



Q4FY24 HCL Technologies Ltd.



HCL Technologies Ltd.

Q4FY24 results and guidance below estimates

CMP* INR 1,387	Target INR 1,546	Potential Upside 11.4%	Market Cap (INR Mn) INR 37,67,381	Recommendation ACCUMULATE	Sector Internet Software and Services
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Result Highlights

- HCL Technologies concluded FY24 with a weak performance. Its revenue growth fell short of our estimates by -2.4%. This was primarily attributed to decreased revenue from the ER&D and Software segments.
- The Company reported revenue of INR 284,990 Mn (+7.1% YoY), which missed our estimates by 2.4%.
- EBIT came in at INR 50,240 Mn, which grew by a lower-than-estimated 3.9% YoY. The miss is primarily due to a significant increase in employee benefit expenses.
- Net profit grew 0.1% YoY to INR 39,860 Mn, a 2.7% miss from our estimate of INR 40,952 Mn. This miss was primarily due to weak operating performance and an increase in finance costs.
- We lower our FY26E EPS, the corresponding multiple, and our Target Price due to the weak management guidance. We reiterate our ACCUMULATE rating as the share price pullback can be used to add positions, in our view.

MARKET DATA

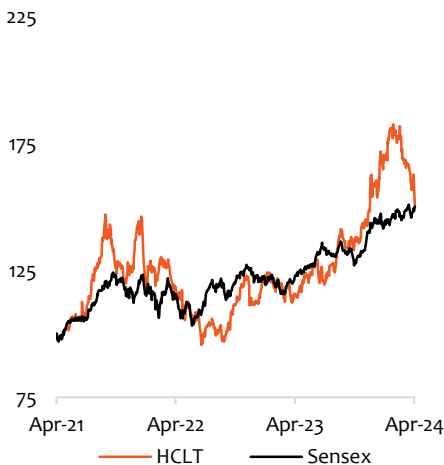
Shares outs (Mn)	2,713
Mkt Cap (INR Mn)	37,67,381
52 Wk H/L (INR)	1,697/1,048
Volume Avg (3m K)	3,093
Face Value (INR)	2
Bloomberg Code	HCLT IN

KEY FINANCIALS

INR Millions	Q4FY24	Q3FY24	Q4FY23	QoQ	YoY
Revenue	284,990	284,460	266,060	0.2%	7.1%
EBIT	50,240	56,440	48,360	(11.0%)	3.9%
PAT	39,860	43,500	39,830	(8.4%)	0.1%
OPM (%)	17.6%	19.8%	18.2%	-221 bps	-55 bps
NPM (%)	14.0%	15.3%	15.0%	-131 bps	-98 bps

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	74,671
NIFTY	22,643

Revenue miss, week demand outlook, and guidance for FY25E

- In Q4FY24, the revenue was largely flat sequentially as the decline in HCL Software (-18.5% QoQ) and ER&D (-1.6%) was offset by the 4.0% QoQ growth in IT and Business services.
- Geographically, the Americas (+4.2%) and Europe (+2.3%) led the growth, while RoW (-5.9%) experienced a decline.
- EBIT margin declined to 17.6%, primarily reflecting the impact from seasonality in the software business and wage hikes, further supported by seasonal travel and marketing spending, and from currency movement.
- Discretionary project-based spending remains under pressure, with funds being redirected towards AI-related spending within IT budgets.

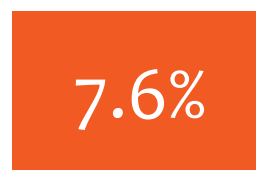
Expecting traction from AI and Generative-AI opportunities

- HCL Tech launched the AI Force platform to benefit from the Gen AI demand, focusing on software development/product engineering and demonstrating successful POCs for clients to build a strong pipeline.
- Management highlights that the Generative-AI program brings a lot of surrounding spending to the higher priority levels. Data, cloud migration, and repatriation are also getting more attention due to Gen-AI.
- Notable Gen-AI deal wins include top global technology, financial services, and US telecom firms.
- HCL Tech sees a positive impact from the rising demand for Gen AI, though so far, the maximum deal size seen is lower than USD 10 Mn.

SHARE HOLDING PATTERN (%)

Particulars (%)	Mar-24	Dec-23	Sep-23
Promoters	60.8	60.8	60.8
FIIIs	19.7	19.4	18.8
DIIIs	15.0	15.1	15.6
Others	4.5	4.7	4.8
Total	100	100	100

*Based on previous closing



Revenue CAGR between FY24 and FY26E



Adj. PAT CAGR between FY24 and FY26E

HCL Technologies Ltd.

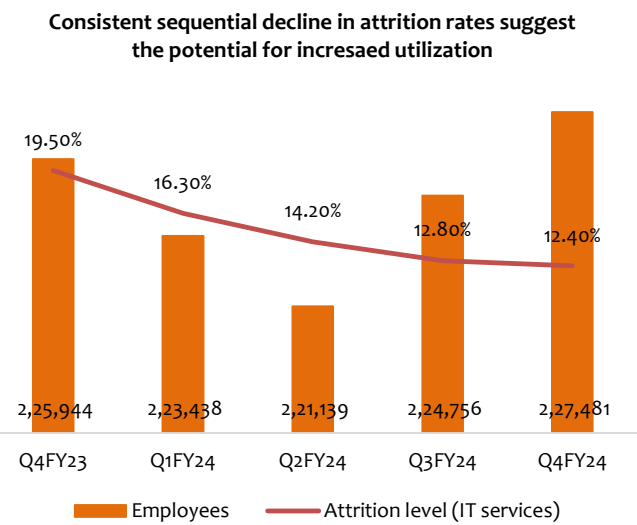
Key Concall Highlights:

- The services business achieved a notable 5.4% YoY growth in constant currency, marking an industry-leading performance. The software segment saw a 2.3% YoY growth, driven by subscription and support revenue and steady annual recurring revenue growth. IT and business services expanded by 6.2%, while Engineering services experienced a slight decline of 1.6% YoY in constant currency. Digital growth stood at 5.3% YoY.
- The Americas led geographical segment growth, with a robust 6.8% YoY expansion in constant currency, followed by Europe at 5.5% YoY. However, the rest of the world witnessed a decline of 7.1% YoY in constant currency.
- The Company has integrated engineering and R&D services sales with IT and business services sales to create a unified go-to-market strategy, aiming for broader reach and accelerated growth across different sectors and regions.
- Three leadership role changes for FY25: Mr. Kalyan Kumar is now Chief Product Officer for HCLSoftware, Mr. Vijay Guntur takes on Chief Technology Officer and Head of Global Ecosystems, and Mr. Hari Sadarahalli leads Engineering Services and delivery.
- HCL Tech's **quarterly net new deal values jumped 18.8% QoQ and 10.4% YoY to USD 2.29 Bn**. The USD 2.1 Bn Verizon deal drove a 10% YoY increase in TTM deal values to USD 9.8 Bn. With 21 large deals secured this quarter, including 13 in services, the management signals potential USD 2 billion deals per quarter in FY25.
- The Company expects Gen-AI to be a growth catalyst for data cloud services and the PaaS market.
- HCL Tech's headcount reached 227,481 employees, up 1.2% sequentially, including 3,096 freshers in Q4FY24. LTM attrition decreased to 12.8% (down 40bps QoQ). The company focused on upskilling and reskilling employees to prepare for the AI & Gen AI wave.
- The Company **secured two clients in the USD 100 Mn+ category**, five clients in the USD 20 Mn+ category, and four clients in the USD 10 Mn+ category. However, three clients decreased in the USD 50 Mn+ category. HCL Tech's top 5, top 10, and top 20 clients maintained strong growth both sequentially and year-over-year.
- The Board has declared an interim dividend of Rs. 18 for the quarter, which brings it to a total of Rs. 52 for the full year.
- The management outlook for **FY25E indicates revenue growth of 3%-5%** and an **EBIT margin of 18%-19%**. Q1FY25E revenue to dip by 2% due to weak discretionary spending, seasonal productivity pass-back, and other factors like negative impacts from the offshoring shift of large deal and State Street drag down.

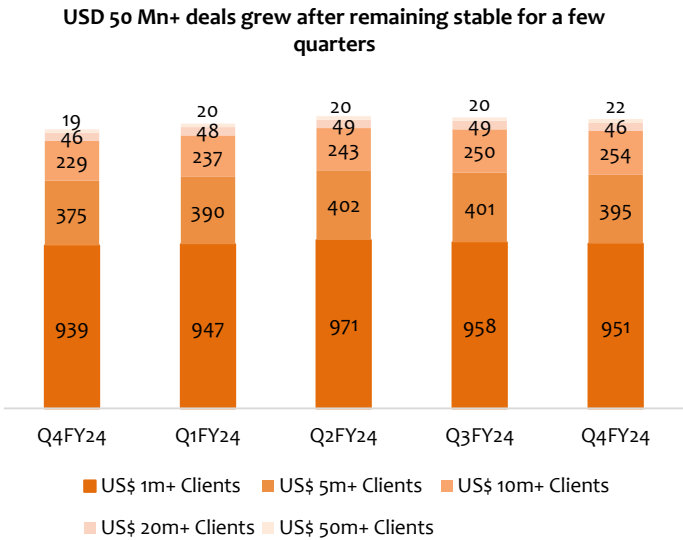
Valuation and view:

HCL Tech reported relatively underwhelming results in Q4FY24 and also provided a subdued guidance, which we believe could intensify investor concerns over the lack luster discretionary spending in the IT sector sustaining. **We lower our FY26E EPS to 70.3 (previously: INR 73.2), to account for the relatively weak guidance, which implies pressure on top-line and earnings.** HCL Tech had been getting premium valuations compared to other IT peers in recent times, given its strong financial outperformance. However, given that the Q4FY24 results, and guidance surprised negatively, we lower our multiple to 22.0x (previously: 24.0x) on our lowered FY26E EPS. We reduce our TP to INR1,546 (previously: INR 1,756). We retain our "ACCUMULATE" rating on HCL Tech as we believe that the recent correction in the stock price offers an opportunity to add a position in the stock.

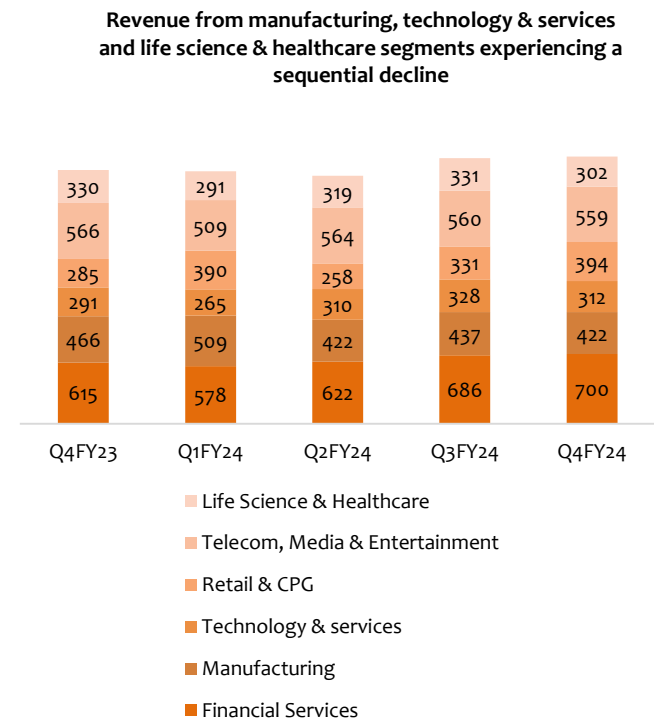
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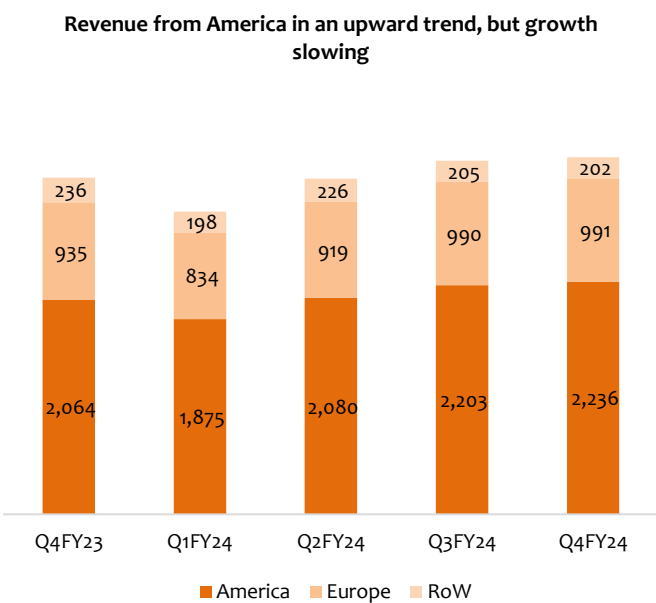
Source: Company, KRChoksey Research



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HCL Technologies Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Millions	FY22	FY23	FY24	FY25E	FY26E
Revenue	8,56,760	10,14,560	10,99,130	11,55,817	12,72,062
Employee Cost	5,27,600	6,45,230	6,24,800	7,51,551	8,15,021
SG&A and Other Cost	1,23,610	1,43,050	2,32,350	1,46,789	1,68,548
EBITDA	2,05,300	2,26,280	2,41,980	2,57,477	2,88,493
Depreciation	43,260	41,450	41,730	43,615	49,067
EBIT	1,62,040	1,84,830	2,00,250	2,13,861	2,39,427
Other income, net	10,670	13,580	14,950	17,275	16,953
Finance costs	3,190	3,530	5,530	3,949	3,758
Pre-tax Income	1,69,520	1,94,880	2,09,670	2,27,187	2,52,621
Income tax expense	34,280	46,430	52,570	56,797	61,892
Net profit Before EI & MI	1,35,240	1,48,450	1,57,100	1,70,390	1,90,729
Minority Interest, MI	240	-60	80	80	80
Net profit	1,35,000	1,48,510	1,57,020	1,70,310	1,90,649
Diluted EPS (INR)	49.75	54.73	57.86	62.76	70.26
Shares in Million	2,714	2,714	2,714	2,714	2,714

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Millions	FY22	FY23	FY24	FY25E	FY26E
Net Cash Generated From Operations	2,03,430	2,17,070	2,66,600	2,39,317	2,79,927
Net Cash Flow from/(used in) Investing Activities	14,770	-39,310	-67,230	-53,218	-70,118
Net Cash Flow from Financing Activities	-1,45,080	-1,58,810	-1,54,640	-1,55,086	-1,45,218
Net Inc/Dec in cash equivalents	73,120	18,950	44,730	31,014	64,590
Opening Balance	65,210	1,05,100	90,650	94,410	1,25,424
Adjustments	-33,230	-33,400	-40,970	0	0
Closing Balance Cash and Cash Equivalents	1,05,100	90,650	94,410	1,25,424	1,90,014

Source: Company, KRChoksey Research

Exhibit 3: Key Ratio

Key Ratio	FY22	FY23	FY24	FY25E	FY26E
EBITDA Margin (%)	18.9%	18.2%	18.2%	18.5%	18.8%
Tax rate (%)	20.2%	23.8%	25.1%	25.0%	24.5%
Net Profit Margin (%)	15.8%	14.6%	14.3%	14.7%	15.0%
RoE (%)	22.1%	23.3%	23.2%	22.2%	22.1%
RoCE (%)	19.9%	21.1%	21.2%	20.5%	20.6%
EV/EBITDA (x)	14.7	12.2	16.6	15.0	13.4
EPS (INR)	49.7	54.7	57.9	62.8	70.3

Source: Company, KRChoksey Research

HCL Technologies Ltd.

Exhibit 4: Balance Sheet

INR Millions	FY22	FY23	FY24	FY25E	FY26E
Property, Plant and Equipment	56,120	53,710	48,910	49,216	63,752
Right-of-use Asset	23050	23,370	29,700	30,035	30,404
CWIP	1,290	400	1,080	1,080	1,080
Intangible Assets	97,430	83,440	71,300	71,300	71,300
Other non-current assets	56,740	50,650	51,210	59,956	65,986
Investments	1,120	1,100	940	1,156	1,272
Goodwill	1,74,170	1,85,670	2,01,320	2,01,320	2,01,320
Total non-current assets	4,09,920	3,98,340	4,04,460	4,14,062	4,35,114
Cash and Bank Balances	1,26,360	1,47,240	2,01,500	1,25,424	1,90,014
Accounts receivable (Net)	1,54,760	2,55,060	2,55,210	3,00,829	3,31,085
Unbilled revenue	51,950	0	0	69,666	76,672
Investment securities, available for sale	62,390	53,850	70,430	70,430	70,430
Other current assets	83,340	77,340	64,320	91,541	1,00,747
Total current assets	4,80,410	5,35,770	5,93,310	6,61,211	7,72,551
Total Assets	8,90,330	9,34,110	9,97,770	10,75,273	12,07,665
Equity Share Capital	5,430	5,430	5,430	5,430	5,430
Other Equity	6,13,710	6,48,620	6,77,200	7,61,785	8,66,710
Equity Attributable to Owners of the Company	6,19,140	6,54,050	6,82,630	7,67,215	8,72,140
Non-controlling Interest	920	-70	80	80	80
Total Equity	6,20,060	6,53,980	6,82,710	7,67,295	8,72,220
Operating Lease Liability	16,590	16,640	23,390	17,915	19,717
Other liabilities	26,700	28,070	42,180	30,282	33,328
Borrowings	39,230	21,110	22,230	21,563	20,916
Total non-current liabilities	82,520	65,820	87,800	69,761	73,961
Trade Payables	62,780	64,280	58,530	73,836	80,841
Current portion of capital lease obligations	6,990	8,710	10,900	9,940	10,940
Short term loans	620	1,400	1,040	1,618	1,781
Income Tax Liabilities	13,380	21,500	23,130	24,990	27,232
Other current liabilities	94,430	1,07,220	1,78,820	1,15,697	1,27,333
Total Current Liabilities	1,87,750	2,14,310	2,27,260	2,38,217	2,61,484
Total liabilities	8,90,330	9,34,110	9,97,770	10,75,273	12,07,665

Source: Company, KRChoksey Research

HCL Technologies Ltd.

HCL Technologies Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
30-Apr-24	1,387	1,546	ACCUMULATE	Buy	More than 15%
08-Feb-24	1,615	1,756	ACCUMULATE	Accumulate	5% – 15%
17-Jan-24	1,576	1,683	ACCUMULATE	Hold	0 – 5%
27-Oct-23	1,269	1,374	ACCUMULATE	Reduce	-5% – 0
13-Jul-23	1,114	1,215	ACCUMULATE	Sell	Less than – 5%

ANALYST CERTIFICATION:

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