

India

HOLD (no change)

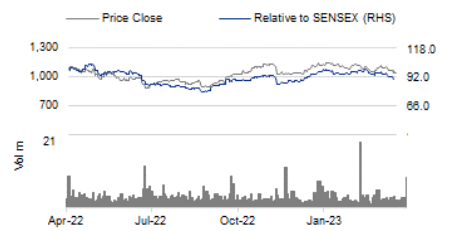
Consensus ratings*: Buy 26 Hold 16 Sell 4

Current price:	Rs1,038
Target price:	Rs1,133
Previous target:	Rs1,151
Up/downside:	9.2%
InCred Research / Consensus:	-3.2%

Reuters:	
Bloomberg:	HCLT IN
Market cap:	US\$38,772m
	Rs2,815,428m
Average daily turnover:	US\$46.0m
	Rs3341.6m
Current shares o/s:	2,707.7m
Free float:	39.0%
*Source: Bloomberg	

Key changes in this note

- Expect 8.1% revenue CAGR over FY23-25F.
- Expect 11% EBIT CAGR over FY23-25F.
- Expect 10.6% PAT CAGR over FY23-25F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(4.9)	(6.3)	(4.8)
Relative (%)	(7.4)	(4.8)	(7.5)

Major shareholders	% held
LIC	4.2
ICICI MF	2.0
SBI MF	1.8

Analyst(s)



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HCL Technologies

4Q miss but encouraging guidance

- Guides FY24F CC services/consolidated revenue growth of 6.5-8.5% & 6-8%.
- We largely retain our estimates as the guidance was better than feared.
- Retain HOLD rating with a revised target price of Rs1,133 vs. Rs1,151 earlier.

4QFY23 results summary

HCL Technologies' (HCLT IN) 4QFY23 revenue (-1.2% qoq-CC vs. 0.5% estimate) at US\$3,235m missed consensus/our estimate of US\$3,246m/US\$3,259, respectively, as softness in engineering R&D (-3.8% qoq-CC) and HCL Software (-14.6% qoq-CC) offset the growth in IT & business services segment (1.6% qoq-CC) while revenue miss hit EBIT margin (18.1% vs. 18.4% consensus/our estimate). 4Q was impacted by client-specific challenges with the verticals impacted largely consistent to that of peers (that reported results earlier). Management commentary acknowledging the near-term slowdown, but with a higher floor than the pre-pandemic cycle and shorter recovery time, is encouraging.

Sequential new deal TCV soft for a second consecutive quarter

During 4QFY23, new deal total contract value (TCV) at US\$2,074m was down 11.6% qoq and 8.2% yoy with 13 new wins (10 in services vs. 7 in 3QFY23 and 3 in products vs. 10 in 3QFY23). Management commentary suggests the pipeline is at a record high, well distributed across service lines and geographies (good in the US followed by Europe) and has many ~US\$500m (size) deals with cost optimization and vendor consolidation as key themes. HCL Technologies expects to continue gaining market share in vendor consolidation deals in BFSI, retail & CPG, technology and telecom verticals.

ER&D weakness impacts EBIT margin

EBIT margin was down 140bp qoq, impacted by seasonality in software business (-125bp) and weakness in ER&D revenue (-50bp) offset by operational efficiency and improvement in IT & business services EBIT margin (+20bp). IT & business services EBIT margin was up 32bp qoq at 17.1% while the ramp-down in ER&D services impacted its margin by 286bp qoq to 18.8% and seasonality impacted HCL Software EBIT margin by 963bp qoq to 23%. Wage hikes, productivity commitments and large deal investments are key margin headwinds in FY24F. We retain our FY24F-25F average 18.4% EBIT margin assumption.

Retain HOLD rating with a lower target price of Rs1,133

We retain HOLD rating on HCL Technologies, but with a lower target price of Rs1,133 (Rs1,151 earlier) as we incorporate 4QFY23 earnings miss. We now factor in an 8.1% US\$ revenue CAGR over FY23F-25F and a 10.6% PAT (Rs.) CAGR, and modestly increase the PE/G multiple to 1.6x (1.5x earlier) as the guidance was better than feared, to arrive at a target P/E multiple of 16.9x (17.2x). Net cash (Rs66/share), dividend payout ratio (~75%+) and relative low valuation remain near-term anchors. Acceleration in deal velocity, lower attrition rate and improvement in product and platform (P&P) business are key upside risks to our revenue/EBIT margin assumptions. Weaker execution is a key downside risk.

Financial Summary

	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	753,780	856,510	1,014,560	1,120,110	1,234,325
Operating EBITDA (Rsm)	202,350	201,920	226,290	250,788	275,995
Net Profit (Rsm)	110,110	135,150	148,490	163,740	181,527
Core EPS (Rs)	47.2	49.8	54.8	60.5	67.0
Core EPS Growth	16.8%	5.5%	10.0%	10.4%	10.9%
FD Core P/E (x)	25.57	20.83	18.94	17.16	15.48
DPS (Rs)	26.0	44.0	48.0	52.0	57.0
Dividend Yield	2.55%	4.24%	4.63%	5.01%	5.49%
EV/EBITDA (x)	13.44	13.29	11.71	10.42	9.34
P/FCFE (x)	15.66	19.28	17.62	17.21	15.66
Net Gearing	(16.4%)	(21.3%)	(24.8%)	(28.8%)	(33.1%)
P/BV (x)	4.70	4.55	4.30	4.15	3.99
ROE	23.0%	22.2%	23.3%	24.6%	26.3%
% Change In Core EPS Estimates				0.03%	(0.01%)
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly performance

YE Mar (Rs m)	4QFY23	4QFY22	YoY (%)	3QFY23	QoQ (%)	4QFY23F	Var. (%)
Revenue (US\$ m)	3,235	2,993	8.1	3,244	(0.3)	3,259	(0.7)
Net sales (Rs m)	2,66,060	2,25,970	17.7	2,67,000	(0.4)	2,68,264	(0.8)
USD-INR realization	82.2	75.5	8.9	82.3	(0.1)	82.3	(0.1)
EBITDA	58,630	50,530	16.0	63,650	(7.9)	60,359	(2.9)
EBITDA Margin (%)	22.0	22.4	(32 bp)	23.8	(180 bp)	22.5	(46 bp)
EBIT	48,360	40,690	18.8	52,280	(7.5)	49,361	(2.0)
EBIT Margin (%)	18.2	18.0	17 bp	19.6	(140 bp)	18.4	(22 bp)
Depreciation	10,270	9,840	4.4	11,370	(9.7)	10,999	(6.6)
Total other income	3,570	2,520	41.7	1,440	147.9	1,442	147.6
PBT	51,930	43,210	20.2	53,720	(3.3)	50,803	2.2
Provision for tax	12,140	7,210	68.4	12,760	(4.9)	12,193	(0.4)
% tax rate	23.4	16.7	669 bp	23.8	(38 bp)	24.0	(62 bp)
Net Profit	39,810	35,940	10.8	40,960	(2.8)	38,610	3.1
EPS (Rs)	14.7	13.3	10.7	15.1	(2.8)	14.3	3.1

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Key conference-call takeaways

- The BFSI vertical's growth in services business (up 6.9% qoq in CC terms) was aided by ramp-up of large deals and traction in Cloud and data. HCL Technologies' exposure to lower credit-rated banks is about 1% of BFSI vertical's revenue. The company is confident of the trajectory in both insurance and capital markets, but banking could be muted.
- Manufacturing vertical's growth in the services business mix (down 3.5% qoq in CC terms) was impacted due to one-off program coming to end.
- Booking delay or ramp-up delay, was largely restricted to discretionary spending. HCL Technologies is not witnessing any stress on run-the-business spending.
- The company has gained market share in services business in FY23 (up 15.8% yoy in CC terms).
- HCL Technologies is witnessing good synergy opportunities for the services business from a few HCL Software customers.
- The company has surpassed US\$1bn in annual recurring revenue (ARR) in software business in 4QFY23 (up 5.2% yoy in CC terms).
- The company added 4,480 freshers during 4QFY23 and >25,000 in FY23. Net headcount was up 1.7% qoq and 8.2% yoy at 2,25,944. Significant headroom exists to add freshers and streamline the employee pyramid over the next two-to-three years. LTM attrition moderated to 19.5% vs. 21.7% in 3QFY23.
- FY24F effective tax rate: 25.5% to 26.5%. Cash taxes are likely to be in the 20.5%-21.5% range for the next two years.
- The company declared a total dividend of Rs48 per share in FY23. OCF was up 6.6% in FY23 at Rs180bn with OCF/EBITDA at 79.6% in FY23 vs. 83.7% in FY22. Capex was up 1% at Rs16.6bn. Net cash stood at Rs208.4 bn.

Figure 2: Operating metrics trends

Operating trends	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
Revenue (US\$ m)	2,696	2,720	2,791	2,978	2,993	3,025	3,082	3,244	3,235
Growth YoY (%)	6.0	15.5	11.3	13.8	11.0	11.2	10.4	9.0	8.1
Growth QoQ (%)	3.0	0.9	2.6	6.7	0.5	1.1	1.9	5.3	-0.3
CC Growth YoY (%)	2.6	11.7	10.5	15.0	13.3	15.6	15.8	13.1	10.5
CC Growth QoQ (%)	2.5	0.7	3.5	7.6	1.0	2.7	3.8	5.0	-1.2
Revenue (Rs. m)	1,96,410	2,00,680	2,06,550	2,23,310	2,25,970	2,34,640	2,46,860	2,67,000	2,66,960
Growth YoY (%)	5.7	12.5	11.1	15.7	15.1	16.9	19.5	19.6	17.7
Growth QoQ (%)	1.8	2.2	2.9	8.1	1.2	3.8	5.2	8.2	-0.4
EBIT Margin (%)	20.4	19.6	19.0	19.1	18.0	17.0	17.9	19.6	18.2
US\$-INR realized rate	72.9	73.8	74.0	75.0	75.5	77.6	80.1	82.3	82.2
Headcount	1,68,977	1,76,499	1,87,634	1,97,777	2,08,877	2,10,966	2,19,325	2,22,270	2,25,944
Attrition (%)	9.9	11.8	15.7	19.8	21.9	23.8	23.8	21.7	19.5
Segment (%)	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
IT services	71.9	71.6	72.6	70.6	73.4	72.8	73.6	71.1	73.8
ER&D	14.8	15.3	15.7	15.9	16.4	16.6	17	16.6	16.1
Products & platforms	13.3	13.1	11.7	13.5	10.3	10.6	9.8	12.3	10.2
Segment (US\$ m)	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
IT services	1,938	1,947	2,026	2,102	2,197	2,202	2,268	2,306	2,387
ER&D	399	416	438	473	491	502	524	539	521
Products & platforms	359	356	327	402	308	321	302	399	330
Segment YoY (%)	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
IT services	8.0	17.8	14.2	14.1	13.3	13.1	12.0	9.7	8.7
ER&D	-3.8	10.4	11.3	16.7	23.0	20.7	19.6	13.7	6.1
Products & platforms	7.6	9.6	-3.5	9.0	-14.0	-10.0	-7.5	-0.7	7.0
Segment QoQ (%)	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
IT services	5.2	0.5	4.0	3.8	4.5	0.2	3.0	1.7	3.5
ER&D	-1.6	4.3	5.3	8.1	3.7	2.3	4.3	2.8	-3.3
Products & platforms	-2.8	-0.6	-8.4	23.1	-23.3	4.0	-5.8	32.1	-17.3
Incremental revenue (US\$ m)	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
IT services	96.3	8.8	78.8	76.1	94.8	5.2	66.3	38.1	80.9
ER&D	-6.6	17.1	22.0	35.3	17.4	11.3	21.8	14.5	-17.7
Products & platforms	-10.4	-2.3	-29.8	75.5	-93.7	12.4	-18.6	97.0	-69.0
Clients (%)	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
Top 5	13.2	13.0	12.7	12.2	11.6	11.2	10.7	10.3	10.1
Top 6-10	7.7	7.8	8.0	8.1	8.2	8.2	8.1	7.9	7.6
Top 11-20	9.9	9.6	9.2	9.1	9.3	9.5	10.1	10.0	10.1
Non-top 20	69.2	69.6	70.1	70.6	70.9	71.1	71.1	71.8	72.2
Clients (US\$ m)	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
Top 5	356	354	354	363	347	339	330	334	327
Top 6-10	208	212	223	241	245	248	250	256	246
Top 11-20	267	261	257	271	278	287	311	324	327
Non-top 20	1,866	1,893	1,956	2,102	2,122	2,151	2,191	2,329	2,336
Clients YoY (%)	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
Top 5	-7.3	8.0	3.2	2.8	-2.4	-4.2	-7.0	-8.0	-5.9
Top 6-10	18.3	28.7	23.7	22.9	18.2	16.9	11.8	6.3	0.2
Top 11-20	3.9	12.0	5.6	4.6	4.3	10.1	21.2	19.7	17.4
Non-top 20	8.0	16.1	12.5	16.3	13.7	13.6	12.0	10.8	10.1
Clients QoQ (%)	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
Top 5	0.7	-0.7	0.2	2.5	-4.4	-2.4	-2.7	1.3	-2.2
Top 6-10	5.8	2.2	5.2	8.0	1.8	1.1	0.6	2.7	-4.1
Top 11-20	3.0	-2.2	-1.7	5.5	2.7	3.2	8.3	4.2	0.7
Non-top 20	3.2	1.5	3.4	7.5	1.0	1.3	1.9	6.3	0.3
Incremental revenue (US\$ m)	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
Top 5	3	-2	1	9	-16	-8	-9	4	-7
Top 6-10	11	5	11	18	4	3	2	7	-10
Top 11-20	8	-6	-4	14	7	9	24	13	2
Non-top 20	58	27	63	146	20	29	41	138	6
Client metrics	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
US\$ 100 m+	15	14	15	15	16	17	17	17	19
US\$ 50 m+	35	37	41	42	43	42	42	45	46
US\$ 20 m+	96	104	109	110	118	127	128	130	131
US\$ 10 m+	178	183	190	198	208	218	220	221	229
US\$ 5 m+	318	326	329	346	349	353	356	365	375
US\$ 1 m+	809	817	836	864	882	880	890	937	937
Per employee analysis	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
Revenue (US\$ m) - TTM	10,175	10,539	10,823	11,184	11,481	11,786	12,078	12,344	12,586
Employees (average TTM)	1,58,008	1,64,561	1,73,198	1,82,722	1,92,697	2,01,314	2,09,236	2,15,360	2,19,626
Revenue per employee (TTM basis)	64,394	64,042	62,489	61,207	59,580	58,546	57,722	57,319	57,306

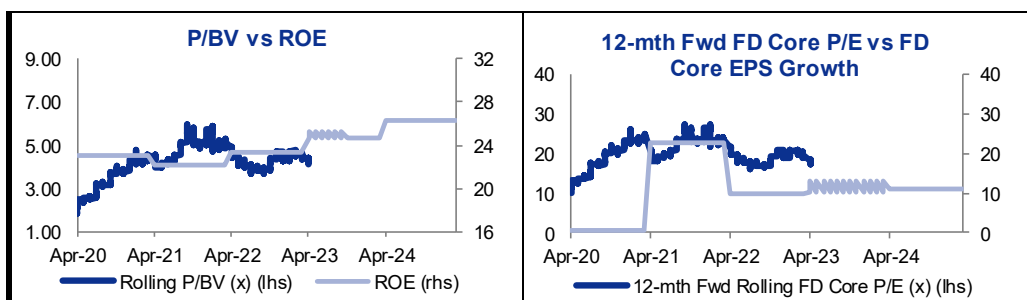
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Change in our estimates

Y/E, Mar (Rs m)	FY24F			FY25F		
	New	Old	% change	New	Old	% change
US\$ revenue	13,495	13,645	-1.1	14,694	14,847	-1.0
Revenue	11,20,110	11,32,575	-1.1	12,34,325	12,47,180	-1.0
EBIT	2,06,127	2,08,430	-1.1	2,27,856	2,30,229	-1.0
EBIT Margin (%)	18.4	18.4	(0) bp	18.5	18.5	0 bp
Net PAT	1,63,740	1,63,744	0.0	1,81,527	1,81,617	0.0
EPS (Rs)	60.5	60.5	0.0	67.0	67.0	0.0

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs m)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Net Revenue	753,780	856,510	1,014,560	1,120,110	1,234,325
Gross Profit	295,590	310,800	353,010	385,603	423,374
Operating EBITDA	202,350	201,920	226,290	250,788	275,995
Depreciation And Amortisation	(41,360)	(40,190)	(41,450)	(44,662)	(48,139)
Operating EBIT	160,990	161,730	184,840	206,127	227,856
Financial Income/(Expense)	1,370	4,980	9,120	10,081	11,694
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	2,790	3,280	910	560	617
Profit Before Tax (pre-EI)	165,150	169,990	194,870	216,768	240,168
Exceptional Items					
Pre-tax Profit	165,150	169,990	194,870	216,768	240,168
Taxation	(36,580)	(34,430)	(46,430)	(53,108)	(58,721)
Exceptional Income - post-tax	(17,970)				
Profit After Tax	110,600	135,560	148,440	163,660	181,447
Minority Interests	(490)	(410)	50	80	80
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	110,110	135,150	148,490	163,740	181,527
Recurring Net Profit	128,080	135,150	148,490	163,740	181,527
Fully Diluted Recurring Net Profit	128,080	135,150	148,490	163,740	181,527

Cash Flow

(Rs m)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	202,350	201,920	226,290	250,788	275,995
Cash Flow from Invt. & Assoc.					
Change In Working Capital	30,410	(5,490)	(13,050)	(17,898)	(21,278)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	490	410	(50)	(80)	(80)
Other Operating Cashflow					
Net Interest (Paid)/Received					
Tax Paid	(34,450)	(34,430)	(36,980)	(53,108)	(58,721)
Cashflow From Operations	198,800	162,410	176,210	179,702	195,916
Capex	(19,040)	(16,450)	(16,610)	(16,500)	(16,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(38,260)	31,220	(22,700)	10,081	11,694
Cash Flow From Investing	(57,300)	14,770	(39,310)	(6,419)	(4,806)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(32,560)	(121,950)	(129,950)	(140,729)	(154,298)
Preferred Dividends					
Other Financing Cashflow	(79,360)	(23,130)	(28,860)		
Cash Flow From Financing	(111,920)	(145,080)	(158,810)	(140,729)	(154,298)
Total Cash Generated	29,580	32,100	(21,910)	32,554	36,812
Free Cashflow To Equity	179,760	145,960	159,600	163,202	179,416
Free Cashflow To Firm	141,500	177,180	136,900	173,283	191,110

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs m)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Cash And Equivalents	156,610	188,750	201,090	234,365	271,954
Total Debtors	175,250	206,710	255,060	279,260	307,736
Inventories	940	1,610	2,280	2,280	2,280
Total Other Current Assets	97,710	83,340	77,340	77,340	77,340
Total Current Assets	430,510	480,410	535,770	593,245	659,310
Fixed Assets	83,640	80,460	77,480	49,318	17,680
Total Investments	26,580	26,040	20,700	20,700	20,700
Intangible Assets	290,930	271,600	269,110	269,110	269,110
Total Other Non-Current Assets	30,280	31,820	31,050	31,050	31,050
Total Non-current Assets	431,430	409,920	398,340	370,178	338,540
Short-term Debt	790	620	1,400	1,400	1,400
Current Portion of Long-Term Debt					
Total Creditors	54,570	62,780	64,280	70,582	77,779
Other Current Liabilities	118,470	124,350	148,630	148,630	148,630
Total Current Liabilities	173,830	187,750	214,310	220,612	227,809
Total Long-term Debt	38,280	39,230	21,110	21,110	21,110
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	49,010	43,290	44,710	44,710	44,710
Total Non-current Liabilities	87,290	82,520	65,820	65,820	65,820
Total Provisions					
Total Liabilities	261,120	270,270	280,130	286,432	293,629
Shareholders Equity	599,130	619,140	654,050	677,061	704,290
Minority Interests	1,690	920			
Total Equity	600,820	620,060	654,050	677,061	704,290

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	6.7%	13.6%	18.5%	10.4%	10.2%
Operating EBITDA Growth	21.2%	(0.2%)	12.1%	10.8%	10.1%
Operating EBITDA Margin	26.8%	23.6%	22.3%	22.4%	22.4%
Net Cash Per Share (Rs)	36.30	48.78	59.81	72.09	85.98
BVPS (Rs)	220.78	228.26	241.55	250.05	260.10
Gross Interest Cover	31.50				
Effective Tax Rate	22.1%	20.3%	23.8%	24.5%	24.4%
Net Dividend Payout Ratio	55.9%	88.3%	87.5%	85.9%	85.0%
Accounts Receivables Days	85.45	81.39	83.06	87.06	86.79
Inventory Days	0.74	0.85	1.07	1.13	1.03
Accounts Payables Days	26.38	39.24	35.05	33.51	33.39
ROIC (%)	34.5%	32.0%	37.8%	31.2%	35.2%
ROCE (%)	25.9%	24.2%	27.0%	22.1%	23.6%
Return On Average Assets	15.0%	14.9%	15.3%	16.4%	17.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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