

July 14, 2024

Q1FY25 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	BUY		BUY	
Target Price	1,790		1,680	
Sales (Rs. m)	1,160	1,276	1,158	1,268
% Chng.	0.2	0.7		
EBITDA (Rs. m)	267	304	269	301
% Chng.	(0.8)	0.8		
EPS (Rs.)	62.7	70.3	61.3	69.8
% Chng.	2.2	0.7		

Key Financials - Consolidated

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. bn)	1,015	1,099	1,160	1,276
EBITDA (Rs. bn)	243	259	267	304
Margin (%)	23.9	23.5	23.0	23.8
PAT (Rs. bn)	148	157	170	191
EPS (Rs.)	54.8	58.0	62.7	70.3
Gr. (%)	10.1	5.7	8.1	12.2
DPS (Rs.)	48.0	52.0	56.4	63.2
Yield (%)	3.1	3.3	3.6	4.1
RoE (%)	23.3	23.5	24.6	26.9
RoCE (%)	21.1	21.7	22.0	24.8
EV/Sales (x)	4.0	3.6	3.4	3.1
EV/EBITDA (x)	16.7	15.4	14.9	13.1
PE (x)	28.4	26.9	24.9	22.2
P/BV (x)	6.5	6.2	6.0	5.9

Key Data

HCLT.BO | HCLT IN

52-W High / Low	Rs.1,697 / Rs.1,087	
Sensex / Nifty	80,519 / 24,502	
Market Cap	Rs.4,234bn/ \$ 50,683m	
Shares Outstanding	2,714m	
3M Avg. Daily Value	Rs.5877.01m	

Shareholding Pattern (%)

Promoter's	61.02
Foreign	19.65
Domestic Institution	14.99
Public & Others	4.34
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	8.4	1.3	40.5
Relative	3.2	(8.7)	14.1

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HCL Technologies (HCLT IN)

Rating: BUY | CMP: Rs1,560 | TP: Rs1,790

Gearing up for growth from Q1 trough

Quick Pointers:

- Better-than-expected Q1 performance de-risking the path to achieve the guidance band
- Margins to be under pressure, likely to be in the lower band

HCLT reported Q1FY25 revenue of US\$ 3.36bn, down 1.6% QoQ CC above our and consensus est. of 1.9% QoQ CC, while dollar terms revenue declined by 1.9% QoQ. IT & Business Services and ER&D declined by 1.5% and 3.5% QoQ CC, while P&P was flat QoQ CC. EBIT margin declined by 50bps QoQ to 17.1%, in line with consensus. Surprisingly, IT Services margin was flat QoQ. The company's deal win in the quarter was normalized to US\$ 1.96bn vs last quarter, down 14.4% QoQ. Despite the revenue decline, the company's performance exceeded Q1 expectations. We believe this could support the company achieve FY25 rev. guidance band of 3-5% YoY CC.

The anticipated Q1 performance impact was largely attributed to the project transitioning (BFSI) from onsite to offshore coupled with passing seasonal productivity commitment (concentrated on Mfg). Q2 would again have an adverse topline impact of 80bps (consolidated level) due to the JV divestment. Despite the fact, the management is confident of revenue growth both at consolidated level and in the Services segment in Q2. The management's confidence is underpinned by earlier deal wins that have gone for executions, instead of building any optimism or constructive recovery on the discretionary spends. Additionally, the management anticipates sharp recovery within the ER&D space partly led by Q1 seasonal impact within Mfg and partly by anticipated growth recovery within ASAP after the Q1 trough. With underlying demand environment and clients' sentiment towards discretionary spends continue to be at earlier pace, we are broadly keeping our revenue estimates unchanged. The Q1 margin weakness is likely to be compensated by an uptick in high-margin businesses (ER&D and P&P) in 2Q/3Q. We expect the company to report margins in the lower range of the guidance band (18-19%), as the anticipated fresher hiring (10k in FY25) would keep a tight band for utilization and productivity improvement.

Valuations and outlook: Given its defensive business mix and resilient vertical portfolio, HCLT is well positioned to capture the boarder market theme and participate in the critical aspects of enterprise operations. Even if it delivers in the mid-range of the revenue guidance, it would end up achieving growth above the peer average. We are baking in USD revenue growth of 4.7% and 10% YoY with margin improvement of -20bps and 90bps for FY25E and FY26E, respectively. The stock is currently trading at 22.2x FY26E. We maintain "BUY" on HCL Tech assigning PE of 25x to FY26E with a target price of Rs1,800.

Strong execution, beating estimates

- USD rev of \$3.4bn, down 1.6% QoQ in CC (down 1.9% QoQ reported), above our and consensus est. of -1.9% CC
- **Services business down 1.9% QoQ in CC, with IT Services (down 1.5% QoQ in CC) and ER&D (down 3.5% QoQ in CC)**
- HCL Software (P&P) up 0.4% QoQ CC and 3.5% YoY CC
- **Q1 new deal TCV normalized to \$1.96bn vs Q4FY24 high base of \$2.29bn**
- **Q1 EBIT margin declined by 50bps to 17.1%, against our est. of 16.9% and consensus of 17.1%**
- Services EBIT margin down 51bps QoQ, while P&P down 34bps QoQ
- Reported PAT of Rs42.6bn, up 6.6% QoQ due to gain from the JV divestment
- **Maintained FY25 revenue guidance – Overall revenue and Service growth guidance at 3-5% CC YoY. EBIT margin guidance kept intact at 18.0-19.0%**
- **Net employee count declined by 8k, due to the divestiture of JV, adjusted for JV net headcount declined by 682. Attrition at 12.8%, up 40bps QoQ**
- The Board declared a dividend of Rs12/share
- FCF/NM at 133% on LTM basis

Concall Highlights

- The management mentioned that its Q1 revenue performance was better than initially expected as Q1 is generally a soft quarter and Q1FY25 was impacted by the project offshoring of large clients
- The management indicated that ER&D performance was weak during the quarter due to weakness in manufacturing & medtech verticals
- Segment wise in IT & Business Services: Financial Services declined by 4.8% QoQ due to the offshoring impact of large clients. Healthcare declined by 4.4% QoQ due to the completion of contracts and weakness in the medtech industry. Manufacturing declined by 6.9% QoQ due to passing productivity commitment and weakness in some auto clients in Europe. Technology vertical grew by 3.5% QoQ aided by the ramp-up of deals won earlier and some green shoots in the digital business & engineering services
- Geography wise, the Americas and Europe declined by 0.8% QoQ and 5.4% QoQ, respectively, while the RoW region grew by 1.3% QoQ
- The management indicated that the State Street divestment will have an impact on revenue in Q2 – of 80bps at the company level and 90bps in Services revenue. The management further indicated that it expects the FS segment to pick up in H2FY25 as the deals won earlier will start to contribute from Q3
- On the demand front, the management indicated that it is witnessing some uptick in transformation programs, but demand is still driven by cost efficiency

programs, indicating that overall demand scenario remains unchanged. It further indicated that many of the clients despite reporting strong results, are conservative in their spending decisions as they are waiting for the macro environment to improve

- The management mentioned that it is confident of broad-based sequential growth in Q3 across all verticals, barring FS, based on the deal wins and execution. Consequently, the management has maintained its organic revenue and margin guidance for FY25
- The management mentioned that it has not yet decided on the timeline or quantum of wage hike, but indicated that it has enough levers to maintain margins in the guided band
- The management believes that GenAI will provide an incremental revenue stream, and not cannibalize its existing business. It sees GenAI as a catalyst for tech modernization spending, as POC highlights the need for clients to modernize their tech stack to maximize the benefits of GenAI
- The management also expects GenAI to optimize resource usage within BPO and testing, leading to significant cost savings, with estimates of around 50% through increased productivity. Additionally, it anticipates savings of 10-30% in Application Development and Maintenance by adopting GitHub Copilot, and roughly 10% savings in infrastructure operations
- The management hired 1,078 freshers in Q1 and targets to hire 10k in FY25

Exhibit 1: 1QFY25 Results: USD revenues decline at 1.6%, EBIT margin reduces by 50bps QoQ

Consolidated (Rs bn)	1QFY25	4QFY24	QoQ (%)	1QFY24	YoY (%)	FY25E	FY24	YoY (%)
IT Services Revenue (USD mn)	3,364	3,430	-1.9	3,200	5.1	13,896	13,270	4.7
Overall Revenue (Rs bn)	281	285	-1.6	263	6.7	1,160	1,099	5.5
Gross Profit	97	100	-2.8	94	3.6	410	394	3.8
Gross Margin (%)	34.5	35.0	-40bps	35.6	-100bps	35.3	35.9	-60bps
SG&A and Other Costs	39.0	38.6	1.0	39.7	-1.9	158.8	152	4.2
% of Rev	13.9	13.5	30bps	15.1	-120bps	13.7	13.9	-20bps
EBITDA	58	61	-5.2	54	7.6	251	242	3.6
EBIT Margin (%)	20.7	21.4	-80bps	20.5	20bps	21.6	22.0	-40bps
Depreciation	10	11	-9	9	7.7	42	42	0.5
% of Rev	3.6	3.8	-30bps	3.5	0bps	3.6	3.8	-20bps
EBIT	48	50	-4.4	45	7.5	209	200	4.3
EBIT Margin (%)	17.1	17.6	-50bps	17.0	10bps	18.0	18.2	-20bps
Other Income (net)	9	3	263.3	2	286.4	17	9	81.2
PBT	57	53	8.3	47	21.6	226	209.7	7.7
Tax	14	13	13.7	12	24.3	56	53	6.2
Effective tax rate (%)	25.4	24.2	120bps	24.8	60bps	24.7	25.1	-40bps
Adjusted PAT	43	40	6.6	35	20.6	170	157	8.2
Exceptional items	0	0.0	NA	0.0	NA	0	0.0	NA
Reported PAT	43	40	6.6	35	20.6	170	157	8.2
Reported EPS (Rs)	15.7	14.7	6.4	13.1	20.3	63	58	8.0

Source: Company, PL



Exhibit 2: Regional growth (%)

Geographies	Contr. To rev. (%)	QoQ Gr. (%)
Americas	66.0	-0.8
Europe	27.9	-5.4
RoW	6.1	1.3

Source: Company, PL

Exhibit 3: Vertical Growth (%)

Verticals	Contr. To rev. (%)	QoQ Gr. (%)
Financial Services	21.0	-4.8
Manufacturing	19.4	-6.8
Technology	13.0	3.5
Life Sciences & Healthcare	15.9	-4.4
Telecom MP&E	12.2	3.9
Retail & CPG	9.4	1.2
Public Services	9.1	1.3

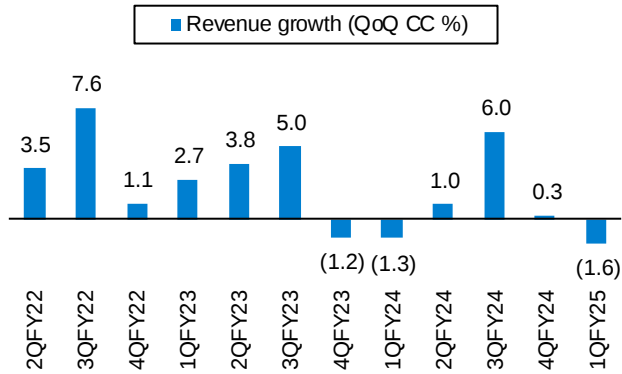
Source: Company, PL

Exhibit 4: Key Performance Indicator

	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	FY24	FY25E
Revenue (QoQ CC %)	3.8	5.0	-1.2	-1.3	1.0	6.0	0.3	-1.6	5.0	4.9
Margins										
Gross Margin	35.8	37.4	36.5	35.6	36.2	36.7	35.0	34.5	35.9	35.3
EBIT Margin	17.9	19.6	18.2	17.0	18.5	19.7	17.6	17.1	18.2	18.0
Net Margin	14.1	15.3	15.0	13.4	14.4	15.3	14.0	15.2	14.3	14.7
Operating metrics										
Headcount (k)	219	222	226	223	221	225	227	219	227	-
Attrition (%)	23.8	21.7	19.5	16.3	14.2	12.8	12.4	12.8	12.4	-

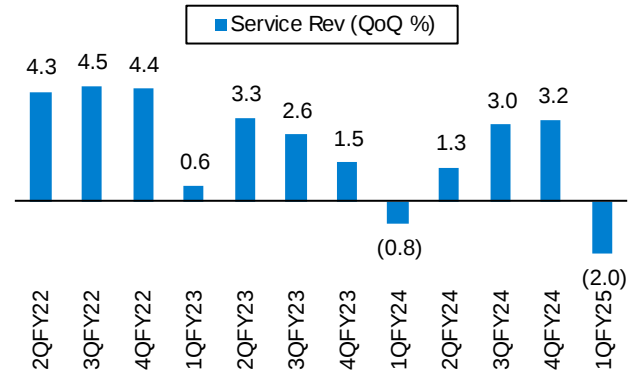
Source: Company, PL

Exhibit 1: Revenue growth QoQ % CC



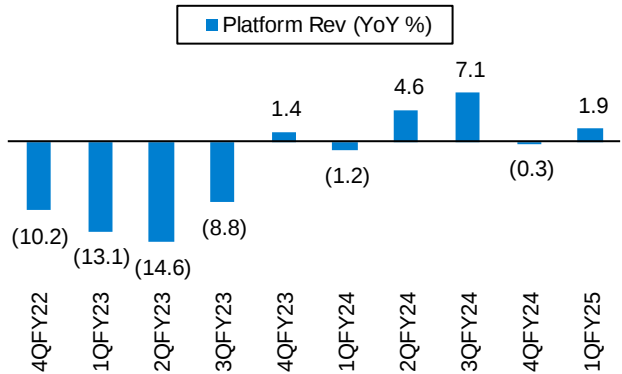
Source: Company, PL

Exhibit 2: Services business (IT & ER&D) revenue growth %



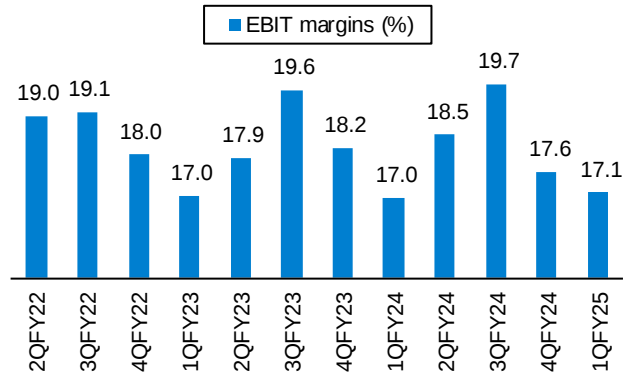
Source: Company, PL

Exhibit 3: P&P revenue growth %



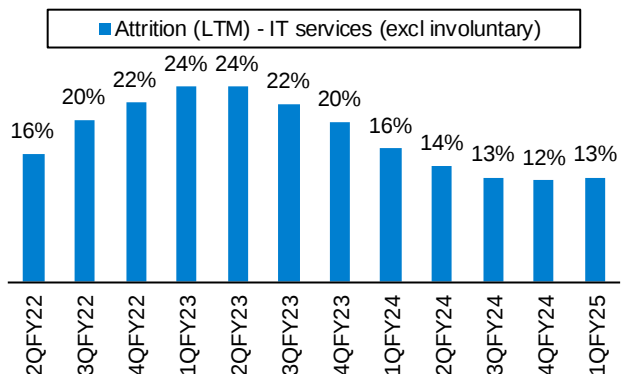
Source: Company, PL

Exhibit 4: EBIT margin %



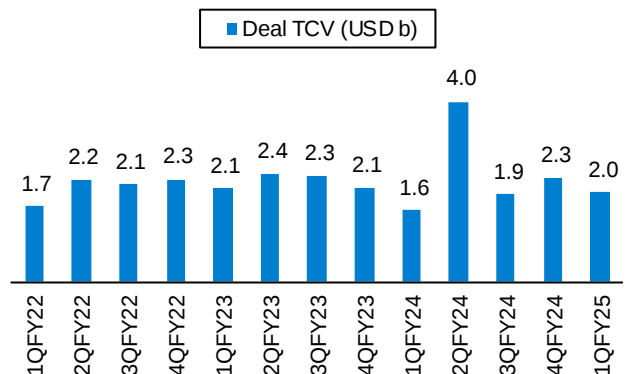
Source: Company, PL

Exhibit 5: Attrition %



Source: Company, PL

Exhibit 6: Healthy deal TCV (USD bn)



Source: Company, PL



Exhibit 7: Operating Metrics

Consolidated (Rs bn)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Service Line wise (%)												
IT and Business Services	72.6	70.6	73.4	72.8	73.6	71.7	73.8	74.7	74.6	71.7	74.4	74.5
Engineering and R&D Services	15.7	15.9	16.4	16.6	17.0	16.6	16.1	15.4	16.0	16.4	16.1	15.9
Products and Platform	11.7	13.5	10.3	10.6	9.4	11.7	10.1	9.9	9.4	11.9	9.5	9.6
Vertical wise (%)												
BFSI	21.6	21.4	21.6	21.1	20.6	19.9	21.2	22.6	22.6	21.7	21.6	21.0
Manufacturing	17.9	17.5	18.0	18.3	18.3	18.3	19.0	19.0	19.0	20.1	20.4	19.4
Technology & Services	17.2	18.4	17.5	15.4	15.4	15.4	14.4	14.4	14.4	12.8	12.3	13.0
Retail & CPG	9.8	10.8	9.8	9.4	9.2	8.9	9.0	9.1	9.6	9.6	9.1	9.4
Telecom MP&E	8.5	8.4	9.0	9.2	9.2	9.4	8.8	7.6	8.0	9.7	11.5	12.2
Life Sciences	16.7	16.1	16.2	16.4	16.5	17.1	17.5	17.5	17.5	16.4	16.3	15.9
Public Services	10.4	10.3	10.5	10.2	10.2	10.2	10.2	10.0	9.9	9.7	8.8	9.1
Geography wise (%)												
US	62.8	63.4	63.1	63.1	64.8	63.5	63.8	64.5	64.5	64.5	65.2	66.0
Europe	28.9	28.7	28.7	28.6	27.5	29.1	28.9	28.7	28.5	29.0	28.9	27.9
ROW	8.3	7.9	8.2	8.3	7.7	7.4	7.3	6.8	7.0	6.4	5.9	6.1
Client wise (%)												
Top 5 clients	12.7	12.2	11.6	11.2	10.7	10.3	10.1	9.8	9.8	9.8	10.4	11.4
Top 10 clients	20.7	20.3	19.8	19.4	18.8	18.2	17.7	17.2	17.2	17.7	18.8	19.6
Top 20 clients	29.9	29.4	29.1	28.9	28.6	28.2	27.8	27.2	27.3	28.0	29.0	30.1

Source: Company, PL

Financials

Income Statement (Rs bn)

Y/e Mar	FY23	FY24	FY25E	FY26E
Net Revenues	1,015	1,099	1,160	1,276
YoY gr. (%)	18.5	8.3	5.5	10.0
Employee Cost	645	705	750	815
Gross Profit	369	394	410	461
Margin (%)	36.4	35.9	35.3	36.1
Employee Cost	-	-	-	-
Other Expenses	-	-	-	-
EBITDA	243	259	267	304
YoY gr. (%)	11.7	6.6	3.4	13.7
Margin (%)	23.9	23.5	23.0	23.8
Depreciation and Amortization	41	42	42	46
EBIT	185	200	209	241
Margin (%)	18.2	18.2	18.0	18.9
Net Interest	-	-	-	-
Other Income	10	9	17	11
Profit Before Tax	195	210	226	253
Margin (%)	19.2	19.1	19.5	19.8
Total Tax	46	53	56	62
Effective tax rate (%)	23.8	25.1	24.7	24.5
Profit after tax	148	157	170	191
Minority interest	0	0	0	0
Share Profit from Associate	-	-	-	-
Adjusted PAT	148	157	170	191
YoY gr. (%)	9.9	5.7	8.2	12.2
Margin (%)	14.6	14.3	14.7	14.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	148	157	170	191
YoY gr. (%)	9.9	5.7	8.2	12.2
Margin (%)	14.6	14.3	14.7	14.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	148	157	170	191
Equity Shares O/s (bn)	3	3	3	3
EPS (Rs)	54.8	58.0	62.7	70.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs bn)

Y/e Mar	FY23	FY24	FY25E	FY26E
Non-Current Assets				
Gross Block	596	643	687	736
Tangibles	327	370	414	463
Intangibles	269	273	273	273
Acc: Dep / Amortization	249	291	333	379
Tangibles	249	291	333	379
Intangibles	-	-	-	-
Net fixed assets	347	352	354	356
Tangibles	77	79	81	84
Intangibles	269	273	273	273
Capital Work In Progress	-	-	-	-
Goodwill	-	-	-	-
Non-Current Investments	1	1	1	1
Net Deferred tax assets	-	-	-	-
Other Non-Current Assets	51	52	51	52
Current Assets				
Investments	110	177	177	177
Inventories	-	-	-	-
Trade receivables	255	255	267	291
Cash & Bank Balance	91	95	103	112
Other Current Assets	80	66	70	77
Total Assets	934	998	1,023	1,067
Equity				
Equity Share Capital	5	5	5	5
Other Equity	649	677	694	713
Total Network	654	683	700	719
Non-Current Liabilities				
Long Term borrowings	21	22	22	22
Provisions	-	-	-	-
Other non current liabilities	45	66	67	71
Current Liabilities				
ST Debt / Current of LT Debt	1	1	1	1
Trade payables	64	59	58	61
Other current liabilities	149	168	175	193
Total Equity & Liabilities	934	998	1,023	1,067

Source: Company Data, PL Research

Cash Flow (Rs bn)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	195	210	170	191
Add. Depreciation	41	42	42	46
Add. Interest	-	-	-	-
Less Financial Other Income	10	9	17	11
Add. Other	(43)	(50)	-	-
Op. profit before WC changes	193	201	212	237
Net Changes-WC	(13)	23	(7)	(8)
Direct tax	-	-	-	-
Net cash from Op. activities	180	224	205	229
Capital expenditures	(22)	(31)	(44)	(48)
Interest / Dividend Income	-	-	-	-
Others	(18)	(37)	-	-
Net Cash from Invt. activities	(39)	(67)	(44)	(48)
Issue of share cap. / premium	-	-	-	-
Debt changes	(18)	(2)	-	-
Dividend paid	(130)	(141)	(153)	(172)
Interest paid	-	-	-	-
Others	(10)	(12)	-	-
Net cash from Fin. activities	(159)	(155)	(153)	(172)
Net change in cash	(18)	3	8	9
Free Cash Flow	166	214	161	181

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
Per Share(Rs)				
EPS	54.8	58.0	62.7	70.3
CEPS	70.2	73.4	78.1	87.2
BVPS	241.6	252.1	258.0	265.1
FCF	61.2	79.1	59.4	66.6
DPS	48.0	52.0	56.4	63.2
Return Ratio(%)				
RoCE	21.1	21.7	22.0	24.8
ROIC	23.0	22.3	22.5	24.6
RoE	23.3	23.5	24.6	26.9
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.4)	(0.4)	(0.4)
Net Working Capital (Days)	69	65	66	66
Valuation(x)				
PER	28.4	26.9	24.9	22.2
P/B	6.5	6.2	6.0	5.9
P/CEPS	22.2	21.3	20.0	17.9
EV/EBITDA	16.7	15.4	14.9	13.1
EV/Sales	4.0	3.6	3.4	3.1
Dividend Yield (%)	3.1	3.3	3.6	4.1

Source: Company Data, PL Research

Quarterly Financials (Rs bn)

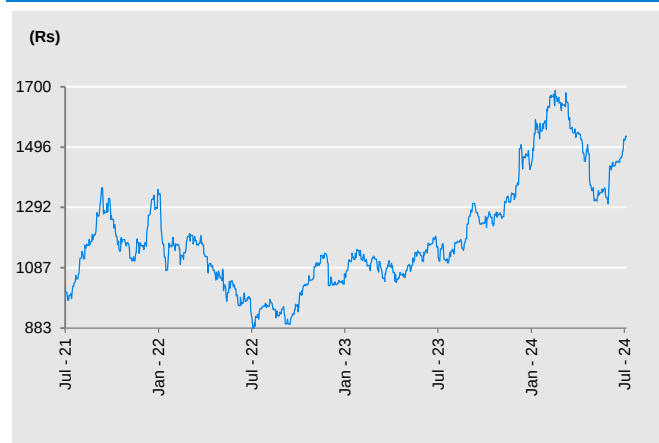
Y/e Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Net Revenue	267	284	285	281
YoY gr. (%)	1.4	6.7	0.2	(1.6)
Raw Material Expenses	170	180	185	184
Gross Profit	97	104	100	97
Margin (%)	36.2	36.7	35.0	34.5
EBITDA	63	72	65	62
YoY gr. (%)	-	-	-	-
Margin (%)	23.8	25.2	23.0	22.1
Depreciation / Depletion	10	11	11	10
EBIT	49	56	50	48
Margin (%)	18.5	19.7	17.6	17.1
Net Interest	-	-	-	-
Other Income	2	3	3	9
Profit before Tax	51	59	53	57
Margin (%)	19.2	20.6	18.5	20.3
Total Tax	13	15	13	14
Effective tax rate (%)	25.3	25.9	24.2	25.4
Profit after Tax	38	44	40	43
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	38	44	40	43
YoY gr. (%)	8.4	13.5	(8.4)	6.8
Margin (%)	14.4	15.3	14.0	15.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	38	44	40	43
YoY gr. (%)	8.4	13.5	(8.4)	6.8
Margin (%)	14.4	15.3	14.0	15.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	38	44	40	43
Avg. Shares O/s (bn)	3	3	3	3
EPS (Rs)	14.2	16.1	14.7	15.7

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	02-Jul-24	BUY	1,680	1,469
2	28-Apr-24	Accumulate	1,550	1,474

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	HCL Technologies	BUY	1,680	1,469
2	Infosys	Hold	1,510	1,591
3	LTIMindtree	Accumulate	5,910	5,440
4	Tata Consultancy Services	Accumulate	4,370	3,924
5	Tech Mahindra	Reduce	1,230	1,472
6	Wipro	Hold	490	527

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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