

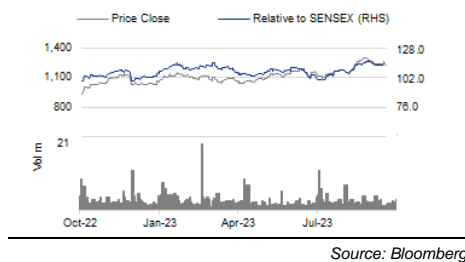
India

HOLD (no change)

Consensus ratings*: Buy 21 Hold 16 Sell 6	
Current price:	Rs1,224
Target price: ▲	Rs1,273
Previous target:	Rs1,125
Up/downside:	4.0%
InCred Research / Consensus:	1.2%
Reuters:	HCLT.NS
Bloomberg:	HCLT IN
Market cap:	US\$39,892m Rs3,320,848m
Average daily turnover:	US\$36.0m Rs2998.2m
Current shares o/s:	2,708.1m
Free float:	39.0%
*Source: Bloomberg	

Key changes in this note

- Expect 7.5% revenue CAGR over FY24F-26F.
- Expect 11.1% EBIT CAGR over FY24F-FY26F.
- Expect 11.3% PAT CAGR over FY24F-26F.



Price performance	1M	3M	12M
Absolute (%)	(4.0)	10.4	24.6
Relative (%)	(2.5)	9.0	7.4

Major shareholders	% held
LIC	4.6
Artisan International Value Fund	2.2
SBI MF	1.4

Analyst(s)

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HCL Technologies

Margin beat in 2Q is encouraging

- Top-end of services organic CC growth cut by 300bp to 4.5-5.5% yoy. Top-end of company growth trimmed by 200bp to 5-6% yoy CC, despite an acquisition.
- Healthy improvement in OCF (up 89.5% in 1H at Rs107.98bn) and DSO (at 61 excluding unbilled receivables vs. 66 in 2QFY23).
- Quarterly interim dividend/share raised by 20% qoq to Rs12 vs. Rs10 in 1Q.

2QFY24 earnings summary

HCL Technologies' (HCLT IN) 2QFY24 revenue missed estimates as traction in ER&D services (up 5% qoq in constant currency or CC terms, aided by ASAP acquisition) and IT & business services (up 0.9% qoq) was offset by softness in software. The EBIT margin beat, led by cost optimization initiatives, was encouraging, despite the drag from software business. While 2HFY24F trajectory could be better led by large deal ramp-up and software business seasonality, soft 1H drives a cut in the company's FY24F guidance. We adjust our estimates accordingly and retain HOLD rating on the stock with a higher target price of Rs1,273, rolling forward to FY26F estimates.

Order book and commentary consistent with peers

2QFY24 new deal total contract value (TCV) at US\$3,969m was up 153.6% qoq and 66.5% yoy, with 16 new order wins (10 in services vs. 7 in 1QFY24 and 6 in products vs. 11 in 1QFY24). HCLT expects 2HFY24F traction to be driven by ramp-up of large deals and strong seasonality in the software business partly offset by discretionary project roll-offs while the pipeline remains healthy, albeit down qoq due to mega deal conversion. We adjust FY24F growth to account for guidance revision, and introduce FY26F estimates.

Retains FY24F EBIT margin guidance

The EBIT margin was up 154bp qoq, led by 240bp and 206bp qoq increase in ER&D and IT & business services segments' margins, respectively. The overall services segment's EBIT margin was up 212bp qoq led by operational efficiency (+100bp qoq), optimization of discretionary expenses (+50bp qoq), reduction in overheads (+70bp) and currency tailwind (+10bp) offset by integration of ASAP acquisition. Ramp-up of Verizon large deal and wage hike (~60-65bp in 3QFY24F and ~25-30bp in 4QFY24F) are key margin headwinds in 2HFY24F while strong seasonality in the software business is a key tailwind.

Retain HOLD rating with a higher target price of Rs1,273

We retain HOLD rating on HCLT with a higher target price of Rs1,273 (Rs1,125 earlier) as we roll forward to FY26F estimates. We model a 7.5% US\$ revenue CAGR over FY23-26F & a 11.3% PAT (Rs) CAGR and retain our 1.6x target PE/G multiple to arrive at a target P/E multiple of 18x. Improving profitability, prudent capital allocation, healthy cash generation and ~4%+ dividend yield provide cushion, in our view. Accelerated deal velocity, lower attrition and software business improvement are upside risks. Weak execution is a key downside risk.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	856,510	1,014,560	1,088,920	1,194,424	1,310,869
Operating EBITDA (Rsm)	201,920	226,290	234,946	259,190	286,425
Net Profit (Rsm)	135,150	148,490	154,286	172,008	191,052
Core EPS (Rs)	49.8	54.8	57.0	63.5	70.5
Core EPS Growth	5.5%	10.0%	4.0%	11.5%	11.1%
FD Core P/E (x)	24.57	22.33	21.48	19.27	17.35
DPS (Rs)	44.0	48.0	58.0	60.3	67.0
Dividend Yield	3.59%	3.92%	4.74%	4.93%	5.48%
EV/EBITDA (x)	15.79	13.94	13.47	12.11	10.86
P/FCFE (x)	22.75	20.78	24.54	18.44	16.82
Net Gearing	(21.3%)	(24.8%)	(22.9%)	(26.6%)	(30.2%)
P/BV (x)	5.36	5.07	5.09	5.02	4.95
ROE	22.2%	23.3%	23.6%	26.2%	28.7%
% Change In Core EPS Estimates			(1.77%)	(5.14%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly performance

YE Mar (Rs m)	2QFY24	2QFY23	YoY (%)	1QFY24	QoQ (%)	2QFY24F	Var. (%)
Revenue (US\$ m)	3,225	3,082	4.6	3,200	0.8	3,242	(0.5)
Net sales (Rs m)	266,720	246,860	8.0	262,960	1.4	268,112	(0.5)
USD-INR realization	82.7	80.1	3.3	82.2	0.7	82.7	0.0
EBITDA	59,440	54,260	9.5	53,870	10.3	56,035	6.1
EBITDA margin (%)	22.3	22.0	31 bp	20.5	180 bp	20.9	139 bp
EBIT	49,340	44,280	11.4	44,600	10.6	46,652	5.8
EBIT margin (%)	18.5	17.9	56 bp	17.0	154 bp	17.4	110 bp
Depreciation	10,100	9,980	1.2	9,270	9.0	9,383	7.6
Total other income	1,940	1,570	23.6	2,360	(17.8)	2,199	(11.8)
PBT	51,280	45,850	11.8	46,960	9.2	48,850	5.0
Provision for tax	12,950	10,970	18.0	11,650	11.2	11,938	8.5
% tax rate	25.3	23.9	133 bp	24.8	45 bp	24.4	82 bp
Net profit	38,320	34,890	9.8	35,340	8.4	36,912	3.8
EPS (Rs)	14.1	12.9	9.7	13.0	8.4	13.6	3.9

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Key conference call take-aways

- FY24F CC organic growth guidance revised lower to 4-5% vs. 6-8% earlier. HCLT expects revenue growth of 5-6%, including ASAP acquisition. Services organic revenue growth to be in the range of 4.5-5.5% vs. 6.5-8.5% earlier. HCLT retained its EBIT margin band of 18-19%.
- Sequential revenue growth of 1% qoq in CC terms was led by ER&D services (up 5% qoq in CC terms) followed by IT & business services (up 0.9% qoq in CC terms) while HCLT's software business witnessed a decline of 4% qoq in CC terms. Management says ER&D growth was healthy, excluding the one-month contribution of ASAP acquisition.
- TCV of new deal wins at US\$3,969m (up 153.6% qoq and 66.5% yoy) was aided by the Verizon deal (likely commencement in Nov 2023F). HCLT would be providing managed services globally for Verizon's enterprise customers. Cross-selling could be a sizeable opportunity. The company signed 16 large deals (vs. 18 in 1QFY24) led by 10 (vs. 7 in 1QFY24) in services business and six (vs. 11 in 1QFY24) in products. The pipeline is healthy but 10% below its peak, driven by conversion. The company is working on 100+ GenAI opportunities and sustainability areas.
- Management expects healthy growth in 3QFY24F and 4QFY24F. Services CQGR could be in the range of 3-4% over the next two quarters. Weakness in discretionary spending remains a key headwind.
- ASAP's acquisition is likely to enhance HCLT's auto engineering capabilities. HCLT intends to leverage ASAP's 1,600 employees, capabilities in autonomous, e-mobility & connectivity and relationship with top automotive OEMS and Tier-1 suppliers in Germany to penetrate in other geographies and drive synergies.
- Sequential growth in services business mix (1.6% qoq in CC terms) was led by retail & CPG (up 7.5% qoq in CC terms) followed by telecom, media, publishing & entertainment (up 6.2% qoq) while financial services (up 1.7% qoq) and lifesciences & healthcare verticals' growth (up 1.6% qoq) was largely at the average of services business mix.
- Technology vertical (13.1% of services revenue mix) continued to witness pressure, with management hopeful of a rebound in the coming quarters.
- GenAI – Following a two-pronged strategy with a) client facing – working on generating early-stage opportunities, and b) leveraging internally across all corporate functions, primarily to improve employee experience and productivity.
- HCLT's software business grew 3.6% yoy-CC (down qoq for a third consecutive quarter) while its annual recurring revenue (ARR) growth of 3.9% is likely to aid the growth in future. 3QFY24F is likely to witness healthy revenue growth due to strong seasonality and could aid the overall company-level margins.

- The usual wage hike in Jul has been postponed to Oct. ~60-65 bp impact from wage hike likely in 3QFY24F and ~25-30 bp impact seen in 4QFY24F.
- HCLT saw a net reduction of 2,299 employees (vs. a decline of 2,506 employees in 1QFY24), with the overall count at 2,21,139 (up 0.8% yoy). LTM attrition stood at 14.2% vs. 16.3% in 1QFY24.
- OCF at ~Rs108bn was up by 89.5% yoy in 1HFY24; OCF/EBITDA was at 95.3% vs. 54.8% in 1HFY23. Capex was down by 38.7% in 1HFY24 over 1HFY22 at Rs5.67bn. Net cash and investments stood at ~Rs200.8bn (Rs74 per share). The interim dividend stood at Rs12/share vs. Rs10/share in 1QFY24.

Figure 2: Operating metric trends

Operating trends	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Revenue (US\$ m)	2,791	2,978	2,993	3,025	3,082	3,244	3,235	3,200	3,225
Growth yoy (%)	11.3	13.8	11.0	11.2	10.4	9.0	8.1	5.8	4.6
Growth qoq (%)	2.6	6.7	0.5	1.1	1.9	5.3	-0.3	-1.1	0.8
CC Growth yoy (%)	10.5	15.0	13.3	15.6	15.8	13.1	10.5	6.3	3.4
CC Growth qoq (%)	3.5	7.6	1.0	2.7	3.8	5.0	-1.2	-1.3	1.0
Revenue (Rs. m)	206,550	223,310	225,970	234,640	246,860	267,000	266,060	262,960	266,720
Growth yoy (%)	11.1	15.7	15.1	16.9	19.5	19.6	17.7	12.1	8.0
Growth qoq (%)	2.9	8.1	1.2	3.8	5.2	8.2	-0.4	-1.2	1.4
EBIT Margin (%)	19.0	19.1	18.0	17.0	17.9	19.6	18.2	17.0	18.5
US\$-INR realized rate	74.0	75.0	75.5	77.6	80.1	82.3	82.2	82.2	82.7
Headcount	187,634	197,777	208,877	210,966	219,325	222,270	225,944	223,438	221,139
LTM Attrition (%)	15.7	19.8	21.9	23.8	23.8	21.7	19.5	16.3	14.2
Segment (%)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
IT services	72.6	70.6	73.4	72.8	73.6	71.1	73.8	74.7	74.6
ER&D	15.7	15.9	16.4	16.6	17	16.6	16.1	15.4	16.0
Products & platforms	11.7	13.5	10.3	10.6	9.8	12.3	10.2	9.9	9.4
Segment (US\$ m)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
IT services	2,026	2,102	2,197	2,202	2,268	2,306	2,387	2,390	2,406
ER&D	438	473	491	502	524	539	521	493	516
Products & platforms	327	402	308	321	302	399	330	317	303
Segment yoy (%)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
IT services	14.2	14.1	13.3	13.1	12.0	9.7	8.7	8.5	6.0
ER&D	11.3	16.7	23.0	20.7	19.6	13.7	6.1	-1.9	-1.5
Products & platforms	-3.5	9.0	-14.0	-10.0	-7.5	-0.7	7.0	-1.2	0.4
Segment qoq (%)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
IT services	4.0	3.8	4.5	0.2	3.0	1.7	3.5	0.1	0.6
ER&D	5.3	8.1	3.7	2.3	4.3	2.8	-3.3	-5.4	4.7
Products & platforms	-8.4	23.1	-23.3	4.0	-5.8	32.1	-17.3	-4.0	-4.3
Incremental revenue (US\$ m)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
IT services	78.8	76.1	94.8	5.2	66.3	38.1	80.9	3.0	15.2
ER&D	22.0	35.3	17.4	11.3	21.8	14.5	-17.7	-28.0	23.2
Products & platforms	-29.8	75.5	-93.7	12.4	-18.6	97.0	-69.0	-13.2	-13.7
Clients (%)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Top 5	12.7	12.2	11.6	11.2	10.7	10.3	10.1	9.8	9.8
Top 6-10	8.0	8.1	8.2	8.2	8.1	7.9	7.6	7.4	7.4
Top 11-20	9.2	9.1	9.3	9.5	10.1	10.0	10.1	10.0	10.1
Non-top 20	70.1	70.6	70.9	71.1	71.1	71.8	72.2	72.8	72.7
Clients (US\$ m)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Top 5	354	363	347	339	330	334	327	314	316
Top 6-10	223	241	245	248	250	256	246	237	239
Top 11-20	257	271	278	287	311	324	327	320	326
Non-top 20	1,956	2,102	2,122	2,151	2,191	2,329	2,336	2,330	2,344
Clients yoy (%)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Top 5	3.2	2.8	-2.4	-4.2	-7.0	-8.0	-5.9	-7.4	-4.2
Top 6-10	23.7	22.9	18.2	16.9	11.8	6.3	0.2	-4.5	-4.4
Top 11-20	5.6	4.6	4.3	10.1	21.2	19.7	17.4	11.4	4.6
Non-top 20	12.5	16.3	13.7	13.6	12.0	10.8	10.1	8.3	7.0
Clients qoq (%)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Top 5	0.2	2.5	-4.4	-2.4	-2.7	1.3	-2.2	-4.0	0.8
Top 6-10	5.2	8.0	1.8	1.1	0.6	2.7	-4.1	-3.7	0.8
Top 11-20	-1.7	5.5	2.7	3.2	8.3	4.2	0.7	-2.1	1.8
Non-top 20	3.4	7.5	1.0	1.3	1.9	6.3	0.3	-0.3	0.6
Incremental revenue (US\$ m)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Top 5	1	9	-16	-8	-9	4	-7	-13	2
Top 6-10	11	18	4	3	2	7	-10	-9	2
Top 11-20	-4	14	7	9	24	13	2	-7	6
Non-top 20	63	146	20	29	41	138	6	-6	15

Client metrics	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
US\$ 100 m+	15	15	16	17	17	17	19	20	20
US\$ 50 m+	41	42	43	42	42	45	46	48	49
US\$ 20 m+	109	110	118	127	128	130	131	127	132
US\$ 10 m+	190	198	208	218	220	221	229	237	243
US\$ 5 m+	329	346	349	353	356	365	375	390	402
US\$ 1 m+	836	864	882	880	890	937	937	947	971
Per employee analysis	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Revenue (US\$ m) - TTM	10,823	11,184	11,481	11,786	12,078	12,344	12,586	12,761	12,904
Employees (Average TTM)	173,198	182,722	192,697	201,314	209,236	215,360	219,626	222,744	223,198
Revenue per employee (TTM basis)	62,489	61,207	59,580	58,546	57,722	57,319	57,306	57,290	57,813

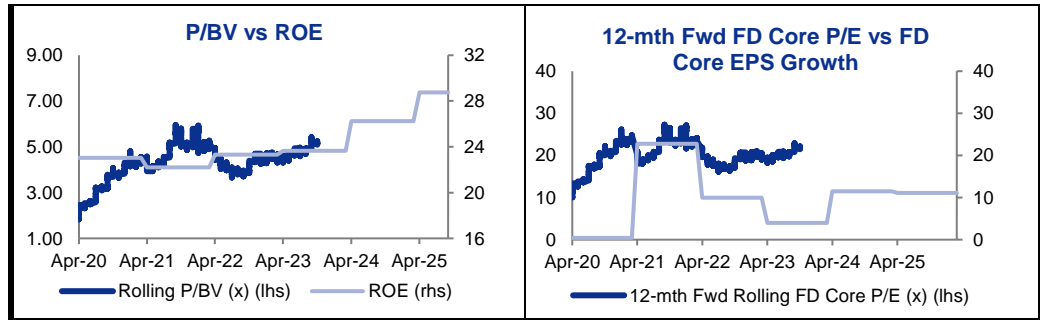
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Change in our earnings estimate

Y/E, Mar (Rs m)	FY24F			FY25F			FY26F
	New	Old	% change	New	Old	% change	New
US\$ revenue	13,186	13,460	-2.0	14,219	14,633	-2.8	15,243
Revenue	1,088,920	1,114,537	-2.3	1,194,424	1,229,131	-2.8	1,310,869
EBIT	196,003	197,101	-0.6	217,385	227,635	-4.5	241,855
EBIT Margin (%)	18.0	17.7	32 bp	18.2	18.5	(32) bp	18.5
Net PAT	154,286	157,062	-1.8	172,008	181,303	-5.1	191,052
EPS (Rs)	57.0	58.0	-1.8	63.5	67.0	-5.1	70.5

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	856,510	1,014,560	1,088,920	1,194,424	1,310,869
Gross Profit	310,800	353,010	373,751	414,465	456,182
Operating EBITDA	201,920	226,290	234,946	259,190	286,425
Depreciation And Amortisation	(40,190)	(41,450)	(38,943)	(41,805)	(44,570)
Operating EBIT	161,730	184,840	196,003	217,385	241,855
Financial Income/(Expense)	4,980	9,120	9,144	9,693	10,371
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	3,280	910	(90)	597	655
Profit Before Tax (pre-EI)	169,990	194,870	205,056	227,675	252,882
Exceptional Items					
Pre-tax Profit	169,990	194,870	205,056	227,675	252,882
Taxation	(34,430)	(46,430)	(50,770)	(55,667)	(61,830)
Exceptional Income - post-tax					
Profit After Tax	135,560	148,440	154,286	172,008	191,052
Minority Interests	(410)	50			
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	135,150	148,490	154,286	172,008	191,052
Recurring Net Profit	135,150	148,490	154,286	172,008	191,052
Fully Diluted Recurring Net Profit	135,150	148,490	154,286	172,008	191,052

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	201,920	226,290	234,946	259,190	286,425
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(5,490)	(13,050)	(12,087)	(9,838)	(13,554)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	410	(50)			
Other Operating Cashflow					
Net Interest (Paid)/Received					
Tax Paid	(34,430)	(36,980)	(50,770)	(55,667)	(61,830)
Cashflow From Operations	162,410	176,210	172,089	193,685	211,041
Capex	(16,450)	(16,610)	(37,069)	(14,000)	(14,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	31,220	(22,700)	9,144	9,693	10,371
Cash Flow From Investing	14,770	(39,310)	(27,925)	(4,307)	(3,629)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(121,950)	(129,950)	(157,071)	(163,408)	(181,500)
Preferred Dividends					
Other Financing Cashflow	(23,130)	(28,860)			
Cash Flow From Financing	(145,080)	(158,810)	(157,071)	(163,408)	(181,500)
Total Cash Generated	32,100	(21,910)	(12,907)	25,970	25,913
Free Cashflow To Equity	145,960	159,600	135,020	179,685	197,041
Free Cashflow To Firm	177,180	136,900	144,164	189,378	207,412

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	188,750	201,090	188,093	214,660	241,228
Total Debtors	206,710	255,060	271,484	287,971	308,862
Inventories	1,610	2,280	2,280	2,280	2,280
Total Other Current Assets	83,340	77,340	77,340	77,340	77,340
Total Current Assets	480,410	535,770	539,197	582,251	629,710
Fixed Assets	80,460	77,480	75,606	47,801	17,231
Total Investments	26,040	20,700	20,700	20,700	20,700
Intangible Assets	271,600	269,110	269,110	269,110	269,110
Total Other Non-Current Assets	31,820	31,050	31,050	31,050	31,050
Total Non-current Assets	409,920	398,340	396,466	368,661	338,091
Short-term Debt	620	1,400	1,400	1,400	1,400
Current Portion of Long-Term Debt					
Total Creditors	62,780	64,280	68,617	75,265	82,603
Other Current Liabilities	124,350	148,630	148,630	148,630	148,630
Total Current Liabilities	187,750	214,310	218,647	225,295	232,633
Total Long-term Debt	39,230	21,110	21,110	21,110	21,110
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	43,290	44,710	44,710	44,710	44,710
Total Non-current Liabilities	82,520	65,820	65,820	65,820	65,820
Total Provisions					
Total Liabilities	270,270	280,130	284,467	291,115	298,453
Shareholders Equity	619,140	654,050	651,266	659,866	669,419
Minority Interests	920				
Total Equity	620,060	654,050	651,266	659,866	669,419

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	13.6%	18.5%	7.3%	9.7%	9.7%
Operating EBITDA Growth	(0.2%)	12.1%	3.8%	10.3%	10.5%
Operating EBITDA Margin	23.6%	22.3%	21.6%	21.7%	21.9%
Net Cash Per Share (Rs)	48.78	59.81	55.00	64.81	74.62
BVPS (Rs)	228.26	241.55	240.49	243.66	247.19
Gross Interest Cover					
Effective Tax Rate	20.3%	23.8%	24.8%	24.4%	24.4%
Net Dividend Payout Ratio	88.3%	87.5%	101.8%	95.0%	95.0%
Accounts Receivables Days	81.39	83.06	88.25	85.48	83.09
Inventory Days	0.85	1.07	1.16	1.07	0.97
Accounts Payables Days	39.24	35.05	33.91	33.67	33.71
ROIC (%)	32.0%	37.8%	29.5%	32.2%	37.2%
ROCE (%)	24.2%	27.0%	21.3%	23.6%	26.0%
Return On Average Assets	14.9%	15.3%	15.8%	17.5%	19.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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