



Q1FY25 HCL Technologies Ltd



HCL Technologies Ltd.

Q1FY25 results beat estimates

| | | | | | |
|-------------------|---------------------|--------------------------|--------------------------------------|-------------------------------------|---|
| CMP INR 1,570* | Target INR 1,668 | Potential Upside 6.2% | Market Cap (INR Mn) INR 42,58,283 | Recommendation ACCUMULATE | Sector Internet Software and Services |
|-------------------|---------------------|--------------------------|--------------------------------------|-------------------------------------|---|

Result Highlights

- HCL Technologies reported strong Q1FY25 results beating our estimates across the board.
- Revenue grew to INR 2,80,570 Mn, up 6.7% YoY which beat our estimates by 1.0%, driven by the Engineering and R&D segment (+9.5% YoY) and the IT and Business service segment (+6.4% YoY).
- EBIT grew to INR 47,950 Mn (+8.0% YoY), beating our expectation by 1.5%; EBIT margin expanded 21 bps YoY and 54 bps QoQ.
- PAT exceeded our expectations and jumped to 42,570 Mn, up 20.5% YoY driven by higher other income and better operational performance; PAT margins expanded by 173 bps YoY and 119 bps QoQ.
- We increase our FY26E EPS and the assigned multiple to raise our target price to INR 1,668 (previously: INR 1,546) on better-than-expected Q1FY25 results. We retain our “ACCUMULATE” rating on HCL Tech.

MARKET DATA

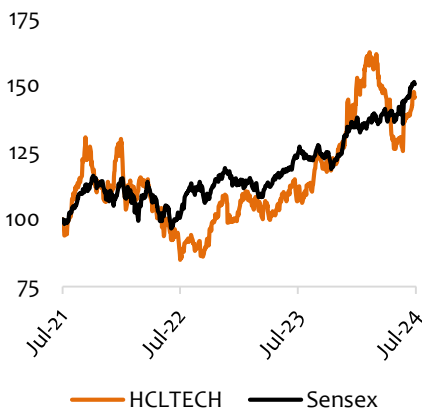
| | |
|-------------------|-------------|
| Shares outs (Mn) | 2,713 |
| Mkt Cap (INR Mn) | 45,58,283 |
| 52 Wk H/L (INR) | 1,697/1,095 |
| Volume Avg (3m K) | 4,228 |
| Face Value (INR) | 2 |
| Bloomberg Code | HCLT IN |

KEY FINANCIALS

| INR Millions | Q1FY25 | Q4FY24 | Q1FY24 | QoQ | YoY |
|--------------|---------|---------|---------|--------|--------|
| Revenue | 280,570 | 284,990 | 262,960 | (1.6%) | 6.7% |
| EBIT | 47,950 | 50,240 | 44,380 | (4.6%) | 8.0% |
| PAT | 42,570 | 39,860 | 35,340 | 6.8% | 20.5% |
| OPM (%) | 17.1% | 17.6% | 16.9% | -54bps | 21bps |
| NPM (%) | 15.2% | 14.0% | 13.4% | 119bps | 173bps |

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



MARKET INFO

| | |
|--------|--------|
| SENSEX | 80,717 |
| NIFTY | 24,613 |

Strong deal wins to drive growth in Q2FY25E and H2FY25E

- Total Contract Value (TCV) stood at USD 1,960 Mn in Q1FY25 (vs 1,565 Mn in Q1FY24).
- Revenue increased 5.6% CC YoY and declined 1.6% sequentially.
- Service business grew 5.8% CC YoY and declined 1.9% QoQ. IT and Business Services grew 5.3% YoY, declining 1.5% CC QoQ.
- Engineering and R&D services increased 3.5% CC YoY and 0.4% CC QoQ.
- Geographically, the Americas (+8.0%) and Europe (+3.0%) led the growth, while RoW (3.6%) declined CC YoY.
- In terms of verticals, telecommunications was the key driver with a 69.2% CC YoY growth.
- HCL Tech expects Q2FY25E to be better than Q1FY25 across all verticals except financial services.
- The financial service segment is anticipated to see growth in Q3FY25E and Q4FY25E driven by the deal wins in Q1FY25.

Guidance remains intact; work on AI and GenAI opportunities gains momentum

- HCL Tech is expecting a revenue growth of 3.0 – 5.0% CC YoY growth in FY25E with EBIT margins to be in the range of 18.0 – 19.0%.
- The Company launched HCL Tech Enterprise AI foundry to simplify and scale enterprise’s AI journey.
- The Company is planning on training 50,000 people to capitalize on growing AI and GenAI opportunities.

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

8.7%

Revenue CAGR between FY24 and FY26E

11.9%

Adj. PAT CAGR between FY24 and FY26E

HCL Technologies Ltd.

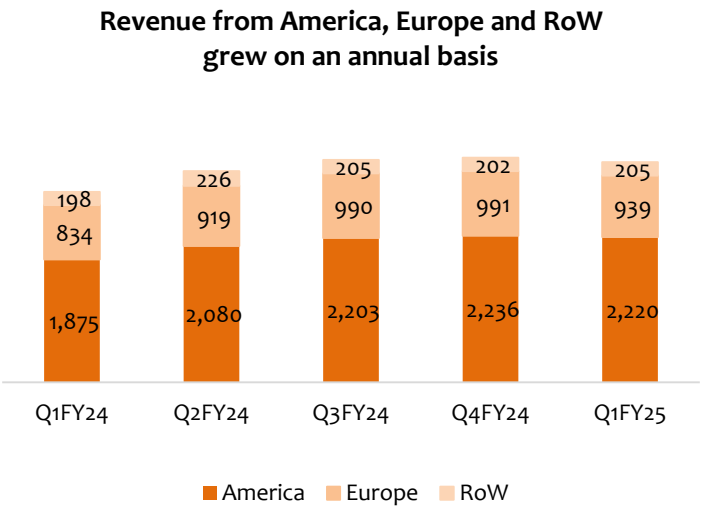
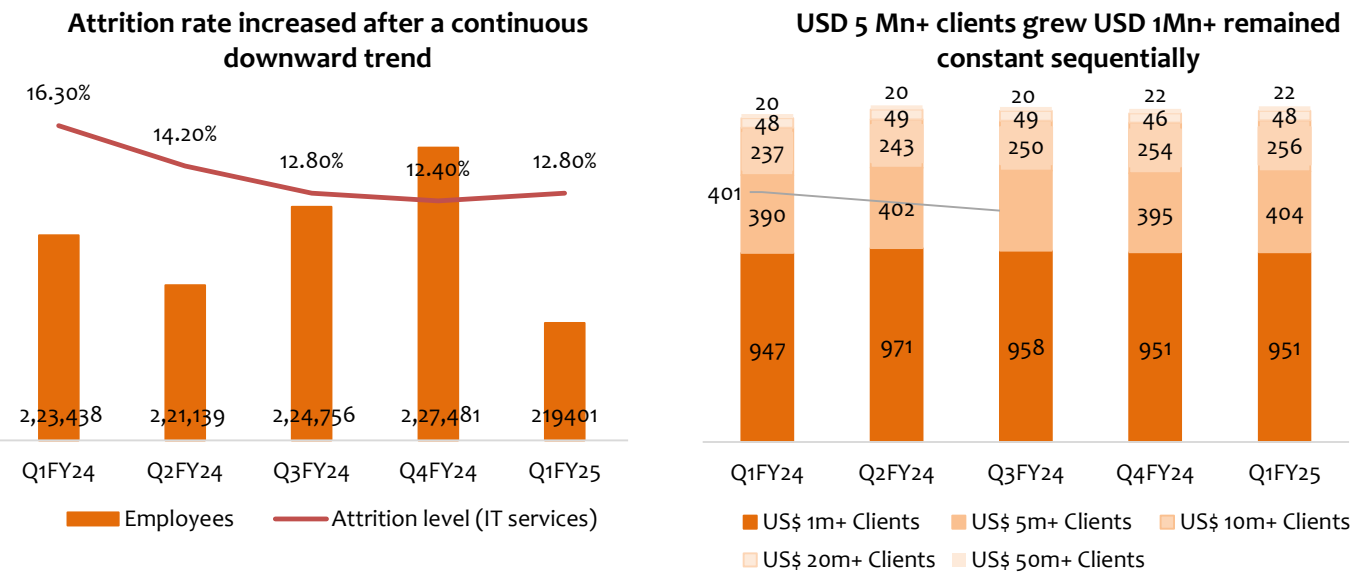
Key Concall Highlights:

- HCL software business continued to progress well with **annual recurring revenue at USD 1.01 Bn.**
- The Company has a TCV amounting to USD 1.96 billion, comprising a balanced assortment of both small and large deals.
- Overall people count reduced to 219,401, down 3.6% QoQ attributed to the State Street JV exit.
- The attrition rate for Q1FY25 stood at 12.8%.
- The management **does not expect a pickup in discretionary spending**; levels anticipated to be similar to the previous quarter.
- HCL Tech's expansion under the New Vistas strategy includes the recent opening of a center in Patna, Bihar this quarter, marking ongoing growth in this strategic initiative.
- The Company has a target **to train 50,000 people on GenAI and AI skills in FY25E**; 33.0% of this target is already been achieved in Q1FY25.
- In the last quarter, HCL Tech launched an AI lab in New Jersey, USA, and a dedicated GenAI data center in Austin, Texas. These facilities are designed to assist clients in accelerating innovation, conducting experiments, and preparing for large-scale deployment of AI and GenAI solutions.
- Additionally, HCL Tech has announced a new partnership aimed at establishing a GenAI Center of Excellence utilizing IBM Watson's AI and data platform.
- GenAI capabilities have now been integrated into every key product within HCL's software lineup, spanning business applications, total experience solutions, intelligent operations, cybersecurity, and data analytics.
- The Company remains confident in achieving growth, notwithstanding the 80-bps impact at the Company level due to the State Street DPO revenues ceasing, which translates to approximately 90 bps at the services level.
- The Company **anticipates growth in Q2FY25E over Q1FY25**, both across the entire company and specifically within services except BFSI, falling within the projected range of 3.0% to 5.0%.
- In Q1FY25, **other income was higher than usual due to the divestment of the State Street DPO JV.**
- Drop in EBIT margin was attributed to the ER&D segment, where revenue decline affected margins, but was partially offset by annual productivity and exchange benefits of about 10 bps.
- **The Company's AI labs has developed over 200 MVPs for clients** so far, offering strategic advisory services, hands-on engineering acceleration, and a distinctive IDA to MVP journey.
- The liquidity measure continues to remain strong for the brand with net cash just below USD 3.0 Bn at USD 2.985 Bn.
- The board has declared a dividend of INR 12.0/share.
- The significant contract wins observed by the Company in Q1FY25 are expected to yield results in the financial services segment during Q3FY25E and Q4FY25E.
- In financial services, the current focus remains on cost-efficient initiatives driven by modernization and tech transformation rather than general discretionary spending, which has shown stability similar to last quarter.
- **EBIT margin guidance continues to be in the range of 18.0 - 19.0%.**
- The Company's guidance is organic, both on the top line and on the bottom line.
- The ASAP acquisition did not deliver as the management expected while they expect good growth in Q2FY25E.
- The Company is **planning a fresh addition of 10,000 to its workforce.** In Q1FY25, the Company added 1,000 in line with what HCL Tech planned.
- The Company introduced HCLTech AI Force, a platform for generative AI and automation, alongside HCLTech Enterprise AI Foundry, designed to streamline and expand enterprise AI initiatives.
- The adoption of GenAI technologies is anticipated to increase the demand for cloud services.
- As noted by management, acquisitions typically do not contribute meaningfully to EBIT in the first one or two years.

Valuation and view:

HCL Tech reported strong Q1FY25 results which exceeded our estimates. The Company's overall FY26E revenue growth is expected to accelerate, driven by contributions from the HPE acquisition and the growth in verticals, although subdued discretionary spending remains a concern. **We increase our FY26E EPS to INR 72.5 (previously: INR 70.3) to account for the improved performance in Q1FY25 and anticipation of sustained growth momentum. Consequently, we raise our valuation multiple to 23.0x (previously: 22.0x) on FY26E EPS. Accordingly, our revised TP of INR 1,668 (previously: INR 1,546) implies a 6.2% upside from current levels. We reiterate our "ACCUMULATE" rating on the shares of HCL Technologies Ltd.**

HCL Technologies Ltd.



Source: Company, KRChoksey Research

HCL Technologies Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

| INR Millions | FY22 | FY23 | FY24 | FY25E | FY26E |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Revenue | 856,760 | 1,014,560 | 1,099,130 | 1,177,690 | 1,298,337 |
| Employee Cost | 527,600 | 645,230 | 624,800 | 758,848 | 829,313 |
| SG&A and Other Cost | 123,610 | 143,050 | 232,350 | 149,567 | 172,030 |
| EBITDA | 205,300 | 226,280 | 241,980 | 269,276 | 296,995 |
| Depreciation | 43,260 | 41,450 | 41,730 | 43,815 | 49,496 |
| EBIT | 162,040 | 184,830 | 200,250 | 225,461 | 247,499 |
| Other income, net | 10,670 | 13,580 | 14,950 | 15,367 | 17,016 |
| Finance costs | 3,190 | 3,530 | 5,530 | 4,406 | 3,795 |
| Pre-tax Income | 169,520 | 194,880 | 209,670 | 236,421 | 260,721 |
| Income tax expense | 34,280 | 46,430 | 52,570 | 60,287 | 63,877 |
| Net profit Before EI & MI | 135,240 | 148,450 | 157,100 | 176,134 | 196,844 |
| Minority Interest, MI | 240 | -60 | 80 | 80 | 80 |
| Net profit | 135,000 | 148,510 | 157,020 | 176,054 | 196,764 |
| Diluted EPS (INR) | 49.75 | 54.73 | 57.86 | 64.88 | 72.51 |
| 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 | 203,430 | 217,070 | 266,600 | 245,316 | 287,234 |
| Net Cash Flow from/(used in) Investing Activities | 14,770 | -39,310 | -67,230 | -55,212 | -71,672 |
| Net Cash Flow from Financing Activities | -145,080 | -158,810 | -154,640 | -158,004 | -147,087 |
| Net Inc/Dec in cash equivalents | 73,120 | 18,950 | 44,730 | 32,101 | 68,474 |
| Opening Balance | 65,210 | 105,100 | 90,650 | 94,410 | 126,511 |
| Adjustments | -33,230 | -33,400 | -40,970 | 0 | 0 |
| Closing Balance Cash and Cash Equivalents | 105,100 | 90,650 | 94,410 | 126,511 | 194,985 |

Source: Company, KRChoksey Research

Exhibit 3: Key Ratio

| Key Ratio | FY22 | FY23 | FY24 | FY25E | FY26E |
|-----------------------|-------|-------|-------|-------|-------|
| EBITDA Margin (%) | 18.9% | 18.2% | 18.2% | 19.1% | 19.1% |
| Tax rate (%) | 20.2% | 23.8% | 25.1% | 25.5% | 24.5% |
| Net Profit Margin (%) | 15.8% | 14.6% | 14.3% | 14.9% | 15.2% |
| 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 | 64.9 | 72.5 |

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 | 49,847 | 65,268 |
| Right-of-use Asset | 23050 | 23,370 | 29,700 | 30,042 | 30,418 |
| 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 | 61,090 | 67,349 |
| Investments | 1,120 | 1,100 | 940 | 1,178 | 1,298 |
| Goodwill | 174,170 | 185,670 | 201,320 | 201,320 | 201,320 |
| Total non-current assets | 409,920 | 398,340 | 404,460 | 415,857 | 438,033 |
| Cash & equivalent | 126,360 | 147,240 | 201,500 | 126,511 | 194,985 |
| Accounts receivable (Net) | 154,760 | 255,060 | 255,210 | 306,522 | 337,923 |
| Unbilled revenue | 51,950 | 0 | 0 | 70,984 | 78,256 |
| Investment securities, available for sale | 62,390 | 53,850 | 70,430 | 70,430 | 70,430 |
| Other current assets | 83,340 | 77,340 | 64,320 | 93,273 | 102,828 |
| Total current assets | 480,410 | 535,770 | 593,310 | 671,074 | 788,088 |
| Total Assets | 890,330 | 934,110 | 997,770 | 1,086,931 | 1,226,122 |
| Equity Share Capital | 5,430 | 5,430 | 5,430 | 5,430 | 5,430 |
| Other Equity | 613,710 | 648,620 | 677,200 | 767,529 | 878,569 |
| Equity Attributable to Owners of the Company | 619,140 | 654,050 | 682,630 | 772,959 | 883,999 |
| Non-controlling Interest | 920 | -70 | 80 | 80 | 80 |
| Total Equity | 620,060 | 653,980 | 682,710 | 773,039 | 884,079 |
| Operating Lease Liability | 16,590 | 16,640 | 23,390 | 18,254 | 20,124 |
| Other liabilities | 26,700 | 28,070 | 42,180 | 30,855 | 34,016 |
| Borrowings | 39,230 | 21,110 | 22,230 | 21,563 | 20,916 |
| Total non-current liabilities | 82,520 | 65,820 | 87,800 | 70,673 | 75,057 |
| Trade Payables | 62,780 | 64,280 | 58,530 | 74,664 | 82,302 |
| Current portion of capital lease obligations | 6,990 | 8,710 | 10,900 | 10,128 | 11,166 |
| Short term loans | 620 | 1,400 | 1,040 | 1,649 | 1,818 |
| Income Tax Liabilities | 13,380 | 21,500 | 23,130 | 26,526 | 28,105 |
| Other current liabilities | 94,430 | 107,220 | 178,820 | 117,887 | 129,964 |
| Total Current Liabilities | 187,750 | 214,310 | 227,260 | 243,219 | 266,986 |
| Total liabilities | 890,330 | 934,110 | 997,770 | 1,086,931 | 1,226,122 |

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 |
| 18-Jul-24 | 1,570 | 1,668 | ACCUMULATE | Buy | More than 15% |
| 29-Apr-24 | 1,387 | 1,546 | ACCUMULATE | Accumulate | 5% – 15% |
| 08-Feb-24 | 1,615 | 1,756 | ACCUMULATE | Hold | 0 – 5% |
| 17-Jan-24 | 1,576 | 1,683 | ACCUMULATE | Reduce | -5% – 0 |
| 27-Oct-23 | 1,269 | 1,374 | ACCUMULATE | Sell | Less than – 5% |

ANALYST CERTIFICATION:

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