

India

HOLD (no change)

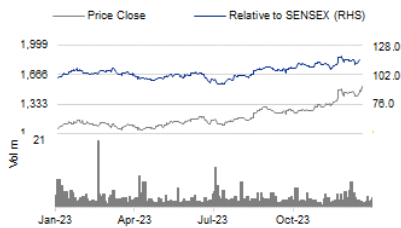
Consensus ratings*: Buy 19 Hold 15 Sell 8

Current price:	Rs1,541
Target price: ▲	Rs1,541
Previous target:	Rs1,273
Up/downside:	0.0%
InCred Research / Consensus:	7.8%
Reuters:	HCLT.NS
Bloomberg:	HCLT IN
Market cap:	US\$50,425m
	Rs4,181,215m
Average daily turnover:	US\$40.6m
	Rs3369.3m
Current shares o/s:	2,708.3m
Free float:	39.0%

*Source: Bloomberg

Key changes in this note

- Expect 8.1% revenue CAGR over FY24F-26F.
- Expect 11.1% EBIT CAGR over FY24F-26F.
- Expect 11.7% PAT CAGR over FY24F-26F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	12.0	25.9	43.8
Relative (%)	10.4	15.0	19.4

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

HCL Technologies

Good 3Q with encouraging commentary

- One-month incremental contribution from a large deal, momentum in the ER&D segment and reversal of furlough to aid services growth in 4QFY24F.
- Weak seasonality in software biz & residual impact of wage hike (20-25bp) are headwinds to 4QFY24F EBIT margin while growth & efficiency are tailwinds.
- 9MFY24 OCF at US\$1.7bn was up 35.9% yoy. HCL Technologies declared an interim dividend of Rs12 per share.

Earnings summary

HCL Technologies or HCLT's 3QFY24 revenue growth was 6% qoq in constant currency or CC terms (4.3% yoy) at US\$3,415m, 120/150bp above consensus/InCred estimates, respectively, while the EBIT margin (at 19.7%) beat was ~70bp. Management commentary suggests services traction in 4QFY24F could help exit momentum which, coupled with strong bookings in 4Q from a healthy pipeline (not the highest though) could aid FY25F growth assumptions, despite the seasonal revenue softness in 1QFY25F. Trimming of the top-end of FY24F revenue guidance and soft bookings could have gone better in an otherwise good quarter. We have adjusted our US\$ revenue estimate by an average +60bp to 8.1% over FY24F-26F.

4QFY24F bookings could be strong

Although new deal TCV at US\$1,927m was down 51.4% qoq and 17.9% yoy, commentary suggests 4QFY24F bookings could be strong. HCLT signed 18 large deals (vs. 16 in 2QFY24) with 12 in products (vs. 6 in 2QFY24) and six in services business (vs. 10 in 2QFY24). The pipeline is healthy and broad-based across deal sizes.

Margin beats consensus estimate by ~70bp

The EBIT margin at 19.7% (up 124bp qoq and up 16bp yoy) was ~70bp above consensus estimate. Key margin tailwinds were software business (+180bp) and currency (+15bp) offset by wage hike (-65bp). Weak seasonality in software business and residual impact of wage hike (20-25bp) are key headwinds to 4QFY24F EBIT margin. We adjust our EBIT margin estimate by an average +30bp to 18.5% over FY24F-26F.

Retain HOLD rating on the stock

We retain HOLD rating on HCLT with a revised target price of Rs1,541 (Rs1,273 earlier) factoring in 3QFY24 outperformance. We model 8.1% US\$ revenue CAGR over FY24F-26F & 11.7% PAT (Rs) CAGR and increase our target PE/G multiple to 1.8x (from 1.6x) to factor in the improving revenue and profitability prospects. Improving profitability, prudent capital allocation, healthy cash generation and free cash flow yield of ~4.4% (9MFY24 annualized) provide cushion, in our view. Accelerated deal velocity, lower attrition and software business improvement are upside risks. Weak execution is a key downside risk.

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Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	856,510	1,014,560	1,102,290	1,211,450	1,337,149
Operating EBITDA (Rsm)	201,920	226,290	244,283	266,277	297,248
Net Profit (Rsm)	135,150	148,490	158,343	176,108	197,666
Core EPS (Rs)	49.8	54.8	58.5	65.0	73.0
Core EPS Growth	5.5%	10.0%	6.7%	11.2%	12.2%
FD Core P/E (x)	30.93	28.12	26.35	23.70	21.11
DPS (Rs)	44.0	48.0	58.0	61.8	69.3
Dividend Yield	2.85%	3.11%	3.76%	4.01%	4.50%
EV/EBITDA (x)	20.05	17.74	16.45	14.99	13.34
P/FCFE (x)	28.64	26.16	30.05	22.57	20.43
Net Gearing	(21.3%)	(24.8%)	(23.3%)	(27.3%)	(31.0%)
P/BV (x)	6.75	6.38	6.37	6.28	6.19
ROE	22.2%	23.3%	24.2%	26.7%	29.5%
% Change In Core EPS Estimates			2.62%	2.37%	3.45%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly performance

Y/E Mar (Rs m)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	3QFY24F	Var. (%)
Revenue (US\$ m)	3,415	3,244	5.3	3,225	5.9	3,370	1.3
Net sales (Rs m)	2,84,460	2,67,000	6.5	2,66,720	6.7	2,80,747	1.3
USD-INR realization	83.3	82.3	1.2	82.7	0.7	83.3	(0.0)
EBITDA	67,580	63,650	6.2	59,440	13.7	63,449	6.5
EBITDA margin (%)	23.8	23.8	(8 bp)	22.3	147 bp	22.6	116 bp
EBIT	56,150	52,280	7.4	49,340	13.8	53,201	5.5
EBIT margin (%)	19.7	19.6	16 bp	18.5	124 bp	19.0	79 bp
Depreciation	11,430	11,370	0.5	10,100	13.2	10,247	11.5
Net other income	2,590	1,440	79.9	1,940	33.5	2,274	13.9
PBT	58,740	53,720	9.3	51,280	14.5	55,476	5.9
Provision for tax	15,230	12,760	19.4	12,950	17.6	13,592	12.1
% tax rate	25.9	23.8	218 bp	25.3	67 bp	24.5	143 bp
Net profit	43,500	40,960	6.2	38,320	13.5	41,874	3.9
EPS (Rs)	16.0	15.1	6.1	14.1	13.4	15.5	3.7

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Key conference-call takeaways

- HCLT expects FY24F CC revenue (including ASAP acquisition) to grow 5-5.5% yoy vs. 5-6% earlier. Services growth is likely to be at the higher end of its guidance. The company retained its 18-19% EBIT margin band for FY24F.
- 4QFY24F sequential growth (0.3-2.1%) could be led by services (1.6-3.5%) and offset by weak seasonality in HCL Software. Reversal of furlough, one-month contribution of a large deal and momentum in ER&D could aid services growth in 4QFY24.
- ER&D organic growth was healthy (+2.5% qoq) while the overall growth (+8.7%) was aided by a two-month contribution from ASAP acquisition.
- YTD new bookings at US\$7.5bn are up 10% yoy. The deal pipeline is healthy and well distributed across segments.
- Europe organic growth in 3QFY24 was decent. RoW business was impacted (down 5.3% qoq in CC terms) due to furlough and ramp-down.
- The data and digital experience segment aided growth in HCL Software. Annual recurring revenue at US\$1,063m was up 2.9% yoy in CC terms.
- The company had 30 wins in GenAI-related projects. Modernizing data driven by Gen AI, SAP modernization, and cloud engineering could witness good demand in CY24F. HCLT is not seeing any meaningful uptick in discretionary spending but some spending (cloud migration, SAP, data modernization, cybersecurity, automation and advanced analytics) is resilient.
- ASAP acquisition aided the E-mobility segment. ASAP capabilities could help expand to the US, Japan, and other markets vs. primarily Germany currently. ASAP did not aid top 20 clients' performance in 3QFY24.

Figure 2: Operating metrics

Operating trends	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Revenue (US\$ m)	2,978	2,993	3,025	3,082	3,244	3,235	3,200	3,225	3,415
Growth YoY (%)	13.8	11.0	11.2	10.4	9.0	8.1	5.8	4.6	5.3
Growth QoQ (%)	6.7	0.5	1.1	1.9	5.3	-0.3	-1.1	0.8	5.9
CC Growth YoY (%)	15.0	13.3	15.6	15.8	13.1	10.5	6.3	3.4	4.3
CC Growth QoQ (%)	7.6	1.0	2.7	3.8	5.0	-1.2	-1.3	1.0	6.0
Revenue (Rs. m)	2,23,310	2,25,970	2,34,640	2,46,860	2,67,000	2,66,060	2,62,960	2,66,720	2,84,460
Growth YoY (%)	15.7	15.1	16.9	19.5	19.6	17.7	12.1	8.0	6.5
Growth QoQ (%)	8.1	1.2	3.8	5.2	8.2	-0.4	-1.2	1.4	6.7
EBIT margin (%)	19.1	18.0	17.0	17.9	19.6	18.2	17.0	18.5	19.7
US\$-INR realized rate	75.0	75.5	77.6	80.1	82.3	82.2	82.2	82.7	83.3
Headcount	1,97,777	2,08,877	2,10,966	2,19,325	2,22,270	2,25,944	2,23,438	2,21,139	2,24,756
Attrition (%)	19.8	21.9	23.8	23.8	21.7	19.5	16.3	14.2	12.8
Segment (%)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
IT services	70.6	73.4	72.8	73.6	71.7	73.8	74.7	74.6	71.7
ER&D	15.9	16.4	16.6	17	16.6	16.1	15.4	16.0	16.4
Products & platforms	13.5	10.3	10.6	9.8	11.8	10.2	9.9	9.4	11.9
Segment (US\$ m)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
IT services	2,102	2,197	2,202	2,268	2,326	2,387	2,390	2,406	2,449
ER&D	473	491	502	524	539	521	493	516	560
Products & platforms	402	308	321	302	383	330	317	303	406
Segment YoY (%)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
IT services	14.1	13.3	13.1	12.0	10.6	8.7	8.5	6.0	5.3
ER&D	16.7	23.0	20.7	19.6	13.7	6.1	-1.9	-1.5	4.0
Products & platforms	9.0	-14.0	-10.0	-7.5	-4.8	7.0	-1.2	0.4	6.2
Segment QoQ (%)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
IT services	3.8	4.5	0.2	3.0	2.5	2.6	0.1	0.6	1.8
ER&D	8.1	3.7	2.3	4.3	2.8	-3.3	-5.4	4.7	8.5
Products & platforms	23.1	-23.3	4.0	-5.8	26.7	-13.8	-4.0	-4.3	34.1
Incremental revenue (US\$ m)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
IT services	76.1	94.8	5.2	66.3	57.5	61.5	3.0	15.2	42.9
ER&D	35.3	17.4	11.3	21.8	14.5	-17.7	-28.0	23.2	44.1
Products & platforms	75.5	-93.7	12.4	-18.6	80.7	-52.8	-13.2	-13.7	103.3
Clients (%)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Top 5	12.2	11.6	11.2	10.7	10.3	10.1	9.8	9.8	9.8
Top 6-10	8.1	8.2	8.2	8.1	7.9	7.6	7.4	7.4	7.9
Top 11-20	9.1	9.3	9.5	10.1	10.0	10.1	10.0	10.1	10.3
Non-top 20	70.6	70.9	71.1	71.1	71.8	72.2	72.8	72.7	72.0
Clients (US\$ m)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Top 5	363	347	339	330	334	327	314	316	335
Top 6-10	241	245	248	250	256	246	237	239	270
Top 11-20	271	278	287	311	324	327	320	326	352
Non-top 20	2,102	2,122	2,151	2,191	2,329	2,336	2,330	2,344	2,459
Clients YoY (%)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Top 5	2.8	-2.4	-4.2	-7.0	-8.0	-5.9	-7.4	-4.2	0.2
Top 6-10	22.9	18.2	16.9	11.8	6.3	0.2	-4.5	-4.4	5.3
Top 11-20	4.6	4.3	10.1	21.2	19.7	17.4	11.4	4.6	8.4
Non-top 20	16.3	13.7	13.6	12.0	10.8	10.1	8.3	7.0	5.6
Clients QoQ (%)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Top 5	2.5	-4.4	-2.4	-2.7	1.3	-2.2	-4.0	0.8	5.9
Top 6-10	8.0	1.8	1.1	0.6	2.7	-4.1	-3.7	0.8	13.1
Top 11-20	5.5	2.7	3.2	8.3	4.2	0.7	-2.1	1.8	8.0
Non-top 20	7.5	1.0	1.3	1.9	6.3	0.3	-0.3	0.6	4.9
Incremental revenue (US\$ m)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Top 5	9	-16	-8	-9	4	-7	-13	2	19
Top 6-10	18	4	3	2	7	-10	-9	2	31
Top 11-20	14	7	9	24	13	2	-7	6	26
Non-top 20	146	20	29	41	138	6	-6	15	114
Client metrics	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
US\$ 100 m+	15	16	17	17	17	19	20	20	20
US\$ 50 m+	42	43	42	42	45	46	48	49	49
US\$ 20 m+	110	118	127	128	130	131	127	132	132
US\$ 10 m+	198	208	218	220	221	229	237	243	250
US\$ 5 m+	346	349	353	356	365	375	390	402	401
US\$ 1 m+	864	882	880	890	937	937	947	971	958

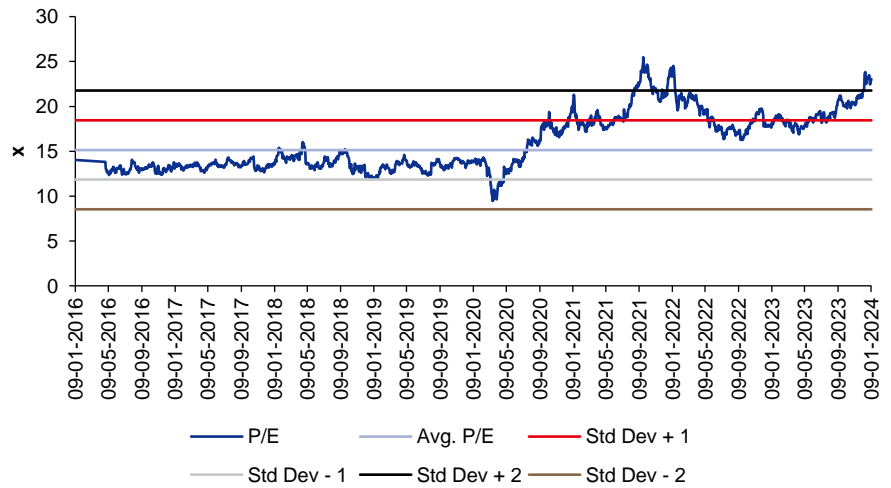
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Change in our earnings estimates

Y/E Mar (Rs m)	FY24F			FY25F			FY26F		
	New	Old	% change	New	Old	% change	New	Old	% change
US\$ revenue	13,299	13,186	0.9	14,422	14,219	1.4	15,548	15,243	2.0
Revenue	11,02,290	10,88,920	1.2	12,11,450	11,94,424	1.4	13,37,149	13,10,869	2.0
EBIT	2,02,821	1,96,003	3.5	2,22,664	2,17,385	2.4	2,50,448	2,41,855	3.6
EBIT Margin (%)	18.4	18.0	40 bp	18.4	18.2	18 bp	18.7	18.5	28 bp
Net PAT	1,58,343	1,54,286	2.6	1,76,108	1,72,008	2.4	1,97,666	1,91,052	3.5
EPS (Rs)	58.5	57.0	2.6	65.0	63.5	2.4	73.0	70.5	3.5

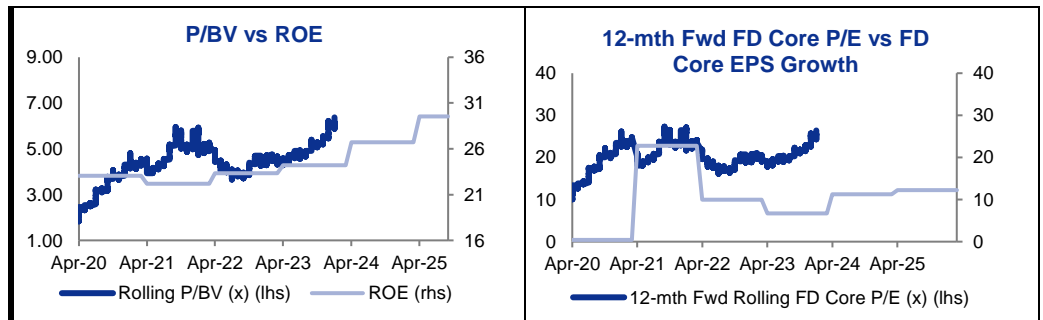
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: HCL Technologies trades at a one-year forward P/E of ~24x



SOURCE: INCRED RESEARCH, BLOOMBERG

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	1,102,290	1,211,450	1,337,149
Gross Profit	310,800	353,010	381,922	420,131	465,328
Operating EBITDA	201,920	226,290	244,283	266,277	297,248
Depreciation And Amortisation	(40,190)	(41,450)	(41,462)	(43,612)	(46,800)
Operating EBIT	161,730	184,840	202,821	222,664	250,448
Financial Income/(Expense)	4,980	9,120	9,275	9,832	10,520
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	3,280	910	28	606	669
Profit Before Tax (pre-EI)	169,990	194,870	212,125	233,102	261,637
Exceptional Items					
Pre-tax Profit	169,990	194,870	212,125	233,102	261,637
Taxation	(34,430)	(46,430)	(53,782)	(56,993)	(63,970)
Exceptional Income - post-tax					
Profit After Tax	135,560	148,440	158,343	176,108	197,666
Minority Interests	(410)	50			
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	135,150	148,490	158,343	176,108	197,666
Recurring Net Profit	135,150	148,490	158,343	176,108	197,666
Fully Diluted Recurring Net Profit	135,150	148,490	158,343	176,108	197,666

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	201,920	226,290	244,283	266,277	297,248
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(5,490)	(13,050)	(14,578)	(10,380)	(15,058)
(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)	(53,782)	(56,993)	(63,970)
Cashflow From Operations	162,410	176,210	175,923	198,904	218,220
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)	9,275	9,832	10,520
Cash Flow From Investing	14,770	(39,310)	(27,794)	(4,168)	(3,480)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(121,950)	(129,950)	(157,087)	(167,303)	(187,783)
Preferred Dividends					
Other Financing Cashflow	(23,130)	(28,860)			
Cash Flow From Financing	(145,080)	(158,810)	(157,087)	(167,303)	(187,783)
Total Cash Generated	32,100	(21,910)	(8,958)	27,432	26,957
Free Cashflow To Equity	145,960	159,600	138,854	184,904	204,220
Free Cashflow To Firm	177,180	136,900	148,130	194,735	214,740

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	192,160	220,198	247,824
Total Debtors	206,710	255,060	274,817	292,076	315,054
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	546,598	591,894	642,498
Fixed Assets	80,460	77,480	73,087	43,475	10,675
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	393,947	364,335	331,535
Short-term Debt	620	1,400	1,400	1,400	1,400
Current Portion of Long-Term Debt					
Total Creditors	62,780	64,280	69,459	76,338	84,259
Other Current Liabilities	124,350	148,630	148,630	148,630	148,630
Total Current Liabilities	187,750	214,310	219,489	226,368	234,289
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	285,309	292,188	300,109
Shareholders Equity	619,140	654,050	655,306	664,111	673,994
Minority Interests	920				
Total Equity	620,060	654,050	655,306	664,111	673,994

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	13.6%	18.5%	8.6%	9.9%	10.4%
Operating EBITDA Growth	(0.2%)	12.1%	8.0%	9.0%	11.6%
Operating EBITDA Margin	23.6%	22.3%	22.2%	22.0%	22.2%
Net Cash Per Share (Rs)	48.78	59.81	56.50	66.85	77.05
BVPS (Rs)	228.26	241.55	241.96	245.21	248.86
Gross Interest Cover					
Effective Tax Rate	20.3%	23.8%	25.4%	24.4%	24.4%
Net Dividend Payout Ratio	88.3%	87.5%	99.2%	95.0%	95.0%
Accounts Receivables Days	81.39	83.06	87.73	85.40	82.86
Inventory Days	0.85	1.07	1.16	1.05	0.95
Accounts Payables Days	39.24	35.05	33.88	33.62	33.62
ROIC (%)	32.0%	37.8%	30.3%	33.0%	38.6%
ROCE (%)	24.2%	27.0%	21.8%	24.1%	26.7%
Return On Average Assets	14.9%	15.3%	16.2%	17.8%	19.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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