



India

REDUCE (previously HOLD)

Consensus ratings*: Buy 19 Hold 15 Sell 9

Current price:	Rs1,474
Target price:	Rs1,362
Previous target:	Rs1,541
Up/downside:	-7.6%
InCred Research / Consensus:	-15.7%

Reuters:	HCLT.NS
Bloomberg:	HCLT IN
Market cap:	US\$47,985m
	Rs3,999,535m
Average daily turnover:	US\$51.1m
	Rs4261.7m
Current shares o/s:	2,708.2m
Free float:	39.0%

*Source: Bloomberg

Key changes in this note

- Expect 6% revenue CAGR over FY24-26F.
- Expect 10.2% EBIT CAGR over FY24-26F.
- Expect 10.7% adjusted PAT CAGR over FY24-26F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(5.7)	(4.9)	38.3
Relative (%)	(5.8)	(7.2)	14.6

Major shareholders	% held
LIC	4.4
Artisan International Value Fund	2.2
SBI MF	1.4

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HCL Technologies

Trimming of estimates drives rating change

- HCLT CEO reiterates the key message of our ears-to-the-ground report.
- Trimming of revenue drives a cut in EPS, despite maintaining the EBIT margin.
- Earnings cut leads to a REDUCE rating with a lower target price of Rs1,362.

HCLT CEO reiterates key message of our ears-to-the-ground report

More than the 4QFY24 earnings, the key takeaway was the CEO's candid comment that discretionary spending remains under pressure and that AI-related spending is at the cost of other areas of spending, effectively leading to doing more with less. This aptly summarizes our [13 Mar 2024](#) report that the 'doing more for less' noise may get louder.

4QFY24 earnings summary

HCL Technologies or HCLT's 4QFY24 revenue growth of 0.3% qoq in constant currency or CC terms (6% yoy) to US\$3,430m was in line/60bp below consensus/InCred estimates, respectively, while the EBIT margin miss (at 17.6%) was 80/110bp, respectively. The FY25F guidance was softer than anticipated while the seasonality (weak 1Q leading to soft 1H and a recovery in 2H driven by strong 3Q) although is similar to the prior years, this time it has the global/national elections calendar (in the second half) associated risks.

As highlighted in 3Q, bookings were strong

As highlighted in its 3QFY24 earnings call, the new deal TCV did increase 18.8% qoq and 10.4% yoy to US\$2,290 in 4QFY24 vs. down 51.4% qoq and 17.9% yoy to US\$1,927m in 3Q. HCLT signed 21 large deals (vs. 18 in 3QFY24) with a higher mix of services (13 vs. 6) deals vs. products (8 vs. 12). However, FY25F services CC growth guidance (3-5% in CC terms) was soft considering the higher mix services deals in FY24 as well (36 vs. 32 in FY23), healthy deal pipeline commentary and 10.1% growth in TTM TCV. This drives a 3.4% cut in our FY25F revenue and a 210bp reduction in FY24-26F CAGR to 6%.

4QFY24 EBIT margin misses estimate; guidance on anticipated lines

The EBIT margin miss was driven by product business seasonality (-156bp qoq), performance increments to E4 and above (-20bp), seasonal travel and marketing events (-25bp) and currency headwinds (-15bp). With 4Q miss, FY24 EBIT margin (18.2%) is near the lower end of the 18-19% band. For FY25F, the margin band is similar at 18-19% and largely helps retain our FY25F-26F average EBIT margin assumption of ~18.7%.

Downgrade to REDUCE (from HOLD) with a lower TP of Rs1,362

Trimming of FY24-26F revenue CAGR lowers our PAT (Rs) CAGR by 110bp to 10.7%, despite a modest increase in our EBIT margin assumption and, in turn, drives a cut in our target price to Rs1,362 (Rs1,541 earlier), despite retaining our target PE/G multiple of 1.8x. Prudent capital allocation, healthy cash generation and FCF yield of ~5.4% (FY24) could anchor the share price. Accelerated deal velocity, recovery in 1HFY25F (earlier than anticipated) and software business improvement are the upside risks.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	856,510	1,014,560	1,099,130	1,170,826	1,282,824
Operating EBITDA (Rsm)	201,920	226,290	242,000	259,923	289,918
Net Profit (Rsm)	135,150	148,490	157,020	171,321	192,263
Core EPS (Rs)	49.8	54.8	58.0	63.3	71.0
Core EPS Growth	5.5%	10.0%	5.8%	9.1%	12.2%
FD Core P/E (x)	29.59	26.90	25.42	23.30	20.76
DPS (Rs)	44.0	48.0	46.0	60.1	67.4
Dividend Yield	2.98%	3.26%	3.12%	4.08%	4.58%
EV/EBITDA (x)	19.15	16.94	15.56	14.38	12.80
P/FCFE (x)	27.40	25.03	18.78	21.94	20.23
Net Gearing	(21.3%)	(24.8%)	(33.0%)	(36.9%)	(40.1%)
P/BV (x)	6.46	6.10	5.85	5.77	5.70
ROE	22.2%	23.3%	23.5%	24.9%	27.6%
% Change In Core EPS Estimates			1.77%	(0.40%)	0.63%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly performance

YE Mar (Rs m)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)	4QFY24F	Var. (%)
Revenue (US\$ m)	3,430	3,235	6.0	3,415	0.4	3,450	(0.6)
Net sales (Rs m)	2,84,990	2,66,060	7.1	2,84,460	0.2	2,86,481	(0.5)
USD-INR realization	83.1	82.2	1.0	83.3	(0.3)	83.0	0.1
EBITDA	61,110	58,630	4.2	67,580	(9.6)	65,031	(6.0)
EBITDA margin (%)	21.4	22.0	(59 bp)	23.8	(231 bp)	22.7	(126 bp)
EBIT	50,180	48,360	3.8	56,150	(10.6)	53,572	(6.3)
EBIT margin (%)	17.6	18.2	(57 bp)	19.7	(213 bp)	18.7	(109 bp)
Depreciation	10,930	10,270	6.4	11,430	(4.4)	11,459	(4.6)
Net other income	2,510	3,570	(29.7)	2,590	(3.1)	2,722	(7.8)
PBT	52,690	51,930	1.5	58,740	(10.3)	56,294	(6.4)
Provision for tax	12,740	12,140	4.9	15,230	(16.3)	14,242	(10.5)
% tax rate	24.2	23.4	80 bp	25.9	(175 bp)	25.3	(112 bp)
Net profit	39,860	39,810	0.1	43,500	(8.4)	42,041	(5.2)
EPS (Rs)	14.7	14.7	0.0	16.0	(8.4)	15.5	(5.4)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Operating metric trend

Operating trends	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	3QFY24
Revenue (US\$m)	2,978	2,993	3,025	3,082	3,244	3,235	3,200	3,225	3,415	3,430
Growth yoy (%)	13.8	11.0	11.2	10.4	9.0	8.1	5.8	4.6	5.3	6.0
Growth qoq (%)	6.7	0.5	1.1	1.9	5.3	-0.3	-1.1	0.8	5.9	0.4
CC Growth yoy (%)	15.0	13.3	15.6	15.8	13.1	10.5	6.3	3.4	4.3	6.0
CC Growth qoq (%)	7.6	1.0	2.7	3.8	5.0	-1.2	-1.3	1.0	6.0	0.3
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	2,84,990
Growth yoy (%)	15.7	15.1	16.9	19.5	19.6	17.7	12.1	8.0	6.5	7.1
Growth qoq (%)	8.1	1.2	3.8	5.2	8.2	-0.4	-1.2	1.4	6.7	0.2
EBIT Margin (%)	19.1	18.0	17.0	17.9	19.6	18.2	17.0	18.5	19.7	17.6
US\$-INR realized rate	75.0	75.5	77.6	80.1	82.3	82.2	82.2	82.7	83.3	83.1
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	2,27,481
Attrition (%)	19.8	21.9	23.8	23.8	21.7	19.5	16.3	14.2	12.8	12.4
Segment (%)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	3QFY24
IT services	70.6	73.4	72.8	73.6	71.7	73.8	74.7	74.6	71.7	74.4
ER&D	15.9	16.4	16.6	17.0	16.6	16.1	15.4	16.0	16.4	16.1
Products & platforms	13.5	10.3	10.6	9.8	11.8	10.2	9.9	9.4	11.9	9.5
Segment (US\$m)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	3QFY24
IT services	2,102	2,197	2,202	2,268	2,326	2,387	2,390	2,406	2,449	2,552
ER&D	473	491	502	524	539	521	493	516	560	552
Products & platforms	402	308	321	302	383	330	317	303	406	326
Segment yoy (%)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	3QFY24
IT services	14.1	13.3	13.1	12.0	10.6	8.7	8.5	6.0	5.3	6.9
ER&D	16.7	23.0	20.7	19.6	13.7	6.1	-1.9	-1.5	4.0	6.0
Products & platforms	9.0	-14.0	-10.0	-7.5	-4.8	7.0	-1.2	0.4	6.2	-1.2
Segment qoq (%)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	3QFY24
IT services	3.8	4.5	0.2	3.0	2.5	2.6	0.1	0.6	1.8	4.2
ER&D	8.1	3.7	2.3	4.3	2.8	-3.3	-5.4	4.7	8.5	-1.4
Products & platforms	23.1	-23.3	4.0	-5.8	26.7	-13.8	-4.0	-4.3	34.1	-19.8
Incremental revenue (US\$m)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	3QFY24
IT services	76.1	94.8	5.2	66.3	57.5	61.5	3.0	15.2	42.9	103.4
ER&D	35.3	17.4	11.3	21.8	14.5	-17.7	-28.0	23.2	44.1	-7.8
Products & platforms	75.5	-93.7	12.4	-18.6	80.7	-52.8	-13.2	-13.7	103.3	-80.5
Clients (%)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	3QFY24
Top 5	12.2	11.6	11.2	10.7	10.3	10.1	9.8	9.8	9.8	10.4
Top 6-10	8.1	8.2	8.2	8.1	7.9	7.6	7.4	7.4	7.9	8.4
Top 11-20	9.1	9.3	9.5	10.1	10.0	10.1	10.0	10.1	10.3	10.2
Non-top 20	70.6	70.9	71.1	71.1	71.8	72.2	72.8	72.7	72.0	71.0
Clients (US\$m)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	3QFY24
Top 5	363	347	339	330	334	327	314	316	335	357
Top 6-10	241	245	248	250	256	246	237	239	270	288
Top 11-20	271	278	287	311	324	327	320	326	352	350
Non-top 20	2,102	2,122	2,151	2,191	2,329	2,336	2,330	2,344	2,459	2,435
Clients yoy (%)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	3QFY24
Top 5	2.8	-2.4	-4.2	-7.0	-8.0	-5.9	-7.4	-4.2	0.2	9.2
Top 6-10	22.9	18.2	16.9	11.8	6.3	0.2	-4.5	-4.4	5.3	17.2
Top 11-20	4.6	4.3	10.1	21.2	19.7	17.4	11.4	4.6	8.4	7.1
Non-top 20	16.3	13.7	13.6	12.0	10.8	10.1	8.3	7.0	5.6	4.3
Clients qoq (%)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	3QFY24
Top 5	2.5	-4.4	-2.4	-2.7	1.3	-2.2	-4.0	0.8	5.9	6.6
Top 6-10	8.0	1.8	1.1	0.6	2.7	-4.1	-3.7	0.8	13.1	6.8
Top 11-20	5.5	2.7	3.2	8.3	4.2	0.7	-2.1	1.8	8.0	-0.5
Non-top 20	7.5	1.0	1.3	1.9	6.3	0.3	-0.3	0.6	4.9	-1.0
Incremental revenue (US\$m)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	3QFY24
Top 5	9	-16	-8	-9	4	-7	-13	2	19	22
Top 6-10	18	4	3	2	7	-10	-9	2	31	18
Top 11-20	14	7	9	24	13	2	-7	6	26	-2
Non-top 20	146	20	29	41	138	6	-6	15	114	-24
Client metric	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	3QFY24
US\$100m+	15	16	17	17	17	19	20	20	20	22
US\$50m+	42	43	42	42	45	46	48	49	49	46
US\$20m+	110	118	127	128	130	131	127	132	132	137

US\$10m+	198	208	218	220	221	229	237	243	250	254
US\$5m+	346	349	353	356	365	375	390	402	401	395
US\$1m+	864	882	880	890	937	937	947	971	958	951
Per employee analysis	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	3QFY24
Revenue (US\$m) - TTM	11,184	11,481	11,786	12,078	12,344	12,586	12,761	12,904	13,075	13,270
Employees (average TTM)	1,82,722	1,92,697	2,01,314	2,09,236	2,15,360	2,19,626	2,22,744	2,23,198	2,23,819	2,24,204
Revenue per employee (TTM basis)	61,207	59,580	58,546	57,722	57,319	57,306	57,290	57,813	58,416	59,186

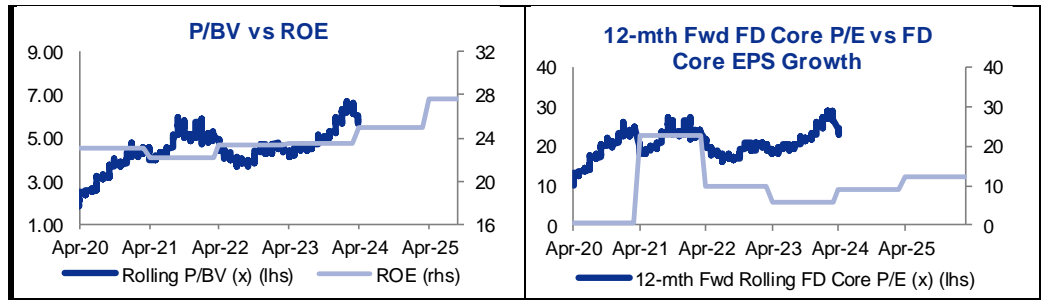
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Change in our earnings estimates

Y/E Mar (Rs m)	FY25F			FY26F		
	New	Old	% change	New	Old	% change
US\$ revenue	13,938	14,422	-3.4	14,917	15,548	-4.1
Revenue	11,70,826	12,11,450	-3.4	12,82,824	13,37,149	-4.1
EBIT	2,16,017	2,22,664	-3.0	2,43,095	2,50,448	-2.9
EBIT Margin (%)	18.5	18.4	7 bp	19.0	18.7	22 bp
Net PAT	1,71,321	1,76,108	-2.7	1,92,263	1,97,666	-2.7
EPS (Rs)	63.3	65.0	-2.7	71.0	73.0	-2.7

SOURCE: 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	1,099,130	1,170,826	1,282,824
Gross Profit	310,800	353,010	377,880	403,935	447,706
Operating EBITDA	201,920	226,290	242,000	259,923	289,918
Depreciation And Amortisation	(40,190)	(41,450)	(41,730)	(43,906)	(46,823)
Operating EBIT	161,730	184,840	200,270	216,017	243,095
Financial Income/(Expense)	4,980	9,120	9,420	10,268	11,192
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	3,280	910	(20)	585	641
Profit Before Tax (pre-EI)	169,990	194,870	209,670	226,871	254,928
Exceptional Items					
Pre-tax Profit	169,990	194,870	209,670	226,871	254,928
Taxation	(34,430)	(46,430)	(52,570)	(55,470)	(62,585)
Exceptional Income - post-tax					
Profit After Tax	135,560	148,440	157,100	171,401	192,343
Minority Interests	(410)	50	(80)	(80)	(80)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	135,150	148,490	157,020	171,321	192,263
Recurring Net Profit	135,150	148,490	157,020	171,321	192,263
Fully Diluted Recurring Net Profit	135,150	148,490	157,020	171,321	192,263

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	201,920	226,290	242,000	259,923	289,918
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(5,490)	(13,050)	23,050	(8,615)	(16,123)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	410	(50)	80	80	80
Other Operating Cashflow					
Net Interest (Paid)/Received					
Tax Paid	(34,430)	(36,980)	(42,120)	(55,470)	(62,585)
Cashflow From Operations	162,410	176,210	223,010	195,918	211,290
Capex	(16,450)	(16,610)	(10,480)	(14,000)	(14,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	31,220	(22,700)	(56,750)	10,268	11,192
Cash Flow From Investing	14,770	(39,310)	(67,230)	(3,732)	(2,808)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(121,950)	(129,950)	(140,730)	(162,755)	(182,650)
Preferred Dividends					
Other Financing Cashflow	(23,130)	(28,860)	(13,910)		
Cash Flow From Financing	(145,080)	(158,810)	(154,640)	(162,755)	(182,650)
Total Cash Generated	32,100	(21,910)	1,140	29,431	25,831
Free Cashflow To Equity	145,960	159,600	212,530	181,918	197,290
Free Cashflow To Firm	177,180	136,900	155,780	192,186	208,482

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	271,930	301,637	327,949
Total Debtors	206,710	255,060	255,210	272,658	295,225
Inventories	1,610	2,280	1,850	1,850	1,850
Total Other Current Assets	83,340	77,340	64,320	64,320	64,320
Total Current Assets	480,410	535,770	593,310	640,465	689,345
Fixed Assets	80,460	77,480	79,090	49,334	16,511
Total Investments	26,040	20,700	23,500	23,500	23,500
Intangible Assets	271,600	269,110	272,620	272,620	272,620
Total Other Non-Current Assets	31,820	31,050	29,250	29,250	29,250
Total Non-current Assets	409,920	398,340	404,460	374,704	341,881
Short-term Debt	620	1,400	1,040	1,040	1,040
Current Portion of Long-Term Debt					
Total Creditors	62,780	64,280	58,530	67,363	73,806
Other Current Liabilities	124,350	148,630	167,690	167,690	167,690
Total Current Liabilities	187,750	214,310	227,260	236,093	242,536
Total Long-term Debt	39,230	21,110	22,230	22,230	22,230
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	43,290	44,710	65,570	65,570	65,570
Total Non-current Liabilities	82,520	65,820	87,800	87,800	87,800
Total Provisions					
Total Liabilities	270,270	280,130	315,060	323,893	330,336
Shareholders Equity	619,140	654,050	682,630	691,196	700,809
Minority Interests	920				
Total Equity	620,060	654,050	682,630	691,196	700,809

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	13.6%	18.5%	8.3%	6.5%	9.6%
Operating EBITDA Growth	(0.2%)	12.1%	6.9%	7.4%	11.5%
Operating EBITDA Margin	23.6%	22.3%	22.0%	22.2%	22.6%
Net Cash Per Share (Rs)	48.78	59.81	83.18	94.15	103.87
BVPS (Rs)	228.26	241.55	252.06	255.23	258.78
Gross Interest Cover					
Effective Tax Rate	20.3%	23.8%	25.1%	24.4%	24.5%
Net Dividend Payout Ratio	88.3%	87.5%	79.3%	95.0%	95.0%
Accounts Receivables Days	81.39	83.06	84.73	82.28	80.79
Inventory Days	0.85	1.07	1.05	0.88	0.81
Accounts Payables Days	39.24	35.05	31.07	29.96	30.85
ROIC (%)	32.0%	37.8%	30.0%	34.3%	40.3%
ROCE (%)	24.2%	27.0%	21.1%	22.2%	24.7%
Return On Average Assets	14.9%	15.3%	15.5%	16.3%	18.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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