

IT  
July 14, 2023

CMP	1151
Sensex	66,061

### Stock Statistics

Reuters code	HCLT.BO
Bloomberg code	HCLT IN

Equity Cap (INR cr)	543
Face Value (INR)	2
INR / USD	82.2
Market cap (INR cr)	3,12,424
Market cap (USD bn)	38.0
52 Wk High/Low (INR)	1203/ 876

### Shareholding Pattern (%) – Mar'23

Promoter	60.8
Foreign Institutional Investor	19.4
MF / FI / UTI / Banks	15.3
Public & Others	4.1
Bodies & Corporate	0.4

Key Financials (Consolidated - IND AS format)				
Y/E June (Rs cr)	FY2022	FY2023	FY2024E	FY2025E
Net Sales	85,651	1,01,456	1,09,082	1,19,402
% chg	13.6	18.5	7.5	9.5
Net Profit	13,499	14,851	15,575	17,576
% chg	8.6	10.0	4.9	12.8
EBIT Margin (%)	18.9	18.2	18.1	18.6
FDEPS (Rs)	49.8	54.8	57.4	64.8
P/E (x)	22.4	21.0	20.0	17.8
P/BV (x)	4.9	4.8	4.6	4.6
RoE (%)	21.8	22.7	23.1	25.8
RoCE (%)	26.2	27.8	28.6	31.9
EV/Sales (x)	3.4	2.9	2.7	2.4
EV/EBITDA (x)	14.0	13.0	12.4	11.2
Net Debt/Equity	(0.1)	(0.2)	(0.2)	(0.2)

### HCL Tech Stock Update

Q1FY24 Results

#### Disappointing Q1 but Mgmt. guides to catch up in H2FY24

- HCL Tech has reported 1.3% qoq Top-line degrowth in CC terms and 1.1% qoq degrowth in reported terms to US\$3200mn in Q1FY24. In INR terms Top-line de-grew 1.2% qoq to Rs26,296cr.
- HCL Tech won 18 (7 in Services and 11 in HCL Software-P&P) net new large deals with TCV of US\$1,565mn, which was down 25% qoq in Q1FY24.
- EBIT margin was down 120 bps qoq to 17% in Q1FY24 on account of drop in total Services margins with sharp revenue and margin drop seen in ER&D segment. Lower Utilization contributed 110bps margin impact, Travel cost had 33bps, Onetime benefit (Intangible reversible got in P&P in Q4 as Impairment benefit related to royalty from lot of products, which needed to write back), which was absent in Q1 had 42bps margin impact.
- Other Income was down 34% qoq to Rs236cr. Thus, led by lower operational profitability as well as lower Other Income, HCL Tech reported 11.3% qoq decline in PAT to Rs3534cr.
- The company saw 2506 qoq net reductions led by attrition (which was not refilled back) taking the total headcount to 2,23,438 as on Q1FY24. HCL Tech added 1597 freshers in Q1FY24 (v/s 4480 in Q43 and total 26,734 in FY23). IT Services Attrition (LTM) stood at 16.3% on Q1, down 320bps qoq.
- 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 interim dividend of Rs10/share for Q1FY24 (v/s Rs18/share in Q4).
- FY24 Guidance

HCL Tech has maintained its guidance 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. It does not expect Price expansion in near term. So, the guidance only assumes volume growth. It expects EBIT margins to be in range of 18-19% for FY24.

Healthy mix of large deals are in pipeline, which is up 26% yoy. HCL Tech is tracking pipeline and maturity of large deals and is on verge of signing large deals for Q2FY24. So, there is new spend cycle led by efficiency led programs that is offsetting the discretionary spends. Math and judgement behind this remains strong hence the company is confident to deliver its guidance for FY24.

Thus, HCL Tech will have to deliver much stronger H2FY24 for maintaining FY24 guidance.

## Quarterly Financial Statement

Q1FY24 Consolidated Financial Performance (IND AS)								
Y/E March (Rs cr)	Q1FY24	Q4FY23	% chg (qoq)	Q1FY23	% chg (yoy)	FY23	FY22	% chg
<b>Revenues</b>	<b>26,296</b>	<b>26,606</b>	<b>(1.2)</b>	<b>23,464</b>	<b>12.1</b>	<b>1,01,456</b>	<b>85,651</b>	<b>18.5</b>
Direct Costs	16,936	16,889	0.3	15,066	12.4	64,523	52,760	22.3
R&D Costs	394	438	(10.0)	391	0.8	1,632	1,526	6.9
<b>Gross Profit</b>	<b>8,966</b>	<b>9,279</b>	<b>(3.4)</b>	<b>8,007</b>	<b>12.0</b>	<b>35,301</b>	<b>31,365</b>	<b>12.5</b>
SG&A Expenses	3,579	3,416	4.8	3,032	18.0	12,673	10,835	17.0
<b>EBITDA</b>	<b>5,387</b>	<b>5,863</b>	<b>(8.1)</b>	<b>4,975</b>	<b>8.3</b>	<b>22,628</b>	<b>20,530</b>	<b>10.2</b>
Other Income	236.00	359.00	(34.3)	345	-	1,005	747	-
Depreciation & Amort.	927	1,027	(9.7)	983	(5.7)	4,145	4,326	(4.2)
<b>PBT</b>	<b>4,696</b>	<b>5,195</b>	<b>(9.6)</b>	<b>4,337</b>	<b>8.3</b>	<b>19,488</b>	<b>16,951</b>	<b>15.0</b>
Tax	1,165	1,214	(4.0)	1,056	10.3	4,643	3,428	35.4
Equity Invest. Share & Minority Int.	3	2	50.0	2	-	6	(24)	-
One-time Milestone Bonus	-	-	-	-	-	-	-	-
<b>Net Income</b>	<b>3,534</b>	<b>3,983</b>	<b>(11.3)</b>	<b>3,283</b>	<b>7.6</b>	<b>14,851</b>	<b>13,499</b>	<b>10.0</b>
<b>Diluted EPS (Rs)</b>	<b>13.0</b>	<b>14.7</b>	<b>(11.3)</b>	<b>12.1</b>	<b>7.5</b>	<b>54.8</b>	<b>49.8</b>	<b>10.1</b>
Gross Profit Margin (%)	34.1	34.9	(0.8)	34.1	(0.0)	34.8	36.6	(1.8)
EBITDA Margin (%)	20.5	22.0	(1.6)	21.2	(0.7)	22.3	24.0	(1.7)
EBIT Margin (%)	17.0	18.2	(1.2)	17.0	(0.1)	18.22	18.9	(0.7)
Net Profit Margin (%)	13.4	15.0	(1.5)	14.0	(0.6)	14.6	15.8	(1.1)
Tax rate (%)	24.8	23.4	1.4	24.3	0.5	23.8	20.2	3.6

Source: Company and Anvil Research

## Key Operational Matrix

Segment Split	Revenues (US \$mn)							
	Q1FY24		Q4FY23		Q1FY23		% chg qoq	% chg yoy
IT & Business services (A)	2,390	74.7%	2,387	73.8%	2,201	72.8%	0.1	8.6
Engineering and R&D services (B)	492	15.4%	519	16.1%	503	16.6%	(5.2)	(2.1)
<b>Total Services (A+B)</b>	<b>2,883</b>	<b>90.1%</b>	<b>2,907</b>	<b>89.9%</b>	<b>2,704</b>	<b>89.4%</b>	<b>(0.8)</b>	<b>6.6</b>
HCL Software (Products & Platforms)	317	9.9%	328	10.1%	321	10.6%	(3.3)	(1.2)
<b>Total Revenues</b>	<b>3,200</b>	<b>100%</b>	<b>3,235</b>	<b>100%</b>	<b>3,025</b>	<b>189%</b>	<b>(1.07)</b>	<b>5.8</b>

Source: Company & Anvil Research

Segment Split	EBIT Margin (%)			EBIT Margin (%)	
	Q1FY24	Q4FY23	Q1FY23	FY23	FY22
IT & Business services (A)	16.1%	17.1%	15.8%	16.6%	17.8%
Engineering and R&D services (B)	16.8%	18.8%	18.7%	20.2%	19.2%
<b>Total Services (A+B)</b>	<b>16.2%</b>	<b>17.4%</b>	<b>16.3%</b>	<b>17.2%</b>	<b>18.1%</b>
HCL Software (Products & Platforms)	22.9%	23.0%	22.5%	25.1%	23.9%
<b>Total Revenues</b>	<b>17.0%</b>	<b>18.1%</b>	<b>17.0%</b>	<b>18.2%</b>	<b>18.9%</b>

Source: Company & Anvil Research

Go geographical Split (USD mn)	Q1FY24		Q4FY23		Q1FY23		% chg qoq	% chg yoy
North America	64.5%	2,064	63.8%	2,064	64.2%	1,942	0.0	6.3
Europe	28.7%	918	28.9%	935	27.8%	841	(1.8)	9.2
ROW	6.8%	218	7.3%	236	8.0%	242	(7.8)	(10.1)
<b>Total Revenues</b>	<b>100%</b>	<b>3,200</b>	<b>100%</b>	<b>3,235</b>	<b>100%</b>	<b>3,025</b>	<b>(1.1)</b>	<b>5.8</b>

Source: Company & Anvil Research

Vertical Split (USD mn)	Q1FY24		Q4FY23		Q1FY23		% chg qoq	% chg yoy
Financial Services	723	22.6%	686	21.2%	638	21.1%	5.5	13.3
Manufacturing	637	19.9%	615	19.0%	554	18.3%	3.6	15.0
Technology & Services	429	13.4%	466	14.4%	466	15.4%	(7.9)	(8.0)
Lifesciences & Healthcare	560	17.5%	566	17.5%	496	16.4%	(1.1)	12.9
Public Services	320	10.0%	330	10.2%	309	10.2%	(3.0)	3.7
Retail & CPG	291	9.1%	291	9.0%	284	9.4%	0.0	2.4
Telecom, Media, Publishing & Entert.	243	7.6%	285	8.8%	278	9.2%	(14.6)	(12.6)
<b>Total Revenues</b>	<b>3,200</b>	<b>100%</b>	<b>3,235</b>	<b>100%</b>	<b>3,025</b>	<b>100%</b>	<b>(1.1)</b>	<b>5.8</b>

Source: Company & Anvil Research

Revenues USD mn (LTM based)	Q1FY24	Q4FY23	Q1FY23	Chg qoq	Chg yoy
Top 5 client	314	327	339	-4.0%	-7.4%
% of revenues	9.8%	10.1%	11.2%		
Top 10 clients	550	573	587	-3.9%	-6.2%
% of revenues	17.2%	17.7%	19.4%		
Top 20 clients	870	899	874	-3.2%	-0.4%
% of revenues	27.2%	27.8%	28.9%		

Source: Company and Anvil Research

## Outlook

- Q1FY24 saw significant ramp downs in Technology and Telecom-Media-Publishing verticals led by discretionary spends slow down. However, the company expects these verticals to improve going forward.
- For HCL Tech Gen AI is to harness power to bring innovation to its P&P segment. Moreover, with Engineering heritage HCL Tech aims at co-creating innovation with Gen AI.
- The company is making good progress with Go-to-mkt strategy. It is dedicated to drive Partner Ecosystems. It has sharp focus on business partner.
- 10% order booking in Q1 was from Partner led deals. HCL will aim to strengthen P&P offerings with partnerships. P&P order bookings are normally lumpy resulting in drop in Q1FY24 revenues. Clients are looking to leverage on HCL Unica platform.

- Products strategy; 1<sup>st</sup> Developing Product in Business cloud portfolio, 2<sup>nd</sup> Cloud in Securely collaborating to create omni channel Cloud, 3<sup>rd</sup> is Intelligent Automation Cloud, 4<sup>th</sup> is Hybrid Data Cloud with Cloud Data base and platform.
- Last 2 quarters growth was seen in efficiency led programs as global delivery models drive efficiencies. HCL is seeing more of such large deals across US, Europe, APAC as well as across Services. So, the company is very optimistic on broad-based growth going forward.
- HCL Tech will skip Salary review for employees of Senior Mgmt. level and differ the hikes for medium and junior level employees for later quarters.
- **Cost and efficiency programs filled in some growth in Q1.**
- **At this time most of conversation around Gen AI is hyped in short run, but it sees benefits of Gen AI in long run as it could be deflationary.**
- **The quarters going forward will continue to get incrementally better in growth with spikes coming in one of the quarters in FY24.**
- **Tech and Telecom verticals of HCL Tech has more exposure to ER&D area. But the company expects the deal pipeline there to start converting soon. It believes the ER&D to bottom out and growth to resume going forward as the order book as well as pipeline is strong there.**

### Valuations

**Thus, led by macro-economic uncertainties we expect HCL Tech would register Top-line growth of 7.5% yoy in INR terms (Growth of 6% yoy in USD terms), PAT increase of 4.9% yoy and EPS of Rs57.4 in FY24E. For FY25E however we expect recovery in macro-economic variants globally resulting in strong demand recovery leading to Top-line growth of 9.5% yoy in INR terms (Growth of 10.8% yoy in USD terms), PAT increase of 12.8% yoy and EPS of Rs64.8. Thus, the stock currently trades at 20x FY24E EPS and at 18x 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	1,09,082	1,19,402
Other income	178	657	747	1,005	1,069	1,343
<b>Total Income</b>	<b>70,856</b>	<b>76,036</b>	<b>86,398</b>	<b>1,02,461</b>	<b>1,10,151</b>	<b>1,20,745</b>
Cost of revenue	45,294	45,974	54,286	66,155	69,594	76,178
SG&A	8,690	9,348	10,835	12,673	16,072	17,310
<b>Cost of sales</b>	<b>53,984</b>	<b>55,322</b>	<b>65,121</b>	<b>78,828</b>	<b>85,667</b>	<b>93,488</b>
PBIDT	16,694	20,057	20,530	22,628	23,415	25,914
PBDT	16,872	20,714	21,277	23,633	24,484	27,256
Depreciation	2,841	3,985	4,326	4,145	3,726	3,669
<b>PBT</b>	<b>14,031</b>	<b>16,729</b>	<b>16,951</b>	<b>19,488</b>	<b>20,758</b>	<b>23,588</b>
Provision for tax	2,938	3,663	3,428	4,643	5,189	6,015
PAT	11,093	13,066	13,523	14,845	15,569	17,573
Minority Interest/ext.	(31)	(631)	(24)	6	6	3
<b>Adjusted PAT</b>	<b>11,062</b>	<b>12,435</b>	<b>13,499</b>	<b>14,851</b>	<b>15,575</b>	<b>17,576</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	66,899	67,687
<b>Total Debt</b>	<b>5,092</b>	<b>3,907</b>	<b>3,985</b>	<b>2,251</b>	<b>2,037</b>	<b>1,747</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>74,050</b>	<b>74,648</b>
Goodwill and other intangible assets	29,421	29,150	27,160	26,911	27,111	27,311
Gross block	19,128	23,114	26,936	30,751	34,000	38,000
Accumulated depreciation	12,884	16,869	21,195	25,340	29,066	32,734
Net block	6,244	6,245	5,741	5,411	4,934	5,266
<b>Total fixed assets</b>	<b>6,244</b>	<b>6,245</b>	<b>5,741</b>	<b>5,411</b>	<b>4,934</b>	<b>5,266</b>
Investments (Long-term)	38	47	2,314	2,337	2,237	2,262
Other non-current assets	9,088	9,209	5,777	5,175	5,275	3,325
Sundry debtors	17,772	17,525	20,671	25,506	23,908	26,170
<b>Cash &amp; bank</b>	<b>8,385</b>	<b>13,717</b>	<b>12,636</b>	<b>14,724</b>	<b>18,582</b>	<b>18,204</b>
Unbilled rev. & other current assets	5,279	5,037	8,495	7,962	8,162	8,462
Investments (Short term)	6,988	6,773	6,239	5,385	5,685	6,085
Sundry creditors	117	173	6,278	6,428	6,500	6,600
Other current liabilities	20,772	16,582	12,435	14,863	15,345	15,837
<b>Net current assets</b>	<b>17,535</b>	<b>26,297</b>	<b>29,328</b>	<b>32,286</b>	<b>34,493</b>	<b>36,484</b>
<b>Capital Deployed</b>	<b>62,326</b>	<b>70,948</b>	<b>70,320</b>	<b>72,120</b>	<b>74,050</b>	<b>74,648</b>

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

Key Ratios	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Absolute Growth (%)</b>						
Revenue	17.0	6.7	13.6	18.5	7.5	9.5
EBITDA	19.5	20.1	2.4	10.2	3.5	10.7
PAT	9.3	12.4	8.6	10.0	4.9	12.8
<b>Profitability Ratios (%)</b>						
EBITDA margins	23.6	26.6	24.0	22.3	21.5	21.7
EBIT margins	19.6	21.3	18.9	18.2	18.1	18.6
PAT margins	15.7	16.5	15.8	14.6	14.3	14.7
ROCE	25.8	27.4	26.2	27.8	28.6	31.9
ROIC	44.7	44.7	42.4	46.2	52.1	56.9
ROA	13.3	14.9	15.2	15.9	16.2	18.1
ROE	21.4	20.2	21.8	22.7	23.1	25.8
<b>Valuation Ratio (x)</b>						
P/E (on FDEPS)	13.4	16.6	22.4	21.0	20.0	17.8
P/CEPS	10.7	12.6	17.0	16.4	16.2	14.7
P/BV	2.9	3.4	4.9	4.8	4.6	4.6
Dividend yield (%)	1.5	3.7	3.8	4.2	4.3	5.0
EV/Sales	2.0	2.5	3.4	2.9	2.7	2.4
EV/EBITDA	8.3	9.5	14.0	13.0	12.4	11.2
EV / Total Assets	1.7	2.2	3.2	3.1	3.0	3.0
<b>Per Share Data (Rs)</b>						
EPS (Basic)	40.8	45.8	49.8	54.9	57.5	64.9
EPS (fully diluted)	40.8	45.8	49.8	54.8	57.4	64.8
Cash EPS	51.3	60.5	65.7	70.2	71.3	78.5
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	248.4	251.3
<b>Dupont Analysis</b>						
EBIT margin (a)	19.9	22.2	19.8	19.2	19.0	19.8
Tax retention ratio (b)	0.8	0.8	0.8	0.8	0.8	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>16.2</b>	<b>18.1</b>
Net Profit AT/Total Assets (a1)	13.3	14.2	15.2	15.9	16.2	18.1
Total Assets/Stockhldrs. Equity (b1)	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>23.1</b>	<b>25.8</b>
<b>Liquidity ratios (x)</b>						
Asset Turnover (Gross Block)	4	3	3	3	3	3
Debtors days	84	85	81	83	83	77
Creditors days	1	1	18	29	28	26
Working capital cycle (ex-cash days)	48	53	62	62	56	52
<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)	(0.7)	(0.6)

Source: Company and Anvil Research

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**NSE Regn No. – INF231046831**

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