

IT

HCL Technologies

Q2FY23 Result Update

October 14, 2022

CMP	1002
Sensex	57920

**Strong operational performance & Guidance revised up**

HCL Tech reported Top-line growth of 1.9% qoq to USD3082mn in Q2FY23, while in constant currency (CC) Top-line grew 3.8% qoq. In INR terms Top-line grew 5.2% qoq to Rs24,686cr.

### Stock Statistics

Reuters code	HCLT.BO
Bloomberg code	HCLT IN

**Amongst segments, IT & Business services and Engineering and R&D (ER&D) grew strong by 3.1% qoq (5.3% qoq CC growth) and 4.2% in USD terms respectively.** Products & Platforms segment continued to witness strong seasonal volatility by de-growing 10% qoq in USD terms.

Equity Cap (INR cr)	543
Face Value (INR)	2
INR / USD	82.4
Market cap (INR cr)	2,72,031
Market cap (USD bn)	33.0
52 Wk High/Low (INR)	1359/ 876

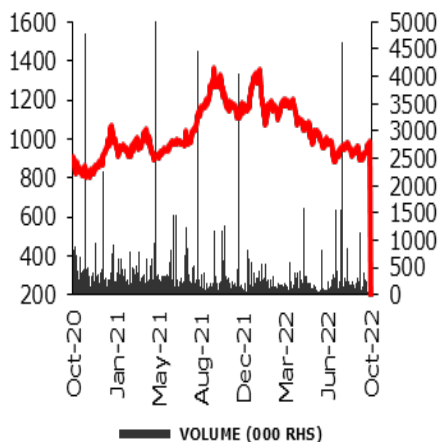
**HCL Tech won 11 net new deals with TCV of US\$2,384mn in Q2, which was up 16% qoq out of which; 8 new wins were in Services and 3 in Products. This included one mega deal win of ACV US\$125mn for five years from P&P. The future deal pipeline with large and medium opportunities also continues to stay healthy.**

### Shareholding Pattern (%) – Jun'22

Promoter	60.7
Foreign Institutional Investor	18.5
MF / FI / UTI / Banks	15.5
Public & Others	4.9
Bodies & Corporate	0.4

**EBIT margin was up 92bps qoq at 17.9% in Q2FY23 led by 130bps qoq improvement in Services segment margins (which stood at 17.6%) despite of competitive salary hikes given to large percent of employees. There was also 45bps qoq SG&A benefit. Thus, margins were led by significant efficiencies and good bill rates with improved realisation from existing as well as new projects are coming at new rate card implemented from Jan'22 onwards.** Plus, there is strong freshers hiring done in past getting productive, operating leverage and some forex benefit. There was no compromise made on rate of wage hikes or variable compensations of employees.

### 2 yr Price and Volume Chart



**Other Income was down 55% qoq due to lower investment income of Rs111cr, as well as Forex gain of Rs46cr (v/s Rs82cr in Q1FY23). Thus, led by strong operational performance, HCL Tech has reported 6.3% qoq uptick in PAT to Rs3489cr.**

Key Financials (Consolidated)				
Y/E March (Rs cr)	FY2021	FY2022	FY2023E	FY2024E
<b>Net Sales</b>	<b>75,379</b>	<b>85,651</b>	<b>1,02,787</b>	<b>1,13,434</b>
% chg	6.7	13.6	20.0	10.4
<b>Net Profit</b>	<b>12,435</b>	<b>13,499</b>	<b>14,653</b>	<b>16,224</b>
% chg	12.4	8.6	8.6	10.7
EBIT Margin (%)	21.3	18.9	18.0	18.2
<b>FDEPS (Rs)</b>	<b>45.8</b>	<b>49.8</b>	<b>54.1</b>	<b>59.9</b>
P/E (x)	16.6	22.4	18.5	16.7
P/BV (x)	3.4	4.9	4.2	4.0
RoE (%)	20.2	21.8	22.8	24.1
RoCE (%)	27.4	26.2	29.1	31.0
EV/Sales (x)	2.5	3.3	2.5	2.3
EV/EBITDA (x)	9.5	13.9	11.5	10.5
Net Debt/Equity	(0.2)	(0.2)	(0.1)	(0.1)

Analyst

Dhanshree Jadhav

✉: dhanshree@anvilresearch.com

Source: Company & Anvil Research; Note: Financials in FY21 are in US GAAP and from FY22 onwards are in IND AS format.

## Quarterly Financial Statement

Q2FY23 Consolidated Financial Performance (IND AS)								
Y/E March (Rs cr)	Q2FY23	Q1FY23	% chg (qoq)	Q2FY22	% chg (yoy)	H1FY23	H1FY22	% chg
<b>Revenues</b>	<b>24,686</b>	<b>23,464</b>	<b>5.2</b>	<b>20,655</b>	<b>19.5</b>	<b>48,150</b>	<b>40,723</b>	<b>18.2</b>
Direct Costs	15,848	15,066	5.2	12,610	25.7	30,914	24,669	25.3
R&D Costs	388	391	(0.8)	369	5.1	779	765	1.8
<b>Gross Profit</b>	<b>8,450</b>	<b>8,007</b>	<b>5.5</b>	<b>7,676</b>	<b>10.1</b>	<b>16,457</b>	<b>15,289</b>	<b>7.6</b>
SG&A Expenses	3,024	3,032	(0.3)	2,653	14.0	6,056	5,204	16.4
<b>EBITDA</b>	<b>5,426</b>	<b>4,975</b>	<b>9.1</b>	<b>5,023</b>	<b>8.0</b>	<b>10,401</b>	<b>10,085</b>	<b>3.1</b>
Other Income	157	345	(54.5)	157	-	502	323	-
Depreciation & Amort.	998	983	1.5	1,079	(7.5)	1,981	2,207	(10.2)
<b>PBT</b>	<b>4,585</b>	<b>4,337</b>	<b>5.7</b>	<b>4,101</b>	<b>11.8</b>	<b>8,922</b>	<b>8,201</b>	<b>8.8</b>
Tax	1,097	1,056	3.9	838	30.9	2,153	1,725	24.8
Equity Invest. Share & Minority Int.	1	2	(50.0)	(5)	-	3	(12)	-
One-time Milestone Bonus	-	-	-	-	-	-	-	-
<b>Net Income</b>	<b>3,489</b>	<b>3,283</b>	<b>6.3</b>	<b>3,258</b>	<b>7.1</b>	<b>6,772</b>	<b>6,464</b>	<b>4.8</b>
<b>Diluted EPS (Rs)</b>	<b>12.9</b>	<b>12.1</b>	<b>6.3</b>	<b>12.0</b>	<b>7.2</b>	<b>25.0</b>	<b>23.8</b>	<b>5.0</b>
Gross Profit Margin (%)	34.2	34.1	0.1	37.2	(2.9)	34.2	37.5	(3.4)
EBITDA Margin (%)	22.0	21.2	0.8	24.3	(2.3)	21.6	24.8	(3.2)
EBIT Margin (%)	17.9	17.0	0.92	19.1	(1.2)	17.49	19.3	(1.9)
Net Profit Margin (%)	14.1	14.0	0.1	15.8	(1.6)	14.1	15.9	(1.8)
Tax rate (%)	23.9	24.3	(0.4)	20.4	3.5	24.1	21.0	3.1

Source: Company and Anvil Research

## Key Operational Matrix

New Services split (USD mn)	Revenues (US \$mn)					EBIT Margin (%)		
	Q2FY23	Q1FY23	Q2FY22	% chg qoq	% chg yoy	Q2FY23	Q1FY23	Q2FY22
IT & Business services (A)	2,269	2,201	2,027	3.1	11.9	16.7%	15.7%	18.8%
Engineering and R&D services (B)	524	503	438	4.2	19.7	21.4%	18.7%	19.2%
<b>Total Services (A+B)</b>	<b>2,793</b>	<b>2,704</b>	<b>2,465</b>	<b>3.3</b>	<b>13.3</b>	<b>17.6%</b>	<b>16.3%</b>	<b>18.9%</b>
Products & Platforms	289	321	325	(10.0)	(11.1)	20.3%	22.5%	19.2%
<b>Total Revenues</b>	<b>3,082</b>	<b>3,025</b>	<b>2,791</b>	<b>1.89</b>	<b>10.4</b>	<b>17.9%</b>	<b>17.0%</b>	<b>19.1%</b>

Source: Company & Anvil Research

Vertical Split (USD mn)	Q2FY23	Q1FY23	Q2FY22	% chg qoq	% chg yoy
Financial Services	635	638	594	(0.5)	6.8
Manufacturing	592	554	500	6.9	18.5
Technology & Services	465	466	480	(0.1)	(3.0)
Lifesciences & Healthcare	509	496	427	2.5	19.1
Public Services	314	309	296	1.9	6.3
Retail & CPG	284	284	273	(0.3)	3.7
Telecom, Media, Publishing & Entert.	284	278	220	1.9	28.6
<b>Total Revenues</b>	<b>3,082</b>	<b>3,025</b>	<b>2,791</b>	<b>1.9</b>	<b>10.4</b>

Source: Company & Anvil Research

Geographical Split (USD mn)	Q2FY23	Q1FY23	Q2FY22	% chg qoq	% chg yoy
North America	1,997	1,942	1,753	2.8	14.0
Europe	848	841	790	0.8	7.3
ROW	237	242	248	(1.9)	(4.5)
<b>Total Revenues</b>	<b>3,082</b>	<b>3,025</b>	<b>2,791</b>	<b>1.9</b>	<b>10.4</b>

Source: Company & Anvil Research

Revenues USD mn (LTM based)	Q2FY23	Q1FY23	Q2FY22	Chg qoq	Chg yoy
Top 5 client	330	339	354	-2.7%	-7.0%
% of revenues	10.7%	11.2%	12.7%		
Top 10 clients	579	587	578	-1.3%	0.3%
% of revenues	18.8%	19.4%	20.7%		
Top 20 clients	881	874	834	0.8%	5.6%
% of revenues	28.6%	28.9%	29.9%		

Source: Company and Anvil Research

## Outlook

### ➤ FY23 Guidance

HCL Tech is very optimistic in terms of TCV booking and pipeline of deals that it has witnessed in Q1 as well as in Q2FY23. And hence HCL Tech has revised its FY23 Top-line growth guidance to be between 13.5% to 14.5% yoy in constant currency (v/s earlier guided band of 12-14%), which we believe is quite positive. Moreover, growth guidance for IT Services segment for FY23 stands in the range of 16-17% in CC terms led by strong order bookings and deals under pipeline. The guidance also considers furloughs in Q3 & Q4FY23 and macro-economic concerns.

HCL Tech expects some level of stability in P&P and flat growth there in FY23 & FY24. The company expects to witness good synergies from P&P segment getting reflected in Services segment too. This approach helped in winning the mega deal in P&P in Q2FY23.

It's all about focusing on right opportunities as Market is very big. There is some churn happening across vendor landscapes and there is critical work like Cloud migration and operating model change that clients are undertaking. Hence Product sustenance and new product development there is good balance of these two in HCL Tech's portfolio which is keeping its ER&D segment looking quite promising for growth going forward. Overall HCL Tech will be aiming at good exit in FY23.

EBIT margin guidance is however revised down to 18-19% of narrow band from earlier guided band of 18-20%. Margins levers include improved realization in existing projects and deals won from Jan22 with new rate card of price increase plus acceleration in new bookings, improvement in Utilization with freshers getting productive and SG&A lever. Moreover, in Q4FY23 P&P segment margins are definitely expected to improve.

- The company is doing hiring across all geographies both on onshore and nearshore locations. All clients continued with their digital transformation journeys and they are spending on Technology landscape with an aim of reducing operating costs. Be it in Applications, data modernization or in other areas where HCL aims to gain market share from making Investments.

- **Micro uncertainty is weighing on clients who are prioritizing on areas where to spend. Overall demand is still going through a supply constrained market. Number of open employee requirements have moderated but still strong.**
- **Some of the transformational projects in operating model change of Clients, such spends are not going back in any kind of macro scenario.**
- **Hyperscaler’s bookings are growing handsomely in last 2-3 years. But lot of Clients are lagging behind in terms of certain capacities that they have subscribed to for a certain time period which they have bought from Hyperscalers which need to be consumed in time. So, Cloud migration for clients will get accelerated further in near term. So, HCL Tech is not concerned about any slowdown in growth rate of Hyperscalers as booked capacity has to be consumed by accelerating Cloud migration of Clients.**
- **Realizations increase in Q2 was led by some renegotiations on Cola clauses with existing clients. Clients are realizing costs have gone up and for last 1 year there is massive churn in supply chain and talent war was visible to clients so they were co-operative on Price increase. Plus, new deals signed from Jan22 came at newer rate cards is also substantially reflecting into HCL Tech’s growth and margins as new deals have just started contributing.**
- **Manufacturing grew quite strong. Engineering services has good exposure to Manufacturing and lot of our clients across the board has incremental ramp ups plus one large deal saw transitional ramp up seen in terms of transformation by one client in France. Thus, Europe growth is driven by Manufacturing and led by deals executed in new geographies the company has just entered.**
- **Net additions stood at 8,359 with total headcount of 2,19,325 as on Q2FY23. Talent acquisition continued on accelerated mode with 22000 employees been trained in Q1 on digital skills. HCL Tech added 10339 freshers in Q2FY23 (v/s 6023 freshers in Q1FY23). In Q2 Freshers hiring was quite higher than done in past quarters. HCL Tech thus plans for 30000 freshers hiring for FY23.**
- **IT Services Attrition (LTM) was flat qoq at 23.8% on Q2FY23, which is quite positive and Mgmt. has guided the same to start coming off in coming quarters.**
- **Cash & Investments of HCL Tech was up 5% qoq to Rs18,342cr in Q2, while the Debt was up 3.3% qoq to Rs4205cr. HCL Tech has announced interim dividend of Rs10/share for Q2FY23 similar as in Q1FY23.**

**Thus, for FY23E we expect HCL Tech to register Top-line growth of 20% yoy (growth of 11.4% yoy in USD terms), PAT growth of 8.6% yoy and EPS of Rs54.1. For FY24E we expect HCL Tech to register Top-line growth of 10.4% yoy (growth of 10% yoy in USD terms), PAT growth of 11% yoy and EPS of Rs60. Thus, we expect HCL Tech’s Top-line to witness 15% CAGR, while PAT to witness 9.7% CAGR from FY22-FY24E.**

<b>Assumptions for Revenue Projections</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>
IT & Business Services	14.9%	12.2%	10.5%
Engineering and R&D Services	14.5%	18.6%	11.9%
Product & Platforms	0.2%	-2.6%	3.7%
<b>Revenue growth (in USD)</b>	<b>12.8%</b>	<b>11.4%</b>	<b>10.0%</b>
<b>Revenue growth (in INR)</b>	<b>13.6%</b>	<b>20.0%</b>	<b>10.4%</b>

*Source: Company and Anvil Research*

# HCL Technologies

P&L (Rs cr)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net sales	50,570	60,427	70,678	75,379	85,651	1,02,787	1,13,434
Other income	1,111	805	178	657	747	852	895
<b>Total Income</b>	<b>51,681</b>	<b>61,232</b>	<b>70,856</b>	<b>76,036</b>	<b>86,398</b>	<b>1,03,639</b>	<b>1,14,328</b>
Cost of revenue	33,237	39,241	45,294	45,974	54,286	65,578	72,371
SG&A	5,894	7,218	8,690	9,348	10,835	14,716	16,463
<b>Cost of sales</b>	<b>39,131</b>	<b>46,459</b>	<b>53,984</b>	<b>55,322</b>	<b>65,121</b>	<b>80,294</b>	<b>88,833</b>
PBIDT	11,439	13,968	16,694	20,057	20,530	22,493	24,600
PBDT	12,550	14,773	16,872	20,714	21,277	23,345	25,495
Depreciation	1,453	2,147	2,841	3,985	4,326	3,979	4,007
<b>PBT</b>	<b>11,097</b>	<b>12,626</b>	<b>14,031</b>	<b>16,729</b>	<b>16,951</b>	<b>19,366</b>	<b>21,488</b>
Provision for tax	2,317	2,481	2,938	3,663	3,428	4,718	5,265
PAT	8,780	10,145	11,093	13,066	13,523	14,648	16,224
Minority Interest/ext.	-	(21)	(31)	(631)	(24)	5	-
<b>Adjusted PAT</b>	<b>8,780</b>	<b>10,124</b>	<b>11,062</b>	<b>12,435</b>	<b>13,499</b>	<b>14,653</b>	<b>16,224</b>

Source: Company and Anvil Research; Note: Financials in FY18-FY21 are in US GAAP and from FY22 are in IND AS format.

Balance Sheet (Rs cr)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity capital	281	275	542	543	543	542	542
Reserve & Surplus	36,536	41,495	51,144	60,963	61,371	63,843	66,668
<b>Total Long term Debt</b>	<b>437</b>	<b>3,986</b>	<b>5,092</b>	<b>3,907</b>	<b>3,985</b>	<b>4,332</b>	<b>4,375</b>
Other Liabilities & Minority Interest	1,267	1,992	5,548	5,535	5,120	5,278	5,458
<b>Capital Employed</b>	<b>38,521</b>	<b>47,748</b>	<b>62,326</b>	<b>70,948</b>	<b>71,019</b>	<b>73,995</b>	<b>77,043</b>
Goodwill and other intangible assets	14,406	17,695	29,421	29,150	27,160	27,960	28,460
Gross block	13,080	15,844	19,128	23,114	26,936	30,500	35,000
Accumulated depreciation	7,896	10,043	12,884	16,869	21,195	25,174	29,181
Net block	5,185	5,801	6,244	6,245	5,741	5,326	5,819
<b>Total fixed assets</b>	<b>5,185</b>	<b>5,801</b>	<b>6,244</b>	<b>6,245</b>	<b>5,741</b>	<b>5,326</b>	<b>5,819</b>
Investments (Long-term)	522	390	38	47	312	126	140
Other non-current assets	3,768	5,293	9,088	9,209	7,779	6,879	6,479
Sundry debtors	12,258	14,610	17,772	17,525	20,671	28,161	29,835
<b>Cash &amp; bank</b>	<b>7,421</b>	<b>9,171</b>	<b>8,385</b>	<b>13,717</b>	<b>15,644</b>	<b>10,620</b>	<b>11,590</b>
Unbilled rev. & other current assets	2,520	3,716	5,279	5,037	5,487	5,587	5,687
Investments (Short term)	2,357	2,220	6,988	6,773	6,239	7,000	6,800
Sundry creditors	92	131	117	173	187	200	220
Other current liabilities	9,823	11,018	20,772	16,582	17,827	17,465	17,547
<b>Net current assets</b>	<b>14,641</b>	<b>18,569</b>	<b>17,535</b>	<b>26,297</b>	<b>30,027</b>	<b>33,704</b>	<b>36,145</b>
<b>Capital Deployed</b>	<b>38,521</b>	<b>47,748</b>	<b>62,326</b>	<b>70,948</b>	<b>71,019</b>	<b>73,995</b>	<b>77,043</b>

Source: Company and Anvil Research; Note: Financials in FY18-FY21 are in US GAAP and from FY22 are in IND AS format.

Key Ratios	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Absolute Growth (%)</b>							
Revenue	8.2	19.5	17.0	6.7	13.6	20.0	10.4
EBITDA	11.0	22.1	19.5	20.1	2.4	9.6	9.4
PAT	3.8	15.3	9.3	12.4	8.6	8.6	10.7
<b>Profitability Ratios (%)</b>							
EBITDA margins	22.6	23.1	23.6	26.6	24.0	21.9	21.7
EBIT margins	19.7	19.6	19.6	21.3	18.9	18.0	18.2
PAT margins	17.4	16.8	15.7	16.5	15.8	14.3	14.3
ROCE	29.3	28.7	25.8	27.4	26.2	29.1	31.0
ROIC	47.3	45.5	44.7	44.7	45.8	39.5	42.0
ROA	18.1	17.2	13.3	14.9	15.2	16.0	17.1
ROE	23.8	24.2	21.4	20.2	21.8	22.8	24.1
<b>Valuation Ratio (x)</b>							
P/E (on FDEPS)	14.1	13.5	13.4	16.6	22.4	18.5	16.7
P/CEPS	12.1	11.1	10.7	12.6	17.0	14.6	13.4
P/BV	3.4	3.3	2.9	3.4	4.9	4.2	4.0
Dividend yield (%)	1.4	0.8	1.5	3.7	3.8	4.5	4.9
EV/Sales	2.3	2.1	2.0	2.5	3.3	2.5	2.3
EV/EBITDA	10.0	9.3	8.3	9.5	13.9	11.5	10.5
EV / Total Assets	2.4	2.2	1.7	2.2	3.2	2.8	2.7
<b>Per Share Data (Rs)</b>							
EPS (Basic)	62.7	73.6	40.8	45.8	49.8	54.1	59.9
EPS (fully diluted)	62.6	73.6	40.8	45.8	49.8	54.1	59.9
Cash EPS	73.1	89.2	51.3	60.5	65.7	68.8	74.7
DPS	12.0	8.0	8.0	28.0	42.0	45.0	49.5
Book Value per share	262.5	303.7	190.6	226.7	228.0	237.7	248.1
<b>Dupont Analysis</b>							
EBIT margin (a)	21.9	20.9	19.9	22.2	19.8	18.8	18.9
Tax retention ratio (b)	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Assets Turnover ©	1.0	1.0	0.8	0.9	1.0	1.1	1.2
<b>ROA (a*b*c)</b>	<b>18.1</b>	<b>17.2</b>	<b>13.3</b>	<b>14.9</b>	<b>15.2</b>	<b>16.0</b>	<b>17.1</b>
Net Profit AT/Total Assets (a1)	18.1	17.2	13.3	14.2	15.2	16.0	17.1
Total Assets/Stockholders' Equity (b1)	1.3	1.4	1.6	1.4	1.4	1.4	1.4
<b>ROE (a1*b1)</b>	<b>23.8</b>	<b>24.2</b>	<b>21.4</b>	<b>20.2</b>	<b>21.8</b>	<b>22.8</b>	<b>24.1</b>
<b>Liquidity ratios (x)</b>							
Asset Turnover (Gross Block)	4	4	4	3	3	3	3
Debtors days	83	81	84	85	81	87	93
Creditors days	3	1	1	1	1	1	1
Working capital cycle (ex-cash days)	40	50	48	53	57	67	77
<b>Leverage ratios (x)</b>							
Gross debt to equity	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Net debt to equity	(0.2)	(0.1)	(0.1)	(0.2)	(0.2)	(0.1)	(0.1)
Net debt to EBITDA	(0.6)	(0.4)	(0.2)	(0.5)	(0.6)	(0.3)	(0.3)

Source: Company and Anvil Research; Note: 1. EPS in FY18 exhibits Equity dilution from 3.5cr of Equity Buyback done by HCL Tech in May'17, 2. EPS in FY20 is after considering 1:1 Bonus issue effective from Dec'19 onwards.

**Anvil Share & Stock Broking Pvt Ltd is registered as below:**

**SEBI Regn No.:- U67120MH1997PTC109640**

**Cash Segment – BSE Regn No. – INB011209950**

**NSE Regn No. – INB231046831**

**F&O Segment - BSE Regn No. – INF011209950**

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