

- ❑ HCL Tech reported revenue by an increased of 5.1% YoY to Rs 29,890 crores on a consolidated basis. In constant currency (CC) terms the revenue grew by 4.1% YoY and 3.8% QoQ. In dollar terms, revenue of \$3,533M, up 2.5% QoQ & up 3.5% YoY. The uptick in the revenue was seen due to increasing spending patterns in the verticals.
- ❑ On the business segment front, revenue for IT Business services, Engineering and R&D reported decent organic growth of 1.5% & 2.0% respectively, while software growth of +18.7% QoQ in constant currency terms. The Retail & CPG vertical clocked double-digit growth of +11.5% QoQ driven by the completion of a large transformational project. The strong growth in Telecom (+2.6% QoQ) is primarily driven by one month's revenue from the HPE CTG acquisition. On geography front, Americas grew 1.9% QoQ; Europe grew 3.5% QoQ in CC whereas the RoW markets fell by 0.6% QoQ in USD terms.
- ❑ EBIT margin grew 90bps QoQ to 19.5% on internal margin improvement initiatives and currency tailwinds, partially offset by wage hike and furlough headwinds. Net headcount additions were 2,134, taking the total headcount to 2,20,755. LTM attrition rose 30 bps QoQ to 13.2%.
- ❑ The company has won net new 12 deals with TCV of US\$ 2095mn; the net new deals are composed of 7 from IT services and 5 from product business. Annual contract value (ACV) grew by 9% on QoQ and 23% YoY; while, a contraction of 5% QoQ in TCV was majorly due to delay in ramp up of large deals with smaller deals growing stronger.
- ❑ 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 and Services Revenue growth expected to be between 4.5% - 5.0% YoY in CC. The company declared an interim dividend of Rs 12 per share and a special dividend of Rs 6 per share.
- ❑ Going forward we believe that company's gradual improvement in revenue growth could be seen ramping up of the recent signed deals and growing traction in AI-based solutions. Additionally, there has been an increase in the number of small-sized deals with the tenure of deals getting shorter with this demand environment and strategic partnership could aid in achieving the stable end of FY25 therefore, we maintain **HOLD** rating on the stock with a revised target price of **₹2050 per share**.

Key takeaways from Concall

- ❑ The company completed the acquisition of select assets from HPE's Communications Technology Group (CTG) for USD 225mn. This deal enhances HCLT's presence in the telecom vertical with intellectual property, engineering talent, and client relationships with communication service providers. Management highlighted that the CTG acquisition contributed one month of revenue in 3Q.
- ❑ The company added one client in the \$50 million+ category on a QoQ 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% QoQ, respectively.
- ❑ Management is seeing decent momentum in ER&D with its integrated sales team while Europe remain challenging. Have seen improvement in discretionary spending. Smaller deals are converting quicker while larger deals are taking time to convert.
- ❑ Management noted pressure in the manufacturing segment, especially in Europe's automotive sector, due to cost-cutting by key clients. They anticipate 1–2 more quarters of decline before recovery, with potential for large transformative deals emerging.
- ❑ The impact of AI and generative AI in its deal-making cycle is increasing. The company continue to see gen AI related opportunities with multiple ongoing engagements. There is AI led demand for modernization, data and cloud. Agentic AI adoption to see good traction.
- ❑ HCL Tech upgraded its FY25 growth guidance to 4.5–5%, with 50bp of inorganic contribution (HPE CTG) essentially translating to organic revenue growth guidance of 4–4.5% (from 3.5–5% CC YoY earlier). However, Q4FY25 is expected to be soft due to a large project ending and planned reduction in another project. It guidance too implies required QoQ growth of -1.3% to +0.6% in Q4FY25. This soft exit rate is also likely to impact FY26 growth.

Financials:

(In ₹ mn)	Q3-FY25	Q2-FY25	Q3-FY24	Chg	9M FY25	9M FY24	Chg
Net Sales	2,98,900	2,88,620	2,84,460	5.1%	8,68,090	8,14,140	6.6%
Operating Expense	2,30,300	2,24,930	2,16,590	6.3%	6,77,870	6,33,330	7.0%
EBITDA	68,600	63,690	67,870	1.1%	1,90,220	1,80,810	5.2%
Other Income	4,770	4,560	3,700		20,360	20,360	
Depreciation	10,390	10,070	11,430		30,440	30,440	
EBIT	62,980	58,180	60,140	4.7%	1,80,140	1,70,730	5.5%
Interest	1,660	1,310	1,400		4,880	3,820	
PBT	61,320	56,870	58,740	4.4%	1,75,260	1,66,910	5.0%
Tax	15,380	14,500	15,230		44,360	39,830	
Exceptional Items	-	-	-		-	-	
PAT	45,940	42,370	43,510	5.6%	1,30,900	1,27,080	3.0%
Minority /Other Adj.	(30)	-20.00	(10)		(70)	10	
Consolidated PAT	45,910	42,350	43,500	5.5%	1,30,830	1,27,090	2.9%

Margins	Q3-FY25	Q2-FY25	Q3-FY24	Chg BPS	9M FY25	9M FY24	Chg BPS
Operating Margin %	23.0%	22.1%	23.9%	-91	21.9%	22.2%	-30
Net Margin %	15.4%	14.7%	15.3%	7	15.1%	15.6%	-54

Consolidated Financials:

(In ₹ mn) x`	FY-23	FY-24	FY-25E	FY-26E
Net Sales	10,14,560	10,99,130	11,48,591	12,06,020
Operating Expense	7,88,320	8,57,330	8,91,623	9,27,432
EBITDA	2,26,240	2,41,800	2,56,968	2,78,588
Other Income	13,620	15,130	15,811	16,601
Depreciation	41,450	41,730	45,680	46,451
EBIT	1,98,410	2,15,200	2,27,099	2,48,738
Interest	3,530	5,530	4,617	4,618
Misc. items	-	-	-	-
PBT	1,94,880	2,09,670	2,22,482	2,44,121
Tax	46,430	52,570	55,620	61,030
Minority Interest	60	(70)	-	-
PAT	1,48,510	1,57,030	1,66,861	1,83,091

Margins	FY-23	FY-24	FY-25E	FY-26E
Sales Growth %	18.5%	8.3%	4.5%	5.0%
Operating Margin %	22.3%	22.0%	22.4%	23.1%
Net Margin %	14.6%	14.3%	14.5%	15.2%
EBIT Margin %	19.6%	19.6%	19.8%	20.6%

(In ₹ mn)	FY-23	FY-24	FY-25E	FY-26E
Liabilities				
Equity Share Capital	9,310	11,820	11,820	11,820
Reserves & Surplus	6,44,740	6,70,810	8,37,509	10,20,422
Total Shareholder's Funds	6,54,050	6,82,630	8,49,329	10,32,242
Minority Interest	(70)	80	80	80
Long-Term Liabilities	21,110	22,230	22,230	22,230
Other Long-term Liabilities	43,100	57,860	57,860	57,860
Deferred Tax Liability	(10,910)	(2,600)	(2,600)	(2,600)
Short-term Liabilities	2,14,310	2,27,260	2,31,250	2,49,030
Total	9,21,590	9,87,460	11,58,149	13,58,843
Assets				
Net Fixed Assets	3,46,590	3,51,710	3,09,956	2,92,454
Long-Term L&A	8,860	10,940	10,940	10,940
Non Current Investments	1,100	940	940	940
Other Non-Current Assets	29,270	30,560	30,560	30,560
Current Asset	5,35,770	5,93,310	8,05,753	10,23,949
Total	9,21,590	9,87,460	11,58,149	13,58,843

(In ₹ mn)	FY-23	FY-24	FY-25E	FY-25E
EPS (₹)	54.7	57.9	61.5	67.5
P/E (x)	33.3	31.5	29.6	27.0
P/B (x)	7.6	7.2	5.8	4.8
ROE	22.7%	23.0%	19.6%	17.7%
ROCE	28.1%	28.3%	24.5%	22.4%
EV/EBIDTA (x)	20.7	19.3	18.2	16.8

Source: Company, Anand Rathi Research

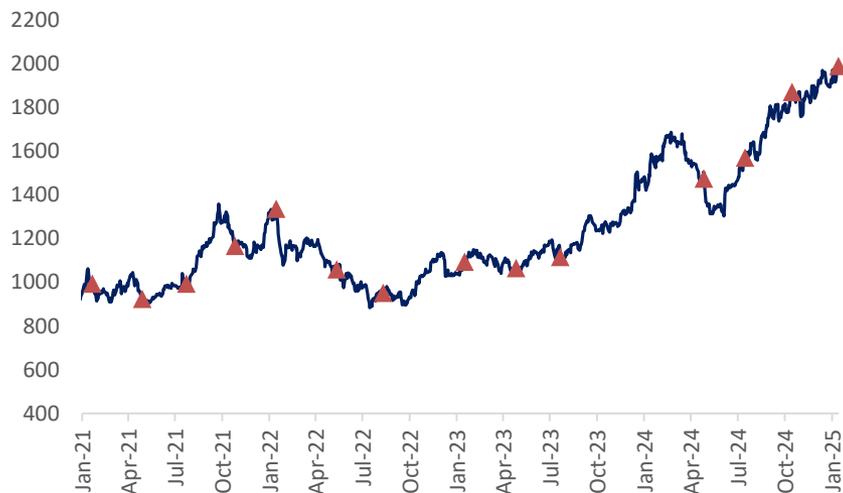
Key Risks:

- US H1-B Visa regulations.
- Foreign currency fluctuations.
- Employee attrition.



Rating and Target Price history:

HCLTECH's rating history & price chart



Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on 14 Jan 2025 close.

HCLTECH's rating details

Date	Rating	Target Price (₹)	Share Price (₹)
21-Jan-21	Buy	1125	994
28-Apr-21	Buy	1075	924
23-Jul-21	Buy	1150	994
26-Oct-21	Buy	1350	1167
14-Jan-22	Buy	1550	1337
12-May-22	Buy	1350	1059
10-Aug-22	Buy	1183	952
16-Jan-23	HOLD	1,225	1,094
26-Apr-23	HOLD	1,200	1,065
21-Jul-23	HOLD	1,250	1,115
31-Jan-24	HOLD	1,745	1,574
29-Apr-24	HOLD	1,500	1,387
11-Jul-24	HOLD	1725	1569
15-Oct-24	HOLD	2020	1870
14-Jan-25	HOLD	2050	1820

Source: Bloomberg, Anand Rathi Research

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