

October 12, 2023

RESULT REPORT Q2 FY24 | Information Technology

HCL Technologies Ltd

Mixed operating performance with revenue guidance for FY24 lowered to 5-6% in cc terms

Result Synopsis

HCL Technologies (HCLT) reported mixed performance for the quarter. The revenue growth was below estimates; while EBIT margin was inline with expectation; HCL software segment (9.9% of revenue) increased by 3.6% YoY in cc terms, while ER&D and IT services (90.6% of revenue) decreased by 2.0% YoY in cc terms. Retail & CPG vertical reported highest sequential growth at 7.5% QoQ in cc terms. The overall revenue increased by 1.0% QoQ in cc terms. There was sequential improvement in EBIT margin (up 150 bps QoQ) led by decrease in SG&A. Employee attrition continues to moderate as LTM attrition was down 210 bps QoQ to 14.2%.

The near term demand environment remains challenging as the macroeconomic factors in the US and Europe remain weak and that is reflected in clients being more watchful of the situation and consequently, that continues to impact near term revenue performance. The decline in employee attrition and improving employee pyramid should support margin in FY24. We estimate revenue CAGR of 10.2% over FY23-25E with average EBIT margin of 19.0%. We maintain our ADD rating on the stock with revised target price of Rs 1,388/share at 20.0x on FY25E EPS. The stock trades at PER of 21.0x/17.6x on FY24E/FY25E EPS.

Result Highlights

- Reported revenue of Rs 266.7bn (up 1.4% QoQ in INR terms, up 0.8% QoQ in USD terms). HCL software segment (9.9% of revenue) increased by 3.6% YoY in cc terms, while ER&D and IT services (90.6% of revenue) decreased by 2.0% YoY in cc terms. The revenue increased by 1.0% QoQ in cc terms. Retail & CPG vertical reported highest sequential growth at 7.5% QoQ in cc terms.
- EBIT margin increased by 150 bps QoQ to 18.5% led by decrease in SG&A Expenses (down 7.5% QoQ).
- It reported new deal wins TCV of \$3.9bn (vs \$1.6bn in Q1FY24).
- Headcount decreased by 2,299 employees QoQ to close at 221,139 employees. LTM attrition decreased by 210 bps QoQ to 14.2%.
- Services Organic Revenue Growth guidance for FY24 between 4.5%-5.5% YoY in cc terms.
- Revenue growth guidance for FY24 between 5.0%-6.0% YoY in cc terms, while EBIT margin guidance remain unchanged in the range of 18.0%-19.0%.

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	266,720	269,835	269,450	-1.2%	-1.0%
EBITDA	59,440	58,019	57,910	2.4%	2.6%
EBITDA Margin (%)	22.29%	21.50%	21.49%	78 bps	79 bps
Adjusted PAT	38,320	37,483	37,560	2.2%	2.0%

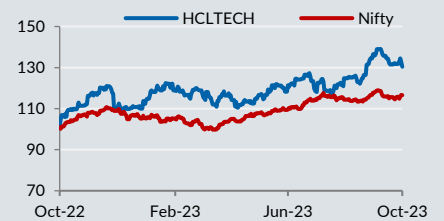
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 1,224
Target Price	: Rs 1,388
Potential Return	: + 13.4%

Stock data (as on October 12, 2023)

Nifty	19,794
52 Week h/l (Rs)	1311 / 936
Market cap (Rs/USD mn)	3372427 / 40496
Outstanding Shares (mn)	2,707
6m Avg t/o (Rs mn):	3,061
Div yield (%):	3.8
Bloomberg code:	HCLT IN
NSE code:	HCLTECH

Stock performance



	1M	3M	1Y
Absolute return	-4.6%	10.2%	28.5%

Shareholding pattern (As of Jun'23 end)

Promoter	60.8%
FII+DII	34.4%
Others	4.6%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	1,388	1,228

Δ in earnings estimates

	FY24E	FY25E
EPS (New)	58.2	69.4
EPS (Old)	60.7	70.1
% change	-4.2%	-1.0%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Net Revenue	1,014,560	1,085,143	1,230,512
YoY Growth	18.5%	7.0%	13.4%
EBIDTA	226,290	242,901	291,101
YoY Growth	12.1%	7.3%	19.8%
PAT	148,510	157,821	188,376
YoY Growth	9.9%	6.3%	19.4%
ROE	23.3%	23.3%	25.4%
EPS	55	58	69
P/E	22.4	21.0	17.6
BV	241	259	287
P/BV	5.1	4.7	4.3

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Exhibit 2: Quarterly snapshot Console: Operating performance improved for the quarter

Particulars(Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	yoy%	qoq%	H1FY24	H1FY23	yoy%
Sales (\$ mn)	3,082	3,244	3,235	3,200	3,225	4.6	0.8	6,425	6,107	5.2
Sales	246,860	267,000	266,060	262,960	266,720	8.0	1.4	529,680	481,500	10.0
EBITDA	54,260	63,650	58,630	53,870	59,440	9.5	10.3	113,310	104,010	8.9
EBITDA %	22.0	23.8	22.0	20.5	22.3	31 bps	180 bps	21.4	21.6	-21 bps
Depreciation	9,980	11,360	10,270	9,270	10,100	1.2	9.0	19,370	19,810	-2.2
EBIT	44,280	52,290	48,360	44,600	49,340	11.4	10.6	93,940	84,200	11.6
EBIT Margin %	17.9	19.6	18.2	17.0	18.5	56 bps	154 bps	17.7	17.5	25 bps
Other income	1110.0	1410.0	3970.0	2580.0	2090.0	88.3	-19.0	4,670	3,740	24.9
PBT	45,850	53,730	51,930	46,960	51,280	11.8	9.2	98,240	89,220	10.1
Tax	10,960	12,760	12,140	11,650	12,950	18.2	11.2	24,600	21,520	14.3
PAT	34,890	40,970	39,790	35,310	38,330	9.9	8.6	73,640	67,700	8.8
Minority Interest	-10	0	-20	-30	10	-200.0	-133.3	-20	-30	-33.3
Net Income after MI	34,900	40,970	39,810	35,340	38,320	9.8	8.4	73,660	67,730	8.8
NPM (%)	14.1	15.3	15.0	13.4	14.4	24 bps	94 bps	13.9	14.1	-16 bps

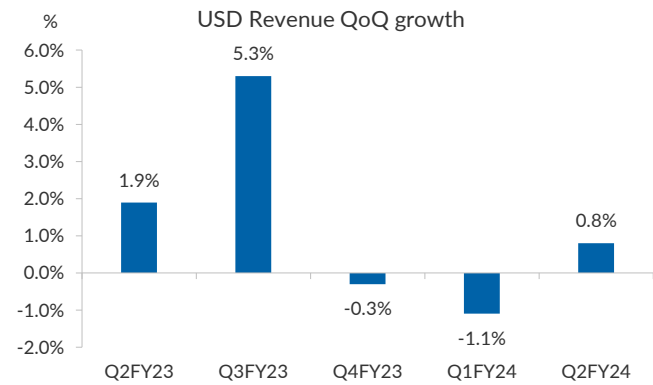
Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- 16 Large deals were signed during the quarter. 10 Large deals under Service Segment and 6 Large deals under Software Segment.
- Deal Pipeline remains intact; however, there was completion of one mega deal signing impacting overall pipeline.
- Life Science and Manufacturing verticals showed demand traction; while Tech and Telecom vertical took a hit due to slowdown in discretionary spending, thus impacting revenue growth.
- HCLT declared an interim dividend of Rs 12/- per share with the record date of 24th October 2023.
- ROIC (LTM) blended stood at 32.2%, improvement of 350 bps YoY. Services ROIC stood at 39.4%.
- Expects revenue growth to pick up in Q3 and Q4, led by ramping up of new deals.
- Q3 is a seasonally strong quarter for Software segment and this will support growth.
- Signed one mega deal with Verizon and this will enable company to cross sell its other solutions to Verizon.
- A Europe based global financial service provider has signed deal with HCLT to leverage Gen AI to strengthen its Global Compliance Framework.

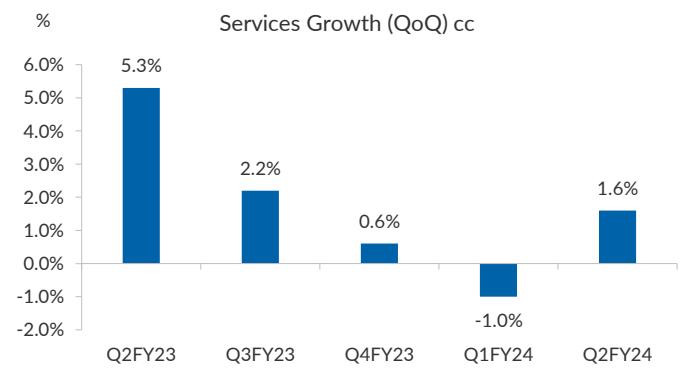
STORY IN CHARTS

Exhibit 3: USD QoQ growth was impacted due to macro-economic uncertainties



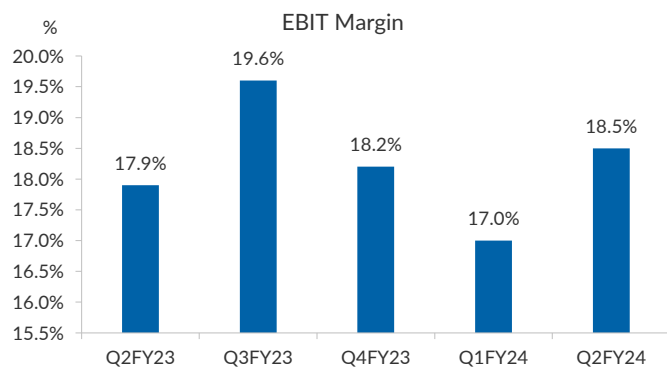
Source: Company, YES Sec

Exhibit 4: Services continue to grow inline with industry trend



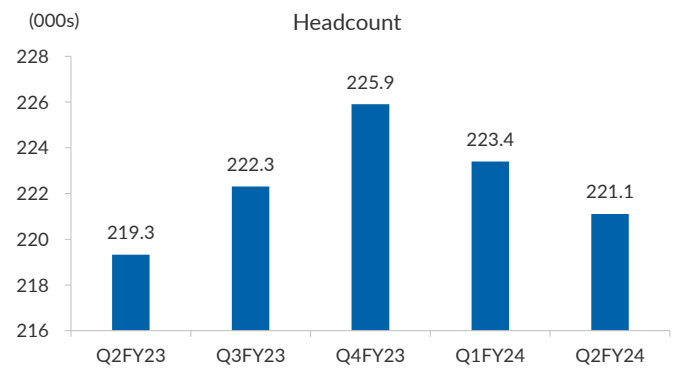
Source: Company, YES Sec

Exhibit 5: EBIT Margins improved due to decrease in SG&A Expenses



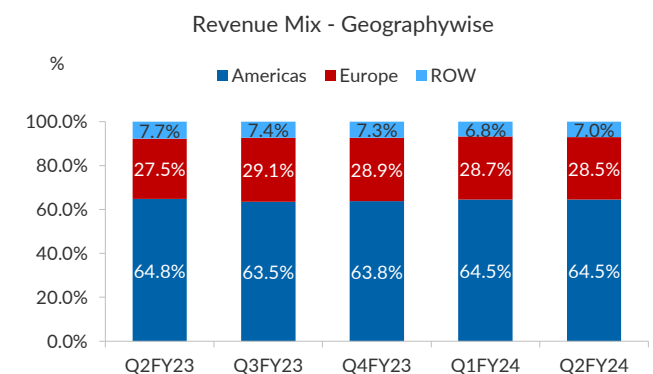
Source: Company, YES Sec

Exhibit 6: Headcount declined during the quarter



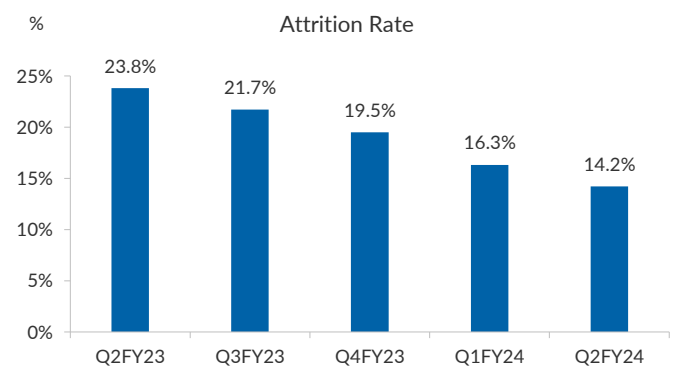
Source: Company, YES Sec

Exhibit 7: Americas dominate revenue mix



Source: Company, YES Sec

Exhibit 8: Attrition rate continues to decline



Source: Company, YES Sec

FINANCIALS

Exhibit 9: Balance Sheet

Y/e March 31 (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Share capital	5,430	5,430	5,430	5,430	5,430	5,430
Reserves & surplus	507,240	593,700	613,710	648,620	697,884	772,296
Shareholders' funds	512,670	599,130	619,140	654,050	703,314	777,726
Non-current liabilities	77,550	87,290	82,520	65,820	66,671	67,738
Long-term borrowings	28,480	38,280	39,230	21,110	20,055	19,052
Other non-current liabilities	49,070	49,010	43,290	44,710	46,617	48,686
Current liabilities	237,300	173,830	187,750	214,310	217,104	230,602
ST borrowings, Curr maturity	18,450	0	620	1,400	1,442	1,485
Other current liabilities	218,850	173,830	187,130	212,910	215,662	229,117
Total (Equity and Liabilities)	829,060	861,940	890,330	934,110	987,019	1,075,996
Non-current assets	444,860	431,430	409,920	398,340	429,917	439,876
Fixed assets (Net block)	217,360	202,650	177,890	160,920	177,617	185,537
Non-current Investments	770	890	1,030	1,100	1,100	1,100
Other non-current assets	226,730	227,890	231,000	236,320	251,200	253,239
Current assets	384,200	430,510	480,410	535,770	557,102	636,119
Cash & current investment	119,650	156,610	188,750	201,090	184,574	221,077
Other current assets	264,550	273,900	291,660	334,680	372,528	415,042
Total (Assets)	829,060	861,940	890,330	934,110	987,019	1,075,996

Source: Company, YES Sec

Exhibit 10: Income Statement

Y/e March 31 (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Net sales	706,780	753,790	856,510	1,014,560	1,085,143	1,230,512
Operating expenses	(539,850)	(553,230)	(654,590)	(788,270)	(842,242)	(939,412)
EBITDA	166,930	200,560	201,920	226,290	242,901	291,101
Depreciation	(28,400)	(39,850)	(40,190)	(41,440)	(42,641)	(51,551)
EBIT	138,530	160,710	161,730	184,850	200,260	239,550
Other income	1,470	6,440	8,260	10,030	7,994	6,693
Profit before tax	140,000	167,150	169,990	194,880	208,254	246,243
Tax (current + deferred)	(29,380)	(36,630)	(34,430)	(46,420)	(50,453)	(57,867)
Reported Profit / (Loss)	110,620	130,080	135,150	148,510	157,821	188,376
Adjusted net profit	110,620	130,080	135,150	148,510	157,821	188,376

Source: Company, YES Sec

Exhibit 11: Cash Flow Statement

Y/e March 31 (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Profit before tax	140,000	167,150	169,990	194,880	208,254	246,243
Depreciation	28,400	39,850	40,190	41,440	42,641	51,551
Change in working capital	39,220	(53,660)	(4,190)	(26,360)	(36,326)	(30,440)
Total tax paid	(26,550)	(23,130)	(33,830)	(39,060)	(61,330)	(55,503)
Others	(1,610)	(5,980)	(4,980)	(9,120)	(8,664)	(7,293)
Cash flow from operations (a)	179,460	124,230	167,180	161,780	144,575	204,558
Capital expenditure	(105,140)	(25,140)	(15,430)	(24,470)	(59,338)	(59,471)
Change in investments	(47,610)	2,040	5,200	8,470	(2,693)	(2,827)
Others	(12,060)	3,840	4,070	16,060	6,811	5,255
Cash flow from investing (b)	(164,810)	(19,260)	(6,160)	60	(55,219)	(57,043)
Free cash flow (a+b)	14,650	104,970	161,020	161,840	89,356	147,515
Equity raised/(repaid)	2,720	0	0	0	0	0
Debt raised/(repaid)	9,920	(8,650)	1,570	(17,340)	(1,014)	(959)
Dividend (incl. tax)	(16,250)	(32,560)	(113,890)	(129,950)	(108,537)	(113,964)
Others	(40,000)	(24,640)	(11,220)	6,330	986	1,085
Cash flow from financing (c)	(43,610)	(65,850)	(123,540)	(140,960)	(108,564)	(113,838)
Net change in cash (a+b+c)	(28,960)	39,120	37,480	20,880	(19,209)	33,677

Source: Company, YES Sec

Exhibit 12: Ratio Analysis

Y/e March 31	FY20	FY21	FY22	FY23	FY24E	FY25E
Growth(%)						
Revenue Growth	17.0	6.7	13.6	18.5	7.0	13.4
EBITDA Growth	19.5	20.1	0.7	12.1	7.3	19.8
EBIT Growth	17.2	16.0	0.6	14.3	8.3	19.6
Net Profit Growth	9.3	17.6	3.9	9.9	6.3	19.4
Profitability Ratios(%)						
EBITDA Margin	23.6	26.6	23.6	22.3	22.4	23.7
EBIT margin	19.6	21.3	18.9	18.2	18.5	19.5
Net Profit margin	15.7	17.3	15.8	14.6	14.5	15.3
RoA	19.6	19.0	18.5	20.3	20.8	23.2
RoE	23.9	23.4	22.2	23.3	23.3	25.4
RoCE	25.6	24.8	23.2	26.0	26.8	29.6
Liquidity Ratios						
Net debt/Equity (x)	-0.1	-0.2	-0.2	-0.3	-0.2	-0.3
Current ratio (x)	1.6	2.5	2.6	2.5	2.6	2.8
Quick ratio (x)	1.6	2.5	2.6	2.5	2.6	2.8
Valuation Ratios						
PER(x)	NA	NA	21.5	22.4	21.0	17.6
PCE(x)	NA	NA	16.6	17.5	16.6	13.8
Price/Book(x)	NA	NA	4.7	5.1	4.7	4.3
EV/EBITDA(x)	NA	NA	13.7	13.9	13.0	10.7

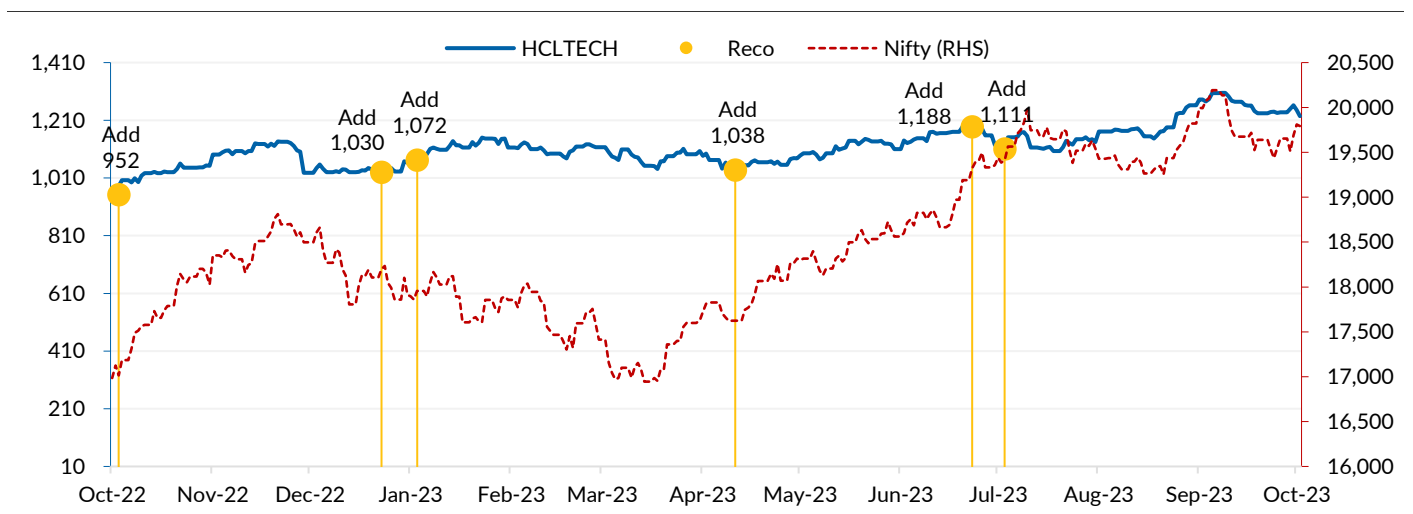
Source: Company, YES Sec

Exhibit 13: Dupont Analysis

Dupont Analysis	FY20	FY21	FY22	FY23	FY24E	FY25E
Net margin(%)	15.7	17.3	15.8	14.6	14.5	15.3
Asset turnover (x)	1.0	0.9	1.0	1.1	1.1	1.2
Leverage factor (x)	1.5	1.5	1.4	1.4	1.4	1.4
Return on Equity(%)	23.9	23.4	22.2	23.3	23.3	25.4

Source: Company, YES Sec

Recommendation Tracker



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