

IT

October 13, 2023

CMP	1255
Sensex	66,283

Stock Statistics

Reuters code	HCLT.BO
Bloomberg code	HCLT IN

Equity Cap (INR cr)	543
Face Value (INR)	2
INR / USD	83.3
Market cap (INR cr)	3,40,646
Market cap (USD bn)	40.9
52 Wk High/Low (INR)	1311/ 986

Shareholding Pattern (%) – Jun'23

Promoter	60.8
Foreign Institutional Investor	19.5
MF / FI / UTI / Banks	15.4
Public & Others	4.0
Bodies & Corporate	0.3

HCL Tech Stock Update

Q2FY24 Results

Good recovery in Q2; But Mgmt. guides catch up in H2FY24

- **HCL Tech has reported 1% qoq Top-line growth in CC terms and 0.8% qoq growth in reported terms to US\$3225mn in Q2FY24.** In INR terms Top-line grew 1.4% qoq to Rs26,672cr. ASAP contributed 0.5% to the growth as the acquisition was closed on 31st Aug23 so one month revenue came in Q2.
- **HCL Tech won 16 (10 in Services and 6 in HCL Software-P&P) net new large deals with TCV of US\$3,969mn, which was up 153% qoq in Q2FY24. The company signed mega deal with Verizon** for its internal IT work. Its rather strategic partnership for deploying managed services for their Enterprise clients. HCL Tech sees huge opportunity to reach some of the global large Verizon clients as well through this mega win.
- **EBIT margin was up 154 bps qoq to 18.5% in Q2FY24** led by 210bps qoq increase in Services margins. Moreover, the company has reduced capital deployed significantly, which is reflected in positive margin impact. Benefit of ~100bps qoq came from productivity led by Utilization and 70bps qoq reduction in sub-contractor's cost. Plus, travel, recruitment and legal cost gave 50bps reduction. Thus, margins improvement was led by efficiencies in operations and AI Ops capabilities, plus freshers getting deployed in economic manner.
- **Other Income was down 18% qoq to Rs194cr. Thus, led by better recovery on Topline and operational profitability, HCL Tech reported 8.4% qoq spike in PAT to Rs3832cr.**
- **The company saw 2299 qoq net reductions taking the total headcount to 2,21,139 as on Q2FY24. HCL Tech added 3630 freshers in Q1FY24 (v/s 1597 in Q1). IT Services Attrition (LTM) stood at 14.2% on Q2, down 210bps qoq.**
- HCL Tech had earlier 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 Rs12/share for Q2FY24 (v/s Rs10/share in Q1).**
- **FY24 Guidance**
HCL Tech has revised down its Top-line growth guidance (from earlier 6-8%) to 5-6% in CC terms for FY24 led by overall growth of 3.5%-5.5% growth in Services segment (from earlier guided 6.5-8.5%) including ASAP revenues. Top-line growth guidance on organic basis is 4-5% organic growth in CC terms for FY24.

Thus, the company has guided for healthy growth in Q3 & Q4FY24 as its H1FY24 was weaker compared to booked TCV wins. **Large deal ramps up which will go live from 1st Nov will contribute strong revenues in Q3 and Q4FY24, while deals under transition will go into steady state and some amount of discretionary spending will also start by fag end.**

The company however has maintained guidance on EBIT margins to be in range of 18-19% for FY24.

Quarterly Financial Statement

Q2FY24 Consolidated Financial Performance (IND AS)								
Y/E March (Rs cr)	Q2FY24	Q1FY24	% chg (qoq)	Q2FY23	% chg (yoy)	H1FY24	H1FY23	% chg
Revenues	26,672	26,296	1.4	24,686	8.0	52,968	48,150	10.0
Direct Costs	17,013	16,936	0.5	15,848	7.4	33,949	30,914	9.8
R&D Costs	404	394	2.5	388	4.1	798	779	2.4
Gross Profit	9,255	8,966	3.2	8,450	9.5	18,221	16,457	10.7
SG&A Expenses	3,311	3,579	(7.5)	3,024	9.5	6,890	6,056	13.8
EBITDA	5,944	5,387	10.3	5,426	9.5	11,331	10,401	8.9
Other Income	194.00	236.00	(17.8)	157	-	430	502	-
Depreciation & Amort.	1,010	927	9.0	998	1.2	1,937	1,981	(2.2)
PBT	5,128	4,696	9.2	4,585	11.8	9,824	8,922	10.1
Tax	1,295	1,165	11.2	1,097	18.0	2,460	2,153	14.3
Equity Invest. Share & Minority Int.	(1)	3	-	1	-	2	3	-
One-time Milestone Bonus	-	-	-	-	-	-	-	-
Net Income	3,832	3,534	8.4	3,489	9.8	7,366	6,772	8.8
Diluted EPS (Rs)	14.1	13.0	8.4	12.9	9.7	27.2	25.0	8.6
Gross Profit Margin (%)	34.7	34.1	0.6	34.2	0.5	34.4	34.2	0.2
EBITDA Margin (%)	22.3	20.5	1.8	22.0	0.3	21.4	21.6	(0.2)
EBIT Margin (%)	18.5	17.0	1.5	17.9	0.6	17.7	17.49	0.2
Net Profit Margin (%)	14.4	13.4	0.9	14.1	0.2	13.9	14.1	(0.2)
Tax rate (%)	25.3	24.8	0.4	23.9	1.3	25.0	24.1	0.9

Source: Company and Anvil Research

Key Operational Matrix

Segment Split	Revenues (US \$mn)								EBIT Margin (%)		
	Q2FY24		Q1FY24		Q2FY23		% chg qoq	% chg yoy	Q2FY24	Q1FY24	Q2FY23
IT & Business services (A)	2,406	74.6%	2,390	74.7%	2,269	73.6%	0.6	6.0	18.1%	16.1%	18.1%
Engineering and R&D services (B)	516	16.0%	492	15.4%	524	17.0%	4.9	(1.5)	19.2%	16.8%	19.2%
Total Services (A+B)	2,922	90.6%	2,883	90.1%	2,793	90.6%	1.4	4.6	18.3%	16.2%	18.3%
HCL Software (Products & Platforms)	318	9.9%	333	10.4%	304	9.9%	(4.3)	4.8	19.4%	22.9%	19.4%
Inter-segment revenues	-16	-0.5%	-15	-0.5%	-14	-0.5%					
Total Revenues	3,225	100%	3,200	100%	3,082	191%	0.77	4.6	18.5%	17.0%	18.5%

Source: Company & Anvil Research

Vertical Split (USD mn)	Q2FY24		Q1FY24		Q2FY23		% chg qoq	% chg yoy
Financial Services	729	22.6%	723	22.6%	635	20.6%	0.8	14.8
Manufacturing	622	19.3%	637	19.9%	592	19.2%	(2.3)	5.2
Technology & Services	422	13.1%	429	13.4%	465	15.1%	(1.5)	(9.2)
Lifesciences & Healthcare	564	17.5%	560	17.5%	509	16.5%	0.8	11.0
Public Services	319	9.9%	320	10.0%	314	10.2%	(0.2)	1.5
Retail & CPG	310	9.6%	291	9.1%	284	9.2%	6.3	9.2
Telecom, Media, Publishing & Entert.	258	8.0%	243	7.6%	284	9.2%	6.1	(9.0)
Total Revenues	3,225	100%	3200	100%	3082	100%	0.8	4.6

Source: Company & Anvil Research

HCL Technologies

Go geographical Split (USD mn)	Q2FY24		Q1FY24		Q2FY23		% chg qoq	% chg yoy
North America	64.5%	2,080	64.5%	2,064	64.8%	1,997	0.8	4.1
Europe	28.5%	919	28.7%	918	27.5%	848	0.1	8.4
ROW	7.0%	226	6.8%	218	7.7%	237	3.7	(4.9)
Total Revenues	100%	3,225	100%	3,200	100%	3,082	0.8	4.6

Source: Company & Anvil Research

Revenues USD mn (LTM based)	Q2FY24	Q1FY24	Q2FY23	Chg qoq	Chg yoy
Top 5 client	316	314	330	0.8%	-4.2%
% of revenues	9.8%	9.8%	10.7%		
Top 10 clients	555	550	579	0.8%	-4.3%
% of revenues	17.2%	17.2%	18.8%		
Top 20 clients	880	870	881	1.1%	-0.1%
% of revenues	27.3%	27.2%	28.6%		

Source: Company and Anvil Research

Outlook

- For HCL Tech ER&D business had been historically strong but not that strong in Auto Engineering areas and hence it acquired ASAP in Q2FY24, which has presence in areas of Autonomous driving, E-mobility and Connectivity within Automotive Industry vertical.
- Retail, CPG and Media vertical grew well, while Technology vertical continues to be weak but Mgmt. hopes growth to be back in coming quarters in it.
- US Financial firm partnered with HCL Tech. HCL Tech also extended partnership with a Fortune 50 Communication provider in Q2. US based Healthcare Tech company selected HCL Tech. Another US based Financial firm also partnered with HCL Tech where it will use Gen AI led large language models.
- **Thus, the company's pipeline continues to be healthy but is little lower than earlier as one mega deal is already witnessing revenue booking.**
- Plus, the company's investments in last few years on building freshers is getting reflected in improved margins as they came in at lower costs and currently witnessing better deployment.
- HCL Tech is using Gen AI in all its corporate functions in People, Finance and HR areas.
- **Thus, the company is gaining market share in Cost optimization deals but given the macros discretionary spends are not growing. So, it expects only 5-6% CC overall Topline growth in FY24.**
- **Salary increases to happen effective October, which will have 60-65bps margin impact in Q3FY24, plus another 25-30bps impact in Q4FY24 as well, despite of which Mgmt. expects margins to stay in 18-19% band for FY24.**

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 5% yoy in USD terms), PAT increase of 4.3% yoy and EPS of Rs57.1 in FY24E. For FY25E however we expect recovery in macro-economic variants globally resulting in strong demand recovery leading to Top-line growth of 8.7% yoy in INR terms (Growth of 8.9% yoy in USD terms), PAT increase of 11.6% yoy and EPS of Rs63.8. Thus, the stock currently trades at 22x FY24E EPS and at 19.7x 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	1,09,096	1,18,529
Other income	178	657	747	1,005	957	1,061
Total Income	70,856	76,036	86,398	1,02,461	1,10,052	1,19,589
Cost of revenue	45,294	45,974	54,286	66,155	69,603	75,621
SG&A	8,690	9,348	10,835	12,673	15,765	16,715
Cost of sales	53,984	55,322	65,121	78,828	85,368	92,336
PBIDT	16,694	20,057	20,530	22,628	23,728	26,192
PBDT	16,872	20,714	21,277	23,633	24,684	27,253
Depreciation	2,841	3,985	4,326	4,145	3,958	4,043
PBT	14,031	16,729	16,951	19,488	20,727	23,210
Provision for tax	2,938	3,663	3,428	4,643	5,237	5,919
PAT	11,093	13,066	13,523	14,845	15,490	17,292
Minority Interest/ext.	(31)	(631)	(24)	6	4	3
Adjusted PAT	11,062	12,435	13,499	14,851	15,494	17,295

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	66,815	67,320
Total Debt	5,092	3,907	3,985	2,251	2,508	2,508
Other Liabilities & Minority Interest	5,548	5,535	4,421	4,464	5,459	6,056
Capital Employed	62,326	70,948	70,320	72,120	75,325	76,426
Goodwill and other intangible assets	29,421	29,150	27,160	26,911	29,111	30,111
Gross block	19,128	23,114	26,936	30,751	34,500	38,800
Accumulated depreciation	12,884	16,869	21,195	25,340	29,297	33,340
Net block	6,244	6,245	5,741	5,411	5,203	5,460
Total fixed assets	6,244	6,245	5,741	5,411	5,203	5,460
Investments (Long-term)	38	47	2,314	2,337	2,937	3,437
Other non-current assets	9,088	9,209	5,777	5,175	3,975	3,075
Sundry debtors	17,772	17,525	20,671	25,506	22,417	24,680
Cash & bank	8,385	13,717	12,636	14,724	19,770	20,354
Unbilled rev. & other current assets	5,279	5,037	8,495	7,962	5,962	4,962
Investments (Short term)	6,988	6,773	6,239	5,385	5,585	5,585
Sundry creditors	117	173	6,278	6,428	5,000	5,500
Other current liabilities	20,772	16,582	12,435	14,863	14,635	15,737
Net current assets	17,535	26,297	29,328	32,286	34,099	34,343
Capital Deployed	62,326	70,948	70,320	72,120	75,325	76,426

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
Absolute Growth (%)						
Revenue	17.0	6.7	13.6	18.5	7.5	8.6
EBITDA	19.5	20.1	2.4	10.2	4.9	10.4
PAT	9.3	12.4	8.6	10.0	4.3	11.6
Profitability Ratios (%)						
EBITDA margins	23.6	26.6	24.0	22.3	21.7	22.1
EBIT margins	19.6	21.3	18.9	18.2	18.1	18.7
PAT margins	15.7	16.5	15.8	14.6	14.2	14.6
ROCE	25.8	27.4	26.2	27.8	30.0	32.8
ROIC	44.7	44.7	42.4	46.2	55.9	63.6
ROA	13.3	14.9	15.2	15.9	16.3	17.7
ROE	21.4	20.2	21.8	22.7	23.0	25.5
Valuation Ratio (x)						
P/E (on FDEPS)	13.4	16.6	22.4	22.9	22.0	19.7
P/CEPS	10.7	12.6	17.0	17.9	17.5	15.9
P/BV	2.9	3.4	4.9	5.2	5.1	5.0
Dividend yield (%)	1.5	3.7	3.8	3.8	4.0	4.6
EV/Sales	2.0	2.5	3.4	3.2	2.9	2.7
EV/EBITDA	8.3	9.5	14.0	14.2	13.4	12.1
EV / Total Assets	1.7	2.2	3.2	3.4	3.3	3.2
Per Share Data (Rs)						
EPS (Basic)	40.8	45.8	49.8	54.9	57.2	63.9
EPS (fully diluted)	40.8	45.8	49.8	54.8	57.1	63.8
Cash EPS	51.3	60.5	65.7	70.2	71.8	78.8
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	248.1	250.0
Dupont Analysis						
EBIT margin (a)	19.9	22.2	19.8	19.2	19.0	19.6
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
ROA (a*b*c)	13.3	14.9	15.2	15.9	16.3	17.7
Net Profit AT/Total Assets (a1)	13.3	14.2	15.2	15.9	16.3	17.7
Total Assets/Stockhldrs. Equity (b1)	1.6	1.4	1.4	1.4	1.4	1.4
ROE (a1*b1)	21.4	20.2	21.8	22.7	23.0	25.5
Liquidity ratios (x)						
Asset Turnover (Gross Block)	4	3	3	3	3	3
Debtors days	84	85	81	83	80	73
Creditors days	1	1	18	29	24	21
Working capital cycle (ex-cash days)	48	53	62	62	53	44
Leverage ratios (x)						
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)	(0.3)	(0.3)
Net debt to EBITDA	(0.2)	(0.5)	(0.4)	(0.6)	(0.7)	(0.7)

Source: Company and Anvil Research

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

NSE Regn No. – INF231046831

Under SEBI (Research Analyst) Regulations, 2014 – INH000000818

This report is intended for distribution to institutional investors. Recipients who are not institutional investors should seek advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents.

Analyst Certification – The views expressed in this research report accurately reflect the personal views of the analyst about the subject securities or issues and no part of the compensation of the research analyst was, is or will be directly or indirectly related to the specific recommendations and views expressed by research analyst in this report. The research analysts, strategists or research associates principally responsible for preparation of most research receive compensation based upon various factors including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

DISCLAIMER:

We, **Anvil Share & Stock Broking Pvt Ltd, our Analysts & our Associates** hereby solemnly declare & disclose that we:

- Do not have any financial interest of any nature in the company referred in this research report.
- Do not individually or collectively hold 1% or more of the securities of the company referred in this research report.
- Do not have any other material conflict of interest in the company referred in this research report.
- Do not act as a market maker in securities of the company referred in this research report.
- Do not have any directorships or other material relationships with the company referred in this Research report.
- Do not have any personal interests in the securities of the company referred in this research report.
- Do not have any past significant relationships with the company referred in this research report, Including Investment Banking or other advisory assignments or relationships.

This is not an Exchange traded product and the Anvil Share and Stock Broking Pvt Ltd is acting as distributor of Research. All disputes with respect to the distribution of research would not have access to Exchange investor redressal forum or Arbitration mechanism.