

**Disappointing quarter; revival expected in medium term**

QIFY24 Result Update | Sector: IT | July 13, 2023

**BUY**

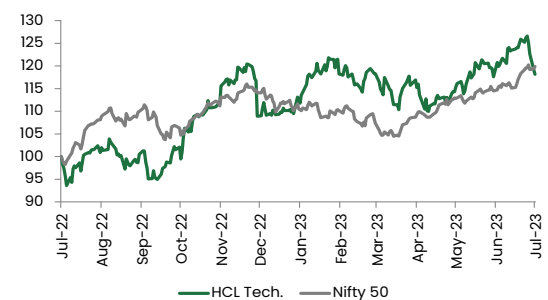
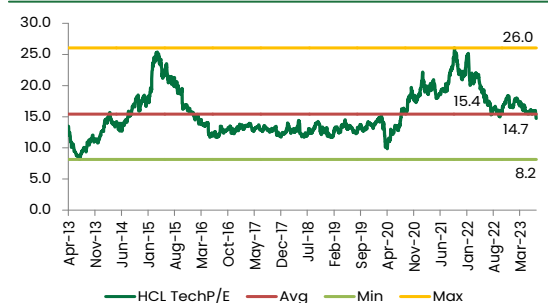
<b>CMP (Rs)</b>	1,111
<b>Target Price (Rs)</b>	1,333
<b>Potential Upside</b>	20.0%
<b>Sensex</b>	65,394
<b>Nifty</b>	19,384

**Key Stock data**

<b>BSE Code</b>	532281
<b>NSE Code</b>	HCLTECH
<b>Bloomberg</b>	HCLT:IN
<b>Shares o/s, Cr (FV 2)</b>	271.5
<b>Market Cap (Rs Cr)</b>	301,366
<b>3M Avg Volume</b>	2,174,814
<b>52 week H/L</b>	1,203/877

**Shareholding Pattern**

(%)	Sep-22	Dec-22	Mar-23
<b>Promoter</b>	60.7	60.7	60.8
<b>FII</b>	17.2	18.3	18.9
<b>DII</b>	16.6	15.9	15.3
<b>Others</b>	5.6	5.1	5.0

**1 Year relative price performance**

**PE Forward (x)**

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**Revenue growth remained muted:** HCL Tech QIFY24 revenue came in below our expectation. It posted revenue at Rs 26,296cr, down by 1.2% QoQ and up by 12.1% YoY while revenue in USD stood at 3,200mn, de-growth of 1.1% QoQ and growth of 5.8% YoY. In constant currency, revenue was down 1.3% QoQ and up by 6.3% YoY. Overall revenue was impacted due to de-growth in both service and software business. Its service business which clocks in at 90% revenue de-grew by 1% QoQ and grew by 7% YoY in CC terms while remaining 10% of business from the software segment saw a de-growth of 3.1% QoQ while flat YoY in CC terms. Amongst verticals mixed trend was seen wherein growth was led by Financials, manufacturing and retail segments which were up by 5.1%, 3.6% and 0.3% QoQ in CC terms while de-growth in Technology, life science & healthcare and media & communication impacted sentiments.

**Margins below expectations:** HCL Tech's EBIT seen a de-growth of 8.2% QoQ and grew by 11.2% YoY to Rs 4,438cr while EBIT margins came in below expectations of 18-19% as it declined by 130bps QoQ and 14bps YoY to 16.9% in QIFY24. Margins of both businesses were impacted and saw a decline of 120bps and 10bps in service and software business, respectively.

**Attrition continued to moderate:** The company's attrition continued to moderate to 16.3% in QIFY24 as compared to 19.5% in Q4FY23 and 23.8% in QIFY23. So, attrition declined by 320bps QoQ and 750bps YoY which seems positive.

**Deals:** The company won new deals worth USD 1,565mn in QIFY24, down by 24.5% QoQ and 23.8% YoY. It won 18 large deals out of which 7 were in services while 11 in the software segment. Going ahead, management is confident of winning more large deals from its software business

**Status-quo on guidance:** HCL Tech management continued to be cautious on the demand and macro environment so they maintained their revenue growth guidance in the range of 6-8% YoY in constant currency and service revenue growing in the range of 6.5-8.5% YoY in constant currency. For EBIT margins they expect it to be in the range of 18-19%.

**Outlook & Valuation:** In the near term, a challenging macro environment and delay in spending will continue to impact sentiments for the IT sector as well for HCL Tech. Further, the management plan is to grow its software business as well as focus on building on newer technologies. Also, ahead there are expectations that clients would prioritize their spending and focus more on cost optimization and vendor consolidation along with AI technologies. Thus, from a medium to long term perspective are positive and have estimated its revenue/EBIT growth in INR terms to grow at a CAGR of 12.3%/15.8% over FY23-25E. Further, HCL is trading at comfortable valuation and we have assigned a P/E of 18x FY25E EPS and have maintained a Buy rating with a target price of Rs 1,333.

**Financial Summary - consolidated**

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net revenue	85,651	101,456	113,134	127,841
EBIT	16,204.0	18,483.0	21,473.4	24,776.3
EBITM (%)	18.9	18.2	19.0	19.4
APAT	13,524	14,845	17,739	20,472
APATM (%)	15.8	14.6	15.7	16.0
EPS (Rs)	49.8	54.7	65.3	75.4
PE (x)	22.3	20.3	17.0	14.7
RoE (%)	21.8	22.7	25.4	27.3

Source : RBL Research

Sales impacted QoQ due to de-growth in both service and software business

### P&L Account Quarterly – consolidated

Particulars, Rs cr	Q1FY24	Q1FY23	Y-o-Y %	Q4FY23	Q-o-Q %
<b>Revenue (\$ Mn)</b>	<b>3,200</b>	<b>3,025</b>	<b>5.8</b>	<b>3,235</b>	<b>(1.1)</b>
<b>Revenue (Rs cr)</b>	<b>26,296</b>	<b>23,464</b>	<b>12.1</b>	<b>26,606</b>	<b>(1.2)</b>
Cost of Sales	535	346	54.6	563	(5.0)
<b>Gross Profit</b>	<b>25,761</b>	<b>23,118</b>	<b>11.4</b>	<b>26,043</b>	<b>(1.1)</b>
Gross Margins (%)	98.0	98.5	-56bps	97.9	8bps
Employee Cost	15,014	12,978	15.7	14,665	2.4
Other Expenses	5,382	5,165	4.2	5,515	(2.4)
<b>Total Expenditure</b>	<b>20,931</b>	<b>18,489</b>	<b>13.2</b>	<b>20,743</b>	<b>0.9</b>
<b>EBITDA</b>	<b>5,365</b>	<b>4,975</b>	<b>7.8</b>	<b>5,863</b>	<b>(8.5)</b>
EBITDA Margins (%)	20.4	21.2	-80bps	22.0	-163bps
Depreciation	927	983	(5.7)	1,027	(9.7)
<b>EBIT</b>	<b>4,438</b>	<b>3,992</b>	<b>11.2</b>	<b>4,836</b>	<b>(8.2)</b>
EBIT Margins (%)	16.9	17.0	-14bps	18.2	-130bps
Other Income	344	409	(15.9)	453	(24.1)
Interest	86	64	34.4	94	(8.5)
PBT	4,696	4,337	8.3	5,195	(9.6)
Tax	1,165	1,056	10.3	1,214	(4.0)
<b>PAT</b>	<b>3,531</b>	<b>3,281</b>	<b>7.6</b>	<b>3,981</b>	<b>(11.3)</b>
PAT Margin (%)	13.4	14.0	-56bps	15.0	-153bps
EPS	13.0	12.1	7.6	14.7	(11.3)

Source : RBL Research

Sequentially, slowdown witnessed across all segments

Revenue by Segments (Rs Cr)	Q1FY24	Q1FY23	Y-o-Y	Q4FY23	Q-o-Q
IT & Business Services	19,643	17,070	15.1	19,632	0.1
Engineering & R&D Services	4,050	3,904	3.7	4,274	(5.3)
HCL Software	2,603	2,490	4.6	2,700	(3.6)

Source : RBL Research

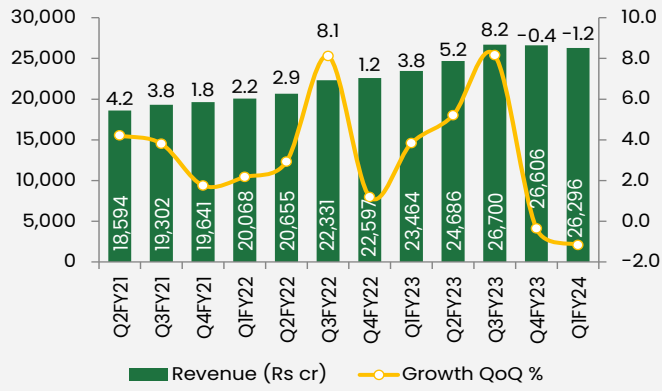
Sequentially, slowdown was seen across geographies

Revenue by Geographies (Rs Cr)	Q1FY24	Q1FY23	Y-o-Y	Q4FY23	Q-o-Q
American	16,961	14,806	14.6	16,975	(0.1)
Europe	7,547	6,711	12.5	7,689	(1.8)
ROW	1,788	1,948	(8.2)	1,942	(7.9)

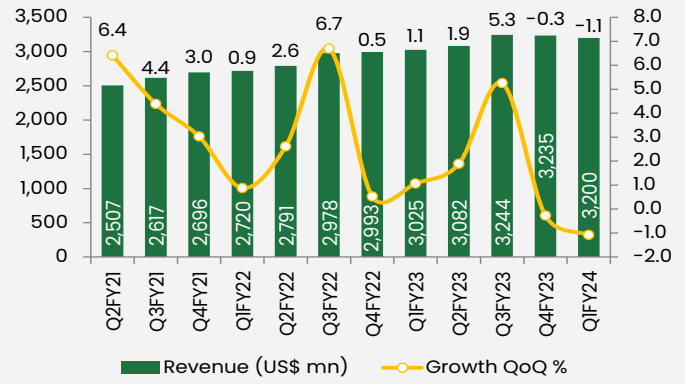
Source : RBL Research

Story in charts

Revenue in rupee de-grew by 1.2% QOQ but grew by 12.1% YoY

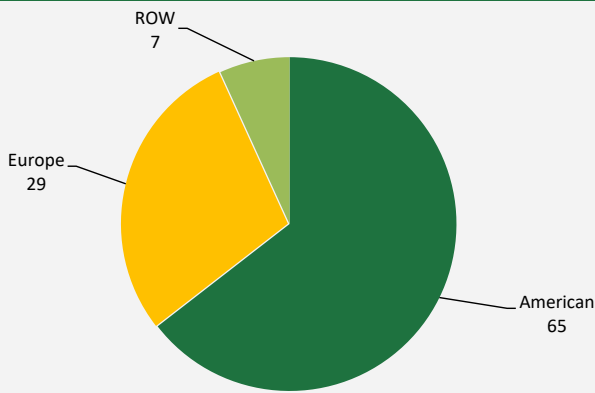


Revenue in USD de-grew by 1.1% QOQ but grew by 5.8% YoY

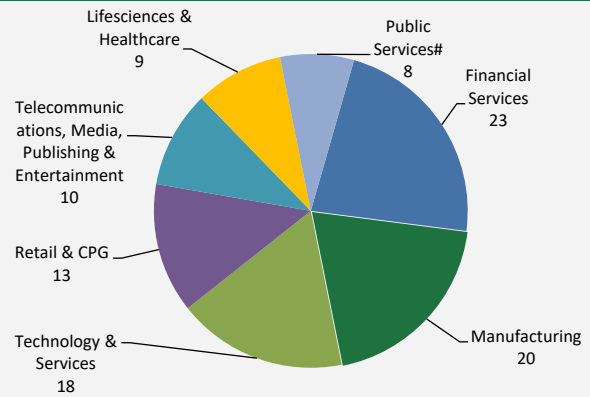


Source : RBL Research

Revenue share across geographies in Q1FY24 (%)

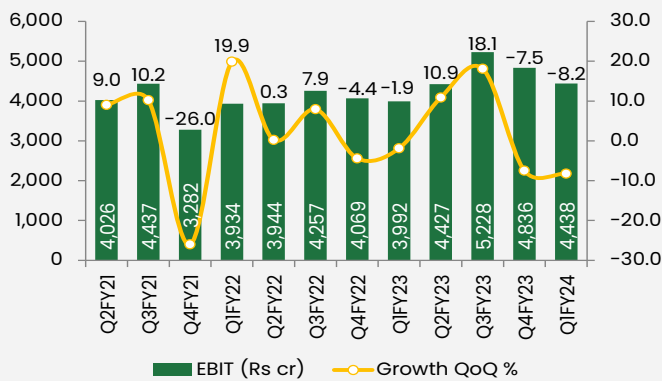


Revenue share across industry in Q1FY24 (%)

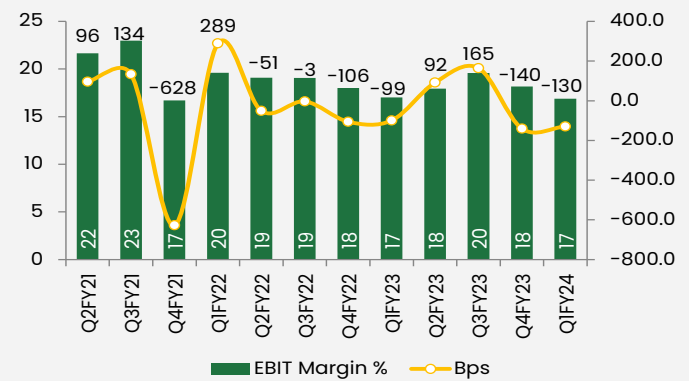


Source : RBL Research

EBIT de-grew by 8.2% QOQ but grew by 11.2% YoY

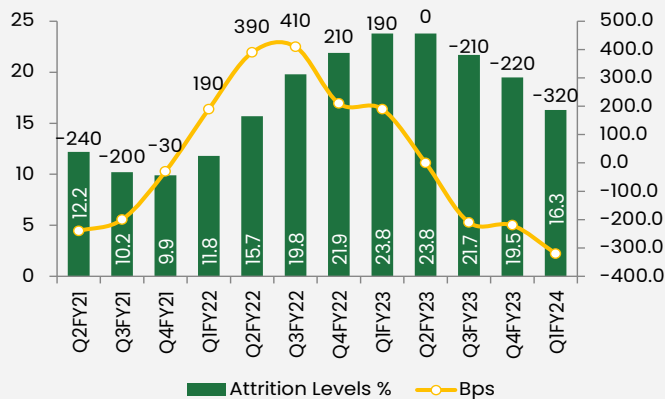


EBIT margin down by 130bps QoQ and 14bps YoY

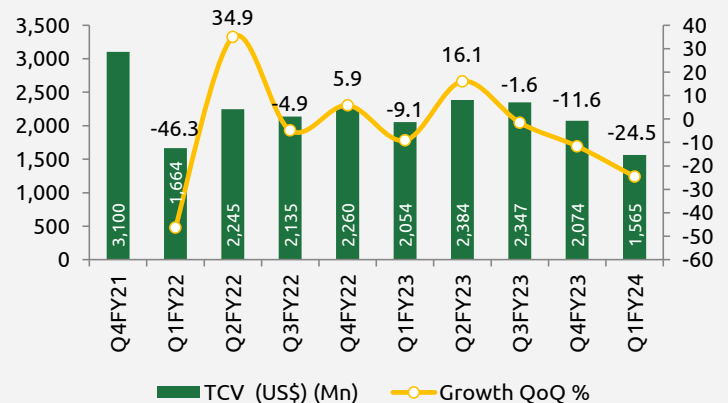


Source : RBL Research

Attrition moderated to 16.3% in Q1FY24 (%)



Order book stood at USD 1,565mn in Q1FY24



Source : RBL Research

### P&L Account – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
<b>Net sales</b>	<b>85,651</b>	<b>101,456</b>	<b>113,134</b>	<b>127,841</b>
<b>Expenditure</b>				
Purchase of stock in trade	1,473	2,072	1,923	2,045
(Increase) / Decrease In Stocks	(67)	(67)	(75)	(84)
<b>Total raw materials</b>	<b>1,406</b>	<b>2,005</b>	<b>1,849</b>	<b>1,961</b>
<b>Gross Profit</b>	<b>84,245</b>	<b>99,451</b>	<b>111,285</b>	<b>125,880</b>
Gross Margins %	98.4	98.0	98.4	98.5
Employee cost	46,130	55,280	61,092	69,034
Outsourcing Cost	12,515	14,950	17,083	19,176
Other expenses	5,070	6,593	7,014	7,670
<b>Total expenditure</b>	<b>65,121</b>	<b>78,828</b>	<b>87,038</b>	<b>97,842</b>
<b>EBITDA</b>	<b>20,530</b>	<b>22,628</b>	<b>26,096</b>	<b>29,999</b>
EBITDAM (%)	24.0	22.3	23.1	23.5
Depreciation	4,326	4,145	4,622	5,223
<b>EBIT</b>	<b>16,204</b>	<b>18,483</b>	<b>21,473</b>	<b>24,776</b>
<b>EBIT Margin %</b>	<b>18.9</b>	<b>18.2</b>	<b>19.0</b>	<b>19.4</b>
Other income	1,067	1,358	1,358	1,534
Interest expenses	319	353	377	397
PBT	16,952	19,488	22,455	25,913
Tax	3,428	4,643	4,715	5,442
<b>PAT</b>	<b>13,524</b>	<b>14,845</b>	<b>17,739</b>	<b>20,472</b>
<b>PAT Margin %</b>	<b>15.8</b>	<b>14.6</b>	<b>15.7</b>	<b>16.0</b>
EPS	49.8	54.7	65.3	75.4

Source : RBL Research

### Balance Sheet – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Share Capital	543	543	543	543
Reserves & Surplus	61,371	64,862	69,297	74,415
<b>Total Shareholder's Fund</b>	<b>61,914</b>	<b>65,405</b>	<b>69,840</b>	<b>74,958</b>
Minority Interest	92	(7)	(8)	(9)
Long term borrowings	3,923	2,111	2,354	2,660
Short term borrowing	62	140	156	176
<b>Total Debt</b>	<b>3,985</b>	<b>2,251</b>	<b>2,510</b>	<b>2,836</b>
Deferred tax liabilities	1,450	2,311	2,577	2,912
Long term provision	1,415	1,315	1,869	2,112
Other long term	2,802	2,995	3,340	3,774
<b>Total</b>	<b>5,667</b>	<b>6,621</b>	<b>7,786</b>	<b>8,798</b>
<b>Current Liabilities</b>				
Trade payables	6,278	6,428	7,168	8,100
Short term provisions	955	1,120	1,261	1,425
Other current liabilities	10,142	11,593	12,927	14,608
<b>Total</b>	<b>17,375</b>	<b>19,141</b>	<b>21,357</b>	<b>24,133</b>
<b>Total liabilities</b>	<b>89,033</b>	<b>93,411</b>	<b>101,485</b>	<b>110,716</b>
<b>Application of Assets</b>				
Net Block	17,669	16,052	17,103	18,070
Current work in process	129	40	40	40
Goodwill on	17,417	18,567	18,567	18,567
Non current investment	103	110	123	139
Tax assets	1,410	1,447	1,614	1,823
Long term loans and advances	200	-	-	-
Other non-current assets	4,298	3,132	3,493	3,947
<b>Total</b>	<b>41,226</b>	<b>39,348</b>	<b>40,939</b>	<b>42,585</b>
<b>Current Assets</b>				
Current investments	6,239	5,385	6,788	7,670
Inventories	161	228	254	287
Trade receivables	20,671	26,187	28,206	31,523
Cash balance	10,510	9,065	10,513	12,680
Bank balance	2,126	5,659	5,659	5,659
Short term loans and advances	3,008	2,603	2,903	3,280
Other current assets	5,092	4,936	6,222	7,031
<b>Total</b>	<b>47,807</b>	<b>54,063</b>	<b>60,546</b>	<b>68,131</b>
<b>Total assets</b>	<b>89,033</b>	<b>93,411</b>	<b>101,485</b>	<b>110,716</b>

Source : RBL Research

### Cashflow – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Profit before tax	16,951	19,488	22,455	25,913
Add: Depreciation	4,326	4,145	4,622	5,223
Add: Interest cost	225	238	377	397
Less: Other Income /Interest Rec	(583)	(769)	-	-
Less: Dividend Income	(27)	-	-	-
<b>Operating profit before WC</b>	<b>20,892</b>	<b>23,012</b>	<b>27,453</b>	<b>31,533</b>
Changes in working capital	(549)	(1,305)	(778)	(1,411)
Cash from Operations	20,343	21,707	26,675	30,122
Less: Taxes	(3,443)	(3,698)	(4,715)	(5,442)
<b>Cash flow from Operations</b>	<b>16,900</b>	<b>18,009</b>	<b>21,960</b>	<b>24,681</b>
Net cash used in Investing				
Purchase of fixed assets	(1,645)	(1,661)	(5,673)	(6,190)
Purchase of investments	2,543	(2,949)	(1,416)	(898)
Sales of fixed assets	90	217	-	-
Dividend Income//Interest Rec.	590	636	-	-
<b>Cash flow from investing</b>	<b>1,477</b>	<b>(3,931)</b>	<b>(7,089)</b>	<b>(7,088)</b>
Cash flow from Financing				
Proceeds of borrowings	77	(1,848)	259	326
Sales of borrowings	(137)	-	-	-
Dividend (Incl dividend tax)	(11,391)	(12,995)	(13,304)	(15,354)
Interest cost	(69)	(80)	(377)	(397)
Others	(2,988)	(958)	(1)	(1)
<b>Cash flow from Financing</b>	<b>(14,508)</b>	<b>(15,881)</b>	<b>(13,423)</b>	<b>(15,425)</b>
Net cash Inflow/Outflow	3,869	(1,803)	1,448	2,167
Opening cash	6,521	10,510	9,065	10,513
Exchange gain/loss	120	358	-	-
Closing Cash	10,510	9,065	10,513	12,680

Source : RBL Research

### Key ratios – consolidated

Particulars	FY22	FY23	FY24E	FY25E
<b>Per share Data</b>				
EPS (Rs)	49.8	54.7	65.3	75.4
Book value per share (Rs)	228.0	240.9	257.2	276.1
Dividend per share (Rs)	42.0	47.9	49.0	56.6
Dividend Yield (%)	3.8	4.3	4.4	5.1
Dividend Payout (%)	84.4	75.0	75.0	75.0
<b>Profitability Ratios</b>				
EBITDAM(%)	24.0	22.3	23.1	23.5
PBTM (%)	19.8	19.2	19.8	20.3
NPM (%)	15.8	14.6	15.7	16.0
RoE (%)	21.8	22.7	25.4	27.3
RoCE (%)	24.6	27.3	29.7	31.8
<b>Efficiency Data</b>				
Debt-Equity Ratio	0.1	0.0	0.0	0.0
Interest Cover Ratio	50.8	52.4	57.0	62.4
Fixed Asset Ratio	0.2	0.2	0.2	0.1
Debtors (Days)	88.1	94.2	91.0	90.0
Inventory (Days)	0.7	0.8	0.8	0.8
Payable (Days)	26.8	23.1	23.1	23.1
WC (Days)	62.0	71.9	68.7	67.7
<b>Valuation</b>				
P/E (x)	22.3	20.3	17.0	14.7
P/BV	4.9	4.6	4.3	4.0
EV/EBITDA	14.4	13.0	11.3	9.7
EV/Sales	3.4	2.9	2.6	2.3

Source : RBL Research

## Research Team

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**Statements on ownership and material conflicts of interest, compensation– Research Analyst (RA)**

S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? <b>[If answer is yes, nature of Interest is given below this table]</b>		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below, are given separately]

**Nature of Interest ( if answer to F (a) above is Yes :**

.....

**Name(s) with Signature(s) of RA(s).**

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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