in Q4). **What we did not like:** Weakness in ER&D and softness in manufacturing, tech and telecom.

Earnings call KTAs: 1) ER&D revenue declined in Q4 primarily on account of cut in discretionary spending and delay in deal ramp-ups in telecom and hi-tech verticals. 2) Net new deal intake remained healthy and well diversified across geographies and verticals at USD2.07bn, up 6.6% YoY (ACV up 4.3%). 3) Software business's ARR crossed USD1bn, 5.2% CC YoY. 4) The company highlighted that its exposure to low-rated/troubled banks is <1% of its Financial Services' revenue. The Financial Services vertical continues to have a promising outlook with capital markets and insurance driving growth. 5) Performance in Europe was weak due to slower decision-making and lower bookings. Management expects Europe to grow at a slower pace than the U.S. in the near term. 6) FY24 EBITM guidance remained lower than pre-Covid margin range, considering the exit quarter's margin, macro uncertainties and likely business mix. Management aspires to return to the 19-20% EBITM trajectory. 7) Fresher intake stood at a record high of 26,734 in FY23 compared to 22,859 in FY22. HCLT plans to add 15,000 freshers in FY24. 8) IT services' LTM attrition moderated to 19.5% in Q4FY23 vs. 21.7% in Q3FY23. Management indicated that quarterly annualized attrition has moderated to almost half in Q4FY23 compared to Q1FY23. 9) ETR is expected to increase to 25.5-26.5% for FY24 due to some units seeing movement across SEZ tax slab benefits; however, cash tax outgo is expected to be 5% lower.

Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	753,790	856,510	1,014,560	1,096,505	1,228,538
EBITDA	207,750	205,300	226,280	243,163	269,652
EBITDA Margin (%)	27.6	24.0	22.3	22.2	21.9
APAT	111,440	134,990	148,510	161,884	181,966
EPS (Rs)	41.1	49.7	54.7	59.7	67.1
EPS (% chg.)	0.7	21.1	10.0	9.0	12.4
ROE (%)	19.9	22.2	23.3	24.0	25.4
P/E (x)	25.3	20.9	19.0	17.4	15.5
EV/EBITDA (x)	12.9	13.0	11.6	10.6	9.4
P/BV (x)	4.7	4.5	4.3	4.1	3.8

Source: Company, Emkay Research

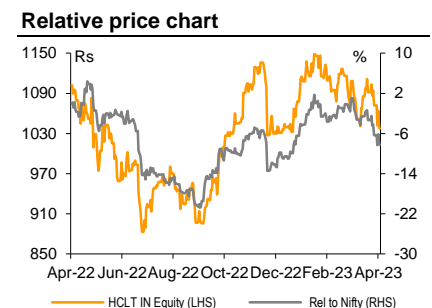
Change in Estimates	
EPS Chg. FY24E/FY25E (%)	(2.8)/(1.9)
Target Price change (%)	(0.9)
Target Period (Months)	12
Previous Reco	BUY

Emkay vs. Consensus		
EPS Estimates		
	FY24E	FY25E
Emkay	59.7	67.1
Consensus	61.0	68.3
Mean Consensus TP (12M)	Rs 1,171	

Stock Details	
Bloomberg Code	HCLT IN
Face Value (Rs)	2
Shares outstanding (mn)	2,714
52-Week H/L	1,157 / 876
M Cap (Rs bn/USD bn)	2,815 / 34.27
Daily Avg. Volume (nos.)	3,132,977
Daily Avg. Turnover (US\$ mn)	41.9

Shareholding Pattern Dec-22	
Promoters	60.7%
FIIIs	18.3%
DIIIs	15.9%
Public and Others	5.1%

Price Performance				
(%)	1M	3M	6M	12M
Absolute	(5)	(6)	2	(5)
Rel. to Nifty	(8)	(4)	2	(7)



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Exhibit 1: Quarterly snapshot

(Rs mn)	Q4FY23	Q3FY23	QoQ (%)	Q4FY22	YoY (%)
Net sales (US\$ mn)	3,235	3,244	-0.3	2,993	8.1
Net sales (Rs mn)	266,060	267,000	-0.4	225,970	17.7
Operating expenses	207,430	203,350	2.0	175,440	
EBITDA	58,630	63,650	-7.9	50,530	16.0
<i>Margins (%)</i>	22.0	23.8	(180)	22.4	-30.0
Depreciation	10,270	11,360		9,840	
EBIT	48,360	52,290	-7.5	40,690	18.8
<i>Margins (%)</i>	18.2	19.6	(140)	18.0	20.0
Other income	3,570	1,440		2,520	
Pre-tax profit	51,930	53,730	-3.4	43,210	
Tax provided	12,140	12,760		7,210	
Profit after tax	39,790	40,970	-2.9	36,000	10.5
Emkay Net profit*	39,810	40,970	-2.8	35,940	10.8
EPS (Rs)	14.7	15.1	-2.8	13.2	10.8

Source: Company, Emkay Research

Exhibit 2: Actuals vs. estimates

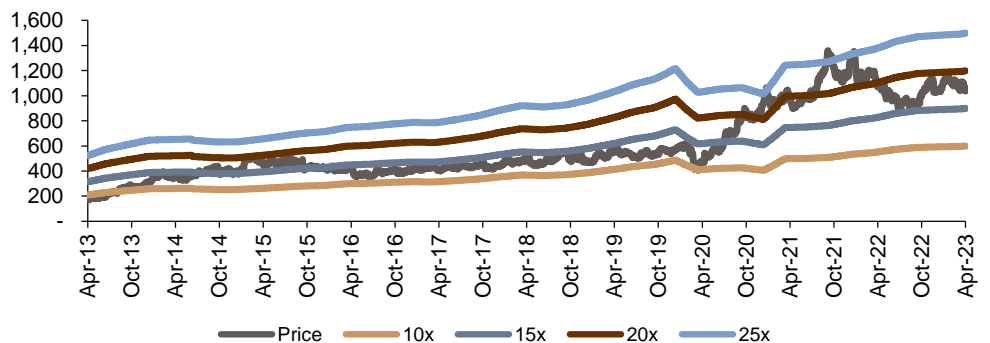
(Rs mn)	Actual	Estimate		% Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue (USD mn)	3,235	3,267	3,232	-1.0%	0.1%	Revenue came below our estimates (albeit in line with consensus) due to a decline in ER&D business.
Sales	266,060	268,533	266,038	-0.9%	0.0%	
EBIT	48,360	49,238	48,951	-1.8%	-1.2%	Margin came 20bps below our estimates.
<i>EBIT, margin</i>	18.2%	18.3%	18.4%	-20 bps	-20 bps	
PAT	39,810	39,230	39,108	1.5%	1.8%	Profit came higher than estimates on account of higher other income and lower ETR.

Source: Company, Emkay Research

Exhibit 3: Changes in estimates

(Rs mn)	FY24E			FY25E		
	Old	New	% change	Old	New	% change
Revenue (USD mn)	13,637	13,542	-0.7	14,997	14,891	-0.7
<i>YoY growth, %</i>	8.1%	7.6%		10.0%	10.0%	
Revenue	1,104,636	1,096,505	-0.7	1,229,754	1,228,538	-0.1
EBIT	204,830	203,036	-0.9	227,586	227,226	-0.2
<i>EBIT margin (%)</i>	18.5	18.5		18.5	18.5	
Net profit	166,498	161,884	-2.8	185,406	181,966	-1.9
EPS (Rs)	61.4	59.7	-2.8	68.3	67.1	-1.9

Source: Company, Emkay Research

Exhibit 4: HCLT – One-year forward P/E

Source: Company, Emkay Research

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Key Financials (Consolidated)**Income Statement**

Y/E March (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	753,790	856,510	1,014,560	1,096,505	1,228,538
Expenditure	546,040	651,210	788,280	853,342	958,885
EBITDA	207,750	205,300	226,280	243,163	269,652
Depreciation	46,110	43,260	41,450	40,127	42,426
EBIT	161,640	162,040	184,830	203,036	227,226
Other Income	4,160	7,470	10,050	14,258	17,024
Interest expenses	0	0	0	0	0
PBT	165,800	169,510	194,880	217,294	244,249
Tax	54,120	34,280	46,430	55,410	62,284
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	240	240	(60)	0	0
Reported Net Income	111,440	134,990	148,510	161,884	181,966
Adjusted PAT	111,440	134,990	148,510	161,884	181,966

Balance Sheet

Y/E March (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity share capital	5,427	5,427	5,427	5,427	5,427
Reserves & surplus	593,703	613,713	648,623	688,392	734,674
Net worth	599,130	619,140	654,050	693,819	740,102
Minority Interest	1,690	920	(70)	(70)	(70)
Loan Funds	65,010	65,790	47,860	48,500	48,500
Net deferred tax liability	(10,328)	(10,641)	(10,908)	(10,920)	(10,920)
Total Liabilities	655,502	675,209	690,932	731,329	777,612
Net block	374,570	371,390	350,370	325,763	305,521
Investment	140,700	114,850	137,570	173,100	173,100
Current Assets	334,860	392,330	433,650	475,871	569,163
Cash & bank balance	65,210	105,100	90,650	112,373	161,895
Other Current Assets	93,460	78,910	87,940	102,140	114,439
Current liabilities & Provision	194,628	203,361	230,658	243,405	270,173
Net current assets	140,232	188,969	202,992	232,466	298,990
Misc. exp	0	0	0	0	0
Total Assets	655,502	675,209	690,932	731,329	777,612

Cash Flow

Y/E March (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	161,640	162,040	184,830	203,036	227,226
Other Non-Cash items	3,874	(4,371)	(3,730)	(6,288)	0
Chg in working cap	(4,149)	(39,913)	(49,899)	(7,764)	(17,002)
Operating Cashflow	203,390	169,127	180,143	194,247	207,391
Capital expenditure	(29,856)	(15,219)	(14,349)	(15,519)	(22,185)
Free Cash Flow	173,534	153,908	165,794	178,727	185,206
Investments	(27,559)	29,916	(25,393)	(35,530)	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(57,415)	14,697	(39,742)	(51,049)	(22,185)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	(76,751)	(14,995)	(28,134)	640	0
Dividend paid (incl. tax)	(32,595)	(122,051)	(130,109)	(122,115)	(135,683)
Other Financing Cash Flow	(8,238)	(6,888)	3,392	0	0
Financing Cashflow	(117,585)	(143,934)	(154,851)	(121,475)	(135,683)
Net chg in cash	28,390	39,890	(14,450)	21,723	49,522
Opening cash position	36,820	65,210	105,100	90,650	112,373
Closing cash position	65,210	105,100	90,650	112,373	161,895

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23	FY24E	FY25E
EBITDA Margin	27.6	24.0	22.3	22.2	21.9
EBIT Margin	21.4	18.9	18.2	18.5	18.5
Effective Tax Rate	32.6	20.2	23.8	25.5	25.5
Net Margin	14.8	15.8	14.6	14.8	14.8
ROCE	26.8	25.5	28.5	30.6	32.4
ROE	19.9	22.2	23.3	24.0	25.4
RoIC	24.9	28.6	30.7	33.3	38.1

Per Share Data (Rs)	FY21	FY22	FY23	FY24E	FY25E
EPS	41.1	49.7	54.7	59.7	67.1
CEPS	58.1	65.7	70.0	74.4	82.7
BVPS	220.8	228.2	241.0	255.7	272.7
DPS	26.0	44.0	48.0	45.0	50.0

Valuations (x)	FY21	FY22	FY23	FY24E	FY25E
PER	25.3	20.9	19.0	17.4	15.5
P/CEPS	17.9	15.8	14.8	13.9	12.5
P/BV	4.7	4.5	4.3	4.1	3.8
EV / Sales	3.5	3.1	2.6	2.4	2.1
EV / EBITDA	12.9	13.0	11.6	10.6	9.4
Dividend Yield (%)	2.5	4.2	4.6	4.3	4.8

Gearing Ratio (x)	FY21	FY22	FY23	FY24E	FY25E
Net Debt/ Equity	(0.2)	(0.2)	(0.3)	(0.3)	(0.4)
Net Debt/EBIDTA	(0.7)	(0.8)	(0.8)	(1.0)	(1.1)
Working Cap Cycle (days)	36.3	35.7	40.4	40.0	40.7

Growth (%)	FY21	FY22	FY23	FY24E	FY25E
Revenue	6.7	13.6	18.5	8.1	12.0
EBITDA	24.5	(1.2)	10.2	7.5	10.9
EBIT	16.7	0.2	14.1	9.9	11.9
PAT	0.7	21.1	10.0	9.0	12.4

Quarterly (Rs mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Revenue	225,970	234,640	246,860	267,000	266,060
EBITDA	50,530	49,750	54,260	63,650	58,630
EBITDA Margin (%)	22.4	21.2	22.0	23.8	22.0
PAT	35,940	32,830	34,900	40,970	39,810
EPS (Rs)	13.2	12.1	12.9	15.1	14.7

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoters	60.3	60.7	60.7	60.7	60.7
FIs	20.4	19.0	17.9	17.2	18.3
DIs	13.7	14.7	15.5	16.5	15.9
Public and Others	5.5	5.6	5.8	5.6	5.1

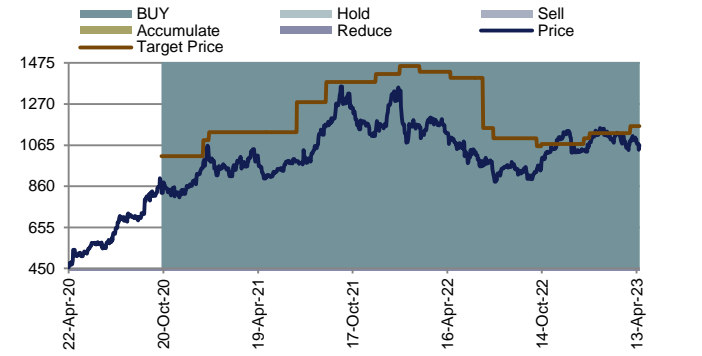
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
1-Apr-23	1,085	1,160	12m	Buy	Dipeshkumar Mehta
13-Jan-23	1,078	1,125	12m	Buy	Dipeshkumar Mehta
2-Jan-23	1,039	1,100	12m	Buy	Dipeshkumar Mehta
13-Oct-22	982	1,070	12m	Buy	Dipeshkumar Mehta
4-Oct-22	946	1,060	12m	Buy	Dipeshkumar Mehta
13-Jul-22	918	1,100	12m	Buy	Dipeshkumar Mehta
23-Jun-22	971	1,150	12m	Buy	Dipeshkumar Mehta
12-May-22	1,059	1,400	12m	Buy	Dipeshkumar Mehta
22-Apr-22	1,102	1,400	12m	Buy	Dipeshkumar Mehta
1-Apr-22	1,170	1,430	12m	Buy	Dipeshkumar Mehta
22-Feb-22	1,150	1,430	12m	Buy	Dipeshkumar Mehta
15-Jan-22	1,337	1,460	12m	Buy	Dipeshkumar Mehta
1-Jan-22	1,319	1,420	12m	Buy	Dipeshkumar Mehta
30-Nov-21	1,139	1,420	12m	Buy	Dipeshkumar Mehta
15-Oct-21	1,251	1,380	12m	Buy	Dipeshkumar Mehta
2-Oct-21	1,274	1,380	12m	Buy	Dipeshkumar Mehta
27-Aug-21	1,163	1,380	12m	Buy	Dipeshkumar Mehta
20-Jul-21	977	1,280	12m	Buy	Dipeshkumar Mehta
2-Jul-21	985	1,280	12m	Buy	Dipeshkumar Mehta
24-Apr-21	956	1,130	12m	Buy	Dipeshkumar Mehta
5-Apr-21	1,034	1,130	12m	Buy	Dipeshkumar Mehta
18-Mar-21	948	1,130	12m	Buy	Dipeshkumar Mehta
15-Jan-21	990	1,130	12m	Buy	Dipeshkumar Mehta
4-Jan-21	980	1,090	12m	Buy	Dipeshkumar Mehta
18-Dec-20	891	1,010	12m	Buy	Dipeshkumar Mehta
16-Oct-20	827	1,010	12m	Buy	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

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