

**IT**  
**April 21, 2023**

**HCL Tech Stock Update**  
Q4FY23 Results

<b>CMP</b>	<b>1049</b>
<b>Sensex</b>	<b>59655</b>

### Stock Statistics

Reuters code	HCLT.BO
Bloomberg code	HCLT IN

Equity Cap (INR cr)	543
Face Value (INR)	2
INR / USD	82.1
Market cap (INR cr)	2,84,528
Market cap (USD bn)	34.7
52 Wk High/Low (INR)	1157/ 876

### Shareholding Pattern (%) – Dec'22

Promoter	60.7
Foreign Institutional Investor	18.8
MF / FI / UTI / Banks	15.9
Public & Others	4.2
Bodies & Corporate	0.4



### Resilient performance in IT Services despite of weak macros

- **HCL Tech has reported 1.2% qoq Top-line degrowth in CC terms and 0.3% qoq degrowth in reported terms to US\$3235mn in Q4FY23. In INR terms Top-line de-grew 0.4% qoq to Rs26,606cr.**
- **Growth in Services segment stood at 0.6% qoq in CC terms and 1.5% qoq in reported terms, which was little better than expectation and led by 2.6% qoq growth in IT&BS segment.** However, other part of Services segment, which is ER&D segment de-grew led by Technology & Telecom verticals in Q4FY23. Thus, 3.5% qoq de-growth in ER&D segment as well as the seasonality of HCL Software (Products & Platforms) business impacted HCL Tech's overall Top-line growth in Q4 (P&P de-grew 14% qoq in Q4 but on back of 32% qoq growth in Q3).
- In Services segment it was Telecom, Manufacturing (one-off program there came to end in Q4) and Technology verticals that de-grew 6.7%, 3.8% and 3% qoq respectively. Other all verticals grew qoq **with Financials Services growing strong by 6.2% qoq with continued good demand for Cloud offerings as well as large deal ramp ups.** Amongst geographies US was stable, but Europe and ROW de-grew qoq in reported terms.
- **In FY23 HCL Tech has delivered 15.8% yoy organic growth in CC terms in IT Services, which is industry leading.** Thus overall, Top-line grew 13.7% yoy in CC terms and 9.6% yoy in reported terms to US\$12.6bn. HCL Tech continued to gaining in vendor consolidation opportunities being a differentiated player thereby resulting in market share gains from peers.
- **HCL Tech won 13 (10 in Services and 3 in HCL Software-P&P) net new large deals with TCV of US\$2,074mn, which was down 11.6% qoq in Q4FY23. 2 large deals were won one each in US & Europe from Financial Services in Q4FY23.** For FY23 TCV of large deals stood at \$8.9bn up 6.6% yoy.
- **Number of US\$100mn size revenue account witnessed 2 new qoq additions. Additions were seen across all client brackets on qoq basis, which is a very positive data point.** These client metrics reflects strength of client mining, cross selling and upselling of client work.
- **EBIT margin was down 140 bps qoq to 18.2% in Q4FY23. HCL Software segment seasonality had 135bps qoq negative impact and 30bps qoq drop was in total Services margins due to 50bps lower ER&D margins of which partly was offset by better IT&BS margins.**
- **Other Income was up 148% qoq despite of Forex Loss of Rs40cr (v/s Forex Gain of Rs3cr in Q3FY23) led by Investment income of Rs397cr (v/s Rs141cr in Q3). Thus, despite of lower operational profitability, HCL Tech reported only 2.8% qoq decline in PAT to Rs3983cr led by robust Other Income.**

## Quarterly Financial Statement

Q4FY23 Consolidated Financial Performance (IND AS)									
Y/E March (Rs cr)	Q4FY23	Q3FY23	chg (qoq)	Q4FY22	% chg (yoy)	FY23	FY22	% chg	
<b>Revenues</b>	<b>26,606</b>	<b>26,700</b>	<b>(0.4)</b>	<b>22,597</b>	<b>17.7</b>	<b>1,01,456</b>	<b>85,651</b>	<b>18.5</b>	
Direct Costs	16,889	16,720	1.0	14,292	18.2	64,523	52,760	22.3	
R&D Costs	438	415	5.5	380	15.3	1,632	1,526	6.9	
<b>Gross Profit</b>	<b>9,279</b>	<b>9,565</b>	<b>(3.0)</b>	<b>7,925</b>	<b>17.1</b>	<b>35,301</b>	<b>31,365</b>	<b>12.5</b>	
SG&A Expenses	3,416	3,200	6.7	2,872	18.9	12,673	10,835	17.0	
<b>EBITDA</b>	<b>5,863</b>	<b>6,365</b>	<b>(7.9)</b>	<b>5,053</b>	<b>16.0</b>	<b>22,628</b>	<b>20,530</b>	<b>10.2</b>	
Other Income	359	144	149.3	252.00	-	1,005	747	-	
Depreciation & Amort.	1,027	1,136	(9.6)	984	4.4	4,145	4,326	(4.2)	
<b>PBT</b>	<b>5,195</b>	<b>5,373</b>	<b>(3.3)</b>	<b>4,321</b>	<b>20.2</b>	<b>19,488</b>	<b>16,951</b>	<b>15.0</b>	
Tax	1,214	1,276	(4.9)	721	68.4	4,643	3,428	35.4	
Equity Invest. Share & Minority Int.	2	-	#DIV/0!	(6)	-	6	(24)	-	
One-time Milestone Bonus	-	-	-	-	-	-	-	-	
<b>Net Income</b>	<b>3,983</b>	<b>4,097</b>	<b>(2.8)</b>	<b>3,594</b>	<b>10.8</b>	<b>14,851</b>	<b>13,499</b>	<b>10.0</b>	
<b>Diluted EPS (Rs)</b>	<b>14.7</b>	<b>15.1</b>	<b>(2.8)</b>	<b>13.3</b>	<b>10.8</b>	<b>54.8</b>	<b>49.8</b>	<b>10.1</b>	
Gross Profit Margin (%)	34.9	35.8	(0.9)	35.1	(0.2)	34.8	36.6	(1.8)	
EBITDA Margin (%)	22.0	23.8	(1.8)	22.4	(0.3)	22.3	24.0	(1.7)	
EBIT Margin (%)	18.2	19.6	(1.4)	18.0	0.2	18.22	18.9	(0.7)	
Net Profit Margin (%)	15.0	15.3	(0.4)	15.9	(0.9)	14.6	15.8	(1.1)	
Tax rate (%)	23.4	23.7	(0.4)	16.7	6.7	23.8	20.2	3.6	

Source: Company and Anvil Research

## Key Operational Matrix

Segment Split	Revenues (US \$mn)							
	Q4FY23		Q3FY23		Q4FY22		% chg qoq % chg yoy	
IT & Business services (A)	2,387	73.8%	2,326	71.7%	2,199	73.5%	2.6	8.6
Engineering and R&D services (B)	519	16.1%	538	16.6%	490	16.4%	(3.4)	6.0
<b>Total Services (A+B)</b>	<b>2,907</b>	<b>89.9%</b>	<b>2,863</b>	<b>88.3%</b>	<b>2,689</b>	<b>89.8%</b>	<b>1.5</b>	<b>8.1</b>
HCL Software (Products & Platforms)	328	10.1%	381	11.7%	304	10.2%	(13.9)	7.9
<b>Total Revenues</b>	<b>3,235</b>	<b>100%</b>	<b>3,244</b>	<b>100%</b>	<b>2,993</b>	<b>190%</b>	<b>(0.29)</b>	<b>8.1</b>

Source: Company & Anvil Research

Segment Split	EBIT Margin (%)			EBIT Margin (%)	
	Q4FY23	Q3FY23	Q4FY22	FY23	FY22
IT & Business services (A)	17.1%	16.8%	17.3%	16.6%	17.8%
Engineering and R&D services (B)	18.8%	21.6%	19.1%	20.2%	19.2%
<b>Total Services (A+B)</b>	<b>17.4%</b>	<b>17.7%</b>	<b>17.6%</b>	<b>17.2%</b>	<b>18.1%</b>
HCL Software (Products & Platforms)	23.0%	32.6%	19.4%	25.1%	23.9%
<b>Total Revenues</b>	<b>18.1%</b>	<b>19.6%</b>	<b>17.9%</b>	<b>18.2%</b>	<b>18.9%</b>

Source: Company & Anvil Research

Goographical Split (USD mn)	Q4FY23		Q3FY23		Q4FY22		% chg qoq % chg yoy		FY23	FY22	% chg yoy
North America	63.8%	2,064	63.5%	2,060	62.8%	1,880	0.2	9.8	8,068	7,245	11.36
Europe	28.9%	935	29.1%	944	28.3%	847	(1.0)	10.4	3,574	3,295	8.48
ROW	7.3%	236	7.4%	240	8.9%	266	(1.6)	(11.4)	944	941	0.27
<b>Total Revenues</b>	<b>100%</b>	<b>3,235</b>	<b>100%</b>	<b>3,244</b>	<b>100%</b>	<b>2,993</b>	<b>(0.3)</b>	<b>8.1</b>	<b>12,586</b>	<b>11,481</b>	<b>9.6</b>

Source: Company & Anvil Research

Vertical Split (USD mn)	Q4FY23		Q3FY23		Q4FY22		% chg qoq	% chg yoy	FY23	FY22	% chg yoy
Financial Services	686	21.2%	646	19.9%	626	20.9%	6.2	9.6	2,605	2,480	5.06
Manufacturing	615	19.0%	639	19.7%	539	18.0%	(3.8)	14.1	2,404	2,170	10.78
Technology & Services	466	14.4%	480	14.8%	524	17.5%	(3.0)	(11.1)	1,875	1,584	18.36
Lifesciences & Healthcare	566	17.5%	555	17.1%	446	14.9%	2.0	26.9	2,127	1,883	12.97
Public Services	330	10.2%	331	10.2%	320	10.7%	(0.3)	3.0	1,284	1,206	6.49
Retail & CPG	291	9.0%	289	8.9%	281	9.4%	0.8	3.5	1,133	1,171	(3.27)
Telecom, Media, Publishing & Entert.	285	8.8%	305	9.4%	257	8.6%	(6.7)	10.6	1,158	987	17.27
<b>Total Revenues</b>	<b>3,235</b>	<b>100%</b>	<b>3244</b>	<b>100%</b>	<b>2993</b>	<b>100%</b>	<b>(0.3)</b>	<b>8.1</b>	<b>12,586</b>	<b>11,481</b>	<b>9.6</b>

Source: Company & Anvil Research

Revenues USD mn (LTM based)	Q4FY23	Q3FY23	Q4FY22	Chg qoq	Chg yoy
Top 5 client	327	334	347	-2.2%	-5.9%
% of revenues	10.1%	10.3%	11.6%		
Top 10 clients	573	590	593	-3.0%	-3.4%
% of revenues	17.7%	18.2%	19.8%		
Top 20 clients	899	915	871	-1.7%	3.2%
% of revenues	27.8%	28.2%	29.1%		

Source: Company and Anvil Research

## Outlook

- HCL Tech clarified that it has minimal (including MTM hits) exposure to big Banks that recently collapsed in US. The company's Banking clients below 1% average rating of overall Top-line is very minimal.
- **Within Financial Services vertical, Insurance and Capital Markets are very positive, while in Banking HCL Tech is seeing muted client budgets for FY24. But overall BFSI budgets remain positive.**
- Though there is stress in order booking and delay in ramp ups, however its more so in discretionary spends but there is not much stress in RTB side of spends mainly the mission critical ones.
- Cost optimization and vendor consolidation projects continued to be strong reflecting in overall deal pipeline.
- HCL Tech remains optimistic with respect to client propositions within Financial Services vertical, where in clients are going for changing entire digital landscapes and modernizing them across geographies.
- HCL Tech will be dedicated to drive onshore led growth and Morocco is one such onshore delivery center from near term growth point.
- **The company expects lot of vendor consolidation opportunities in Technology where it has strong capabilities which will only help compared to peers.**

- **Employee net additions were stable at 3674 taking the total headcount to 2,25,944 as on Q4FY23. HCL Tech added 4480 freshers in Q4FY23 (v/s 5892 in Q3 and total 26,734 in FY23). The company will continue to higher strong freshers even going forward. IT Services Attrition (LTM) stood at 19.5% on Q4FY23, down 220bps qoq.**
- **Cash & Investments of HCL Tech were up 13% qoq to Rs23,114cr in Q4, while the Debt was down 48% qoq to Rs2254cr as HCL Tech retired US\$249mn of Bonds it had issued few years back.**
- **HCL Tech has announced new Dividend Payout policy that entails investor payouts of not less than 75% of Net Income cumulatively over 5 years from FY22 to FY26. In line with this policy, HCL Tech has announced Final dividend of Rs18/share for Q4FY23 (total Rs48/share in FY23, which is a payout of 87.5% against promised 75% as per Dividend policy).**
- **FY24 Guidance**

**HCL Tech has guided for Top-line growth of 6-8% in CC terms for FY24 led by growth of 6.5-8.5% in CC terms in Services segment on organic basis. It does not expect Price expansion in near term. So, the guidance only assumes volume growth.**

**HCL Tech had some mega deal wins in Sept2023 ended quarter, which has resulted in some revenue flow in Q4 but the full quarter impact of this deal flows will come in Q1FY24. Plus, other large deal in BFSI ramp up will come in Q2FY24. Hence Mgmt. expects its guidance is easily manageable despite of macro uncertainties.**

**It expects EBIT margins to be in range of 18-19% for FY24. However, its aspirational EBIT margin range is 19-20%. But current guidance for FY24 have been toned down to stay realistic considering the volatile environment. It will have to eventually get back to aspirational margin guidance whenever possible.**

### Valuations

**Thus, on account of macro-economic uncertainties we expect HCL Tech would register Top-line growth of 9.7% yoy in INR terms (Growth of 8.2% yoy in USD terms), PAT increase of 10.4% yoy and EPS of Rs60.5 in FY24E. For FY25E however we expect recovery in macro-economic variants globally resulting in strong demand recovery leading to Top-line growth of 10% yoy in INR terms (Growth of 11% yoy in USD terms), PAT increase of 13.7% yoy and EPS of Rs69. Thus, the stock currently trades at 17.3x FY24E EPS and at 15.3x FY25E EPS.**

# HCL Technologies

P&L (Rs cr)	FY20	FY21	FY22	FY23	FY24E	FY25E
Net sales	70,678	75,379	85,651	1,01,456	1,11,272	1,22,266
Other income	178	657	747	1,005	1,488	1,696
<b>Total Income</b>	<b>70,856</b>	<b>76,036</b>	<b>86,398</b>	<b>1,02,461</b>	<b>1,12,761</b>	<b>1,23,962</b>
Cost of revenue	45,294	45,974	54,286	66,155	70,992	78,006
SG&A	8,690	9,348	10,835	12,673	15,898	17,003
<b>Cost of sales</b>	<b>53,984</b>	<b>55,322</b>	<b>65,121</b>	<b>78,828</b>	<b>86,890</b>	<b>95,009</b>
PBIDT	16,694	20,057	20,530	22,628	24,383	27,257
PBDT	16,872	20,714	21,277	23,633	25,871	28,953
Depreciation	2,841	3,985	4,326	4,145	3,808	3,756
<b>PBT</b>	<b>14,031</b>	<b>16,729</b>	<b>16,951</b>	<b>19,488</b>	<b>22,063</b>	<b>25,197</b>
Provision for tax	2,938	3,663	3,428	4,643	5,660	6,551
PAT	11,093	13,066	13,523	14,845	16,403	18,646
Minority Interest/ext.	(31)	(631)	(24)	6	-	-
<b>Adjusted PAT</b>	<b>11,062</b>	<b>12,435</b>	<b>13,499</b>	<b>14,851</b>	<b>16,403</b>	<b>18,646</b>

Source: Company and Anvil Research; Note: Financials in FY20-FY21 are in US GAAP and from FY22 are in IND AS format.

Balance Sheet (Rs cr)	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity capital	542	543	543	543	543	543
Reserve & Surplus	51,144	60,963	61,371	64,862	67,726	69,584
<b>Total Debt</b>	<b>5,092</b>	<b>3,907</b>	<b>3,985</b>	<b>2,251</b>	<b>2,254</b>	<b>1,826</b>
Other Liabilities & Minority Interest	5,548	5,535	4,421	4,464	4,571	4,671
<b>Capital Employed</b>	<b>62,326</b>	<b>70,948</b>	<b>70,320</b>	<b>72,120</b>	<b>75,094</b>	<b>76,624</b>
Goodwill and other intangible asse	29,421	29,150	27,160	26,911	27,111	27,311
Gross block	19,128	23,114	26,936	30,751	34,500	38,500
Accumulated depreciation	12,884	16,869	21,195	25,340	29,148	32,904
Net block	6,244	6,245	5,741	5,411	5,352	5,596
<b>Total fixed assets</b>	<b>6,244</b>	<b>6,245</b>	<b>5,741</b>	<b>5,411</b>	<b>5,352</b>	<b>5,596</b>
Investments (Long-term)	38	47	2,314	2,337	2,357	2,382
Other non-current assets	9,088	9,209	5,777	5,175	4,775	3,875
Sundry debtors	17,772	17,525	20,671	25,506	28,656	30,483
<b>Cash &amp; bank</b>	<b>8,385</b>	<b>13,717</b>	<b>12,636</b>	<b>14,724</b>	<b>15,653</b>	<b>16,732</b>
Unbilled rev. & other current asset	5,279	5,037	8,495	7,962	7,962	7,862
Investments (Short term)	6,988	6,773	6,239	5,385	5,385	5,185
Sundry creditors	117	173	6,278	6,428	6,500	6,600
Other current liabilities	20,772	16,582	12,435	14,863	15,657	16,202
<b>Net current assets</b>	<b>17,535</b>	<b>26,297</b>	<b>29,328</b>	<b>32,286</b>	<b>35,499</b>	<b>37,460</b>
<b>Capital Deployed</b>	<b>62,326</b>	<b>70,948</b>	<b>70,320</b>	<b>72,120</b>	<b>75,094</b>	<b>76,624</b>

Source: Company and Anvil Research; Note: Financials in FY20-FY21 are in US GAAP and from FY22 are in IND AS format.

# HCL Technologies

Key Ratios	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Absolute Growth (%)</b>						
Revenue	17.0	6.7	13.6	18.5	9.7	9.9
EBITDA	19.5	20.1	2.4	10.2	7.8	11.8
PAT	9.3	12.4	8.6	10.0	10.4	13.7
<b>Profitability Ratios (%)</b>						
EBITDA margins	23.6	26.6	24.0	22.3	21.9	22.3
EBIT margins	19.6	21.3	18.9	18.2	18.5	19.2
PAT margins	15.7	16.5	15.8	14.6	14.7	15.2
ROCE	25.8	27.4	26.2	27.8	29.3	32.6
ROIC	44.7	44.7	42.4	46.2	47.3	53.4
ROA	13.3	14.9	15.2	15.9	16.9	18.8
ROE	21.4	20.2	21.8	22.7	24.0	26.6
<b>Valuation Ratio (x)</b>						
P/E (on FDEPS)	13.4	16.6	22.4	19.1	17.3	15.2
P/CEPS	10.7	12.6	17.0	14.9	14.0	12.7
P/BV	2.9	3.4	4.9	4.4	4.2	4.1
Dividend yield (%)	1.5	3.7	3.8	4.6	4.8	5.5
EV/Sales	2.0	2.5	3.4	2.6	2.4	2.2
EV/EBITDA	8.3	9.5	14.0	11.7	10.9	9.7
EV / Total Assets	1.7	2.2	3.2	2.8	2.7	2.7
<b>Per Share Data (Rs)</b>						
EPS (Basic)	40.8	45.8	49.8	54.9	60.6	68.9
EPS (fully diluted)	40.8	45.8	49.8	54.8	60.5	68.8
Cash EPS	51.3	60.5	65.7	70.2	74.6	82.7
DPS	8.0	28.0	42.0	48.0	50.0	57.1
Book Value per share	190.6	226.7	228.0	240.9	251.5	258.3
<b>Dupont Analysis</b>						
EBIT margin (a)	19.9	22.2	19.8	19.2	19.8	20.6
Tax retention ratio (b)	0.8	0.8	0.8	0.8	0.7	0.7
Assets Turnover ©	0.8	0.9	1.0	1.1	1.1	1.2
<b>ROA (a*b*c)</b>	<b>13.3</b>	<b>14.9</b>	<b>15.2</b>	<b>15.9</b>	<b>16.9</b>	<b>18.8</b>
Net Profit AT/Total Assets (a1)	13.3	14.2	15.2	15.9	16.9	18.8
Total Assets/Stockholders' Equity (b)	1.6	1.4	1.4	1.4	1.4	1.4
<b>ROE (a1*b1)</b>	<b>21.4</b>	<b>20.2</b>	<b>21.8</b>	<b>22.7</b>	<b>24.0</b>	<b>26.6</b>
<b>Liquidity ratios (x)</b>						
Asset Turnover (Gross Block)	4	3	3	3	3	3
Debtors days	84	85	81	83	89	88
Creditors days	1	1	18	29	27	25
Working capital cycle (ex-cash day)	48	53	62	62	61	61
<b>Leverage ratios (x)</b>						
Gross debt to equity	0.1	0.1	0.1	0.0	0.0	0.0
Net debt to equity	(0.1)	(0.2)	(0.1)	(0.2)	(0.2)	(0.2)
Net debt to EBITDA	(0.2)	(0.5)	(0.4)	(0.6)	(0.5)	(0.5)

Source: Company and Anvil Research

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**NSE Regn No. – INB231046831**

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

**NSE Regn No. – INF231046831**

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