

ACCUMULATE

Reported steady numbers; Mixed outlook; Accumulate

Q2FY24 Result Update | Sector: IT | October 13, 2023

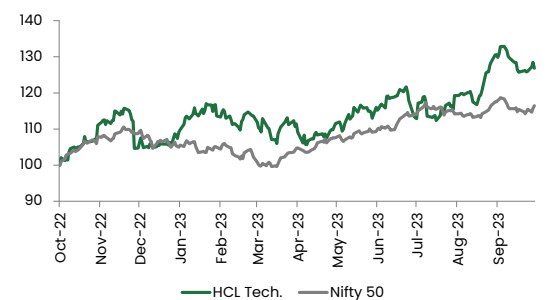
CMP (Rs)	1,224
Target Price (Rs)	1,383
Potential Upside	13.0%
Sensex	66,408
Nifty	19,794

Key Stock data	
BSE Code	532281
NSE Code	HCLTECH
Bloomberg	HCLT:IN
Shares o/s, Cr (FV 2)	271.5
Market Cap (Rs Cr)	332084.0
3M Avg Volume	2462587
52 week H/L	1,311/943

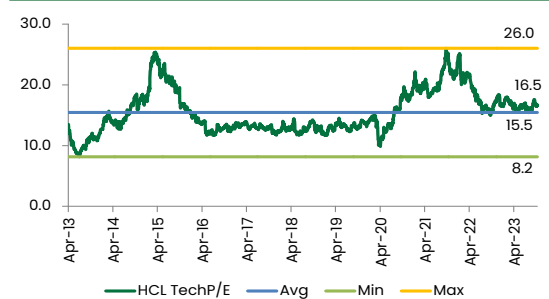
Shareholding Pattern

(%)	Dec-22	Mar-23	Jun-23
Promoter	60.7	60.8	60.8
FII	18.3	18.9	19.0
DII	15.9	15.3	15.4
Others	5.1	5.0	4.8

1 Year relative price performance



1 year PE Forward (x)



Research Analyst

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Stable revenue growth: HCL Tech posted steady Q2FY24 revenue but it was below our expectation. Rupee revenue came in at Rs 26,672cr, higher by 1.4% QoQ and 8% YoY while dollar revenue grew by 0.8% QoQ and 4.6% YoY to USD 3,225mn. In constant currency, revenue was higher by 1% QoQ and 3.4% YoY. Overall all business segments, geographies and majorities of vertical growth were stable. Amongst geographies, both American and Europe region contributed while for verticals except for technology & telecommunication & media, all others including financials, manufacturing, retail and life-science contributed to the revenue growth. Besides, amongst the business segment both its service (~90% of revenue) & software (~10% of revenue) business grew by 7.4% YoY and 14.1% YoY, respectively.

Healthy margin improvement: HCL Tech's EBIT grew by 10.8% QoQ and 11.1% YoY to Rs 4,919cr with improvement in EBIT margin by 157bps QoQ and 51bps YoY to 18.4% which is in-line with management expectation. The company's margin improvement was primarily driven because of efficiencies in their services segment as well as through automation and AI capabilities.

Attrition eased further: The company's attrition further eased to 14.2% in Q2FY24 as compared to 16.3% in Q1FY24 and 23.8% in Q2FY23. So, that means attrition declined by 210bps QoQ and 960bps YoY which seems positive.

Steady Deals wins: HCL's deal pipeline remained healthy and it won deals worth USD 3,969mn as compared to USD 1,565mn in Q1FY24 and USD 2,384mn in Q2FY23. It won 16 large deals out of which 10 were in services and 6 in the software segment.

Management lowered revenue guidance by 300bps: HCL Tech management continued to be cautious on the macro environment as well as its H1FY24 performance (H1 is usually strong as compared to H2) was soft and came in lower than their expectation. Thus, the management lowered revenue growth guidance in the range of 4-5% YoY in CC as compared to earlier guidance of 6-8% YoY in CC. Its service revenue guidance was also lowered in the range of 4.5-5.5% in CC as compared to earlier guidance of 6.5-8.5% YoY in CC. However, they are expecting H2 to be strong given the order booking to convert to revenue. Additionally, they have unchanged EBIT margins guidance and expect it to be in the range of 18-19%.

Outlook & Valuation: HCL reported steady numbers for the quarter however the challenging macro environment is impacting clients spending for the near term. Ahead, H2 is expected to be better as compared to H1 given revenue conversion of current deals as well as margin expansion. Further, the management plan is to continue its focus on investment behind newer technology which includes AI, training employees and optimizing cost. We have a mixed view on HCL as the order pipeline is strong, attrition easing and the company is focusing on developing new technology however on the other side delay in spending by clients is a concern for the near term. However, we are expecting FY25 to be much better than FY24, thus incorporating revenue cut in FY24 as per management guidance and better growth in FY25, our estimated revenue/EBIT is estimated to grow by 8.6%/12.9% over FY23-25E. Also, our rating is revised to **Accumulate** from Buy earlier and so our target price upwards to **Rs 1,383**, valuing the company at 19x P/E of FY25E EPS.

Financial Summary - consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net revenue	85,651	101,456	108,404	119,757
EBIT	16,204	18,483	20,576	23,569
EBITM (%)	18.9	18.2	19.0	19.7
APAT	13,524	14,845	16,997	19,461
APATM (%)	15.8	14.6	15.7	16.3
EPS (Rs)	49.8	54.7	62.6	71.7
PE (x)	24.6	22.4	19.6	17.1
RoE (%)	21.8	22.7	24.4	26.1

Source : RBL Research

Steady revenue growth supported by geographies, segments and verticals

EBIT margin improved because of efficiencies in their services segment as well as through automation and AI capabilities.

Services segment led the growth

Strong growth was led by Europe followed by American region

P&L Account Quarterly - consolidated

Particulars (Rs Cr)	Q2FY24	Q2FY23	Y-o-Y %	Q1FY24	Q-o-Q %
Revenue (\$ Mn)	3,225	3,082	4.6	3,200	0.8
Revenue (Rs cr)	26,672	24,686	8.0	26,296	1.4
Cost of Sales	402	442	(9.0)	535	(24.9)
Gross Profit	26,270	24,244	8.4	25,761	2.0
Gross Margins (%)	98.5	98.2	28bps	98.0	53bps
Employee Cost	15,253	13,474	13.2	15,014	1.6
Other Expenses	5,088	5,345	(4.8)	5,382	(5.5)
Total Expenditure	20,743	19,261	7.7	20,931	(0.9)
EBITDA	5,929	5,425	9.3	5,365	10.5
EBITDA Margins (%)	22.2	22.0	25bps	20.4	183bps
Depreciation	1,010	998	1.2	927	9.0
EBIT	4,919	4,427	11.1	4,438	10.8
EBIT Margins (%)	18.4	17.9	51bps	16.9	157bps
Other Income	365	236	54.7	344	6.1
Interest	156	79	97.5	86	81.4
PBT	5,128	4,584	11.9	4,696	9.2
Tax	1,295	1,097	18.0	1,165	11.2
PAT	3,833	3,487	9.9	3,531	8.6
PAT Margin (%)	14.4	14.1	25bps	13.4	94bps
EPS	14.1	12.8	9.9	13.0	8.6

Source : RBL Research

Revenue by Segments

Particulars (Rs Cr)	Q2FY24	Q2FY23	YoY %	Q1FY24	Q-o-Q %
IT & Business Services	19,897	18,172	9.5	19,643	1.3
% of total revenue	74.6	73.6	99bps	74.7	-10bps
Engineering & R&D Services	4,134	4,199	(1.5)	4,050	2.1
% of total revenue	15.5	17.0	-151bps	15.4	10bps
HCL Software	2,641	2,315	14.1	2,603	1.4
% of total revenue	9.9	9.4	52bps	9.9	0bps

Source : RBL Research

Revenue by Geographies

Particulars (Rs Cr)	Q2FY24	Q2FY23	YoY %	Q1FY24	Q-o-Q %
American	17,203	15,997	7.5	16,961	1.4
% of total revenue	64.5	64.8	-30bps	64.5	0bps
Europe	7,602	6,789	12.0	7,547	0.7
% of total revenue	28.5	27.5	100bps	28.7	-20bps
ROW	1,867	1,901	(1.8)	1,788	4.4
% of total revenue	7.0	7.7	-70bps	6.8	20bps

Source : RBL Research

Financial, Manufacturing, Retail and Life-science drove the growth

Revenue by Verticals (Rs Cr)

Particulars	Q2FY24	Q2FY23	YoY %	Q1FY24	Q-o-Q %
Financial Services	6,028	5,085	18.5	5,943	1.4
Manufacturing	5,148	4,740	8.6	5,207	(1.1)
Technology & Services	3,494	3,728	(6.3)	3,524	(0.8)
Retail & CPG	2,561	2,271	12.7	2,393	7.0
Telecommunications, Media,	2,134	2,271	(6.0)	1,998	6.8
Lifesciences & Healthcare	4,668	4,073	14.6	4,602	1.4
Public Services#	2,641	2,518	4.9	2,630	0.4

Source : RBL Research

Share of Verticals in revenue (%)

Particulars	Q2FY24	Q2FY23	YoY %	Q1FY24	Q-o-Q %
Financial Services	22.6	20.6	200bps	22.6	0bps
Manufacturing	19.3	19.2	10bps	19.8	-50bps
Technology & Services	13.1	15.1	-200bps	13.4	-30bps
Retail & CPG	9.6	9.2	40bps	9.1	50bps
Telecommunications, Media, Publishing & Entertainment	8.0	9.2	-120bps	7.6	40bps
Lifesciences & Healthcare	17.5	16.5	100bps	17.5	0bps
Public Services	9.9	10.2	-30bps	10.0	-10bps

Source : RBL Research

Financial services contribution to revenue YoY improved the highest amongst all verticals

Client Metrics

Particulars	Q2FY24	Q2FY23	YoY Change	Q1FY24	QoQ Change
100 Mn \$+	20	20	0	17	3
50 Mn \$+	49	48	1	42	7
20 Mn \$+	132	127	5	128	4
10 Mn \$+	243	237	6	220	23
5 Mn \$+	402	390	12	356	46
1 Mn \$+	971	947	24	890	81

Source : RBL Research

Steady Client addition

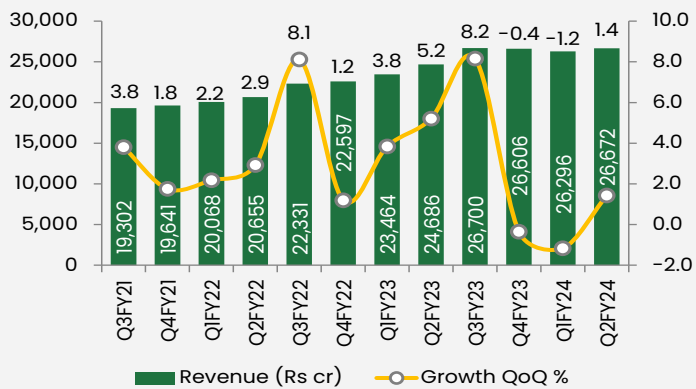
Client contribution to revenue

Particulars	Q2FY24	Q2FY23	Q1FY24
Top 5 Clients	9.80%	9.80%	10.70%
Top 10 Clients	17.20%	17.20%	18.80%
Top 20 Clients	27.30%	27.20%	28.60%

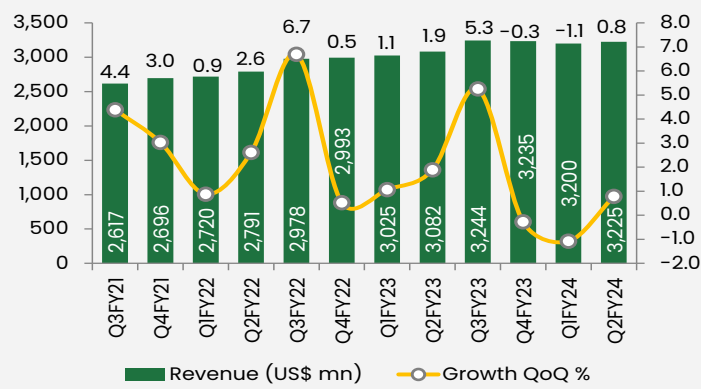
Source : RBL Research

Story in charts

Revenue in Rupee grew by 1.4% QoQ and 8.0% YoY

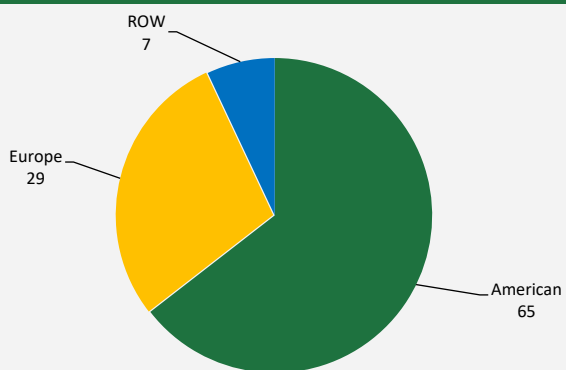


Revenue in USD grew by 0.8% QoQ and 4.6% YoY

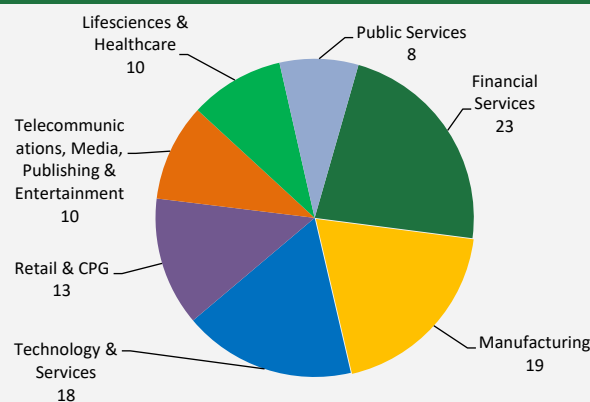


Source : RBL Research

Revenue by Client Geography %

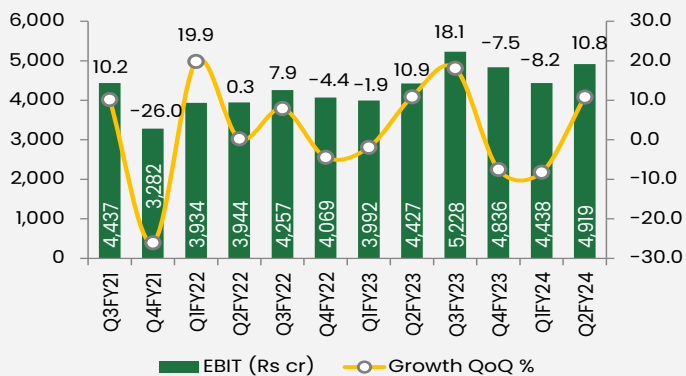


Revenue by Business Segments %

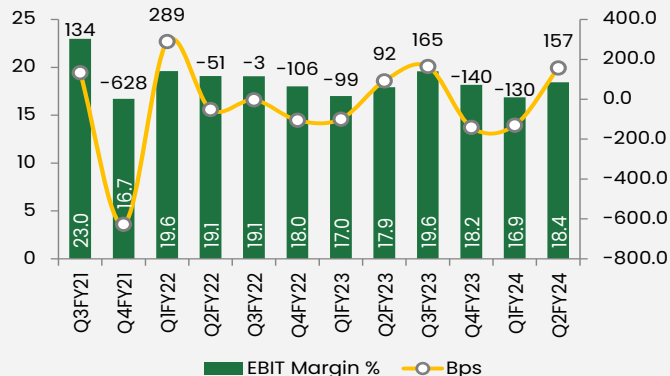


Source : RBL Research

EBIT grew by 10.8% QoQ and 11.1% YoY

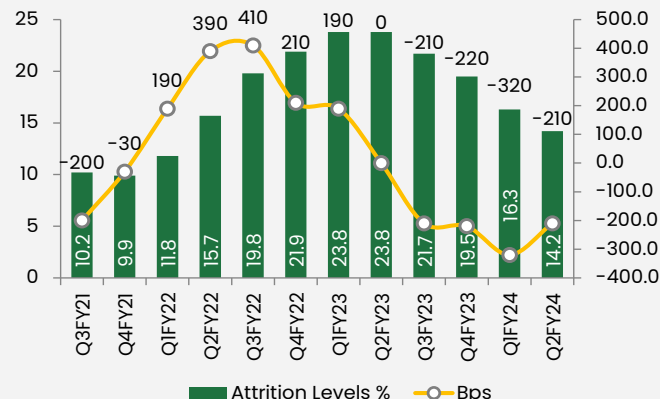


EBIT margins improved by 157bps QoQ and by 51bps YoY

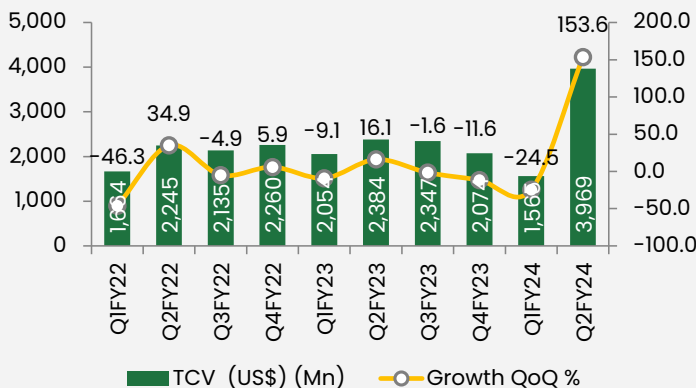


Source : RBL Research

Attrition moderated by 210bps QoQ to 14.2% in Q2FY24



Deals won worth USD 3.9 bn for Q2FY24



Source : RBL Research

P&L Account – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net sales	85,651	101,456	108,404	119,757
Expenditure				
Purchase of stock in trade	1,473	2,072	1,843	1,796
(Increase) / Decrease In Stocks	(67)	(67)	(72)	(79)
Total raw materials	1,406	2,005	1,771	1,717
Gross Profit	84,245	99,451	106,633	118,039
Gross Margins %	98.4	98.0	98.4	98.6
Employee cost	46,130	55,280	58,538	64,549
Outsourcing Cost	12,515	14,950	16,369	17,844
Other expenses	5,070	6,593	6,721	7,185
Total expenditure	65,121	78,828	83,400	91,295
EBITDA	20,530	22,628	25,005	28,461
EBITDAM (%)	24.0	22.3	23.1	23.8
Depreciation	4,326	4,145	4,429	4,893
EBIT	16,204	18,483	20,576	23,569
EBIT Margin %	18.9	18.2	19.0	19.7
Other income	1,067	1,358	1,301	1,437
Interest expenses	319	353	361	372
PBT	16,952	19,488	21,516	24,634
Tax	3,428	4,643	4,518	5,173
PAT	13,524	14,845	16,997	19,461
PAT Margin %	15.8	14.6	15.7	16.3
EPS	49.8	54.7	62.6	71.7

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	69,111	73,977
Total Shareholder's Fund	61,914	65,405	69,654	74,520
Minority Interest	92	(7)	(7)	(8)
Long term borrowings	3,923	2,111	2,256	2,492
Short term borrowing	62	140	150	165
Total Debt	3,985	2,251	2,405	2,657
Deferred tax liabilities	1,450	2,311	2,469	2,728
Long term provision	1,415	1,315	1,791	1,978
Other long term liabilities	2,802	2,995	3,200	3,535
Total	5,667	6,621	7,460	8,242
Current Liabilities				
Trade payables	6,278	6,428	6,868	7,587
Short term provisions	955	1,120	1,209	1,335
Other current liabilities	10,142	11,593	12,387	13,684
Total	17,375	19,141	20,464	22,607
Total liabilities	89,033	93,411	99,976	108,017
Application of Assets				
Net Block	17,669	16,052	17,103	18,070
Current work in process	129	40	40	40
Goodwill on consolidation	17,417	18,567	18,567	18,567
Non current investment	103	110	118	130
Tax assets	1,410	1,447	1,546	1,708
Long term loans and advances	200	-	-	-
Other non-current assets	4,298	3,132	3,346	3,697
Total	41,226	39,348	40,720	42,212
Current Assets				
Current investments	6,239	5,385	6,504	7,185
Inventories	161	228	244	269
Trade receivables	20,671	26,187	27,027	29,529
Cash balance	10,510	9,065	11,079	13,503
Bank balance	2,126	5,659	5,659	5,659
Short term loans and advances	3,008	2,603	2,781	3,073
Other current assets	5,092	4,936	5,962	6,587
Total	47,807	54,063	59,256	65,805
Total assets	89,033	93,411	99,976	108,017

Source : RBL Research

Cashflow – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Profit before tax	16,951	19,488	21,516	24,634
Add: Depreciation	4,326	4,145	4,429	4,893
Add: Interest cost	225	238	361	372
Less: Other Income /Interest Rec.	(583)	(769)	-	-
Less: Dividend Income	(27)	-	-	-
Operating profit before WC	20,892	23,012	26,305	29,898
Changes in working capital	(549)	(1,305)	(211)	(1,031)
Cash from Operations	20,343	21,707	26,094	28,867
Less: Taxes	(3,443)	(3,698)	(4,518)	(5,173)
Cash flow from Operations	16,900	18,009	21,576	23,694
Net cash used in Investing				
Purchase of fixed assets	(1,645)	(1,661)	(5,480)	(5,859)
Purchase of investments	2,543	(2,949)	(1,127)	(693)
Sales of fixed assets	90	217	-	-
Dividend Income/Interest Rec.	590	636	-	-
Cash flow from investing	1,477	(3,931)	(6,607)	(6,553)
Cash flow from Financing				
Proceeds of borrowings	77	(1,848)	154	252
Sales of borrowings	(137)	-	-	-
Dividend (Incl dividend tax)	(11,391)	(12,995)	(12,748)	(14,596)
Interest cost	(69)	(80)	(361)	(372)
Others	(2,988)	(958)	(0)	(1)
Cash flow from Financing	(14,508)	(15,881)	(12,955)	(14,716)
Net cash Inflow/Outflow	3,869	(1,803)	2,014	2,425
Opening cash	6,521	10,510	9,065	11,079
Exchange gain/loss	120	358	-	-
Closing Cash	10,510	9,065	11,079	13,503

Source : RBL Research

Key ratios – consolidated

Particulars	FY22	FY23	FY24E	FY25E
Per share Data				
EPS (Rs)	49.8	54.7	62.6	71.7
Book value per share (Rs)	228.0	240.9	256.6	274.5
Dividend per share (Rs)	42.0	47.9	47.0	53.8
Dividend Yield (%)	3.4	3.9	3.8	4.4
Dividend Payout (%)	84.4	75.0	75.0	75.0
Profitability Ratios				
EBITDAM(%)	24.0	22.3	23.1	23.8
PBTM (%)	19.8	19.2	19.8	20.6
NPM (%)	15.8	14.6	15.7	16.3
RoE (%)	21.8	22.7	24.4	26.1
RoCE (%)	24.6	27.3	28.6	30.5
Efficiency Data				
Debt-Equity Ratio	0.1	0.0	0.0	0.0
Interest Cover Ratio	50.8	52.4	57.0	63.4
Fixed Asset Ratio	0.2	0.2	0.2	0.2
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
Valuation				
P/E (x)	24.6	22.4	19.6	17.1
P/BV	5.4	5.1	4.8	4.5
EV/EBITDA	15.9	14.4	12.9	11.3
EV/Sales	3.8	3.2	3.0	2.7

Source : RBL Research

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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? [If answer is yes, nature of Interest is given below this table]		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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