

HCL Technologies Limited



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Owing to strong deal wins, healthy growth and margin improvement to be expected in H2 FY24

CMP INR 1,269	Target INR 1,374	Potential Upside 8.3%	Market Cap (INR Mn) INR 33,43,957	Recommendation ACCUMULATE	Sector Information Technology
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Result Highlights of Q2FY24:

- During the quarter, HCL Tech reported revenue of INR 2,66,720 mn, registering a growth of 8.05% on a YoY basis from INR 2,46,860 mn and on a QoQ basis it grew by 1.43% from INR 2,62,960 mn.
- The EBIT for Q2FY24 stood at INR 49,340, registering a growth of 11.45% on a YoY basis and on a sequential basis it grew by 10.63%. The operating margin stood at 18.50%, which showed an improvement by 154 bps on a QoQ basis and 57 bps on a YoY basis.
- Net profit for the quarter stood at INR 38,330 mn, registering a growth of 9.92% on a YoY basis and 8.55% on a sequential basis. The PAT margin stood at 14.37%, which expanded by 94 bps sequentially and 25 bps on a YoY basis.
- The EPS for the quarter stood at INR 14.13 as against INR 12.88 YoY and 13.03 QoQ.

MARKET DATA

Shares outs (Mn)	2,713
Equity Cap (INR Mn)	5,426
Mkt Cap (INR Mn)	33,43,957
52 Wk H/L (INR)	1311/969
Volume Avg (3m K)	3668
Face Value (INR)	2
Bloomberg Code	HCTHY IN Equity

KEY FINANCIALS

(INR Mn)	Q2FY24A	Q1FY24A	Q2FY23A	QoQ	YoY
USD Revenue	3,225	3,200	3,082	0.78%	4.64%
Revenue	2,66,720	2,62,960	2,46,860	1.43%	8.05%
EBIT	49,340	44,600	44,270	10.63%	11.45%
PAT	38,330	35,310	34,870	8.55%	9.92%
OPM (%)	18.50%	16.96%	17.93%	154 bps	57 bps
NPM(%)	14.37%	13.43%	14.12%	94 bps	25 bps

Source: Company, KRChoksey Research

Broad-based Revenue growth

HCL tech USD revenue for Q2FY24 stood at USD 3,225 Mn., registering a growth of 4.64% YoY and 0.78% sequentially. The growth was primarily driven by the Services segment (4.6% YoY CC) and Software segment (3.6% YoY CC). The Technology segment continues to remain under pressure, however, the management expects sequential recovery from H2FY24 onwards. The American market and European markets reported growth of 3.9% (YoY CC) respectively. Within the verticals, the Financial services continue to outperform other verticals and reported a healthy growth of 12.5% (YoY CC), followed by Life sciences at 9.8% (YoY CC). Despite the cut in revenue guidance owing to weak discretionary spending and slower TCV conversion into revenues, the management expects revenue to grow by 5%-6% YOY in CC terms owing to large deal ramp-up, recovery in discretionary spending and acquisition of ASAP.

Healthy deal wins increases visibility for FY25

During the quarter, TCV stood at USD 3,969 mn, which included 10 deal wins in the Services segment and 6 deal wins in the Software segment. The company is leveraging its cutting-edge technologies, from Gen AI to cloud computing, to help clients become more efficient and improve their productivity. The new deals ramp-up will commence from Nov 1, which will provide good visibility for growth from a medium to long-term perspective.

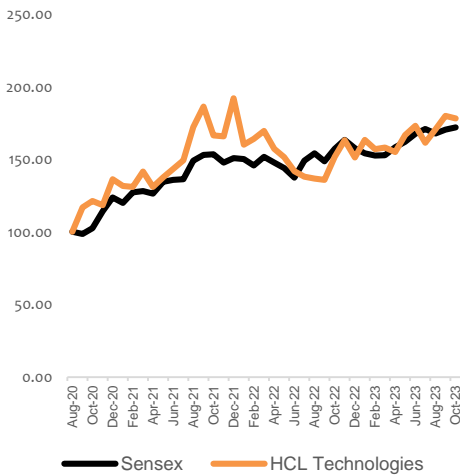
Big beat on EBIT margin

The margins for Q2FY24 stood at 18.50%, which showed an improvement of 154 bps sequentially and 57 bps on a YoY basis. The efficiency in operations, increase in utilization rates, improvement in productivity and reduction in subcontracting expense during the quarter led to the improvement in margins. However, management expects the margin for FY24 to remain in the range of 18%-19%.

Acquisition of ASAP

The acquisition of ASAP will strengthen HCL Tech's position in Auto, particularly in the ERD segment. ASAP caters to various global OEMs in areas like connectivity, Autonomous driving, E-mobility etc. We expect this acquisition will provide synergy and contribute meaning to revenues and margins.

SHARE PRICE PERFORMANCE



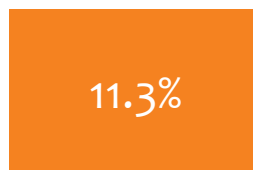
MARKET INFO

SENSEX	63,788
NIFTY	19,046

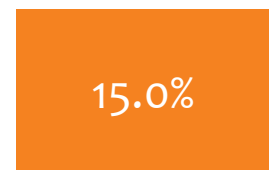
SHARE HOLDING PATTERN (%)

Particulars	June-23	March-23	Dec-22
Promoters	60.81%	60.81%	60.72%
FIIIs	18.98%	18.92%	18.29%
DIIIs	15.36%	15.30%	15.88%
Others	4.85%	4.97%	5.11%
Total	100.00%	100.00%	100.00%

*Sept 23 Shareholding pattern not available



Revenue CAGR between FY23 and FY25E

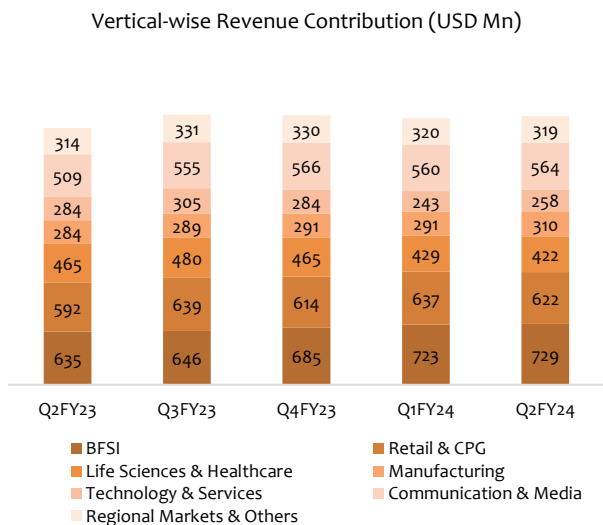
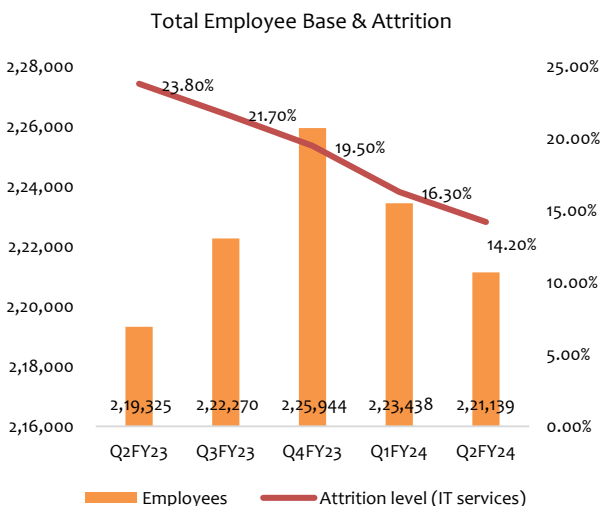
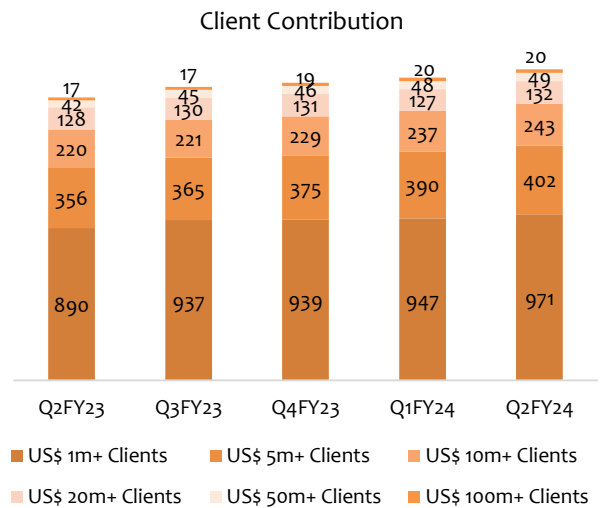
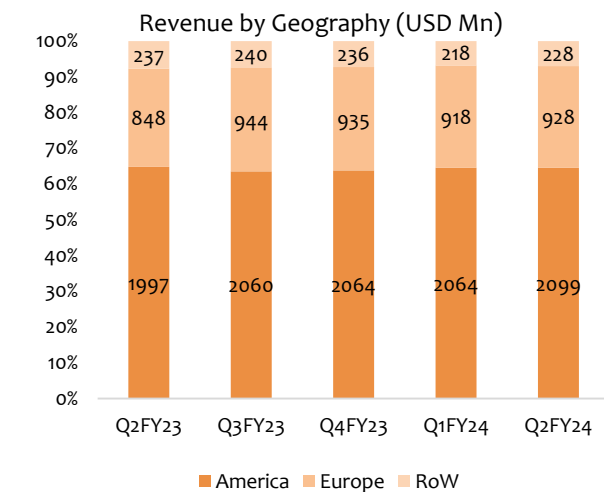


PAT CAGR between FY23 and FY25E

HCL Technologies Ltd.

Key Concall Highlights: (i) Despite the weak macro environment, HCL tech reported strong quarter across all segments (ii) Pipeline continues to remain healthy and the company is working in many opportunities in emerging areas like Gen AI, cloud adaptations and Machine learning (iii) Owing to large deal ramp up and transition of deal with some discretionary spending rebounding, the management expected strong growth in H2FY24 (iv) Technology segment continues to remain sluggish, however management anticipates recovery on a sequential basis (v) Attrition rate continue to witness decline and has reached 14.2% (vi) Management expect healthy growth in H2FY24 and anticipates revenue growth of 5%-6% (YoY) in CC terms and margins in range of 18%-19% (vi) Acquisition of ASAP, a German based Engineering and research development company will strengthen HCL tech presence in Automotive segment and the company expect enormous synergy from this acquisition (vii) The operating in Q2FY24 expanded by 154 bps sequentially owing to efficiency in operations, improving utilizations and reduction in third party contract cost (viii) The company has reduced its revenue guidance by 300 bps mainly due to weak Q1FY24 and slower conversion of TCV into revenues. However the management expects strong H2FY24 (ix) Deal booking during the quarter stood at USD 3,969 mn, which is an all-time high deal booking driven by standout mega deal (x) Total headcounts for the quarter stood at 2,21,139 (xi) The company has declared an interim dividend of INR 12/ share during the quarter. (xii) The number of 100+ million dollar clients has increased to 20, up by 3 on a YoY basis. (xiii) DSO (days of sales outstanding) has decreased by 61 days from 66 days in Q2FY23.

Valuation and view: HCL Tech has delivered another year of robust and strong broad-based growth across verticals and geographies. The company continues to gear the progress of their clients with their differentiated portfolio of services and are well positioned to leverage opportunities that emerge from the adoption of technology by various organizations. 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 17.5. We have revised the target price to INR 1374 from the previous target price of INR 1,206; with a P/E multiple of 19x to the FY25 estimated EPS of INR 72.3, an upside of 8.3% over the CMP. Accordingly, we revised our rating to “ACCUMULATE” to the stock.



Source: Company, KR Choksey Research

HCL Technologies Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

Particulars (INR Mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue	7,06,780	7,53,790	8,56,510	10,14,560	11,24,885	12,57,816
Employee Cost	4,40,180	4,46,960	5,27,600	6,45,230	6,95,939	7,66,579
SG&A and Other Cost	99,660	1,06,350	1,23,610	1,43,050	1,67,608	1,79,239
EBITDA	1,66,940	2,00,480	2,05,300	2,26,280	2,61,338	3,11,998
Depreciation	28,410	46,110	43,260	41,450	55,159	65,075
EBIT	1,38,530	1,54,370	1,62,040	1,84,830	2,06,179	2,46,923
Other income, net	5,429	9,270	10,670	13,580	15,530	11,478
Finance costs	3,649	5,110	3,190	3,530	3,522	3,564
Pre-tax Income	1,40,310	1,58,530	1,69,520	1,94,880	2,18,188	2,54,837
Income tax expense	29,380	46,840	34,280	46,430	50,183	58,612
Net profit Before EI & MI	1,10,930	1,11,690	1,35,240	1,48,450	1,68,005	1,96,224
Minority Interest, MI	310	0	240	-60	-60	-60
One Time Expenses	0	17,970	0	0	0	0
Net profit Before MI	1,10,620	93,720	1,35,000	1,48,510	1,68,065	1,96,284
Diluted EPS (INR)	40.76	34.54	49.75	54.73	61.93	72.33
Shares in Million	2,714	2,714	2,714	2,714	2,714	2,714

Exhibit 2: Cash Flow Statement

Particulars (INR Mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Cash Generated From Operations	1,71,190	2,30,630	2,03,430	2,17,070	2,31,674	2,80,537
Net Cash Flow from/(used in) Investing Activities	-41,020	-57,300	14,770	-39,310	-74,811	-95,484
Net Cash Flow from Financing Activities	33,670	-79,360	-1,45,080	-1,58,810	1,013	1,961
Net Inc/Dec in cash equivalents	1,63,840	93,970	73,120	18,950	1,57,876	1,87,015
Opening Balance	1,91,937	37,600	65,210	1,05,100	90,650	1,11,563
Closing Balance Cash and Cash Equivalents	1,92,753	65,210	1,05,100	90,650	1,11,563	1,54,241

Source: Company, KR Choksey Research

Exhibit 3: Key Ratios

Key Ratio	FY20	FY21	FY22	FY23	FY24E	FY25E
EBIT Margin (%)	19.6%	21.3%	18.9%	18.2%	18.6%	19.8%
Tax rate (%)	20.9%	21.9%	20.2%	23.8%	1.8%	6.9%
Net Profit Margin (%)	15.7%	16.5%	15.8%	14.6%	0.0%	0.0%
RoE (%)	23.7%	22.0%	21.0%	23.3%	24.4%	24.9%
RoCE (%)	20.7%	20.2%	19.7%	21.1%	22.3%	23.5%
EV/EBITDA (x)	14.2	11.5	11.3	10.1	8.8	7.3
EPS (INR per share)	40.8	47.9	49.7	54.7	62.6	73.1

Source: Company, KR Choksey Research

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Exhibit 4: Balance Sheet

Particulars (INR Mn)	FY21	FY22	FY23	FY24E	FY25E
Property, Plant and Equipment	56,420	56,120	53,710	79,178	1,02,150
Right-of-use Asset	24100	23050	23370	23662	24027
CWIP	3,120	1,290	400	400	400
Intangible Assets	1,19,010	97,430	83,440	83,440	83,440
Other non current assets	55,970	56,740	50,650	57,830	65,247
Investments	890	1,120	1,100	1,237	1,258
Goodwill	1,71,920	1,74,170	1,85,670	1,85,670	1,85,670
Total non current assets	4,31,430	4,09,920	3,98,340	4,31,419	4,62,192
Cash & equivalent	88880	126360	147240	111563	154241
Accounts receivable (Net)	1,36,630	1,54,760	2,55,060	2,86,614	3,27,377
Unbilled revenue	38,620	51,950	0	67,801	75,814
Investment securities, available for sale	67,730	62,390	53,850	53,850	53,850
Other current assets	97,710	83,340	77,340	88,303	99,619
Total current assets	4,30,510	4,80,410	5,35,770	6,10,915	7,14,289
Total Assets	8,61,940	8,90,330	9,34,110	10,42,334	11,76,481
Equity Share Capital	5,430	5,430	5,430	5,430	5,430
Other Equity	5,93,700	6,13,710	6,48,620	7,34,135	8,44,695
Equity Attributable to Owners of the Company	5,99,130	6,19,140	6,54,050	7,39,565	8,50,125
Non controlling Interest	1,690	920	-70	-70	-70
Total Equity	6,00,820	6,20,060	6,53,980	7,39,495	8,50,055
Operating Lease Liability	19,030	16,590	16,640	18,111	19,496
Other liabilities	29,980	26,700	28,070	30,597	32,955
Borrowings	38,280	39,230	21,110	19,421	18,839
Total non current liabilities	87,290	82,520	65,750	68,056	69,784
Trade Payables	54,570	62,780	64,280	70,976	77,738
Current portion of capital lease obligations	6,910	6,990	8,710	9,786	10,817
Short term loans	790	620	1,400	1,575	1,761
Accrued employee costs	41,339	0	0	0	0
Deferred revenues	31,940	0	0	0	0
Income Tax Liabilities	12,830	13,380	21,500	23,238	27,141
Other current liabilities	22,632	94,430	1,07,220	1,16,876	1,25,907
Total Current Liabilities	1,73,830	1,87,750	2,14,310	2,34,713	2,56,572
Total liabilities	8,61,940	8,90,330	9,34,110	10,42,334	11,76,481

Source: Company, KR Choksey 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
27-Oct-23	1,269	1,374	Accumulate	Buy	More than 15%
13-Jul-23	1,114	1,215	Accumulate		
20-Apr-23	1,037	1,206	BUY	Accumulate	5% – 15%
12-Jan-23	1,072	1,119	HOLD	Hold	0 – 5%
13-Oct-22	952	1119	BUY	Reduce	-5% – 0
13-Jul-22	918	1119	BUY		
22-Jan-21	1102	1391	BUY	Sell	Less than – 5%

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