MIRAE ASSET Sharekhan

HCL Technologies Ltd

Steady Quarter

IT & ITES	Sharekhan code: HCLTECH

Reco/View: Buy	↔	CMP: **Rs. 1,985**	Price Target: **Rs. 2,180**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

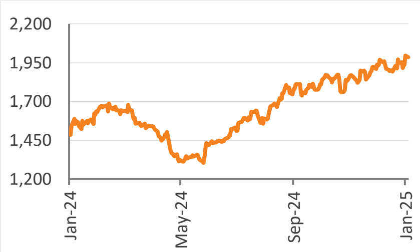
Company details

Market cap:	Rs. 5,38,730 cr
52-week high/low:	Rs. 2,011 / 1,235
NSE volume: (No of shares)	27.0 lakh
BSE code:	532281
NSE code:	HCLTECH
Free float: (No of shares)	106.34 cr

Shareholding (%)

Promoters	60.8
FII	18.7
DII	15.8
Others	4.7

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	0.9	7.0	27.2	28.7
Relative to Sensex	7.9	13.8	32.4	23.5

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- HCL Tech reported revenue of $3,533 million, up 3.8% q-o-q/4.1 % y-o-y in CC terms, missing our estimate of $3,561 million.
- EBIT margin expanded by ~90 bps q-o-q to 19.5%, beating estimates of 19.3%. New deal wins TCVs stood at $2,095 million, down 6% q-o-q/up 9% y-o-y.
- Management has raised the lower end of its revenue growth guidance to 4.5-5% from 3.5-5% on CC terms while maintaining EBIT margin at 18-19% for FY25. For services, the organic ask rate for Q4 is -1.3-0.6%.
- We maintain BUY with an unchanged PT of Rs. 2,180 (valued at 28x Dec26E EPS). At CMP, the stock trades at 30.5/28/24.6x its FY25/26/27E EPS.

HCL Technologies (HCL Tech) reported revenue of $3,533 million, up 3.8% q-o-q/4.1% y-o-y in constant currency (CC) terms, missing our estimates of $3,561 million. Revenue in rupee terms stood at Rs. 29,890 crore, up 3.6% q-o-q/5.1% y-o-y. Revenue growth was led by Software, ER&D, and Services business, up 18.7%, 5.4%, and 1.5% q-o-q in CC, respectively. EBIT margin expanded by ~90 bps q-o-q to 19.5%, beating our estimate of 19.3%. Net profit stood at Rs. 4,591 crore, up 8.4% q-o-q/5.5% y-o-y, beating our estimate of Rs. 4,538 crore. New deal wins TCVs stood at USD2,095 million, down 6% q-o-q/up 9%. Management has raised the lower end of its revenue growth guidance for FY25 to 4.5-5% from 3.5-5% in CC terms while keeping EBIT margin guidance unchanged at 18-19%. Management is seeing improvement in demand environment with discretionary spending witnessing some uptick. We believe the company is well placed to deliver industry-leading growth among Tier-1 IT companies for FY25 and fiscals ahead, given their decent 9MFY2025 performance, diversified offerings, and strategic partnerships with hyperscalers. We maintain BUY with an unchanged price target (PT) of Rs. 2,180 (valued at 28x Dec26E EPS). At CMP, the stock trades at 30.5/28/26.4x its FY25/FY26/FY27E EPS.

Key positives

- Net headcount additions were 2,134, taking the total headcount to 2,20,755.
- EBIT margin expanded by 90 bps q-o-q to 19.5%.
- New deal wins TCV was healthy at USD2,095 million, down 6% q-o-q/up 9%. ACV rose 9% q-o-q/23% y-o-y.

Key negatives

- LTM attrition rose 30 bps q-o-q to 13.2%.

Management Commentary

- Management has raised the lower end of its revenue growth guidance to 4.5-5% from 3.5-5% on CC terms, while maintaining EBIT margin at 18-19% for FY2025. For services, the organic ask rate for Q4 is -1.3-0.6%.
- The average duration of signed deals is becoming shorter. The shift towards the shorter tenure deals leads to moderated TCV.
- Small deals are converting faster, while larger deals are taking more time to convert.
- Management is seeing improvement in the demand environment with discretionary spending witnessing some uptick.

Revision in earnings estimates – We have revised our estimates to factor in Q3FY2025 performance.

Our Call

Valuation – Maintain BUY with an unchanged PT of Rs. 2,180

HCL Tech reported healthy revenue growth with a strong uptick in margin. The new deal win TCV at $2,095 million was largely in line with expectations. Management has raised the lower end of its revenue growth guidance for FY2025 but expects soft Q4 with the organic ask rate for services at -1.3-0.6%. With improvement in the demand environment and uptick in discretionary spend, we believe the company is well placed to deliver industry-leading growth among Tier-1 IT companies for FY25 and fiscals ahead, given its decent 9MFY2025 performance, diversified offerings, and strategic partnerships with hyperscalers. We expect a Sales/PAT CAGR of ~9%/12% over FY2024-FY2027E. We maintain BUY with an unchanged PT of Rs. 2,180 (valued at 28x Dec26E EPS). At CMP, the stock trades at 30.5/28/24.6x its FY25/FY26/FY27E EPS.

Key Risks

Rupee appreciation and/or adverse cross-currency movements. The contagion effect of banking crisis, macro headwinds, and recession in the U.S. can moderate the pace of technology spending.

Valuation (Consolidated) Rs cr

Particulars	FY24	FY25E	FY26E	FY27E
Net sales	1,09,913.0	1,17,198.0	1,27,681.1	1,41,492.8
EBITDA Margin (%)	22.0	22.1	22.6	23.2
Net profit (Rs. crore)	15,702.0	17,645.4	19,267.8	21,909.2
YoY growth (%)	5.7	12.4	9.2	13.7
EPS (Rs.)	57.9	65.0	71.0	80.7
PER	34.3	30.5	28.0	24.6
P/B (x)	7.9	7.4	7.0	6.5
EV/EBITDA	22.0	20.3	18.0	15.8
ROE (%)	23.5	25.0	25.7	27.3
ROCE (%)	26.9	28.6	29.4	31.6

Source: Company; Mirae Asset Sharekhan estimates

Key Earnings Highlights

- **Revenue:** Revenue in CC terms grew by 3.8% q-o-q with reported revenue at $3,533 million, up 2.5 % q-o-q/3.5% y-o-y. Revenue growth was led by Software, ER&D, and Services up 18.7%, 5.4%, and 1.5% q-o-q, respectively. Revenue in rupee terms stood at Rs. 29,890 crore, up 3.6% q-o-q/5.1% y-o-y.
- **EBIT margin:** EBIT margin expanded by ~90bps q-o-q to 19.5%, beating our estimate of 19.3%. Margin improvement plan project contributed ~100 bps, which majorly offset the wage hike impact of 80 bps. Furlough seasonality had an impact of 40 bps, while CTG acquisition impact was 20 bps. Forex impact was 18 bps.
- **Booking performance:** HCL Tech signed 12 deals during Q3FY25, 7 in Services, and 5 in Software, with small deals growing stronger than large deals. New deal win TCVs stood at $2,095 million, down 6% q-o-q/up 9%.
- **Vertical-wise performance:** Retail and CPG, Technology and Services, and Telecommunications grew 17.2%, 7.6%, and 33.1% y-o-y, respectively, in CC, while Financial Services, Lifesciences & Healthcare, and Public Services declined 1.4%, 1.1%, and 4.6% y-o-y, respectively, in CC.
- **Geography-wise performance:** Americas, Europe, and ROW grew 6.2%, 2.6%, and 2.9% y-o-y in CC, respectively.
- **Client metrics:** The company added one client in the $50 million+ category on a q-o-q basis but lost one, three and four clients in the $20 million+, $10 million+ and 5 million+ category respectively. Revenue from the Top-5, Top-10, and Top-20 clients increased by 12.6%, 20.3%, and 30.9% q-o-q, respectively.
- **Strong cash flows:** On an LTM basis, OCF and FCF stood at $2,851 million and $2,716 million, respectively, with FCF/NI at 134%. Net cash balance stood at $3,236 million, up 24% y-o-y.

Results (Consolidated) Rs cr

Particulars	Q3FY25	Q3FY24	Q2FY25	Y-o-Y (%)	Q-o-Q (%)
Revenues ($ mn)	**3,533**	**3,415**	**3,445**	**3.5**	**2.5**
Net sales	**29,890**	**28,446**	**28,862**	**5.1**	**3.6**
Direct Costs	19,262	17,998	18,789	7.0	2.5
Gross Profit	**10,628**	**10,448**	**10,073**	**1.7**	**5.5**
Research & development	399	418	395	-4.5	1.0
SG&A	3,369	3,272	3,309	3.0	1.8
EBITDA	**6,860**	**6,758**	**6,369**	**1.5**	**7.7**
Depreciation & amortization	1,039	1,143	1,007	-9.1	3.2
EBIT	**5,821**	**5,615**	**5,362**	**3.7**	**8.6**
Forex gain/(loss)	7	29	3	-75.9	133.3
Other Income	304	230	322	32.2	-5.6
PBT	6,132	5,874	5,687	4.4	7.8
Tax Provision	1,538	1,523	1,450	1.0	6.1
Net profit	**4,591**	**4,350**	**4,235**	**5.5**	**8.4**
EO	0	0	0		
Reported net profit	**4,591**	**4,350**	**4,235**	**5.5**	**8.4**
EPS (Rs)	16.9	16.0	15.6	5.6	8.4
Margin (%)					
EBITDA	23.0	23.8	22.1	-81	88
EBIT	19.5	19.7	18.6	-26	90
NPM	15.4	15.3	14.7	7	69
Tax rate	25.1	25.9	25.5	-85	-42

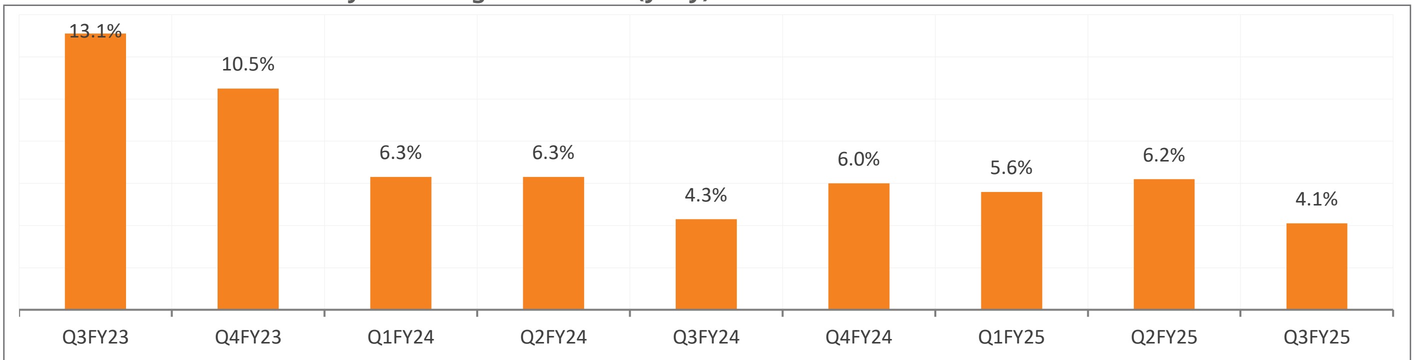
Source: Company; Mirae Asset Sharekhan Research

Revenue mix: Geographies, industry verticals, and other operating metrics

Particulars	Revenues	Contribution	$ Growth (%)		CC growth (%)	
	($ mn)	(%)	Q-o-Q (%)	Y-o-Y (%)	Q-o-Q (%)	Y-o-Y (%)
Revenues ($ mn)	3,533	100	2.5	3.5	3.8	4.1
Geographic mix						
Americas	2,314	65.5	3.2	5.1		6.2
Europe	996	28.2	1.8	0.6		2.6
RoW	223	6.3	-0.6	1.8		2.9
Industry verticals						
Financial services	717	20.3	1.5	-3.2		-1.4
Manufacturing	675	19.1	0.4	-1.7		0.0
Technology & services	470	13.3	4.1	7.5		7.6
Retail & CPG	374	10.6	13.2	14.2		17.2
Telecommunications, media, publishing & entertainment	435	12.3	4.2	31.2		33.1
Lifesciences & healthcare	548	15.5	-0.7	-2.2		-1.1
Public services	314	8.9	-0.8	-5.1		-4.6
Service line						
IT and business services	2,579	73.0	0.3	5.3	1.5	5.4
Engineering and R&D Services	565	16.0	3.8	0.9	5.4	1.1
Products & platforms	389	11.0	13.9	-7.5	-2.1	18.7
Clients Contribution						
Top 5	445	12.6	6.8	33.0		
Top 10	717	20.3	3.6	18.7		
Top 20	1,092	30.9	2.9	14.2		

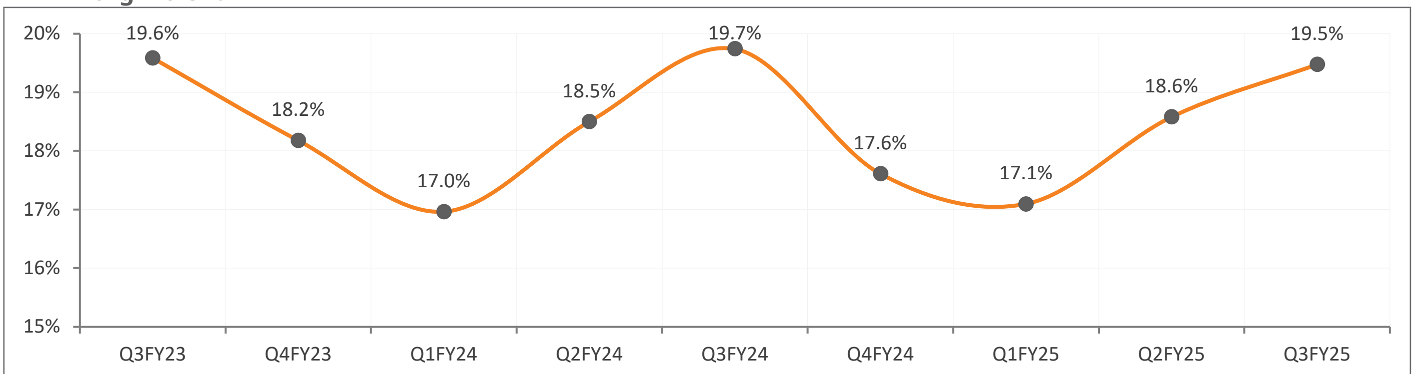
Source: Company; Mirae Asset Sharekhan Research

HCL Tech's constant-currency revenue growth trend (y-o-y)



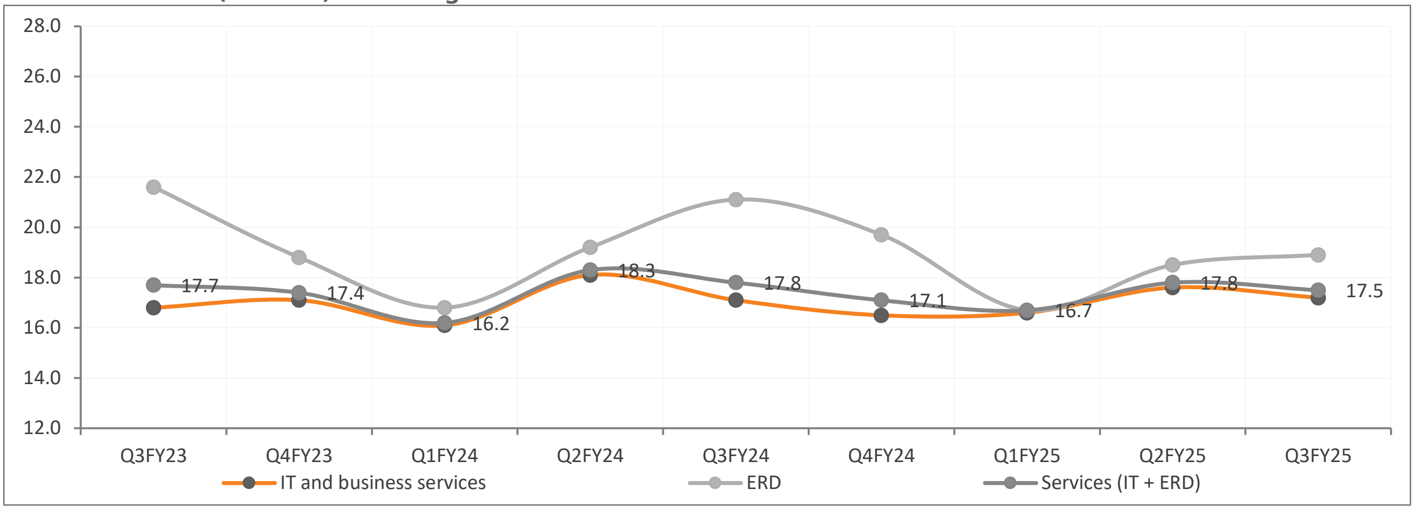
Source: Company; Mirae Asset Sharekhan Research

EBIT margin trend



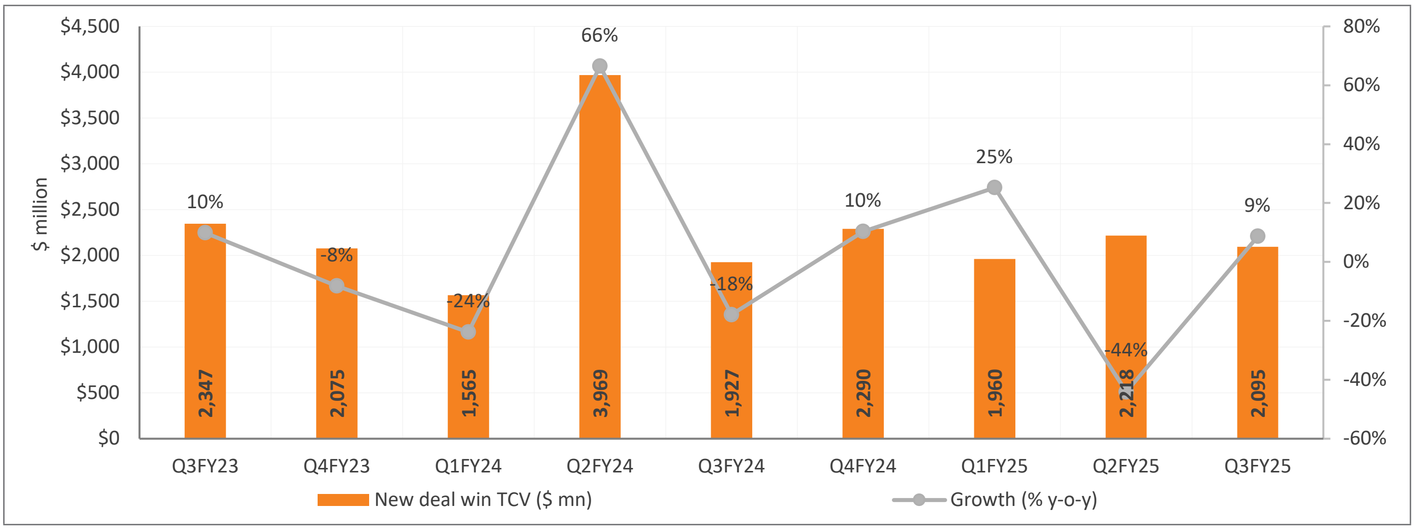
Source: Company; Mirae Asset Sharekhan Research

Trend in services (IT + ERD) EBIT margin



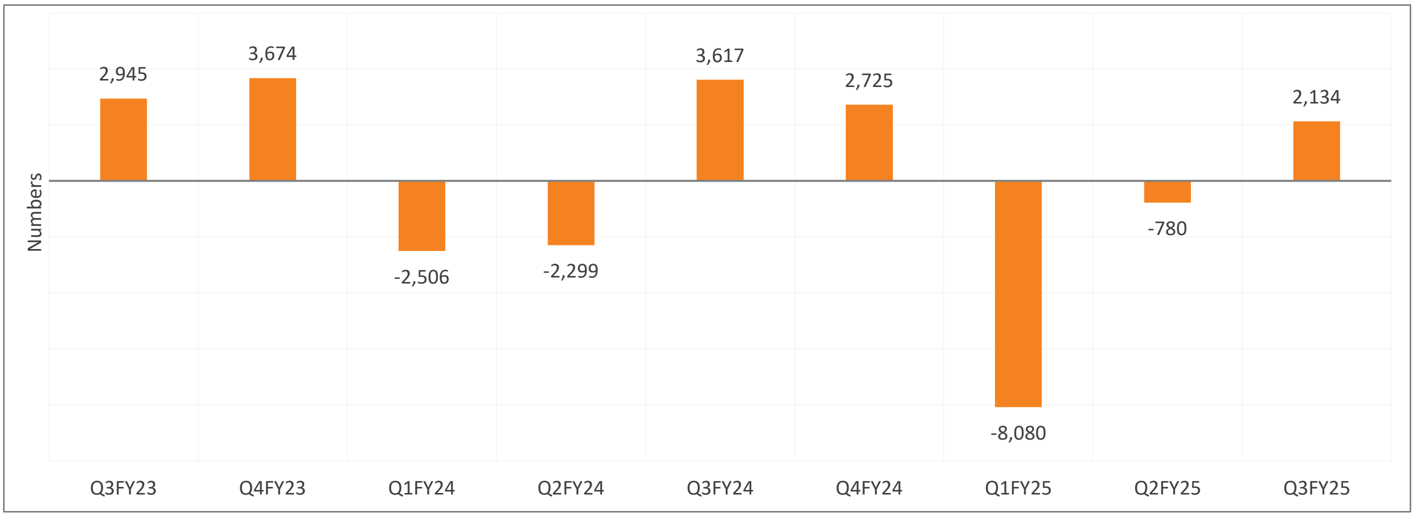
Source: Company; Mirae Asset Sharekhan Research

New deal wins TCVs trend



Source: Company; Mirae Asset Sharekhan Research

Net headcount addition trend



Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector View – Macro headwinds bottoming out; earnings visibility better

We anticipate growth momentum to return in FY25, aided by a lower base coupled with easing sector headwinds. Though, IT sector has already outperformed Nifty last year, we expect overall outperformance in CY24 as well, driven by receding headwinds and better earnings visibility.

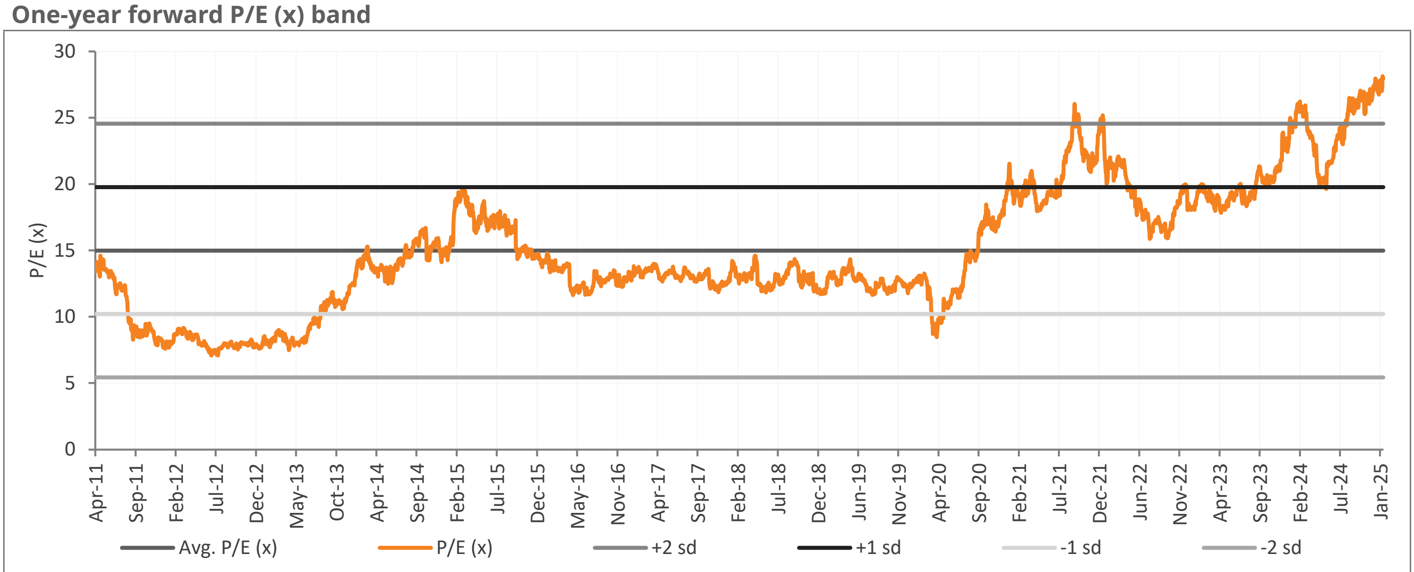
■ Company Outlook – Leveraging on core strengths

HCL Technologies has invested aggressively in the fast-growing Mode-2 (a good proxy for digital offering) capabilities, which would help HCL Tech deliver strong revenue growth in the coming years. Given its differentiated position in Infrastructure Management Services (IMS) and strong capabilities in engineering services, HCL Tech is well positioned to maintain its growth momentum in the IT services business (89% of total revenue) going ahead. HCL Tech's strength in digital foundation and application modernisation make it a strong contender for building digital transformation initiatives for clients. Management has raised the lower end of its revenue growth guidance to 4.5-5% from 3.5-5% on CC terms while maintaining EBIT margin at 18-19% for FY25.

■ Valuation – Maintain Buy with unchanged PT of Rs. 2,180

HCL Tech reported healthy revenue growth with a strong uptick in margin. The new deal win TCV at $2,095 million was largely in line with expectations. Management has raised the lower end of its revenue growth guidance for FY2025 but expects soft Q4 with the organic ask rate for services at -1.3-0.6%. With improvement in the demand environment and uptick in discretionary spend, we believe the company is well placed to deliver industry-leading growth among Tier-1 IT companies for FY25 and fiscals ahead, given its decent 9MFY2025 performance, diversified offerings, and strategic partnerships with hyperscalers. We expect a Sales/PAT CAGR of ~9%/12% over FY2024-FY2027E. We maintain BUY with an unchanged PT of Rs. 2,180 (valued at 28x Dec26E EPS). At CMP, the stock trades at 30.5/28/24.6x its FY25/FY26/FY27E EPS.

One-year forward P/E (x) band



Source: Company; Mirae Asset Sharekhan Research

About company

HCL Tech is a leading global technology company providing software-led IT solutions, remote infrastructure management, BPO services, and engineering-related services. Further, the company helps global enterprises re-imagine and transform their businesses through digital technology transformation. HCL Tech leverages its global network of integrated co-innovation labs and global delivery capabilities to provide holistic multi-service delivery in key industry verticals.

Investment theme

HCL Tech's revenue growth momentum is expected to accelerate, led by several large deal wins in the past few quarters and gradual recovery in infrastructure management services. The company focuses on chasing large deals to capture market share from incumbents in consolidation deals. Being the leader in IMS practices and the third-largest engineering services player globally in revenue, the company is well positioned to win large deal wins. Strong deal wins along with acquisition of select IP products will help the company drive growth going ahead.

Key Risks

1)Rupee appreciation and/or adverse cross-currency movements. 2)The contagion effect of banking crisis, macro headwinds and recession in the US can moderate the pace of technology spending.

Additional Data

Key management personnel

Roshni Nadar Malhotra	Chairperson
C Vijay Kumar	Managing Director and CEO
Shiv Walia	Chief Financial Officer
Ramachandran Sundararajan	Chief people officer
Kalyan Kumar	Chief Technology Officer and Head, Ecosystems

Source: Company Website

Top 10 shareholders

1	Life Insurance Corp of India	4.83
2	Artisan Partners Ltd	2.15
3	Blackrock Inc	1.66
4	Vanguard Group Inc/The	1.61
5	SBI Funds Management Ltd	1.49
6	HDFC Asset Management Co Ltd	1.25
7	ICICI Prudential Asset Management	1.06
8	UTI Asset Management Co Ltd	0.72
9	PPFAS Asset Management	0.69
10	Nippon Life India Asset Management	0.53

Source: Bloomberg

Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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