

HCL Technologies Ltd

Q3FY25



HCL Technologies Ltd.

HCL Tech narrows organic growth guidance for FY25E

CMP*	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 1,814	INR 1,894	4.4%	INR 53,59,489	HOLD	Internet Software and Services

Result Highlights

- HCL Tech Q3FY25 profits exceeded our expectations by 2.8%. In Q2FY25, HCL Tech had initially guided a revenue growth of 3.5% - 5.0% YoY CC on organic basis. This has now been revised to 4.5% - 5.0% YoY CC on a consolidated basis, factoring in a 50bps contribution from the HPE CTG acquisition (inorganic growth). Consequently, the organic growth forecast has been lowered to 4.0% - 4.5% YoY CC (earlier: 3.5% - 5.0% YoY CC), reflecting slowdown in core operations. **However, we retain our FY26E/FY27E EPS estimates remain at INR 72.6/78.9, as slowdown in the organic business is likely to be mitigated by inorganic growth further supported by recovery in discretionary spending. We assign a P/E of 24.0x and roll over our valuation to FY27E to arrive at a target price of INR 1,894 (previously: INR 1,887).**
- HCL Tech has delivered strong historical growth, with revenue and PAT CAGRs of 13.4% and 12.1% over FY21-FY24, respectively. However, the narrative takes a tempered turn as growth projections for FY24-FY27E remain subdued, signaling a moderation in momentum. Moreover, the stock is currently trading at an unprecedented 1-Year Forward P/E of 30.8x—well above its three-year average of 19.5x. This divergence between price and fundamentals raises concerns about the risk-reward equation. In light of these dynamics, we maintain our "HOLD" rating, reflecting a cautious stance on the stock's limited upside potential.

MARKET DATA

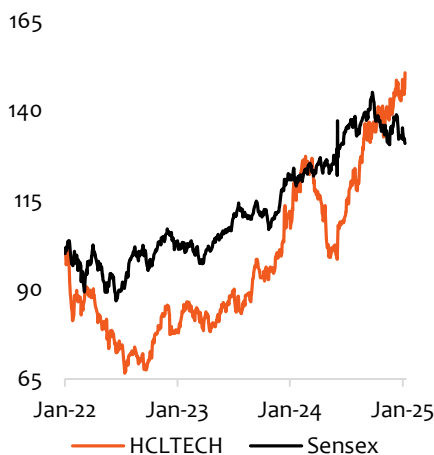
Shares outs (Mn)	2,714
Mkt Cap (INR Mn)	53,59,489
52 Wk H/L (INR)	2,012/1,235
Volume Avg (3m K)	2,493
Face Value (INR)	2
Bloomberg Code	HCLT IN

KEY FINANCIALS

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Revenue	10,14,560	10,99,130	11,77,690	12,98,326	14,06,381
EBIT	1,84,830	2,00,250	2,17,199	2,44,408	2,67,741
PAT	1,48,510	1,57,020	1,76,264	1,96,972	2,14,115
OPM (%)	18.2%	18.2%	18.4%	18.8%	19.0%
NPM (%)	14.6%	14.3%	15.0%	15.2%	15.2%

Source: Company, DevenChoksey Research

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	76,500
NIFTY	23,176

HCL narrows organic growth guidance for FY25E; EBIT Margins boosted by strong software segment performance

- HCL Tech has raised lower end of its FY25E constant currency revenue growth guidance to 4.5%-5.0% (including a 50bps boost from the HPE CTG acquisition) indicating organic growth of 4.0%-4.5% (earlier organic growth: 3.5% - 5.0%), signaling challenges in core operations; margin guidance remains steady at 18.0%-19.0% despite planned senior management wage hikes in Q4FY25.
- HCL Tech Q3FY25 USD revenue stood at 3,533 Mn, up 2.5% QoQ and 3.5% YoY.
- In constant currency terms, revenue was up 3.8% QoQ and 4.1% YoY.
- Revenue stood at INR 2,98,900 Mn, up 5.1% YoY (+3.6% QoQ), in line with our estimates (-1.0%).
- EBIT of INR 58,210 Mn, up 3.1% YoY (+8.6% QoQ) exceeding our estimates due to lower than anticipated employee cost and other expenses; EBIT Margin stood at 19.5%, down 37bps YoY (+90bps QoQ).
- EBIT Margins in HCL Software segment reached an all-time high of 34.5%, reflecting a 160bps YoY and 896bps QoQ improvement, driven by cost optimization, the discontinuation of low-margin products, and reduced amortization.
- PAT jumped by 5.5% YoY (+8.4% QoQ) to INR 45,910 Mn, exceeding our expectations by 2.8. PAT Margin stood at 15.4% (+7bps YoY/ +69bps QoQ).

SHARE HOLDING PATTERN (%)

Particulars (%)	Sep-24	Jun-24	Mar-24
Promoters	60.8	60.8	60.8
FIIIs	18.7	18.5	19.7
DIIIs	15.8	15.8	15.0
Others	4.7	4.9	4.6
Total	100	100	100

*Based on today's closing
Note: All the market data is as of today's closing

8.6%

Revenue CAGR between FY24 and FY27E

10.9%

Adj. PAT CAGR between FY24 and FY27E

HCL Technologies Ltd.

- IT and Business services segment (73.0% of revenue) grew by 5.8% YoY in CC and 1.5% QoQ in CC, driven by strong demand in Retail and Tech & Services.
- Engineering and R&D Services segment (16.0% of revenue) saw a 1.1% YoY in CC and 5.4% QoQ in CC, largely led by manufacturing and telecom vertical, partially offset by weakness in auto segment. Additionally, growth was bolstered by the one-month inorganic contribution from HPE's communication technology assets.
- HCL Software (11.3% of revenue) saw a sequentially jump of 18.7% CC and a degrowth of 2.1% YoY. Management indicated that growth was below expectations due to delays in anticipated renewals and deal closures during Q3FY25, with these shortfalls unlikely to be fully recovered in Q4FY25E.

Key Concall Highlights:

Margin Story

- EBIT Margin for the quarter stood at 19.5%, down 37bps YoY (+90bps QoQ).
- The sequential improvement in the margin was driven by software segment margin (+896bps QoQ) while Services segment (IT services & ER&D) saw a margin decline of 22bps QoQ.
- For service segment, Project Ascend contributed 100bps and forex gains of 20bps partially offset by wage hike impact of 80bps, furlough impact of 40bps, and 20bps impact of HPE's CTG acquisition & integration.

Regional and Segment wise performance

- Regionally, the Americas grew by 6.2% YoY and 1.9% QoQ CC growth, while Europe and RoW saw moderate growth of 2.6% YoY CC (+3.5% QoQ) and 2.9% YoY CC (flat QoQ), respectively.
- On a segmental basis, Financial Services and Technology & Services grew by 1.9% and 2.5% QoQ CC, driven by heightened spending across these verticals.
- Retail & CPG saw a sequential growth of 13.7% CC, primarily attributed to the completion of a large project in the previous quarter. The Telecom and Media business grew 4.0% QoQ in constant currency, supported by the one-month contribution from the HPE CTG acquisition.
- The Manufacturing sector, excluding automotive, has shown strong performance, with SAP-driven projects indicating sustained demand. Conversely, the Automotive sector continues to face challenges, with a decline expected for one or two more quarters before recovery.
- The US Retail and CPG client base continues to demonstrate solid momentum, supported by a rise in open positions, suggesting improving conditions.
- Overall, demand from end-customers has strengthened across most sectors, with the exception of Life Sciences, Healthcare, and Public Services, reflecting a positive trend from September to December.

Key Deal Wins in Q3FY25

- In terms of deal activity, HCL secured a total contract value (TCV) of USD 2.095 Bn, an 8.7% YoY increase, though down 5.5% QoQ. The growth was driven by smaller deals, which continue to outpace larger contracts. The company closed 12 deals in total, with seven from services and five from software, and highlighted an improvement in deal closure duration.
- Key wins included a strategic partnership with a Fortune 50 telecom company to enhance client operations through AI-powered automation and smart hub solutions.
- In Financial Services, HCL was selected by a leading US-based firm for cloud migration and application modernization under its CloudSMART ecosystem.
- Another significant deal involved a Fortune 500 financial services firm leveraging HCL's hybrid cloud and digital workplace transformation solutions.
- In Europe, the Central Bank of Ireland signed a seven-year contract for data center managed services, with an option for extension.

Other Highlights

- HCLTech's total headcount for Q3FY25 increased by 2,134 employees sequentially, bringing the workforce to 220,755.
- The company added 2,014 freshers during Q3FY25. However, the attrition rate edged up by 30 bps to 13.2%.
- HCLTech's Board of Directors has declared dividend of INR 18.0 per share, including a special dividend of INR 6.0 per share

Valuation and view:

HCL Tech Q3FY25 earnings surpassed our expectations, with management maintaining a cautiously optimistic outlook on the improving demand landscape across key verticals. The company has increased its lower end of the revenue guidance for FY25E to 4.5% - 5.0% YoY CC on a consolidated basis (earlier 3.5% - 5.0% YoY CC on basis). The revised revenue guidance includes 50bps contribution from the HPE CTG acquisition, indicating that the company has reduced its upper end of organic growth (excl. contribution from acquisition) guidance to 4.0% - 4.5% YoY CC (earlier 3.5% - 5.0% YoY CC on organic basis), signaling slowdown in core operations.

However, we maintain our FY26E/FY27E EPS estimates of INR 72.6/78.9 as slowdown in the organic business will be compensated by the inorganic business, supported by anticipated benefits from discretionary spending recovery and deal cycle improvements. We assign a P/E of 24.0x and roll over our valuation to FY27E to arrive at a target price of INR 1,894 (previously: INR 1,887).

Despite solid historical revenue and PAT CAGRs of 13.4% and 12.1% (FY21-FY24), growth projections for FY24-FY27E are comparatively subdued, reflecting a tempered outlook. Moreover, the stock is currently trading at an unprecedented 1-Year Forward P/E of 30.8x, far above its three-year average of 19.5x, underscoring stretched valuations. The current valuation fails to align with forecasted growth and offers an unfavorable risk-to-reward ratio. As a result, we reiterate our "HOLD" rating on HCL Tech, indicating limited upside or downside potential.

HCL Technologies Ltd.

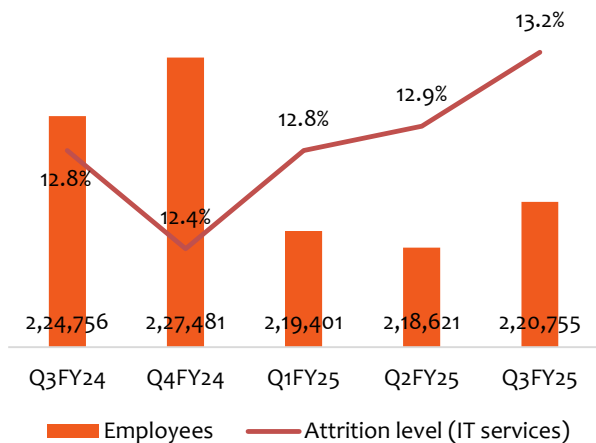
RESULT SNAPSHOT

Particulars (Mn)	Q3FY25	Q2FY25	Q3FY24	QoQ	YoY	9MFY25	9MFY24	Y-o-Y
Revenue	2,98,900	2,88,620	2,84,460	3.6%	5.1%	8,68,090	8,14,140	6.6%
Employee benefits expense	1,65,760	1,65,230	1,58,620	0.3%	4.5%	4,95,090	4,61,290	7.3%
Purchase of stock-in-trade	5,780	4,800	4,170	20.4%	38.6%	14,620	12,620	15.8%
Changes in inventories of stock-in-trade	660	-140	-670	(571.4%)	(198.5%)	770	250	NA
Outsourcing costs	38,740	37,480	37,320	3.4%	3.8%	1,11,630	1,08,680	2.7%
Other expenses	19,360	17,560	17,150	10.3%	12.9%	55,760	50,490	10.4%
Total expenses	2,30,300	2,24,930	2,16,590	2.4%	6.3%	6,77,870	6,33,330	7.0%
EBITDA	68,600	63,690	67,870	7.7%	1.1%	1,90,220	1,80,810	5.2%
EBITDA margin (%)	23.0%	22.1%	23.9%	88bps	-91bps	21.9%	22.2%	-30bps
Depreciation	10,390	10,070	11,430	3.2%	(9.1%)	30,440	30,800	(1.2%)
EBIT	58,210	53,620	56,440	8.6%	3.1%	1,59,780	1,50,010	6.5%
EBIT margin (%)	19.5%	18.6%	19.8%	90bps	-37bps	18.4%	18.4%	-2bps
Finance Cost	1,660	1,310	1,400	26.7%	18.6%	4,880	3,820	27.7%
Other Income	4,770	4,560	3,700	4.6%	28.9%	20,360	10,790	88.7%
Profit before tax	61,320	56,870	58,740	7.8%	4.4%	1,75,260	1,56,980	11.6%
Tax expense	15,380	14,500	15,230	6.1%	1.0%	44,360	39,830	11.4%
Minority Interest	30	20	10	50.0%	200.0%	70	-10	NA
Net profit	45,910	42,350	43,500	8.4%	5.5%	1,30,830	1,17,160	11.7%
Net profit (%)	15.4%	14.7%	15.3%	69bps	7bps	15.1%	14.4%	68bps
Diluted EPS (INR)	16.9	15.6	16.0	8.4%	5.5%	48.2	43.2	11.7%

Source: Company, DevenChoksey Research

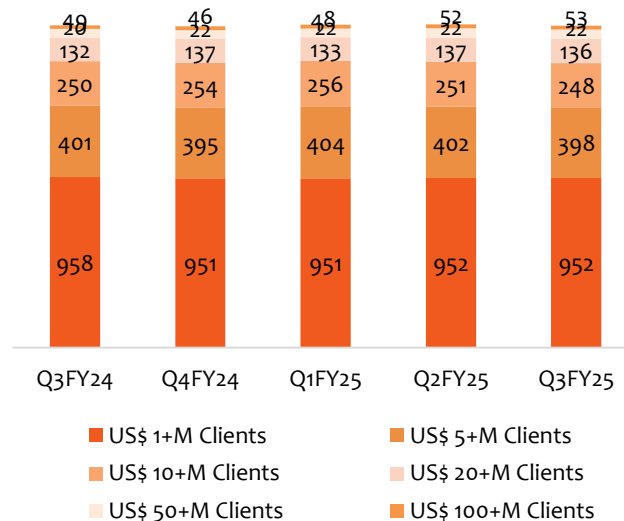
QUARTERLY SNAPSHOT

HCL Tech has progressively expanded its workforce



Source: Company, DevenChoksey Research

Clientele saw net deduction sequentially in USD 20 and 10 Mn+ bracket



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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Revenue	10,14,560	10,99,130	11,77,690	12,98,326	14,06,381
Employee Cost	6,45,230	6,24,800	7,66,863	8,36,106	9,03,989
SG&A and Other Cost	1,43,050	2,32,350	1,53,100	1,72,028	1,86,345
EBITDA	2,26,280	2,41,980	2,57,727	2,90,192	3,16,046
Depreciation	41,450	41,730	40,529	45,784	48,305
EBIT	1,84,830	2,00,250	2,17,199	2,44,408	2,67,741
Other income	13,580	14,950	25,233	20,383	19,873
Finance costs	3,530	5,530	5,728	3,795	3,911
PBT	1,94,880	2,09,670	2,36,704	2,60,996	2,83,703
Tax expense	46,430	52,570	60,359	63,944	69,507
PAT before	1,48,450	1,57,100	1,76,344	1,97,052	2,14,195
Minority Interest, MI	-60	80	80	80	80
Net profit	1,48,510	1,57,020	1,76,264	1,96,972	2,14,115
Diluted EPS (INR)	54.7	57.9	65.0	72.6	78.9
Shares in Million	2,714	2,714	2,714	2,714	2,714

Exhibit 3: Cash Flow Statement

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
CFFO	180,090	224,480	2,43,258	2,83,413	3,12,343
CFFI	-39,310	-67,230	-55,212	-71,671	-76,440
CFFF	-158,810	-154,640	-1,67,601	-1,66,205	-1,94,303
Net Inc/Dec	-18,030	2,610	20,446	45,537	41,600
Opening Cash	105,100	90,650	94,410	1,14,856	1,60,392
Exchange Rate Difference	3,580	1,150	0	0	0
Closing Cash	90,650	94,410	1,14,856	1,60,392	2,01,992

Exhibit 4: Key Ratios

Key Ratios	FY23	FY24	FY25E	FY26E	FY27E
EBIT Margin (%)	18.2%	18.2%	18.4%	18.8%	19.0%
Tax rate (%)	23.8%	25.1%	25.5%	24.5%	24.5%
Net Profit Margin (%)	14.6%	14.3%	15.0%	15.2%	15.2%
RoE (%)	23.3%	23.2%	22.2%	22.1%	22.1%
RoCE (%)	21.1%	21.2%	20.5%	20.6%	20.6%
P/E (x)	36.3	34.4	30.6	27.4	25.2

Source: Company, DevChoksey Research

Exhibit 2: Balance Sheet

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Equity					
Equity Capital	5,430	5,430	5,430	5,430	5,430
Other Equity	648,620	677,200	758,215	850,412	937,528
Non controlling interest	-70	80	80	80	80
Total Equity	653,980	682,710	763,725	855,922	943,038
Non-Current Liabilities					
Borrowings	21,110	22,230	21,563	20,916	20,289
Other Financial Liabilities	28,070	42,180	30,855	34,016	36,847
Operating Lease Liability	16,640	23,390	18,254	20,124	21,799
Total Non-Current Liabilities	65,820	87,800	70,673	75,056	78,935
Current Liabilities					
Borrowings	10,110	11,940	11,777	12,983	14,064
Trade Paybles	64,280	58,530	75,613	82,860	89,617
Income Tax Liabilities	21,500	23,130	26,557	28,134	30,582
Other current liabilities	118,420	133,660	130,253	143,595	155,546
Total Current Liabilities	214,310	227,260	244,200	267,573	289,808
Total Liabilities	934,110	997,770	1,078,598	1,198,552	1,311,781
Non-Current Assets					
PPE	53,710	48,910	53,133	72,266	94,280
Right of use of Assets	23,370	29,700	30,042	30,418	30,826
Goodwill	185,670	201,320	201,320	201,320	201,320
Intangible Assets	83,440	71,300	71,300	71,300	71,300
Other current assets	52,150	53,230	63,348	69,726	75,440
Total Non-Current Assets	398,340	404,460	419,143	445,031	473,165
Current Assets					
Investments	53,850	70,430	70,430	70,430	70,430
Trade Receivables	255,060	255,210	306,522	337,920	366,044
Cash and Bank	147,240	201,500	114,856	160,392	201,992
Oher current assets	79,620	66,170	167,647	184,778	200,149
Total Current Assets	535,770	593,310	659,455	753,521	838,616
Total Assets	934,110	997,770	1,078,598	1,198,552	1,311,781

HCL Technologies Ltd.

HCL Technologies Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
14-Jan-25	1,814	1,894	HOLD	Buy	More than 15%
15-Oct-24	1,870	1,887	HOLD	Accumulate	5% – 15%
15-Jul-24	1,570	1,668	ACCUMULATE	Hold	0 – 5%
29-Apr-24	1,387	1,546	ACCUMULATE	Reduce	-5% – 0
08-Feb-24	1,615	1,756	ACCUMULATE	Sell	Less than – 5%

ANALYST CERTIFICATION:

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