

# Retail Equity Research

## HCL Technologies Limited

IT Services

BSE CODE: 532281

NSE CODE: HCLTECH

Bloomberg CODE: HCLT:IN

SENSEX: 71,501

**BUY**

12 Months Investment Period Rating as per Large Cap

CMP Rs. 1,576 TARGET Rs. 1,760 RETURN 12% ↑  
(Closing: 17-01-24)

**KEY CHANGES:**

**TARGET** ↑

**RATING** ↑

**EARNINGS** ↑

### Muted Q3FY24, cost optimisation continues.

HCL Technologies Ltd (HCL) is into software development and business process outsourcing, as well as providing IT infrastructure services. It has operations in 60 countries, with a client base that includes Fortune 500 and Global 2000 companies. As of end-Q3FY24, the employee count was 224,756.

- The company delivered muted performance in Q3FY24, with slight increase in topline and margins amid a challenging macroeconomic environment. Consolidated sales grew 6.5% YoY to Rs. 28,446cr (4.3% YoY in constant currency terms), owing to increase in recurring revenue in its software business.
- EBITDA margin widened 10bps YoY to 23.9%, due to lower discretionary spends and furloughs.
- In Q3FY24, Company performed far better amongst its top competitors in the IT industry. Order pipeline rose at a tepid pace and remain optimistic on improving margin in the medium term. Hence, we upgrade our rating on the stock from HOLD to BUY, with a roll forward target price of Rs. 1,760 based on 23.5x FY26E adjusted EPS.

### Software and IT business services supported topline in Q3FY24

The company's consolidated revenue rose 4.3% YoY in constant currency (cc) terms because of stable performance of the software and services businesses. The software business rose 5.0% YoY on cc basis, propelled by subscription-related revenue. Average recurring revenue from term licenses business rose 2.9% YoY in cc terms to \$1.06 billion. The IT and business services segment grew 4.3% YoY, due to increase in average run rate. Engineering and R&D business, including consolidation from ASAP acquisition, delivered muted performance, rising 3.6% YoY. Revenue of the US operations, however, grew 6.7% YoY in cc due to increased demand and continued addition of Fortune 500 and Global 2000 customers. EBITDA margin, after adjusting with wage increases and furloughs, widened 10 bps YoY to 23.9%.

### Key concall highlights

- HCL slightly lowered its FY24 revenue guidance to 5.0-5.5% from 5.0-6.0% provided in Q2FY24, though it retained its EBIT margin guidance of 18-19% in Q3FY24.
- The company declared dividend of Rs. 12 per share for Q3FY24 vs. Rs. 10 per share in Q3FY23.
- Employee headcount increased to 224,756 in Q3FY24 from 221,139 in Q2FY24, with a significant addition of freshers and technical personnel. Also, the attrition rate reduced further to 12.8% in Q3FY24 vs. 14.2% in Q2FY24 and 29.2% in Q3FY23.

### Soft order pipeline

HCL bagged six new deals in its services business and 12 new deals in its software business in Q3FY24, totaling US\$1,927 million. The amount was comparatively lower vs. \$2,347mn in Q3FY23, owing to the absence of large deal wins.

### Valuation

The management expects low discretionary spending further, which could keep margins in check. However, technology spends on cloud migration, Gen-AI, SAP, data modernization, cyber security, automation, and advanced analytics will remain resilient. This should further increase efficiency and improve customer experience thereby strengthening the order pipeline for future periods. Though, HCL delivered soft order pipeline in Q3FY24, we remain optimistic on improving margin on cost optimization. Hence, we upgrade our rating on the stock from HOLD to BUY, with a roll forward target price of Rs. 1,760 based on 23.5x FY26E adjusted EPS.

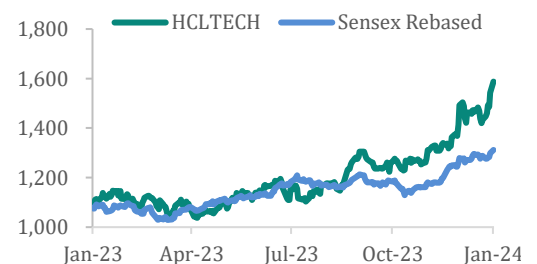
### Company Data

Market Cap (cr)	Rs.456,477
Enterprise Value (cr)	Rs.425,980
Outstanding Shares (cr)	287.9
Free Float	39.0%
Dividend Yield	3.0%
52 week high	Rs.1,618
52 week low	Rs.1,016
6m average volume (lacs)	1.0
Beta	1.0
Face value	Rs.2

Shareholding %	Q4FY23	Q1FY24	Q2FY24
Promoters	60.8	60.8	60.8
FII's	18.9	19.0	18.8
MFs/Insti	15.6	15.6	15.9
Public	4.6	4.5	4.4
Others	0.1	0.1	0.1
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	26.5%	37.9%	47.3%
Absolute Sensex	9.5%	9.9%	20.4%
Relative Return*	17.0%	28.1%	26.9%

\*over or under performance to benchmark index



Consolidated (cr)	FY24E	FY25E	FY26E
Sales	110,627	121,525	132,864
Growth (%)	9.0	9.9	9.3
EBITDA	24,501	27,306	30,252
EBITDA Margin (%)	22.1	22.5	22.8
Adj. PAT	15,980	18,215	20,298
Growth (%)	7.6	14.0	11.4
Adj. EPS	59.0	67.2	74.9
Growth (%)	7.6	14.0	11.4
P/E	26.9	23.6	21.2
P/B	6.3	6.1	5.9
EV/EBITDA	17.4	15.6	14.1
ROE (%)	23.6	25.8	27.6
D/E	0.1	0.1	0.1

## Quarterly Financials (Consolidated)

### Profit & Loss Account

	Q3FY24	Q3FY23	YoY Growth %	Q2FY24	QoQ Growth %	9MFY24	9MFY23	YoY Growth %
Revenue	28,446	26,700	6.5	26,672	6.7	81,414	74,850	8.8
<b>EBITDA</b>	<b>6,787</b>	<b>6,365</b>	6.6	<b>5,929</b>	14.5	<b>18,081</b>	<b>16,765</b>	7.8
EBITDA margins	23.9	23.8	10bps	22.2	170bps	22.2	22.4	(20bps)
Depreciation	1,143	1,137	0.5	1,010	13.2	3,080	3,118	(1.2)
<b>EBIT</b>	<b>5,644</b>	<b>5,228</b>	8.0	<b>4,919</b>	14.7	<b>15,001</b>	<b>13,647</b>	9.9
Interest	140	116	20.7	156	(10.3)	382	259	47.5
Other Income	370	260	42.3	365	1.4	1,079	905	19.2
Exceptional Items	-	-	-	-	-	-	-	-
Share of profit from Associate	-	-	-	-	-	-	-	-
<b>PBT</b>	<b>5,874</b>	<b>5,372</b>	9.3	<b>5,128</b>	14.5	<b>15,698</b>	<b>14,293</b>	9.8
Tax	1,523	1,276	19.4	1,295	17.6	3,983	3,429	16.2
<b>Reported PAT</b>	<b>4,351</b>	<b>4,096</b>	6.2	<b>3,833</b>	13.5	<b>11,715</b>	<b>10,864</b>	7.8
Minority Interest	1	-	n.m.	1	-	(1)	(4)	75.0
<b>PAT att. to shareholders</b>	<b>4,350</b>	<b>4,096</b>	6.2	<b>3,832</b>	13.5	<b>11,716</b>	<b>10,868</b>	7.8
Adjustments	-	-	-	-	-	-	-	-
<b>Adj. PAT</b>	<b>4,350</b>	<b>4,096</b>	6.2	<b>3,832</b>	13.5	<b>11,716</b>	<b>10,868</b>	7.8
No. of shares	287.9	271.1	6.2	271.2	6.2	287.9	271.1	6.2
<b>Adj. EPS (Rs.)</b>	<b>15.1</b>	<b>15.1</b>	-	<b>14.1</b>	6.9	<b>40.7</b>	<b>40.1</b>	1.5

### Change in Estimates

Year / Rs. cr	Old estimates			New estimates			Change %		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	109,041	119,106	-	110,627	121,525	132,864	1.5	2	-
EBITDA	23,820	26,078	-	24,501	27,306	30,252	2.9	4.7	-
Margins (%)	21.8	21.9	-	22.1	22.5	22.8	30bps	60bps	-
Adj. PAT	15,844	17,883	-	15,980	18,215	20,298	0.9	1.9	-
Adj. EPS	58.5	66.0	-	59.0	67.2	74.9	0.9	1.9	-

## PROFIT & LOSS

Y.E March (Rs. cr)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>85,651</b>	<b>101,456</b>	<b>110,627</b>	<b>121,525</b>	<b>132,864</b>
% change	13.6	18.5	9.0	9.9	9.3
<b>EBITDA</b>	<b>20,530</b>	<b>22,628</b>	<b>24,501</b>	<b>27,306</b>	<b>30,252</b>
% change	2.4	10.2	8.3	11.4	10.8
Depreciation	4,326	4,145	4,264	4,314	4,706
<b>EBIT</b>	<b>16,204</b>	<b>18,483</b>	<b>20,236</b>	<b>22,992</b>	<b>25,546</b>
Interest	319	353	441	443	484
Other Income	1,066	1,358	1,562	1,796	2,065
<b>PBT</b>	<b>16,951</b>	<b>19,488</b>	<b>21,357</b>	<b>24,344</b>	<b>27,128</b>
% change	6.9	15.0	9.6	14.0	11.4
Tax	3,428	4,643	5,365	6,115	6,815
Tax Rate (%)	20.2	23.8	25.1	25.1	25.1
<b>Reported PAT</b>	<b>13,523</b>	<b>14,845</b>	<b>15,992</b>	<b>18,229</b>	<b>20,313</b>
<b>PAT att. to common shareholders</b>	<b>13,547</b>	<b>14,851</b>	<b>15,980</b>	<b>18,215</b>	<b>20,298</b>
Adj*	-	-	-	-	-
<b>Adj PAT</b>	<b>13,547</b>	<b>14,851</b>	<b>15,980</b>	<b>18,215</b>	<b>20,298</b>
% change	21.6	9.6	7.6	14.0	11.4
No. of shares (cr)	272.2	271.1	271.1	271.1	271.1
<b>Adj EPS (Rs.)</b>	<b>49.8</b>	<b>54.8</b>	<b>59.0</b>	<b>67.2</b>	<b>74.9</b>
% change	21.2	10.1	7.6	14.0	11.4
DPS (Rs.)	42.0	48.0	50.2	57.2	63.7

## CASH FLOW

Y.E March (Rs. cr)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Net inc. + Depn.</b>	<b>17,873</b>	<b>18,996</b>	<b>20,244</b>	<b>22,529</b>	<b>25,004</b>
Non-cash adj.	911	2,465	(1,069)	(150)	(1,110)
Changes in W.C	(1,884)	(3,452)	(796)	262	795
<b>C.F. Operation</b>	<b>16,900</b>	<b>18,009</b>	<b>18,379</b>	<b>22,641</b>	<b>24,689</b>
Capital exp.	(1,555)	(1,444)	(4,149)	(4,564)	(4,996)
Change in inv.	2,505	(2,250)	(2,455)	(2,218)	(1,966)
Other invest.CF	527	(237)	(106)	(101)	(88)
<b>C.F - Investment</b>	<b>1,477</b>	<b>(3,931)</b>	<b>(6,710)</b>	<b>(6,883)</b>	<b>(7,050)</b>
Issue of equity	(804)	-	-	-	-
Issue/repay debt	(60)	(1,848)	789	174	183
Dividends paid	(11,389)	(12,995)	(13,598)	(15,500)	(17,272)
Other finance.CF	(2,255)	(1,038)	(3)	(0)	(0)
<b>C.F - Finance</b>	<b>(14,508)</b>	<b>(15,881)</b>	<b>(12,812)</b>	<b>(15,326)</b>	<b>(17,089)</b>
Chg. in cash	3,869	(1,803)	(1,143)	432	551
Closing cash	10,510	9,065	7,922	8,354	8,905

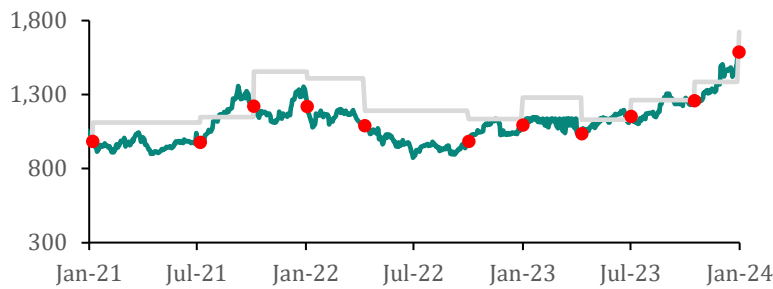
## BALANCE SHEET

Y.E March (Rs. cr)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash	10,510	9,065	7,922	8,354	8,905
Accounts Receivable	15,476	19,572	21,019	22,118	23,318
Inventories	161	228	239	293	371
Other Cur. Assets	21,894	24,712	28,971	32,172	36,060
Investments	103	110	116	121	127
Gross Fixed Assets	15,206	16,867	20,186	23,832	27,817
Net Fixed Assets	7,917	7,708	6,760	6,094	5,377
CWIP	129	40	38	36	34
Intangible Assets	27,160	26,911	27,745	28,663	29,673
Def. Tax (Net)	1,176	1,252	1,449	1,651	1,840
Other Assets	4,507	3,813	3,972	4,151	4,353
<b>Total Assets</b>	<b>89,033</b>	<b>93,411</b>	<b>98,231</b>	<b>103,654</b>	<b>110,057</b>
Current Liabilities	18,713	21,291	22,877	25,332	28,446
Provisions	1,415	1,315	1,354	1,395	1,437
Debt Funds	4,437	2,757	3,546	3,721	3,904
Other Liabilities	2,462	2,650	2,661	2,685	2,708
Equity Capital	543	543	543	543	543
Reserves & Surplus	61,371	64,862	67,244	69,959	72,985
Shareholder's Fund	61,914	65,405	67,787	70,502	73,528
Minority Interest	92	(7)	5	19	34
<b>Total Liabilities</b>	<b>89,033</b>	<b>93,411</b>	<b>98,231</b>	<b>103,654</b>	<b>110,057</b>
<b>BVPS (Rs.)</b>	<b>227</b>	<b>241</b>	<b>250</b>	<b>260</b>	<b>271</b>

## RATIOS

Y.E March	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	24.0	22.3	22.1	22.5	22.8
EBIT margin (%)	18.9	18.2	18.3	18.9	19.2
Net profit mgn.(%)	15.8	14.6	14.4	15.0	15.3
ROE (%)	21.9	22.7	23.6	25.8	27.6
ROCE (%)	24.4	27.1	28.4	31.0	33.0
<b>W.C &amp; Liquidity</b>					
Receivables (days)	66.0	70.4	69.4	66.4	64.1
Inventory (days)	4.2	4.9	5.5	5.4	5.3
Payables (days)	122.7	102.8	124.5	125.4	126.4
Current ratio (x)	2.6	2.5	2.5	2.5	2.4
Quick ratio (x)	1.8	1.9	1.8	1.7	1.6
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	5.7	6.3	6.0	5.5	5.1
Total asset T.O (x)	1.0	1.1	1.2	1.2	1.2
Int. coverage ratio (x)	50.8	52.4	45.9	51.9	52.8
Adj. debt/equity (x)	0.1	0.0	0.1	0.1	0.1
<b>Valuation</b>					
EV/Sales (x)	3.6	2.8	3.9	3.5	3.2
EV/EBITDA (x)	15.1	12.7	17.4	15.6	14.1
P/E (x)	23.4	19.8	26.9	23.6	21.2
P/BV (x)	5.1	4.5	6.3	6.1	5.9

## Recommendation Summary (Last 3 Years)



Dates	Rating	Target
18-Jan-22	BUY	1,409
25-Apr-22	HOLD	1,190
17-Oct-22	BUY	1,134
16-Jan-23	BUY	1,279
25-Apr-23	HOLD	1,130
17-Jul-23	HOLD	1,262
1-Nov-23	HOLD	1,386
17-Jan-24	BUY	1,760

Source: Bloomberg, Geojit research

### Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

#### Not rated/Neutral

#### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note; **Reduce:** Reduce your exposure to the stock due to limited upside; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

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Not rated/Neutral- The analyst has no investment opinion on the stock under review

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