

India

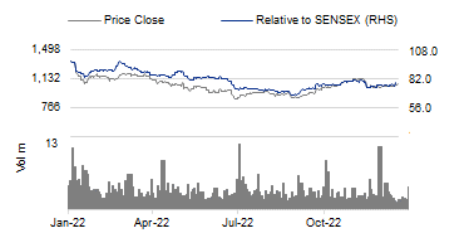
HOLD (no change)

Consensus ratings*: Buy 31 Hold 13 Sell 3

Current price:	Rs1,072
Target price: ▲	Rs1,151
Previous target:	Rs955
Up/downside:	7.4%
InCred Research / Consensus:	2.3%
Reuters:	
Bloomberg:	HCLT IN
Market cap:	US\$40,048m
	Rs2,908,099m
Average daily turnover:	US\$45.7m
	Rs3315.0m
Current shares o/s:	2,708.7m
Free float:	39.0%
*Source: Bloomberg	

Key changes in this note

- Expect 8.5% US\$ revenue CAGR over FY23F-25F.
- Expect 11.5% EBIT CAGR over FY23F-25F.
- Expect 11.4% PAT CAGR over FY23F-25F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	4.2	12.6	(20.7)
Relative (%)	8.0	8.2	(19.2)

Major shareholders	% held
LIC	3.9
ICICI MF	2.5
SBI MF	2.1

Analyst(s)



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HCL Technologies

Decent but aided by P&P

- CC revenue beat estimates by 2.1% led by P&P swing.
- CC revenue beat & stable services EBIT margin aided a 113bp beat on margin.
- Retain HOLD with a higher target price of Rs1,151, rolling forward to FY25F.

3QFY23 performance

HCL Technologies (HCLT IN) posted a good 3QFY23 performance led by a seasonally strong HCL Software (P&P business.; up 30.5% qoq in CC terms) which drove company average growth rate while a 2.2% growth in services business was marginally below average (2.6% qoq) reported by its peers so far. Products & platforms or P&P swing aided its EBIT margin (32.6% vs. 20.3% in 2QFY23) and company average EBIT margin trajectory, which was also helped by a modest sequential increase in services margins. Management commentary was consistent with our channel check that delayed deals in Europe may convert in the next few quarters while the vendor consolidation opportunity worth ~US\$115bn over the next 2.5 years could aid deal inflow. We adjust FY23F and FY24F estimates to account for the 3Q beat and roll forward to FY25F. That said, we have raised the PE/G discount to Tata Consultancy Services or TCS for a longer time horizon.

New deal TCV is soft sequentially while ACV lends visibility

New-deal total contract value (TCV) at US\$2,347m was down 1.6% qoq but up 9.9% yoy with 17 new wins (seven in services vs. eight in 2Q and 10 in products vs. three) and the top three contributing US\$1bn to TCV. Demand continues to be driven by cloud adoption and IT operating model transformation while vendor consolidation, cost optimization, large integrated deals and ACV growth of ~13% on a YTD basis lends medium-term visibility.

P&P swing drove margin beat

3QFY23 EBIT margin was up 164bp qoq and 52bp yoy at 19.6% driven by P&P seasonality (+157bp), forex gains (+70bp), operational efficiency (+40bp) and realization (+30bp) while the offsets were higher furloughs, lower working days (-70bp) and wage increment to middle management (-70bp). We expect an average 18.4% EBIT margin over FY23F-25F.

Retain HOLD rating with a higher target price of Rs1,151

We retain HOLD rating on HCLT, but with a higher target price of Rs1,151 (Rs955 earlier) as we incorporate 3QFY23 earnings beat and roll forward to FY25F estimates. We model 8.5% US\$ revenue CAGR over FY23F-25F and 11.4% PAT (Rs.) CAGR and increase the PE/G discount to TCS (25% vs. 18% earlier; target PE/G multiple at 1.5x vs. 1.64x earlier) to arrive at a target P/E multiple of 17.2x. Net cash (Rs60/share), dividend payout ratio (~75%+) and relative low valuation remain near-term anchors for HCLT. Acceleration in deal velocity, lower attrition rate and improvement in 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-23F	Mar-24F	Mar-25F
Revenue (Rsm)	753,780	856,510	1,017,342	1,132,575	1,247,180
Operating EBITDA (Rsm)	202,350	201,920	227,881	254,007	278,869
Net Profit (Rsm)	110,110	135,150	146,234	163,744	181,617
Core EPS (Rs)	47.2	49.8	53.9	60.5	67.0
Core EPS Growth	16.8%	5.5%	8.3%	12.0%	10.9%
FD Core P/E (x)	26.41	21.51	19.86	17.73	15.98
DPS (Rs)	26.0	44.0	43.0	48.4	53.6
Dividend Yield	2.46%	4.10%	4.01%	4.51%	5.01%
EV/EBITDA (x)	13.89	13.75	12.06	10.67	9.56
P/FCFE (x)	16.18	19.92	21.81	18.07	15.97
Net Gearing	(16.4%)	(21.3%)	(24.1%)	(28.4%)	(33.2%)
P/BV (x)	4.85	4.69	4.47	4.26	4.04
ROE	23.0%	22.2%	23.1%	24.6%	26.0%
% Change In Core EPS Estimates			3.77%	0.68%	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results update

YE Mar (Rs m)	3QFY23	3QFY22	YoY (%)	2QFY23	QoQ (%)	3QFY23E	Var. (%)
Revenue (US\$ m)	3,244	2,978	9.0	3,082	5.3	3,191	1.7
Net sales (Rs m)	2,67,000	2,23,310	19.6	2,46,860	8.2	2,62,270	1.8
USD-INR realization	82.3	75.0	9.7	80.1	2.8	82.2	0.1
EBITDA	63,650	53,930	18.0	54,260	17.3	60,191	5.7
EBITDA margin (%)	23.8	24.2	(31 bp)	22.0	186 bp	23.0	89 bp
EBIT	52,280	42,570	22.8	44,280	18.1	48,389	8.0
EBIT margin (%)	19.6	19.1	52 bp	17.9	164 bp	18.5	113 bp
Depreciation	11,370	11,360	0.1	9,980	13.9	11,802	(3.7)
Total other income	1,440	1,730	(16.8)	1,570	(8.3)	2,623	(45.1)
PBT	53,720	44,300	21.3	45,850	17.2	51,011	5.3
Provision for tax	12,760	9,820	29.9	10,970	16.3	12,753	0.1
% tax rate	23.8	22.2	159 bp	23.9	(17 bp)	25.0	(125 bp)
Net profit	40,960	34,420	19.0	34,890	17.4	38,269	7.0
EPS (Rs)	15.1	12.7	19.1	12.9	17.3	14.1	7.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Operating metrics trends

Operating trends	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Revenue (US\$ m)	2,617	2,696	2,720	2,791	2,978	2,993	3,025	3,082	3,244
Growth YoY (%)	2.9	6.0	15.5	11.3	13.8	11.0	11.2	10.4	9.0
Growth QoQ (%)	4.4	3.0	0.9	2.6	6.7	0.5	1.1	1.9	5.3
CC Growth YoY (%)	1.1	2.6	11.7	10.5	15.0	13.3	15.6	15.8	13.1
CC Growth QoQ (%)	3.5	2.5	0.7	3.5	7.6	1.0	2.7	3.8	5
Revenue (Rs. m)	1,93,020	1,96,410	2,00,680	2,06,550	2,23,310	2,25,970	2,34,640	2,46,860	2,67,000
Growth YoY (%)	6.4	5.7	12.5	11.1	15.7	15.1	16.9	19.5	19.6
Growth QoQ (%)	3.8	1.8	2.2	2.9	8.1	1.2	3.8	5.2	8.2
EBIT Margin (%)	22.9	20.4	19.6	19.0	19.1	18.0	17.0	17.9	19.6
US\$-INR realized rate	73.8	72.9	73.8	74.0	75.0	75.5	77.6	80.1	82.3
Headcount	1,59,682	1,68,977	1,76,499	1,87,634	1,97,777	2,08,877	2,10,966	2,19,325	2,22,270
Attrition (%)	10.2	9.9	11.8	15.7	19.8	21.9	23.8	23.8	21.7
Segment (%)	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
IT services	70.4	71.9	71.6	72.6	70.6	73.4	72.8	73.6	71.1
ER&D	15.5	14.8	15.3	15.7	15.9	16.4	16.6	17	16.6
Products & platforms	14.1	13.3	13.1	11.7	13.5	10.3	10.6	9.8	12.3
Segment (US\$ m)	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
IT services	1,842	1,938	1,948	2,026	2,102	2,197	2,202	2,268	2,306
ER&D	406	399	416	438	473	491	502	524	539
Products & platforms	369	359	356	327	402	308	321	302	399
Incremental revenue (US\$ m)	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
IT services	67.4	96.3	9.1	78.7	75.8	94.7	5.3	66.3	38.1
ER&D	12.0	-6.6	17.2	22.0	35.2	17.4	11.3	21.8	14.5
Products & platforms	30.5	-10.4	-2.2	-29.8	75.4	-93.7	12.4	-18.6	97.0
YoY CC revenue growth	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
IT services	1.1	3.7	13.0	13.2	15.3	16.2	18.1	18.2	15.3
ER&D	-5.1	-2.7	10.7	12.7	19.7	23.2	23.0	22.3	16.0
Products & platforms	9.3	3.3	6.0	-5.5	8.2	-13.9	-6.5	-7.2	-1.5
New deal wins	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
TCV (US\$ m)	1,301	3,100	1,664	2,245	2,135	2,260	2,054	2,384	2,347
QoQ	NA	NA	-46.3	34.9	-4.9	5.9	-9.1	16.1	-1.6
YoY	NA	49.0	37.0	38.0	64.1	-27.1	23.4	6.2	9.9
Clients (%)	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Top 5	13.5	13.2	13.0	12.7	12.2	11.6	11.2	10.7	10.3
Top 6-10	7.5	7.7	7.8	8.0	8.1	8.2	8.2	8.1	7.9
Top 11-20	9.9	9.9	9.6	9.2	9.1	9.3	9.5	10.1	10.0
Non top 20	69.1	69.2	69.6	70.1	70.6	70.9	71.1	71.1	71.8
Clients (US\$ m)	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Top 5	353	356	354	354	363	347	339	330	334
Top 6-10	196	208	212	223	241	245	248	250	256
Top 11-20	259	267	261	257	271	278	287	311	324
Non top 20	1,808	1,866	1,893	1,956	2,102	2,122	2,151	2,191	2,329
Clients YoY (%)	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Top 5	-8.6	-7.3	8.0	3.2	2.8	-2.4	-4.2	-7.0	-8.0
Top 6-10	7.2	18.3	28.7	23.7	22.9	18.2	16.9	11.8	6.3
Top 11-20	-3.9	3.9	12.0	5.6	4.6	4.3	10.1	21.2	19.7
Non top 20	6.1	8.0	16.1	12.5	16.3	13.7	13.6	12.0	10.8
Clients QoQ (%)	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Top 5	2.9	0.7	-0.6	0.2	2.5	-4.4	-2.4	-2.7	1.3
Top 6-10	8.7	5.8	2.2	5.2	8.0	1.8	1.1	0.6	2.7
Top 11-20	6.5	3.0	-2.2	-1.7	5.5	2.7	3.2	8.3	4.2
Non top 20	3.9	3.2	1.5	3.3	7.4	0.9	1.4	1.9	6.3
Incremental revenue (US\$ m)	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Top 5	10	3	-2	1	9	-16	-8	-9	4
Top 6-10	16	11	5	11	18	4	3	2	7
Top 11-20	16	8	-6	-4	14	7	9	24	13
Non top 20	68	58	27	63	146	20	29	41	138
Client metrics	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
US\$ 100 m+	15	15	14	15	15	16	17	17	17
US\$ 50 m+	31	35	37	41	42	43	42	42	45
US\$ 20 m+	97	96	104	109	110	118	127	128	130
US\$ 10 m+	173	178	183	190	198	208	218	220	221
US\$ 5 m+	312	318	326	329	346	349	353	356	365
US\$ 1 m+	814	809	817	836	864	882	880	890	937
Per employee analysis	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Revenue (US\$ m) - TTM	10,022	10,175	10,539	10,824	11,185	11,482	11,786	12,078	12,344
Employees (average TTM)	1,53,369	1,58,008	1,64,561	1,73,198	1,82,722	1,92,697	2,01,314	2,09,236	2,15,360
Revenue per employee (TTM basis)	65,346	64,394	64,044	62,493	61,211	59,583	58,547	57,722	57,318

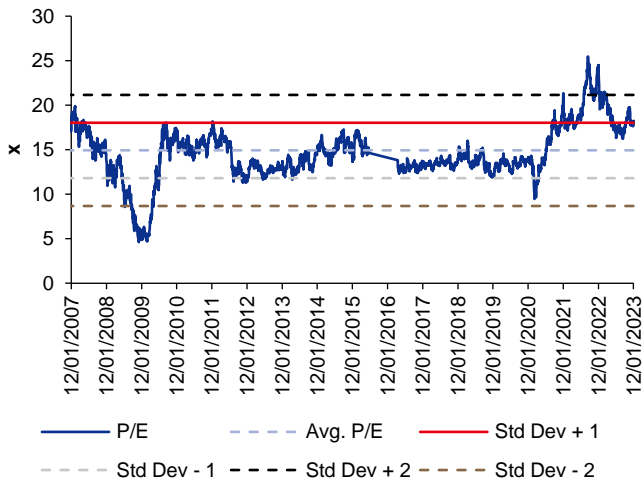
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Change in earnings

Y/E, Mar (Rs m)	FY23F			FY24F			FY25F
	New	Old	% change	New	Old	% change	New
US\$ revenue	12,617	12,522	0.8	13,645	13,591	0.4	14,847
Revenue	10,17,342	9,97,916	1.9	11,32,575	11,00,909	2.9	12,47,180
EBIT	1,85,140	1,77,137	4.5	2,08,430	2,04,769	1.8	2,30,229
EBIT Margin (%)	18.2	17.8	45 bp	18.4	18.6	(20) bp	18.5
Net PAT	1,46,234	1,40,922	3.8	1,63,744	1,62,642	0.7	1,81,617
EPS (Rs)	54.0	52.0	3.8	60.5	60.0	0.7	67.0

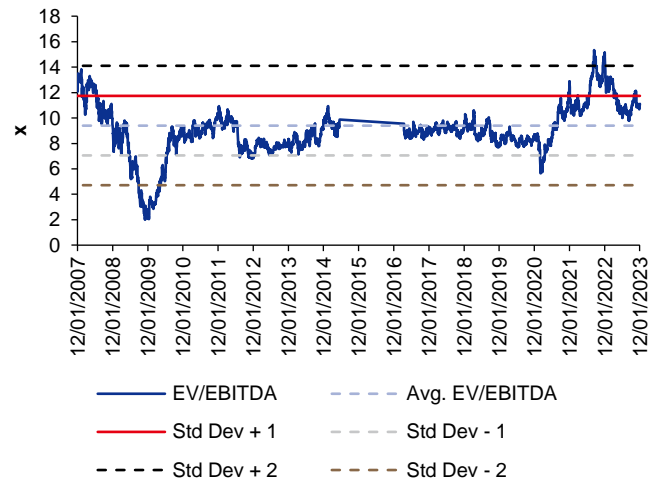
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: One-year forward P/E of ~18x



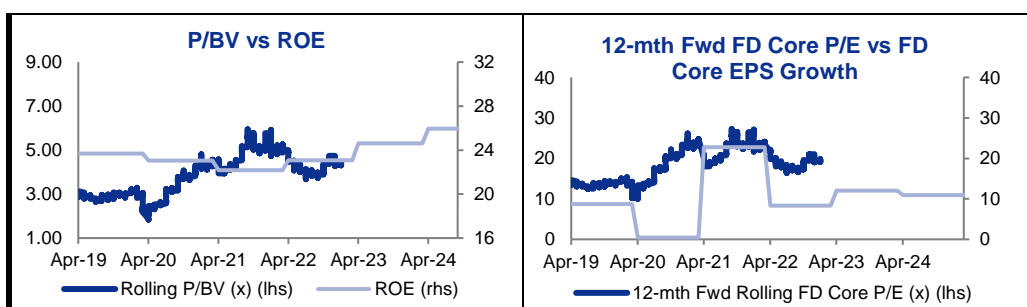
SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 5: One-year forward EV/EBITDA of ~11x



SOURCE: INCRED RESEARCH, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenue	753,780	856,510	1,017,342	1,132,575	1,247,180
Gross Profit	295,590	310,800	352,702	389,894	427,783
Operating EBITDA	202,350	201,920	227,881	254,007	278,869
Depreciation And Amortisation	(41,360)	(40,190)	(42,740)	(45,576)	(48,640)
Operating EBIT	160,990	161,730	185,140	208,431	230,229
Financial Income/(Expense)	1,370	4,980	6,494	6,456	7,618
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	2,790	3,280	1,377	566	1,122
Profit Before Tax (pre-EI)	165,150	169,990	193,012	215,452	238,970
Exceptional Items					
Pre-tax Profit	165,150	169,990	193,012	215,452	238,970
Taxation	(36,580)	(34,430)	(46,808)	(51,709)	(57,353)
Exceptional Income - post-tax	(17,970)				
Profit After Tax	110,600	135,560	146,204	163,744	181,617
Minority Interests	(490)	(410)	30		
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	110,110	135,150	146,234	163,744	181,617
Recurring Net Profit	128,080	135,150	146,234	163,744	181,617
Fully Diluted Recurring Net Profit	128,080	135,150	146,234	163,744	181,617

Cash Flow

(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	202,350	201,920	227,881	254,007	278,869
Cash Flow from Invt. & Assoc.					
Change In Working Capital	30,410	(5,490)	(28,879)	(22,677)	(19,781)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	490	410	(30)		
Other Operating Cashflow					
Net Interest (Paid)/Received					
Tax Paid	(34,450)	(34,430)	(46,808)	(51,709)	(57,353)
Cashflow From Operations	198,800	162,410	152,164	179,621	201,736
Capex	(19,040)	(16,450)	(19,000)	(19,000)	(20,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(38,260)	31,220	6,494	6,456	7,618
Cash Flow From Investing	(57,300)	14,770	(12,506)	(12,544)	(12,382)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(32,560)	(121,950)	(116,475)	(130,995)	(145,294)
Preferred Dividends					
Other Financing Cashflow	(79,360)	(23,130)			
Cash Flow From Financing	(111,920)	(145,080)	(116,475)	(130,995)	(145,294)
Total Cash Generated	29,580	32,100	23,183	36,082	44,060
Free Cashflow To Equity	179,760	145,960	133,164	160,621	181,736
Free Cashflow To Firm	141,500	177,180	139,658	167,077	189,353

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	156,610	188,750	213,370	250,018	295,200
Total Debtors	175,250	206,710	248,064	282,368	310,941
Inventories	940	1,610	1,610	1,610	1,610
Total Other Current Assets	97,710	83,340	83,340	83,340	83,340
Total Current Assets	430,510	480,410	546,384	617,336	691,091
Fixed Assets	83,640	80,460	56,720	30,144	1,504
Total Investments	26,580	26,040	26,040	26,040	26,040
Intangible Assets	290,930	271,600	271,600	271,600	271,600
Total Other Non-Current Assets	30,280	31,820	31,820	31,820	31,820
Total Non-current Assets	431,430	409,920	386,180	359,604	330,964
Short-term Debt	790	620	620	620	620
Current Portion of Long-Term Debt					
Total Creditors	54,570	62,780	75,255	86,882	95,674
Other Current Liabilities	118,470	124,350	124,350	124,350	124,350
Total Current Liabilities	173,830	187,750	200,225	211,852	220,644
Total Long-term Debt	38,280	39,230	39,230	39,230	39,230
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	49,010	43,290	43,290	43,290	43,290
Total Non-current Liabilities	87,290	82,520	82,520	82,520	82,520
Total Provisions					
Total Liabilities	261,120	270,270	282,745	294,372	303,164
Shareholders' Equity	599,130	619,140	648,899	681,647	717,971
Minority Interests	1,690	920	920	920	920
Total Equity	600,820	620,060	649,819	682,567	718,891

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	6.7%	13.6%	18.8%	11.3%	10.1%
Operating EBITDA Growth	21.2%	(0.2%)	12.9%	11.5%	9.8%
Operating EBITDA Margin	26.8%	23.6%	22.4%	22.4%	22.4%
Net Cash Per Share (Rs)	36.30	48.78	57.93	71.46	88.14
BVPS (Rs)	220.78	228.26	239.56	251.65	265.06
Gross Interest Cover	31.50				
Effective Tax Rate	22.1%	20.3%	24.3%	24.0%	24.0%
Net Dividend Payout Ratio	55.9%	88.3%	79.7%	80.0%	80.0%
Accounts Receivables Days	85.45	81.39	81.58	85.47	86.82
Inventory Days	0.74	0.85	0.88	0.79	0.72
Accounts Payables Days	26.38	39.24	37.90	39.84	40.66
ROIC (%)	34.5%	32.0%	37.9%	32.1%	35.7%
ROCE (%)	25.9%	24.2%	26.8%	21.9%	23.1%
Return On Average Assets	15.0%	14.9%	15.3%	16.6%	17.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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