

## BUY

<b>CMP (Rs)</b>	<b>1,474</b>
<b>Target Price (Rs)</b>	<b>1,777</b>
<b>Potential Upside</b>	<b>20.5%</b>
<b>Sensex</b>	73,730
<b>Nifty</b>	22,420

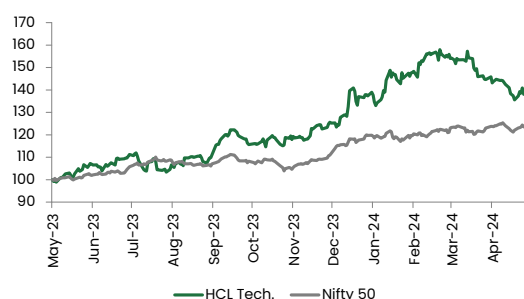
### Key Stock data

<b>BSE Code</b>	532281
<b>NSE Code</b>	HCLTECH
<b>Bloomberg</b>	HCLT:IN
<b>Shares o/s, Cr (FV 2)</b>	271.5
<b>Market Cap (Rs Cr)</b>	399,953
<b>3M Avg Volume</b>	2,912,494
<b>52 week H/L</b>	1,697/1,044

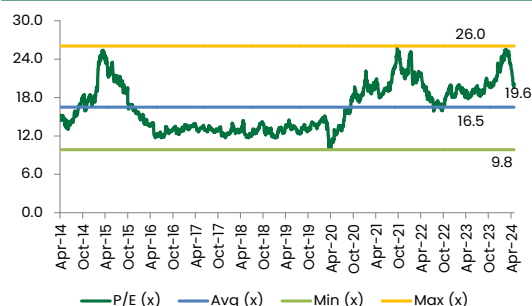
### Shareholding Pattern

(%)	Sep-23	Dec-23	Mar-24
<b>Promoter</b>	60.8	60.8	60.8
<b>FII</b>	18.8	19.4	19.7
<b>DII</b>	15.7	15.2	15.0
<b>Others</b>	4.7	4.6	4.6

### 1 year relative price performance



### 1 year P/E Forward (x)



### Research Analyst

**Nirvi Ashar**

nirvi.ashar@religare.com

## Mixed performance YoY but weak guidance

Q4FY24 Result Update | Sector: IT | April 27, 2024

**Strong revenue growth:** HCL Tech Q4FY24 revenue in constant currency (CC) grew by 0.3% QoQ and 6% YoY while its dollar revenue grew by 0.4% QoQ and 6% YoY to USD 3,430mn. Its revenue in rupee was at Rs 28,499cr, up by 0.2% QoQ and 7.1% YoY. The growth was largely led by the service segment (contributes 90.5% of revenue) as it grew by 2.9% & 7.9% YoY to Rs 25,792cr while in CC terms it was up by 3% QoQ and 6.7% YoY. Amongst segments, in CC terms, telecommunication & Media led the growth with 39% YoY & 21.6% QoQ followed by manufacturing, retail & Financial services with 14.3% YoY, 9.4% YoY and 8.6% YoY. Amongst geographies, both America and Europe performed well with America gaining 9.2% YoY & 4.2% in CC while Europe gained 5.7% YoY & 2.3% QoQ in CC. For FY24, CC revenue was up by 5% YoY, revenue in dollar grew by 5.4% YoY to USD 13,270mn and rupee revenue up by 8.3% YoY to Rs 109,913cr. The growth was driven by both America & Europe regions while amongst verticals growth except for technology all the verticals specially financials services witnessed decent growth.

**De-growth in margin:** The company's EBIT grew by 3.9% YoY but de-grew by 11% QoQ to Rs 5,024cr due to rise in expenses. EBIT margin came in 17.6% below our expectation and witnessed a decline of 55bps YoY and 221bps QoQ. For FY24, EBIT grew by 8.3% YoY to Rs 20,025cr and margin came in at 18.2% which was in-line with management guided range of 18-19%. Going ahead, for FY25 as well management has guided a similar range for the margins.

**Attrition moderated further:** For the 6th consecutive quarter, HCL's attrition continued to moderate to 12.4%, eased by 40bps as compared to last quarter (12.8%) and down by 710bps from 19.5% in Q4FY23. For FY24, attrition came in at 12.4% down from 19.5% (decreased by 710bps) in FY23.

**Order book wins stood healthy:** For Q4FY24, its order book grew by 18.8% YoY and 10.4% QoQ to USD 2,290mn with the company winning 21 new large deals with 13 in services & 8 in software segment. For FY24, order book came in at USD 9,751mn, up by 10.1% YoY and amongst deals it won 73 new large deals with 36 in services & 37 in software segment.

**Muted management guidance for FY25:** HCL Tech management guided weak guidance for FY25 as it expects CC revenue growth to be in the range of 3-5% YoY while revenue from services expected to be in the range of 3-5% YoY. Further, they kept similar guidance as FY24 for EBIT margins, as they expect it to be in the range of 18-19%.

**Key highlights:** 1) Digital revenue contributed 37.3% in FY24 with growth of 5.3% YoY and contributed 37.1% in Q4FY24 with growth of 6.3% YoY. 2) Its service business grew by 5.4% YoY in CC for FY24. 3) They are well positioned to capitalized Gen AI led demand and growth. 4) IT spending to remain moderate while discretionary spending to be muted while clients prefer spending on AI deals. 5) It declared a dividend of Rs 52/share and payout ratio stands at ~89.6% for FY24.

**Outlook & Valuation:** HCL Tech reported mixed numbers for Q4FY24 with YoY revenue growth strong while EBIT margin just below estimate however for FY24 it was in-line with estimate. Going ahead, management has provided weak guidance for FY25 as they believe it would be a year of consolidation for demand & supply side and also was cautious on discretionary spending which has not picked up pace. However, they are positive on the demand for Gen AI & transformation deals as well as they would benefit from vendor consolidation. Additionally, their capabilities, expertise and increasing client base would bode well for the growth ahead. On the financial front, we estimate its revenue/EBIT to grow by CAGR of 7.6%/10.7% over FY24-26E and continue to maintain our **Buy** rating with the target price of **Rs 1,777**.

### Financial Summary - consolidated

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
Net revenue	101,456	109,913	115,770	127,347
EBIT	18,483.0	20,025.0	21,839.1	24,532.4
EBITM (%)	18.2	18.2	18.9	19.3
APAT	14,845	15,710	18,146	20,363
APATM (%)	14.6	14.3	15.7	16.0
EPS (Rs)	54.7	57.9	66.8	75.0
PE (x)	27.0	25.5	22.1	19.7
RoE (%)	22.7	23.0	25.2	26.8

Source : RBL Research

Revenue growth was driven by telecommunication & Media segment & America & Europe regions

EBIT margin growth remain muted

Growth led by services business

#### P&L Account Quarterly – consolidated

Particulars, Rs cr	Q4FY24	Q4FY23	Y-o-Y (%)	Q3FY24	Q-o-Q (%)
<b>Revenue (\$ Mn)</b>	<b>3,430</b>	<b>3,235</b>	<b>6.0</b>	<b>3,415</b>	<b>0.4</b>
<b>Revenue (Rs cr)</b>	<b>28,499</b>	<b>26,606</b>	<b>7.1</b>	<b>28,446</b>	<b>0.2</b>
Cost of Sales	510	563	(9.4)	350	45.7
<b>Gross Profit</b>	<b>27,989</b>	<b>26,043</b>	<b>7.5</b>	<b>28,096</b>	<b>(0.4)</b>
Gross Margins (%)	98.2	97.9	33bps	98.8	-56bps
Employee Cost	16,351	14,665	11.5	15,862	3.1
Other Expenses	5,521	5,515	0.1	5,447	1.4
<b>Total Expenditure</b>	<b>22,382</b>	<b>20,743</b>	<b>7.9</b>	<b>21,659</b>	<b>3.3</b>
<b>EBITDA</b>	<b>6,117</b>	<b>5,863</b>	<b>4.3</b>	<b>6,787</b>	<b>(9.9)</b>
EBITDA Margins (%)	21.5	22.0	-57bps	23.9	-240bps
Depreciation	1,093	1,027	6.4	1,143	(4.4)
<b>EBIT</b>	<b>5,024</b>	<b>4,836</b>	<b>3.9</b>	<b>5,644</b>	<b>(11.0)</b>
EBIT Margins (%)	17.6	18.2	-55bps	19.8	-221bps
Other Income	416	453	(8.2)	370	12.4
Interest	171	94	81.9	140	22.1
PBT	5,269	5,195	1.4	5,874	(10.3)
Tax	1,274	1,214	4.9	1,523	(16.3)
<b>PAT</b>	<b>3,995</b>	<b>3,981</b>	<b>0.4</b>	<b>4,351</b>	<b>(8.2)</b>
PAT Margin (%)	14.0	15.0	-94bps	15.3	-128bps
EPS (Rs)	14.7	14.7	0.4	16.0	(8.2)

Source : RBL Research

#### Revenue by Segments

Particulars, Rs cr	Q4FY24	Q4FY23	Y-o-Y (%)	Q3FY24	Q-o-Q (%)
IT & Business Services	21,203	19,632	8.0	20,396	4.0
% of total revenue	74.4	73.8	61bps	71.7	270bps
Engineering & R&D Services	4,588	4,274	7.4	4,665	(1.6)
% of total revenue	16.1	16.1	4bps	16.4	-30bps
HCL Software	2,707	2,700	0.3	3,385	(20.0)
% of total revenue	9.5	10.1	-65bps	11.9	-240bps
Total Services revenue	25,792	23,906	7.9	25,061	2.9

Source : RBL Research

YoY growth was led by America & Europe

Almost all sector led the growth on YoY basis

#### Revenue by Geographies – consolidated

Particulars, Rs cr	Q4FY24	Q4FY23	Y-o-Y (%)	Q3FY24	Q-o-Q (%)
American	18,581	16,975	9.5	18,348	1.3
% of total revenue	65.2	63.8	140bps	64.5	70bps
Europe	8,236	7,689	7.1	8,249	(0.2)
% of total revenue	28.9	28.9	0bps	29.0	-10bps
ROW	1,681	1,942	(13.4)	1,849	(9.1)
% of total revenue	5.9	7.3	-140bps	6.5	-60bps

Source : RBL Research

#### Revenue by Verticals

Particulars, Rs cr	Q4FY24	Q4FY23	Y-o-Y (%)	Q3FY24	Q-o-Q (%)
Financial Services	6,156	5,640	9.1	6,173	(0.3)
Manufacturing	5,814	5,055	15.0	5,718	1.7
Technology & Services	3,505	3,831	(8.5)	3,641	(3.7)
Retail & CPG	2,593	2,395	8.3	2,731	(5.0)
Telecommunications, Media, Publishing & Entertainment	2,508	2,315	8.3	2,759	(9.1)
Lifesciences & Healthcare	4,645	4,656	(0.2)	4,665	(0.4)
Public Services#	3,277	2,714	20.8	2,759	18.8

Source : RBL Research

#### Share of Verticals in revenue (%)

Particulars	Q4FY24	Q4FY23	Y-o-Y (%)	Q3FY24	Q-o-Q (%)
Financial Services	21.6	21.2	40bps	21.7	-10bps
Manufacturing	20.4	19.0	140bps	20.1	30bps
Technology & Services	12.3	14.4	-210bps	12.8	-50bps
Retail & CPG	9.1	9.0	10bps	9.6	-50bps
Telecommunications, Media, Publishing & Entertainment	8.8	8.7	10bps	9.7	-90bps
Lifesciences & Healthcare	16.3	17.5	-120bps	16.4	-10bps
Public Services#	11.5	10.2	130bps	9.7	180bps

Source : RBL Research

#### Client Metrics

Particulars	Q4FY24	Q4FY23	Y-o-Y (%)	Q3FY24	Q-o-Q (%)
100 Mn \$+	22	19	3	20	2
50 Mn \$+	46	46	0	49	-3
20 Mn \$+	137	131	6	132	5
10 Mn \$+	254	229	25	250	4
5 Mn \$+	395	375	20	401	-6
1 Mn \$+	951	939	12	958	-7

Source : RBL Research

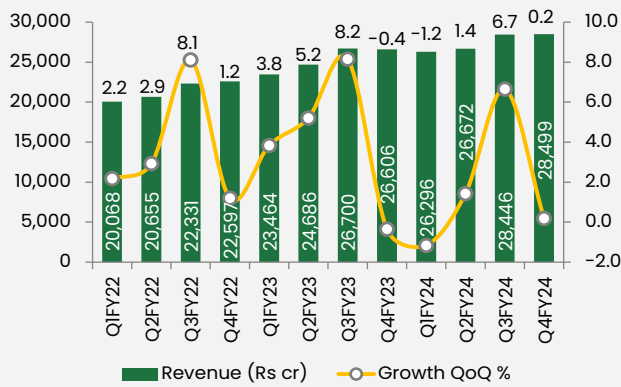
#### Client contribution to revenue

Particulars	Q4FY24	Q4FY23	Q3FY24
Top 5 Clients	10.40%	10.10%	9.80%
Top 10 Clients	18.80%	17.70%	17.70%
Top 20 Clients	29.00%	27.80%	28.00%

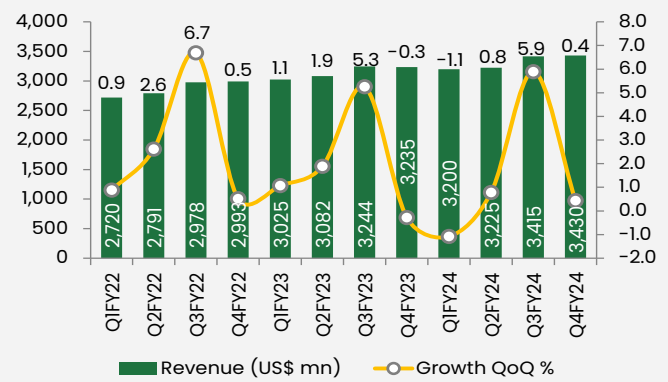
Source : RBL Research

## Story in charts

Revenue in rupees grew by 0.2% QoQ and 7.1% YoY

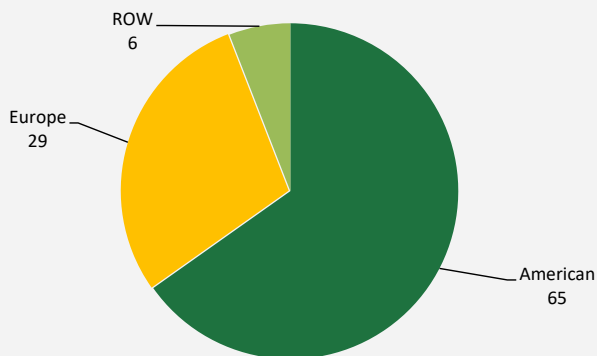


Revenue in dollar grew by 0.4% QoQ and 6.0% YoY

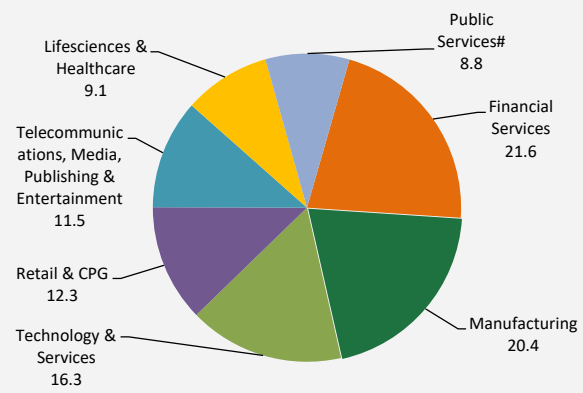


Source : RBL Research

Geographical Mix for Q4FY24 (%)

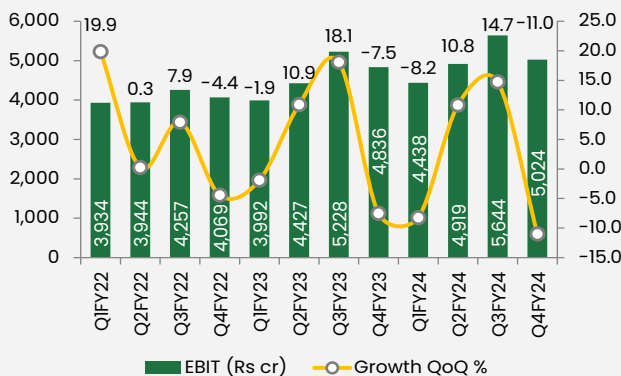


Vertical Mix for Q4FY24 (%)

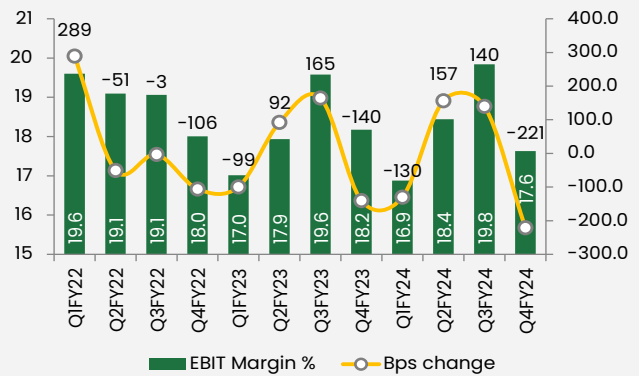


Source : RBL Research

EBIT down by 11% QoQ but grew by 3.9% YoY

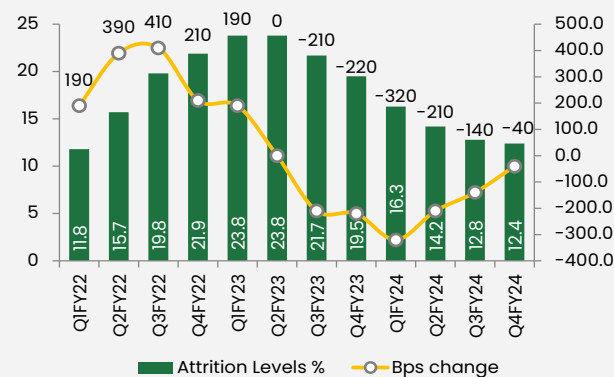


EBIT margin declined by 221bps QoQ and 55bps YoY

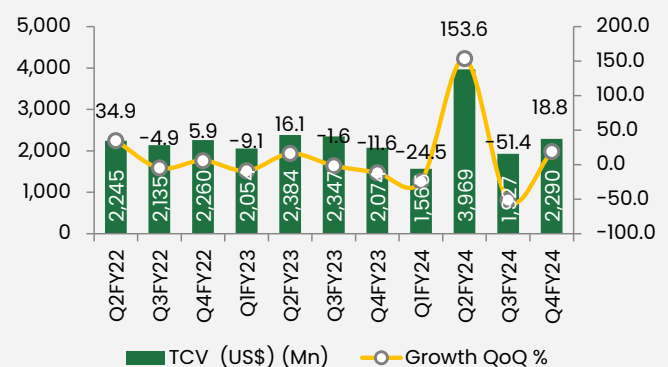


Source : RBL Research

Attrition moderated to 12.4% in Q4FY24



Deal wins stood at TCV USD 2,290mn



Source : RBL Research

## P&amp;L Account – consolidated

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
<b>Net sales</b>	<b>101,456</b>	<b>109,913</b>	<b>115,770</b>	<b>127,347</b>
<b>Expenditure</b>				
Purchase of stock in trade	2,072	1,754	1,852	2,038
(Increase) / Decrease In Stocks	(67)	43	45	50
<b>Total raw materials</b>	<b>2,005</b>	<b>1,797</b>	<b>1,898</b>	<b>2,087</b>
<b>Gross Profit</b>	<b>99,451</b>	<b>108,116</b>	<b>113,872</b>	<b>125,260</b>
Gross Margins (%)	98.0	98.4	98.4	98.4
Employee cost	55,280	62,480	65,178	71,314
Outsourcing Cost	14,950	14,578	15,397	16,937
Other expenses	6,593	6,860	7,062	7,641
<b>Total expenditure</b>	<b>78,828</b>	<b>85,715</b>	<b>89,535</b>	<b>97,980</b>
<b>EBITDA</b>	<b>22,628</b>	<b>24,198</b>	<b>26,234</b>	<b>29,367</b>
EBITDAM (%)	22.3	22.0	22.7	23.1
Depreciation	4,145	4,173	4,395	4,835
<b>EBIT</b>	<b>18,483</b>	<b>20,025</b>	<b>21,839</b>	<b>24,532</b>
<b>EBIT Margin (%)</b>	<b>18.2</b>	<b>18.2</b>	<b>18.9</b>	<b>19.3</b>
Other income	1,358	1,495	1,621	1,783
Interest expenses	353	553	490	539
PBT	19,488	20,967	22,970	25,776
Tax	4,643	5,257	4,824	5,413
<b>PAT</b>	<b>14,845</b>	<b>15,710</b>	<b>18,146</b>	<b>20,363</b>
<b>PAT Margin (%)</b>	<b>14.6</b>	<b>14.3</b>	<b>15.7</b>	<b>16.0</b>
EPS (Rs)	54.7	57.9	66.8	75.0

Source : RBL Research

## Balance Sheet – consolidated

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
Share Capital	543	543	543	543
Reserves & Surplus	64,862	67,720	71,349	75,422
<b>Total Shareholder's Fund</b>	<b>65,405</b>	<b>68,263</b>	<b>71,892</b>	<b>75,965</b>
Minority Interest	(7)	8	8	8
Long term borrowings	2,111	2,223	2,341	2,576
Short term borrowing	140	104	110	120
<b>Total Debt</b>	<b>2,251</b>	<b>2,327</b>	<b>2,451</b>	<b>2,696</b>
Deferred tax liabilities	2,311	3,084	3,248	3,573
Long term provision	1,315	1,612	1,698	1,868
Other long term liabilities	2,995	4,174	4,396	4,836
<b>Total</b>	<b>6,621</b>	<b>8,870</b>	<b>9,343</b>	<b>10,277</b>
<b>Current Liabilities</b>				
Trade payables	6,428	5,853	6,165	6,781
Short term provisions	1,120	1,337	1,408	1,549
Other current liabilities	11,593	13,119	13,818	15,200
<b>Total</b>	<b>19,141</b>	<b>20,309</b>	<b>21,391</b>	<b>23,530</b>
<b>Total liabilities</b>	<b>93,411</b>	<b>99,777</b>	<b>105,085</b>	<b>112,476</b>
<b>Application of Assets</b>				
Net Block	16,052	14,931	14,580	14,836
Current work in process	40	108	108	108
Goodwill on consolidation	18,567	20,132	20,132	20,132
Non current investment	110	94	99	109
Tax assets	1,447	1,192	1,256	1,381
Long term loans and advances	-	286	301	331
Other non-current assets	3,132	3,240	3,413	3,754
<b>Total</b>	<b>39,348</b>	<b>39,983</b>	<b>39,888</b>	<b>40,652</b>
<b>Current Assets</b>				
Current investments	5,385	7,043	7,525	8,278
Inventories	228	185	195	214
Trade receivables	26,187	26,145	27,277	30,005
Cash balance	9,065	9,441	12,880	15,345
Bank balance	5,659	10,694	10,694	10,694
Short term loans and advances	2,603	795	837	921
Other current assets	4,936	5,491	5,788	6,367
<b>Total</b>	<b>54,063</b>	<b>59,794</b>	<b>65,197</b>	<b>71,825</b>
<b>Total assets</b>	<b>93,411</b>	<b>99,777</b>	<b>105,085</b>	<b>112,476</b>

Source : RBL Research

## Cashflow – consolidated

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
Profit before tax	19,488	20,967	22,970	25,776
Add: Depreciation	4,145	4,173	4,395	4,835
Add: Interest cost	238	269	490	539
Less: Other Income	(769)	(1,273)	-	-
Others	(90)	219	-	-
<b>Operating profit before WC</b>	<b>23,012</b>	<b>24,355</b>	<b>27,855</b>	<b>31,150</b>
Changes in working capital	(1,305)	2,305	(179)	(833)
Cash from Operations	21,707	26,660	27,677	30,317
Less: Taxes	(3,698)	(4,212)	(4,824)	(5,413)
<b>Cash flow from Operations</b>	<b>18,009</b>	<b>22,448</b>	<b>22,853</b>	<b>24,904</b>
Net cash used in Investing				
Purchase of fixed assets	(1,661)	(1,048)	(4,044)	(5,092)
Purchase of investments	(2,949)	(3,388)	(487)	(762)
Sales of fixed assets	217	32	-	-
Dividend Income/Interest Rec.	636	1,041	-	-
Others	(174)	(3,360)	-	-
<b>Cash flow from investing</b>	<b>(3,931)</b>	<b>(6,723)</b>	<b>(4,531)</b>	<b>(5,854)</b>
Cash flow from Financing				
Proceeds of borrowings	(1,848)	358	124	245
Dividend (Incl dividend tax)	(12,995)	(14,073)	(14,517)	(16,290)
Interest cost	(80)	(64)	(490)	(539)
Others	(958)	(1,146)	-	-
<b>Cash flow from Financing</b>	<b>(15,881)</b>	<b>(15,464)</b>	<b>(14,883)</b>	<b>(16,585)</b>
Net cash Inflow/Outflow	(1,803)	261	3,439	2,465
Opening cash	10,510	9,065	9,441	12,880
Exchange gain/loss	358	115	-	-
<b>Closing Cash</b>	<b>9,065</b>	<b>9,441</b>	<b>12,880</b>	<b>15,345</b>

Source : RBL Research

## Key ratios – consolidated

Particulars	FY23	FY24	FY25E	FY26E
<b>Per share Data</b>				
EPS (Rs)	54.7	57.9	66.8	75.0
Book value per share (Rs)	240.9	251.4	264.8	279.8
Dividend per share (Rs)	47.9	51.8	53.5	60.0
Dividend Yield (%)	3.2	3.5	3.6	4.1
Dividend Payout (%)	87.5	89.6	80.0	80.0
<b>Profitability Ratios</b>				
EBITDAM (%)	22.3	22.0	22.7	23.1
PBTM (%)	19.2	19.1	19.8	20.2
NPM (%)	14.6	14.3	15.7	16.0
RoE (%)	22.7	23.0	25.2	26.8
RoCE (%)	27.3	28.4	29.4	31.2
<b>Efficiency Data</b>				
Debt-Equity Ratio	0.0	0.0	0.0	0.0
Interest Cover Ratio	52.4	36.2	44.6	45.5
Fixed Asset Ratio	0.2	0.1	0.1	0.1
Debtors (Days)	94.2	86.8	86.0	86.0
Inventory (Days)	0.8	0.6	0.6	0.6
Payable (Days)	23.1	19.4	19.4	19.4
WC (Days)	71.9	68.0	67.2	67.2
<b>Valuation</b>				
P/E (x)	27.0	25.5	22.1	19.7
P/BV	6.1	5.9	5.6	5.3
EV/EBITDA	17.4	16.2	14.9	13.2
EV/Sales	3.9	3.6	3.4	3.0

Source : RBL Research

## Research Team

Name	Email ID
Ajit Mishra	<a href="mailto:ajit.mishra@religare.com">ajit.mishra@religare.com</a>
Dr. Ravi Singh	<a href="mailto:dr ravi.singh@religare.com">dr ravi.singh@religare.com</a>
Nirvi Ashar	<a href="mailto:nirvi.ashar@religare.com">nirvi.ashar@religare.com</a>
Gaurav Arora	<a href="mailto:gaurav.arora3@religare.com">gaurav.arora3@religare.com</a>
Akshay Tiwari	<a href="mailto:akshay.tiwari@religare.com">akshay.tiwari@religare.com</a>
Abhijeet Banerjee	<a href="mailto:abhijeet.banerjee@religare.com">abhijeet.banerjee@religare.com</a>
Gaurav Sharma	<a href="mailto:gauravsharma2@religare.com">gauravsharma2@religare.com</a>
Rohan Shah	<a href="mailto:rohan.shah@religare.com">rohan.shah@religare.com</a>
Riddhika Mirajkar	<a href="mailto:riddhika.mirajkar@religare.com">riddhika.mirajkar@religare.com</a>
Ashwani Harit	<a href="mailto:ashwani.harit@religare.com">ashwani.harit@religare.com</a>



Before you use this research report, please ensure to go through the disclosure inter-alia as required under Securities and Exchange Board of India (Research Analysts) Regulations, 2014 and Research Disclaimer at the following link: <https://www.religareonline.com/disclaimer>

Specific analyst(s) specific disclosure(s) inter-alia as required under Securities and Exchange Board of India (Research Analysts) Regulations, 2014 is/are as under:

**Statements on ownership and material conflicts of interest, compensation– Research Analyst (RA)**

S. No.	Statement	Answer	
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? <b>[If answer is yes, nature of Interest is given below this table]</b>		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.

Copyright in this document vests exclusively with RBL. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose, without prior written permission from RBL. We do not guarantee the integrity of any emails or attached files and are not responsible for any changes made to them by any other person.

Research Disclaimer: <https://www.religareonline.com/disclaimer>