

India

HOLD (no change)

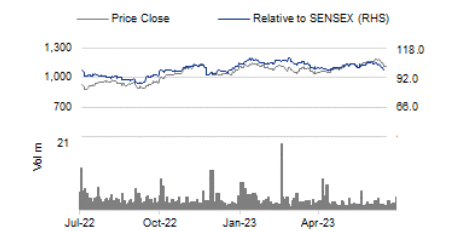
Consensus ratings*: Buy 21 Hold 12 Sell 3

Current price:	Rs1,111
Target price:	Rs1,125
Previous target:	Rs1,133
Up/downside:	1.3%
InCred Research / Consensus:	-5.7%
Reuters:	
Bloomberg:	HCLT IN
Market cap:	US\$41,502m
	Rs3,013,661m
Average daily turnover:	US\$42.7m
	Rs3101.8m
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 (%)	(1.8)	3.6	21.0
Relative (%)	(5.2)	(4.3)	(1.0)

Major shareholders	% held
LIC	4.2
Artisan International Value Fund	2.1
ICICI MF	1.4

Analyst(s)



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HCL Technologies

Not a good start to FY24F

- Retains FY24F constant currency or CC services/consolidated revenue growth guidance of 6.5-8.5% & 6-8%, respectively.
- Acquires ASAP Group for an EV of ~EUR 251.1m to strengthen its automotive engineering services segment in Germany.
- Retain HOLD rating with an adjusted TP of Rs1,125 vs. Rs1,133 earlier.

1QFY24 results summary

HCL Technologies' (HCLT IN) 1QFY24 revenue (-1.3% qoq-CC vs. 0.5% estimate) at US\$3,200m missed consensus estimate/our estimate of US\$3,272m/US\$3,268, respectively, led by weakness in the engineering R&D (-5.2% qoq-CC) and the IT & business services segment (-0.1% qoq-CC). Reduction in discretionary spending in digital programs and continued challenges in the technology and telecom vertical impacted 1Q performance and, in turn, drove a miss on the EBIT margin (17% vs. 18.1% consensus/our estimate). Although the company retained its organic growth guidance driven by expectations of deal closure and ramp-up, the ask rate is steep in the current challenging demand environment.

New deal TCV weak; weakness in top clients persists

1QFY24 new deal total contract value (TCV) at US\$1,565m was down 24.5% qoq and 23.8% yoy with 18 new wins (7 in services vs. 10 in 4QFY23 and 11 in products vs. 3 in 4QFY23). Although the pipeline commentary remains encouraging, new deal TCV declined sequentially for the third consecutive quarter and is also driving TTM bookings' yoy growth lower. Top client yoy growth in reported terms declined for the sixth consecutive quarter while top 6-10 clients' revenue fell for the second consecutive quarter.

ER&D weakness impacts EBIT margin

The EBIT margin was down 110bp qoq, led by 199bp and 102bp qoq decline in ER&D and IT & business services segment margin. Overall services EBIT margin declined by 120bp qoq due to lower utilization (-36bp qoq), travel & one-time cost (-33bp qoq), forex impact (-10bp qoq) and absence of one-time gain in 4QFY23 (-42bp qoq). Potential wage hikes, though deferred by a quarter, and transition of new large deals could limit upside risk to margins. We trim our FY24F-25F average EBIT margin estimates by 30bp to 18.1%.

Retain HOLD rating with an adjusted target price of Rs1,125

We retain HOLD rating with a lower target price of Rs1,125 (Rs1,133 earlier) as we bake in 1QFY24 miss and ASAP acquisition contribution in 2HFY24F. We now model in a 7.8% US\$ revenue CAGR (vs. 8.1% earlier) over FY23-25F and a 10.5% PAT (Rs.) CAGR (vs. 10.6% earlier) and retain the PE/G multiple of 1.6x to arrive at a P/E of 16.8x (16.9x earlier). ~75%+ dividend payout ratio and ~4% dividend yield could anchor the stock. Acceleration in deal velocity, lower attrition and product and platform (P&P) business improvement are upside risks. Weak 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	1,114,537	1,229,131
Operating EBITDA (Rsm)	202,350	201,920	226,290	236,176	270,655
Net Profit (Rsm)	110,110	135,150	148,490	157,062	181,303
Core EPS (Rs)	47.2	49.8	54.8	58.0	67.0
Core EPS Growth	16.8%	5.5%	10.0%	5.9%	15.4%
FD Core P/E (x)	27.37	22.29	20.27	19.15	16.59
DPS (Rs)	26.0	44.0	48.0	52.0	56.9
Dividend Yield	2.38%	3.96%	4.32%	4.68%	5.12%
EV/EBITDA (x)	14.41	14.27	12.58	12.04	10.38
P/FCFE (x)	16.76	20.64	18.86	22.95	17.03
Net Gearing	(16.4%)	(21.3%)	(24.8%)	(24.4%)	(28.4%)
P/BV (x)	5.03	4.87	4.60	4.49	4.31
ROE	23.0%	22.2%	23.3%	23.7%	26.5%
% Change In Core EPS Estimates				(4.05%)	(0.14%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly performance

Y/E Mar (Rs m)	1QFY24	1QFY23	YoY (%)	4QFY23	QoQ (%)	1QFY24F	Var. (%)
Revenue (US\$ m)	3,200	3,025	5.8	3,235	(1.1)	3,268	(2.1)
Net sales (Rs m)	2,62,960	2,34,640	12.1	2,66,060	(1.2)	2,68,606	(2.1)
USD-INR realization	82.2	77.6	5.9	82.2	(0.1)	82.2	(0.0)
EBITDA	53,870	49,750	8.3	58,630	(8.1)	59,630	(9.7)
EBITDA Margin (%)	20.5	21.2	(72 bp)	22.0	(155 bp)	22.2	(171 bp)
EBIT	44,600	39,920	11.7	48,360	(7.8)	48,886	(8.8)
EBIT Margin (%)	17.0	17.0	(5 bp)	18.2	(122 bp)	18.2	(124 bp)
Depreciation	9,270	9,830	(5.7)	10,270	(9.7)	10,744	(13.7)
Total other income	2,360	3,450	(31.6)	3,570	(33.9)	2,552	(7.5)
PBT	46,960	43,370	8.3	51,930	(9.6)	51,438	(8.7)
Provision for tax	11,650	10,560	10.3	12,140	(4.0)	12,602	(7.6)
% tax rate	24.8	24.3	46 bp	23.4	143 bp	24.5	31 bp
Net Profit	35,340	32,830	7.6	39,810	(11.2)	38,856	(9.0)
EPS (Rs)	13.0	12.1	7.5	14.7	(11.3)	14.4	(9.2)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Operating metrics trend

Operating trends	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Revenue (US\$ m)	2,720	2,791	2,978	2,993	3,025	3,082	3,244	3,235	3,200
Growth YoY (%)	15.5	11.3	13.8	11.0	11.2	10.4	9.0	8.1	5.8
Growth QoQ (%)	0.9	2.6	6.7	0.5	1.1	1.9	5.3	-0.3	-1.1
CC Growth YoY (%)	11.7	10.5	15.0	13.3	15.6	15.8	13.1	10.5	6.3
CC Growth QoQ (%)	0.7	3.5	7.6	1.0	2.7	3.8	5.0	-1.2	-1.3
Revenue (Rs. m)	2,00,680	2,06,550	2,23,310	2,25,970	2,34,640	2,46,860	2,67,000	2,66,060	2,62,960
Growth YoY (%)	12.5	11.1	15.7	15.1	16.9	19.5	19.6	17.7	12.1
Growth QoQ (%)	2.2	2.9	8.1	1.2	3.8	5.2	8.2	-0.4	-1.2
EBIT Margin (%)	19.6	19.0	19.1	18.0	17.0	17.9	19.6	18.2	17.0
US\$-INR realized rate	73.8	74.0	75.0	75.5	77.6	80.1	82.3	82.2	82.2
Headcount	1,76,499	1,87,634	1,97,777	2,08,877	2,10,966	2,19,325	2,22,270	2,25,944	2,23,438
Attrition (%)	11.8	15.7	19.8	21.9	23.8	23.8	21.7	19.5	16.3
Segment (%)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
IT services	71.6	72.6	70.6	73.4	72.8	73.6	71.1	73.8	74.7
ER&D	15.3	15.7	15.9	16.4	16.6	17	16.6	16.1	15.4
Products & platforms	13.1	11.7	13.5	10.3	10.6	9.8	12.3	10.2	9.9
Segment (US\$ m)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
IT services	1,947	2,026	2,102	2,197	2,202	2,268	2,306	2,387	2,390
ER&D	416	438	473	491	502	524	539	521	493
Products & platforms	356	327	402	308	321	302	399	330	317
Segment YoY (%)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
IT services	17.8	14.2	14.1	13.3	13.1	12.0	9.7	8.7	8.5
ER&D	10.4	11.3	16.7	23.0	20.7	19.6	13.7	6.1	-1.9
Products & platforms	9.6	-3.5	9.0	-14.0	-10.0	-7.5	-0.7	7.0	-1.2
Segment QoQ (%)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
IT services	0.5	4.0	3.8	4.5	0.2	3.0	1.7	3.5	0.1
ER&D	4.3	5.3	8.1	3.7	2.3	4.3	2.8	-3.3	-5.4
Products & platforms	-0.6	-8.4	23.1	-23.3	4.0	-5.8	32.1	-17.3	-4.0
Incremental revenue (US\$ m)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
IT services	8.8	78.8	76.1	94.8	5.2	66.3	38.1	80.9	3.0
ER&D	17.1	22.0	35.3	17.4	11.3	21.8	14.5	-17.7	-28.0
Products & platforms	-2.3	-29.8	75.5	-93.7	12.4	-18.6	97.0	-69.0	-13.2
Clients (%)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Top 5	13.0	12.7	12.2	11.6	11.2	10.7	10.3	10.1	9.8
Top 6-10	7.8	8.0	8.1	8.2	8.2	8.1	7.9	7.6	7.4
Top 11-20	9.6	9.2	9.1	9.3	9.5	10.1	10.0	10.1	10.0
Non-top 20	69.6	70.1	70.6	70.9	71.1	71.1	71.8	72.2	72.8
Clients (US\$ m)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Top 5	354	354	363	347	339	330	334	327	314
Top 6-10	212	223	241	245	248	250	256	246	237
Top 11-20	261	257	271	278	287	311	324	327	320
Non-top 20	1,893	1,956	2,102	2,122	2,151	2,191	2,329	2,336	2,330
Clients YoY (%)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Top 5	8.0	3.2	2.8	-2.4	-4.2	-7.0	-8.0	-5.9	-7.4
Top 6-10	28.7	23.7	22.9	18.2	16.9	11.8	6.3	0.2	-4.5
Top 11-20	12.0	5.6	4.6	4.3	10.1	21.2	19.7	17.4	11.4
Non-top 20	16.1	12.5	16.3	13.7	13.6	12.0	10.8	10.1	8.3
Clients QoQ (%)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Top 5	-0.7	0.2	2.5	-4.4	-2.4	-2.7	1.3	-2.2	-4.0
Top 6-10	2.2	5.2	8.0	1.8	1.1	0.6	2.7	-4.1	-3.7
Top 11-20	-2.2	-1.7	5.5	2.7	3.2	8.3	4.2	0.7	-2.1
Non-top 20	1.5	3.4	7.5	1.0	1.3	1.9	6.3	0.3	-0.3

Incremental revenue (US\$ m)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Top 5	-2	1	9	-16	-8	-9	4	-7	-13
Top 6-10	5	11	18	4	3	2	7	-10	-9
Top 11-20	-6	-4	14	7	9	24	13	2	-7
Non-top 20	27	63	146	20	29	41	138	6	-6
Client metrics	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
US\$ 100 m+	14	15	15	16	17	17	17	19	20
US\$ 50 m+	37	41	42	43	42	42	45	46	48
US\$ 20 m+	104	109	110	118	127	128	130	131	127
US\$ 10 m+	183	190	198	208	218	220	221	229	237
US\$ 5 m+	326	329	346	349	353	356	365	375	390
US\$ 1 m+	817	836	864	882	880	890	937	937	947
Per employee analysis	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Revenue (US\$ m) - TTM	10,539	10,823	11,184	11,481	11,786	12,078	12,344	12,586	12,761
Employees (average TTM)	1,64,561	1,73,198	1,82,722	1,92,697	2,01,314	2,09,236	2,15,360	2,19,626	2,22,744
Revenue per employee (TTM basis)	64,042	62,489	61,207	59,580	58,546	57,722	57,319	57,306	57,290

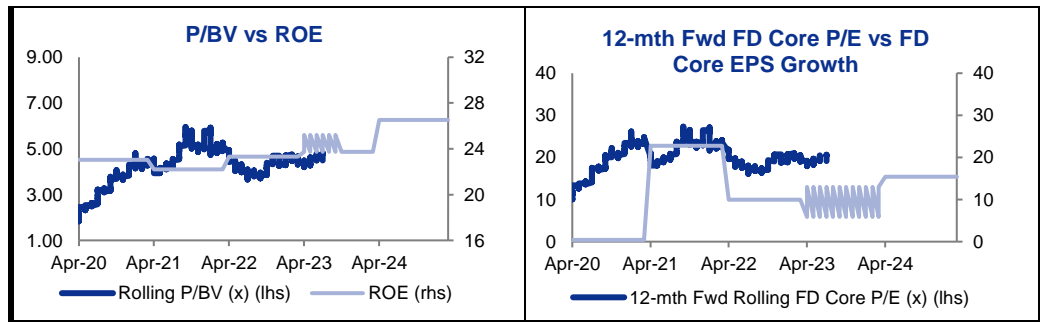
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Change in earnings estimate

Y/E, Mar (Rs m)	FY24F			FY25F		
	New	Old	% change	New	Old	% change
US\$ revenue	13,460	13,495	-0.3	14,633	14,694	-0.4
Revenue	11,14,537	11,20,110	-0.5	12,29,131	12,34,325	-0.4
EBIT	1,97,101	2,06,127	-4.4	2,27,635	2,27,856	-0.1
EBIT Margin (%)	17.7	18.4	(72) bp	18.5	18.5	6 bp
Net PAT	1,57,062	1,63,740	-4.1	1,81,303	1,81,527	-0.1
EPS (Rs)	58.0	60.5	-4.1	67.0	67.0	-0.1

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Net Revenues	753,780	856,510	1,014,560	1,114,537	1,229,131
Gross Profit	295,590	310,800	353,010	384,041	430,442
Operating EBITDA	202,350	201,920	226,290	236,176	270,655
Depreciation And Amortisation	(41,360)	(40,190)	(41,450)	(39,075)	(43,020)
Operating EBIT	160,990	161,730	184,840	197,101	227,635
Financial Income/(Expense)	1,370	4,980	9,120	10,755	11,938
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	2,790	3,280	910	206	246
Profit Before Tax (pre-EI)	165,150	169,990	194,870	208,062	239,819
Exceptional Items					
Pre-tax Profit	165,150	169,990	194,870	208,062	239,819
Taxation	(36,580)	(34,430)	(46,430)	(51,120)	(58,636)
Exceptional Income - post-tax	(17,970)				
Profit After Tax	110,600	135,560	148,440	156,942	181,183
Minority Interests	(490)	(410)	50	120	120
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	110,110	135,150	148,490	157,062	181,303
Recurring Net Profit	128,080	135,150	148,490	157,062	181,303
Fully Diluted Recurring Net Profit	128,080	135,150	148,490	157,062	181,303

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	202,350	201,920	226,290	236,176	270,655
Cash Flow from Invt. & Assoc.					
Change In Working Capital	30,410	(5,490)	(13,050)	(16,860)	(21,349)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	490	410	(50)	(120)	(120)
Other Operating Cashflow					
Net Interest (Paid)/Received					
Tax Paid	(34,450)	(34,430)	(36,980)	(51,120)	(58,636)
Cashflow From Operations	198,800	162,410	176,210	168,076	190,550
Capex	(19,040)	(16,450)	(16,610)	(37,069)	(14,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(38,260)	31,220	(22,700)	10,755	11,938
Cash Flow From Investing	(57,300)	14,770	(39,310)	(26,314)	(2,062)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(32,560)	(121,950)	(129,950)	(140,818)	(154,108)
Preferred Dividends					
Other Financing Cashflow	(79,360)	(23,130)	(28,860)		
Cash Flow From Financing	(111,920)	(145,080)	(158,810)	(140,818)	(154,108)
Total Cash Generated	29,580	32,100	(21,910)	944	34,380
Free Cashflow To Equity	179,760	145,960	159,600	131,007	176,550
Free Cashflow To Firm	141,500	177,180	136,900	141,763	188,488

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Cash And Equivalents	156,610	188,750	201,090	202,480	237,346
Total Debtors	175,250	206,710	255,060	277,871	306,441
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	559,971	623,407
Fixed Assets	83,640	80,460	77,480	75,474	46,454
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	396,334	367,314
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	70,231	77,452
Other Current Liabilities	118,470	124,350	148,630	148,630	148,630
Total Current Liabilities	173,830	187,750	214,310	220,261	227,482
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	286,081	293,302
Shareholders Equity	599,130	619,140	654,050	670,294	697,489
Minority Interests	1,690	920			
Total Equity	600,820	620,060	654,050	670,294	697,489

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	6.7%	13.6%	18.5%	9.9%	10.3%
Operating EBITDA Growth	21.2%	(0.2%)	12.1%	4.4%	14.6%
Operating EBITDA Margin	26.8%	23.6%	22.3%	21.2%	22.0%
Net Cash Per Share (Rs)	36.30	48.78	59.81	60.32	73.20
BVPS (Rs)	220.78	228.26	241.55	247.55	257.59
Gross Interest Cover	31.50				
Effective Tax Rate	22.1%	20.3%	23.8%	24.6%	24.4%
Net Dividend Payout Ratio	55.9%	88.3%	87.5%	89.7%	85.0%
Accounts Receivables Days	85.45	81.39	83.06	87.26	86.76
Inventory Days	0.74	0.85	1.07	1.14	1.04
Accounts Payables Days	26.38	39.24	35.05	33.60	33.75
ROIC (%)	34.5%	32.0%	37.8%	29.8%	33.4%
ROCE (%)	25.9%	24.2%	27.0%	21.2%	23.8%
Return On Average Assets	15.0%	14.9%	15.3%	15.7%	17.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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