

HCL Tech's revenue growth of 0.8% QoQ fell short of our estimates, while EBITM expansion of ~150bps was above our expectation. ER&D revenue grew by 5% CC QoQ (organic 1.6%) after two quarters of a sequential decline. It reported new bookings of ~USD4bn in Q2, its highest booking ever, driven by a mega deal (Verizon). Management has slashed FY24 revenue growth guidance to 5-6% CC YoY (earlier 6-8%), citing weak discretionary spending and lower-than-expected performance in H1. Revised guidance implies revenue CQGR of 4.0-5.3% in H2, which management remains confident of achieving, considering the planned ramp-up in recent large deals (Verizon deal ramp-up w.e.f. November 1, 2023), software business seasonality, ongoing business momentum, and contribution from ASAP. Management has retained EBITM guidance of 18-19% for FY24. We tweak our FY24-26E EPS estimates (less than 1% change), factoring in Q2 performance and FY24 guidance revision. We maintain our BUY rating with a TP of Rs1,360 at 19x Sep-25E EPS.

HCL Tech: Financial Snapshot (Consolidated)

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	8,56,510	10,14,560	10,99,802	12,22,541	13,55,145
EBITDA	2,05,300	2,26,280	2,41,289	2,73,582	3,02,230
Adj. PAT	1,34,990	1,48,510	1,58,145	1,83,861	2,04,933
Adj. EPS (Rs)	49.7	54.7	58.3	67.8	75.5
EBITDA margin (%)	24.0	22.3	21.9	22.4	22.3
EBITDA growth (%)	(1.2)	10.2	6.6	13.4	10.5
Adj. EPS growth (%)	21.1	10.0	6.5	16.3	11.5
RoE (%)	22.2	23.3	23.6	25.8	26.9
RoIC (%)	28.6	30.7	32.7	38.2	42.7
P/E (x)	24.6	22.4	21.0	18.1	16.2
EV/EBITDA (x)	15.4	13.9	12.8	11.1	9.9
P/B (x)	5.4	5.1	4.8	4.5	4.2
FCFF yield (%)	4.8	5.3	5.4	6.2	6.9

Source: Company, Emkay Research

Result Summary

Revenue grew 0.8% QoQ to USD3.2bn (1% QoQ/3.4% YoY in CC), slightly below our estimate of USD3.25bn. IT & Business Services saw an uptick of 0.9% QoQ, while ER&D grew sharply by 5% QoQ (including ASAP's acquisition, 1.6% QoQ organic growth). Products and Platforms declined 4% QoQ. EBITM expanded by ~150bps QoQ to 18.5%, well above our estimate of 17.5%. The services segment's margin expansion was 212bps QoQ, aided by productivity, utilization and optimization of third-party contractors (+100bps), rationalization in discretionary spending like travel, recruitment and legal costs (+50bps), overhead reduction (+70bps), currency benefits (+10bps), which were offset by the impact of the acquisition (-10bps). HCL Tech signed 10 deals in Services and 6 deals in Software, with a total new-deal TCV of ~USD4bn in Q2. Among geographies, U.S., Europe and ROW saw growth of 1.4%, 0.8% and 6.1% QoQ (in CC), respectively. Headcount declined again in Q2FY24, down by 1% QoQ to 221,139. The company declared a dividend of Rs12/share. **What we liked:** Healthy margin performance, strong deal wins, continued momentum in BFSI, healthy cash conversion (OCF/EBITDA at ~115%), and further moderation in attrition. **What we did not like:** Cut in revenue growth guidance and weakness in technology and services.

Earnings Call KTAs

i) Services revenue growth was driven by strong sequential growth in Retail and CPG (7.5% CC QoQ), Telecom and Media (6.2%), Financial Services (1.7%), and Lifesciences and Healthcare (1.6%). Technology & Services remained weak (-0.4% QoQ, -9.5% YoY); however, management is hopeful of growth coming back going ahead. ii) The company highlighted its two-pronged strategy on AI. On the client-facing side, the company is working on generating early-stage opportunities and training its delivery organization to leverage GenAI for core development, deployment, testing, and managed services. Secondly, HCLT is leveraging GenAI internally across all the corporate functions, primarily to improve employee experience and productivity with various programs being in the pilot phase. iii) The deal pipeline remains healthy, although it is a tad lower than earlier, after the closure of a mega deal. iv) ASAP's acquisition contributed ~0.5% to the overall revenue and ~0.6% to services revenue (one month integration). v) Weaker-than-expected growth in H1 led to a cut in FY24 revenue growth guidance. The company expects services organic revenue growth to be 4.5-5.5% CC in FY24, implying a 2.5-3.8% CQGR over Q3-Q4. Considering the volatile demand environment, management remains reluctant to provide a view on FY25 growth trajectory. vi) Wage hikes will now be undertaken in October, with a potential impact of 60-65bps in Q3 and additional 25-30bps impact in Q4.

Target Price – 12M	Sep-24
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	11.1
CMP (12-Oct-23) (Rs)	1,223.8

Stock Data	Ticker
52-week High (Rs)	1,311
52-week Low (Rs)	943
Shares outstanding (mn)	2,713.7
Market-cap (Rs bn)	3,321
Market-cap (USD mn)	39,892
Net-debt, FY24E (Rs mn)	0
ADTV-3M (mn shares)	3
ADTV-3M (Rs mn)	3,352.1
ADTV-3M (USD mn)	40.3
Free float (%)	39.0
Nifty-50	19,794
INR/USD	83.2
Shareholding, Jun-23	
Promoters (%)	60.8
FPIs/MFs (%)	19.0/15.4

Price Performance

(%)	1M	3M	12M
Absolute	(4.6)	10.2	28.5
Rel. to Nifty	(3.6)	7.9	11.2

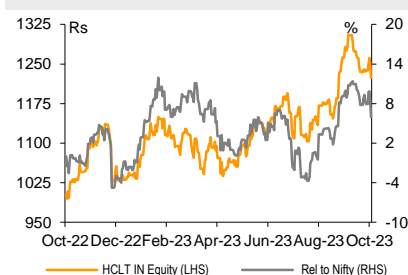
1-Year share price trend (Rs)**Dipesh Mehta**dipeshkumar.mehta@emkayglobal.com
+91 22 6612 1253**Ayush Bansal**ayush.bansal@emkayglobal.com
+91 22 6612 1344**Pulkit Chawla**pulkit.chawla@emkayglobal.com
+91 22 6642 4258

Exhibit 1: Quarterly snapshot

(Rs mn)	Q2FY24	Q1FY24	QoQ (%)	Q2FY23	YoY (%)
Net sales (USD mn)	3,225	3,200	0.8	3,082	4.6
Net sales (Rs mn)	2,66,720	2,62,960	1.4	2,46,860	8.0
Operating expenses	2,07,280	2,09,090	-0.9	1,92,600	
EBITDA	59,440	53,870	10.3	54,260	9.5
Margins (%)	22.3	20.5	180	22.0	30.0
Depreciation	10,100	9,270		9,980	
EBIT	49,340	44,600	10.6	44,280	11.4
Margins (%)	18.5	17.0	150	17.9	60.0
Other income	1,940	2,360		1,570	
Pre-tax profit	51,280	46,960	9.2	45,850	
Tax provided	12950	11650		10960	
Profit after tax	38,330	35,310	8.6	34,890	9.9
Emkay Net Profit	38,320	35,340	8.4	34,900	9.8
EPS (Rs)	14.1	13.0	8.4	12.9	9.8

Source: Company, Emkay Research

Exhibit 2: Actuals vs. estimates

(Rs mn)	Actual	Estimate		Variation (%)		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue (USD mn)	3,225	3,249	3,237	-0.8%	-0.4%	Revenue missed estimates due to weakness in discretionary spending.
Sales	2,66,720	2,68,384	2,67,286	-0.6%	-0.2%	
EBIT	49,340	46,934	47,042	5.1%	4.9%	Margin beats estimates on account of operating efficiencies.
EBIT Margin	18.5%	17.5%	17.6%	100bps	90bps	
PAT	38,320	37,598	37,420	1.9%	2.4%	Profit came ahead of estimates due to margin beat.

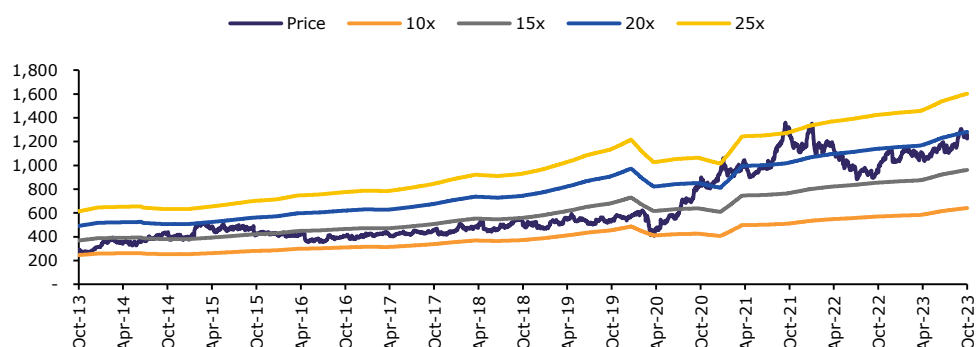
Source: Company, Bloomberg, Emkay Research

Exhibit 3: Changes in estimates

(Rs mn)	FY24E			FY25E			FY26E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenue (USD mn)	13,379	13,294	-0.6	14,659	14,554	-0.7	16,045	15,943	-0.6
YoY growth (%)	6.3%	5.6%		9.6%	9.5%		9.5%	9.5%	
Revenue	11,06,486	10,99,802	-0.6	12,31,328	12,22,541	-0.7	13,63,851	13,55,145	-0.6
EBIT	1,98,876	2,00,299	0.7	2,31,422	2,30,384	-0.4	2,57,651	2,56,045	-0.6
EBIT Margin (%)	18.0	18.2		18.8	18.8		18.9	18.9	
Net Profit	1,58,196	1,58,145	0.0	1,84,774	1,83,861	-0.5	2,06,236	2,04,933	-0.6
EPS (Rs)	58.3	58.3	0.0	68.1	67.8	-0.5	76.0	75.5	-0.6

Source: Company, Emkay Research

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



Source: Company, Emkay Research

HCL Tech: Consolidated Financials and Valuations

Profit and Loss					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	8,56,510	10,14,560	10,99,802	12,22,541	13,55,145
Revenue growth (%)	13.6	18.5	8.4	11.2	10.8
EBITDA	2,05,300	2,26,280	2,41,289	2,73,582	3,02,230
EBITDA growth (%)	(1.2)	10.2	6.6	13.4	10.5
Depreciation & Amortization	43,260	41,450	40,990	43,198	46,186
EBIT	1,62,040	1,84,830	2,00,299	2,30,384	2,56,045
EBIT growth (%)	0.2	14.1	8.4	15.0	11.1
Other operating income	0	0	0	0	0
Other income	4,280	6,520	11,344	16,410	19,034
Financial expense	(3,190)	(3,530)	0	0	0
PBT	1,69,510	1,94,880	2,11,643	2,46,793	2,75,078
Extraordinary items	0	0	0	0	0
Taxes	34,280	46,430	53,518	62,932	70,145
Minority interest	(240)	60	20	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	1,34,990	1,48,510	1,58,145	1,83,861	2,04,933
PAT growth (%)	21.1	10.0	6.5	16.3	11.5
Adjusted PAT	1,34,990	1,48,510	1,58,145	1,83,861	2,04,933
Diluted EPS (Rs)	49.7	54.7	58.3	67.8	75.5
Diluted EPS growth (%)	21.1	10.0	6.5	16.3	11.5
DPS (Rs)	44.0	48.0	46.0	50.0	56.0
Dividend payout (%)	88.5	87.7	78.9	73.8	74.2
EBITDA margin (%)	24.0	22.3	21.9	22.4	22.3
EBIT margin (%)	18.9	18.2	18.2	18.8	18.9
Effective tax rate (%)	20.2	23.8	25.3	25.5	25.5
NOPLAT (pre-IndAS)	1,29,271	1,40,794	1,49,650	1,71,636	1,90,753
Shares outstanding (mn)	2,713.7	2,713.7	2,713.7	2,713.7	2,713.7

Source: Company, Emkay Research

Cash Flows					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	1,69,510	1,94,880	2,11,643	2,46,793	2,75,078
Others (non-cash items)	73,810	81,592	41,010	43,198	46,186
Taxes paid	(34,280)	(46,430)	(53,518)	(62,932)	(70,145)
Change in NWC	(39,913)	(49,899)	(8,188)	(15,805)	(17,075)
Operating cash flow	1,69,127	1,80,143	1,90,947	2,11,254	2,34,044
Capital expenditure	(15,592)	(14,430)	(22,927)	(21,512)	(28,900)
Acquisition of business	(746)	(9,109)	0	0	0
Interest & dividend income	5,900	6,360	6,360	6,360	6,360
Investing cash flow	14,697	(39,742)	(58,457)	(21,512)	(28,900)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(4,325)	(18,863)	9,910	9,270	9,270
Payment of lease liabilities	(10,670)	(9,270)	(9,270)	(9,270)	(9,270)
Interest paid	3,190	3,530	0	0	0
Dividend paid (incl tax)	(1,22,051)	(1,30,109)	(1,24,829)	(1,35,683)	(1,51,965)
Others	(10,078)	(138)	0	0	0
Financing cash flow	(1,43,934)	(1,54,851)	(1,24,189)	(1,35,683)	(1,51,965)
Net chg in Cash	39,890	(14,450)	8,301	54,059	53,179
OCF	1,69,127	1,80,143	1,90,947	2,11,254	2,34,044
Adj. OCF (w/o NWC chg.)	2,09,040	2,30,042	1,99,135	2,27,059	2,51,119
FCFF	1,53,535	1,65,713	1,68,020	1,89,742	2,05,144
FCFE	1,62,625	1,75,603	1,74,380	1,96,102	2,11,504
OCF/EBITDA (%)	82.4	79.6	79.1	77.2	77.4
FCFE/PAT (%)	120.5	118.2	110.3	106.7	103.2
FCFF/NOPLAT (%)	118.8	117.7	112.3	110.5	107.5

Source: Company, Emkay Research

Balance Sheet					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	5,427	5,427	5,427	5,427	5,427
Reserves & Surplus	6,13,713	6,48,623	6,81,940	7,30,117	7,83,086
Net worth	6,19,140	6,54,050	6,87,367	7,35,545	7,88,513
Minority interests	920	(70)	(70)	(70)	(70)
Deferred tax liability (net)	(10,641)	(10,908)	(10,920)	(10,920)	(10,920)
Total debt	65,790	47,860	48,500	48,500	48,500
Total liabilities & equity	6,75,209	6,90,932	7,24,877	7,73,055	8,26,023
Net tangible fixed assets	57,410	54,110	53,233	43,216	37,869
Net intangible assets	95,940	81,903	67,102	52,566	38,367
Net ROU assets	23,050	23,370	25,000	25,000	25,000
Capital WIP	0	0	0	0	0
Goodwill	1,94,990	1,90,987	1,86,973	1,89,840	1,92,100
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	2,19,950	2,28,220	2,72,051	3,26,110	3,79,288
Current assets (ex-cash)	2,87,230	3,43,000	3,64,592	4,05,281	4,49,240
Current Liab. & Prov.	2,03,361	2,30,658	2,44,074	2,68,958	2,95,842
NWC (ex-cash)	83,869	1,12,342	1,20,518	1,36,323	1,53,398
Total assets	6,75,209	6,90,932	7,24,877	7,73,055	8,26,023
Net debt	(1,54,160)	(1,80,360)	(2,23,551)	(2,77,610)	(3,30,788)
Capital employed	6,75,209	6,90,932	7,24,877	7,73,055	8,26,023
Invested capital	4,55,259	4,62,712	4,52,826	4,46,945	4,46,735
BVPS (Rs)	228.2	241.0	253.3	271.1	290.6
Net Debt/Equity (x)	(0.2)	(0.3)	(0.3)	(0.4)	(0.4)
Net Debt/EBITDA (x)	(0.8)	(0.8)	(0.9)	(1.0)	(1.1)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	25.0	28.0	29.9	33.0	34.4

Source: Company, Emkay Research

Valuations and Key Ratios					
Y/E March	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	24.6	22.4	21.0	18.1	16.2
P/CE(x)	18.6	17.5	16.7	14.6	13.2
P/B (x)	5.4	5.1	4.8	4.5	4.2
EV/Sales (x)	3.7	3.1	2.8	2.5	2.2
EV/EBITDA (x)	15.4	13.9	12.8	11.1	9.9
EV/EBIT(x)	19.5	17.0	15.5	13.2	11.7
EV/IC (x)	7.0	6.8	6.8	6.8	6.7
FCFF yield (%)	4.8	5.3	5.4	6.2	6.9
FCFE yield (%)	4.9	5.3	5.3	5.9	6.4
Dividend yield (%)	3.6	3.9	3.8	4.1	4.6
DuPont-RoE split					
Net profit margin (%)	15.8	14.6	14.4	15.0	15.1
Total asset turnover (x)	1.3	1.5	1.6	1.6	1.7
Assets/Equity (x)	1.1	1.1	1.1	1.1	1.0
RoE (%)	22.2	23.3	23.6	25.8	26.9
DuPont-RoIC					
NOPLAT margin (%)	15.1	13.9	13.6	14.0	14.1
IC turnover (x)	1.9	2.2	2.4	2.7	3.0
RoIC (%)	28.6	30.7	32.7	38.2	42.7
Operating metrics					
Core NWC days	35.7	40.4	40.0	40.7	41.3
Total NWC days	35.7	40.4	40.0	40.7	41.3
Fixed asset turnover	2.3	2.8	3.2	3.8	4.5
Opex-to-revenue (%)	76.0	77.7	78.1	77.6	77.7

Source: Company, Emkay Research

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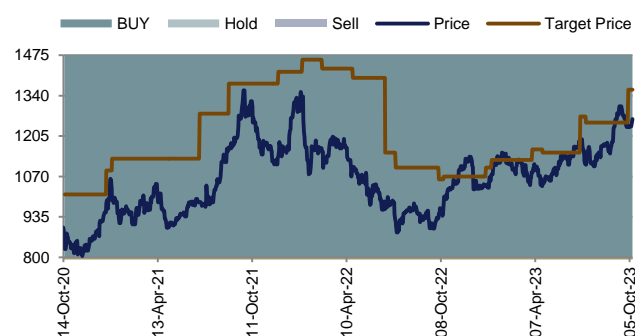
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RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
02-Oct-23	1,235	1,360	Buy	Dipeshkumar Mehta
13-Jul-23	1,109	1,250	Buy	Dipeshkumar Mehta
02-Jul-23	1,188	1,270	Buy	Dipeshkumar Mehta
21-Apr-23	1,049	1,150	Buy	Dipeshkumar Mehta
01-Apr-23	1,085	1,160	Buy	Dipeshkumar Mehta
13-Jan-23	1,078	1,125	Buy	Dipeshkumar Mehta
02-Jan-23	1,039	1,100	Buy	Dipeshkumar Mehta
13-Oct-22	982	1,070	Buy	Dipeshkumar Mehta
04-Oct-22	946	1,060	Buy	Dipeshkumar Mehta
13-Jul-22	918	1,100	Buy	Dipeshkumar Mehta
23-Jun-22	971	1,150	Buy	Dipeshkumar Mehta
12-May-22	1,059	1,400	Buy	Dipeshkumar Mehta
22-Apr-22	1,102	1,400	Buy	Dipeshkumar Mehta
01-Apr-22	1,170	1,430	Buy	Dipeshkumar Mehta
22-Feb-22	1,150	1,430	Buy	Dipeshkumar Mehta
15-Jan-22	1,337	1,460	Buy	Dipeshkumar Mehta
01-Jan-22	1,319	1,420	Buy	Dipeshkumar Mehta
30-Nov-21	1,139	1,420	Buy	Dipeshkumar Mehta
15-Oct-21	1,251	1,380	Buy	Dipeshkumar Mehta
02-Oct-21	1,274	1,380	Buy	Dipeshkumar Mehta
27-Aug-21	1,163	1,380	Buy	Dipeshkumar Mehta
20-Jul-21	977	1,280	Buy	Dipeshkumar Mehta
02-Jul-21	985	1,280	Buy	Dipeshkumar Mehta
24-Apr-21	956	1,130	Buy	Dipeshkumar Mehta
05-Apr-21	1,034	1,130	Buy	Dipeshkumar Mehta
18-Mar-21	948	1,130	Buy	Dipeshkumar Mehta
15-Jan-21	990	1,130	Buy	Dipeshkumar Mehta
04-Jan-21	980	1,090	Buy	Dipeshkumar Mehta
18-Dec-20	891	1,010	Buy	Dipeshkumar Mehta
16-Oct-20	827	1,010	Buy	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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