

Steady operating performance; one-off gain leads to profit beat

Information Technology ▶ Result Update ▶ July 13, 2024

TARGET PRICE (Rs): 1,700

HCL Tech posted slightly better operating performance than guided by the mgmt. Revenue declined 1.6% QoQ CC due to softness in Services, primarily owing to seasonality and offshoring. EBITM fell by 50bps to 17.1%, a tad above our estimate. Net new deal-wins were healthy at USD1.96bn. The mgmt guided to broad-based QoQ growth in Q2 (ex-Financial Services, owing to divestment of the State Street JV). The mgmt is confident of growth in coming quarters, as clients continue to spend on GenAI and other emerging technologies. HCLT has retained 3-5% CC revenue growth guidance, with 18-19% EBITM for FY25. The guidance does not factor in any improvement in discretionary spends versus last year. Though the mgmt sees initial signs of the discretionary spend pullback bottoming out, it has refrained from affirming any pickup, given previous false starts. We tweak FY25-27E EPS by up to 3.3%, factoring in the Q1 operating performance and one-off gain from the divestment. We retain ADD on HCLT; we raise TP to Rs1,700/sh, at 23x Jun-26E EPS.

HCL Tech: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	10,14,560	10,99,130	11,58,686	12,68,543	13,86,264
EBITDA	2,26,280	2,41,980	2,55,471	2,82,845	3,10,023
Adj. PAT	1,48,510	1,57,020	1,72,470	1,87,377	2,06,762
Adj. EPS (Rs)	54.7	57.9	63.6	69.1	76.2
EBITDA margin (%)	22.3	22.0	22.0	22.3	22.4
EBITDA growth (%)	10.2	6.9	5.6	10.7	9.6
Adj. EPS growth (%)	10.0	5.7	9.8	8.6	10.3
RoE (%)	23.3	23.5	24.8	25.9	27.4
RoIC (%)	28.7	31.1	33.5	37.8	42.0
P/E (x)	28.5	27.0	24.6	22.6	20.5
EV/EBITDA (x)	18.1	16.7	15.7	14.0	12.7
P/B (x)	6.5	6.2	6.0	5.7	5.5
FCFF yield (%)	3.7	4.6	4.2	4.6	5.1

Source: Company, Emkay Research

Results Summary

Revenue declined 1.9% QoQ (down 1.6% QoQ/up 5.6% YoY in CC terms) to USD3.36bn, broadly in line with our estimates. IT and Business Services revenue declined 1.5% QoQ CC, whereas ER&D Services fell 3.5% QoQ. Software revenue grew 0.4% QoQ. EBIT margin declined by 50bps QoQ to 17.1%, marginally ahead of our estimate of 16.9%. Among verticals, Services revenue growth was driven by Telecommunications (3.9% QoQ), Technology & Services (3.5%), Public Services (1.3%), and Retail (1.2%), whereas Manufacturing (6.8%), Financial Services (4.8%), and Life Sciences (4.4%) saw a decline. Americas grew 0.3% QoQ, whereas Europe and ROW declined 1.5% and 7.6%, respectively. Net headcount decreased 3.6% QoQ to 219,401, with a major portion of the decline being attributed to divestment of the State Street JV (adjusted for divestment, headcount declined 0.3% QoQ). The company has declared an interim dividend of Rs12/share. **What we liked:** In-line operating performance, healthy deal intake. **What we did not like:** Weakness in the non-top-20 clients (-3.4% QoQ).

Earnings Call KTAs

i) FY25 guidance anticipates no significant improvement in discretionary spending, though there are indications of the same; the management has chosen not to incorporate these due to previous experiences of false starts. ii) Deal intake was slightly lower than the management's expectations due to continued delay in decision-making in some programs. The order book consists of a mix of small and large deals. iii) ER&D declined 3.5% CC QoQ, mainly due to ramp down in the Manufacturing and softness in the Medtech verticals. iv) Life Sciences segment revenue was impacted by completion of large programs and softness in the Medtech segment. v) In Q2, the State Street transaction is likely to impact revenue by ~80bps at the company level; it will hit the Services business by ~90bps, on QoQ basis. vi) The management highlighted that the ASAP acquisition did not deliver per expectations in Q1, as EV investments are undergoing stress, particularly in Germany. Large auto OEMs have seen cut in spending due to cost pressures. vii) Manufacturing was impacted by passing-on of productivity benefits, weakness in automotive, and asset revenue declining by ~USD10mn (prominent in Manufacturing). Company expects good traction to return from Q2. viii) It has invested in training employees on GenAI and AI skills. It trained 42k employees in FY24 and plans to train ~50k employees in FY25, to take the total trained headcount to 100k by FY25-end. It has already trained ~1/3rd of the incremental requirement in Q1.

Target Price – 12M	Jun-25
Change in TP (%)	6.3
Current Reco.	ADD
Previous Reco.	ADD
Upside/(Downside) (%)	8.9
CMP (12-Jul-24) (Rs)	1,561.8

Stock Data	Ticker
52-week High (Rs)	1,697
52-week Low (Rs)	1,087
Shares outstanding (mn)	2,713.7
Market-cap (Rs bn)	4,238
Market-cap (USD mn)	50,734
Net-debt, FY25E (Rs mn)	-2,29,625
ADTV-3M (mn shares)	4
ADTV-3M (Rs mn)	5,877.0
ADTV-3M (USD mn)	70.4
Free float (%)	39.0
Nifty-50	24,502
INR/USD	83.5
Shareholding, Mar-24	
Promoters (%)	60.8
FPIs/MFs (%)	19.7/15.0

Price Performance

(%)	1M	3M	12M
Absolute	8.5	2.6	40.6
Rel. to Nifty	3.3	(5.7)	11.3

1-Year share price trend (Rs)



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Exhibit 1: Quarterly snapshot

(Rs mn)	Q1 FY25	Q4 FY24	QoQ (%)	Q1 FY24	YoY (%)
Net sales (USD mn)	3,364	3,430	-1.9	3,200	5.1
Net sales (Rs mn)	280,570	284,990	-1.6	262,960	6.7
Operating expenses	222,640	223,820	-0.5	209,310	
EBITDA	57,930	61,170	-5.3	53,650	8.0
Margins (%)	20.6	21.5	(80)	20.4	20.0
Depreciation	9,980	10,930		9,270	
EBIT	47,950	50,240	-4.6	44,380	8.0
Margins (%)	17.1	17.6	(50)	16.9	20.0
Other income	9,120	3,632		3,632	
Pre-tax profit	57,070	53,872	5.9	48,012	
Tax provided	14,480	12,740		11,650	
Profit after tax	42,590	41,132	3.5	36,362	17.1
Net profit after NCI	42,570	39,860	6.8	35,340	20.5
EPS (Rs)	15.7	14.7	6.8	13.0	20.5

Source: Company, Emkay Research

Exhibit 2: Actuals vs estimates

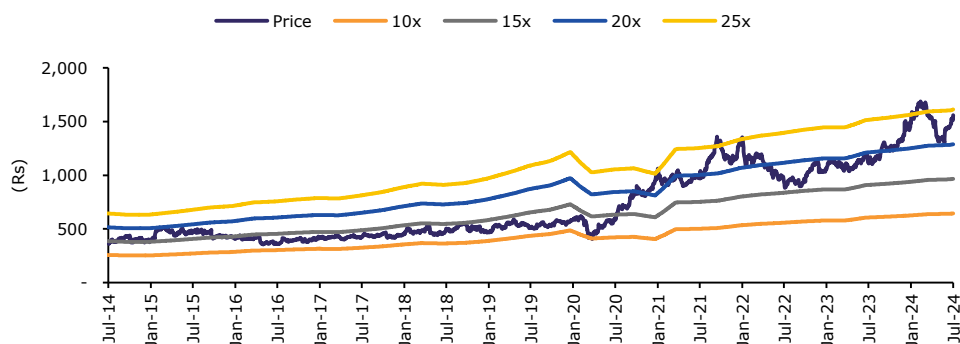
(Rs mn)	Actual	Estimate		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenues (USD mn)	3,364	3,360	3,433	0.1%	-2.0%	Revenue was broadly in line with expectations.
Sales	280,570	280,218	285,175	0.1%	-1.6%	
EBIT	47,950	47,404	52,472	1.2%	-8.6%	Margin was a tad better than estimates.
EBIT margin	17.1%	16.9%	18.4%	20 bps	-130 bps	
PAT	42,570	38,148	41,065	11.6%	3.7%	Profit came in ahead of estimates due to one-off gain from the State Street divestment.

Source: Company, Bloomberg, Emkay Research

Exhibit 3: Changes in estimates

(Rs mn)	FY25E			FY26E			FY27E		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenues(USD mn)	13,723	13,818	0.7	14,816	14,924	0.7	16,007	16,119	0.7
YoY growth	3.4%	4.1%		8.0%	8.0%		8.0%	8.0%	
Revenue	1,150,728	1,158,686	0.7	1,259,394	1,268,543	0.7	1,376,596	1,386,264	0.7
EBIT	208,722	210,738	1.0	232,699	235,126	1.0	256,974	258,650	0.7
EBIT margin	18.1	18.2		18.5	18.5		18.7	18.7	
Net profit	166,980	172,470	3.3	187,119	187,377	0.1	205,701	206,762	0.5
EPS (Rs)	61.5	63.6	3.3	69.0	69.1	0.2	75.8	76.2	0.6

Source: Company, Emkay Research

Exhibit 4: HCLT – One-year forward P/E

Source: Company, Emkay Research

HCL Tech: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	10,14,560	10,99,130	11,58,686	12,68,543	13,86,264
Revenue growth (%)	18.5	8.3	5.4	9.5	9.3
EBITDA	2,26,280	2,41,980	2,55,471	2,82,845	3,10,023
EBITDA growth (%)	10.2	6.9	5.6	10.7	9.6
Depreciation & Amortization	41,450	41,730	44,734	47,719	51,374
EBIT	1,84,830	2,00,250	2,10,738	2,35,126	2,58,650
EBIT growth (%)	14.1	8.3	5.2	11.6	10.0
Other operating income	0	0	0	0	0
Other income	13,580	14,950	25,515	21,424	23,921
Financial expense	3,530	5,530	4,740	4,930	4,930
PBT	1,94,880	2,09,670	2,31,513	2,51,620	2,77,641
Extraordinary items	0	0	0	0	0
Taxes	46,430	52,570	58,963	64,163	70,798
Minority interest	60	(80)	(80)	(80)	(80)
Income from JV/Associates	0	0	0	0	0
Reported PAT	1,48,510	1,57,020	1,72,470	1,87,377	2,06,762
PAT growth (%)	10.0	5.7	9.8	8.6	10.3
Adjusted PAT	1,48,510	1,57,020	1,72,470	1,87,377	2,06,762
Diluted EPS (Rs)	54.7	57.9	63.6	69.1	76.2
Diluted EPS growth (%)	10.0	5.7	9.8	8.6	10.3
DPS (Rs)	48.0	52.0	54.0	58.0	64.0
Dividend payout (%)	87.7	89.9	85.0	84.0	84.0
EBITDA margin (%)	22.3	22.0	22.0	22.3	22.4
EBIT margin (%)	18.2	18.2	18.2	18.5	18.7
Effective tax rate (%)	23.8	25.1	25.5	25.5	25.5
NOPLAT (pre-IndAS)	1,40,794	1,50,042	1,57,066	1,75,169	1,92,694
Shares outstanding (mn)	2,713.7	2,713.7	2,713.7	2,713.7	2,713.7

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	1,94,880	2,09,670	2,31,513	2,51,620	2,77,641
Others (non-cash items)	35,240	33,880	44,654	47,639	51,294
Taxes paid	(36,980)	(42,120)	(58,963)	(64,163)	(70,798)
Change in NWC	(13,050)	23,050	(13,250)	(9,872)	(10,579)
Operating cash flow	1,80,090	2,24,480	2,03,954	2,25,224	2,47,557
Capital expenditure	(21,430)	(30,590)	(25,820)	(29,900)	(31,900)
Acquisition of business	(83,460)	(1,39,240)	0	0	0
Interest & dividend income	6,360	10,410	0	0	0
Investing cash flow	(39,310)	(67,230)	(25,550)	(29,900)	(31,900)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(18,790)	(1,790)	(270)	0	0
Payment of lease liabilities	(9,270)	(11,480)	0	0	0
Interest paid	(800)	(640)	0	0	0
Dividend paid (incl tax)	(1,29,950)	(1,40,730)	(1,46,538)	(1,57,393)	(1,73,675)
Others	0	0	0	0	0
Financing cash flow	(1,58,810)	(1,54,640)	(1,46,808)	(1,57,393)	(1,73,675)
Net chg in Cash	(18,030)	2,610	31,596	37,931	41,983
OCF	1,80,090	2,24,480	2,03,954	2,25,224	2,47,557
Adj. OCF (w/o NWC chg.)	1,93,140	2,01,430	2,17,204	2,35,096	2,58,136
FCFF	1,58,660	1,93,890	1,78,134	1,95,324	2,15,657
FCFE	1,61,490	1,98,770	1,73,393	1,90,394	2,10,727
OCF/EBITDA (%)	79.6	92.8	79.8	79.6	79.9
FCFE/PAT (%)	108.7	126.6	100.5	101.6	101.9
FCFF/NOPLAT (%)	112.7	129.2	113.4	111.5	111.9

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	5,430	5,430	5,430	5,430	5,430
Reserves & Surplus	6,48,620	6,77,200	7,03,132	7,33,116	7,66,204
Net worth	6,54,050	6,82,630	7,08,562	7,38,546	7,71,634
Minority interests	(70)	80	80	80	80
Deferred tax liability (net)	(12,520)	(10,310)	(12,520)	(12,520)	(12,520)
Total debt	54,070	72,720	74,570	77,279	80,182
Total liabilities & equity	6,95,530	7,45,120	7,70,692	8,03,385	8,39,376
Net tangible fixed assets	54,110	49,990	37,544	28,087	15,580
Net intangible assets	81,903	70,903	53,198	35,088	16,443
Net ROU assets	23,370	29,100	31,000	33,000	36,000
Capital WIP	0	0	0	0	0
Goodwill	0	0	0	0	0
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	2,02,190	2,72,870	3,04,196	3,42,127	3,84,109
Current assets (ex-cash)	3,72,810	3,62,873	3,87,128	4,22,885	4,61,201
Current Liab. & Prov.	2,26,060	2,42,340	2,53,435	2,76,611	3,01,445
NWC (ex-cash)	1,46,750	1,20,533	1,33,693	1,46,274	1,59,756
Total assets	6,95,530	7,45,120	7,70,692	8,03,385	8,39,376
Net debt	(1,48,120)	(2,00,150)	(2,29,625)	(2,64,847)	(3,03,927)
Capital employed	6,95,530	7,45,120	7,70,692	8,03,385	8,39,376
Invested capital	4,93,340	4,72,250	4,66,497	4,61,259	4,55,266
BVPS (Rs)	241.0	251.6	261.1	272.2	284.4
Net Debt/Equity (x)	(0.2)	(0.3)	(0.3)	(0.4)	(0.4)
Net Debt/EBITDA (x)	(0.7)	(0.8)	(0.9)	(0.9)	(1.0)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	28.9	29.9	31.2	32.6	34.4

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	28.5	27.0	24.6	22.6	20.5
P/CE(x)	22.3	21.3	19.5	18.0	16.4
P/B (x)	6.5	6.2	6.0	5.7	5.5
EV/Sales (x)	4.0	3.7	3.5	3.1	2.8
EV/EBITDA (x)	18.1	16.7	15.7	14.0	12.7
EV/EBIT(x)	22.1	20.2	19.0	16.9	15.2
EV/IC (x)	8.3	8.6	8.6	8.6	8.6
FCFF yield (%)	3.7	4.6	4.2	4.6	5.1
FCFE yield (%)	3.8	4.7	4.1	4.5	5.0
Dividend yield (%)	3.1	3.3	3.5	3.7	4.1
DuPont-RoE split					
Net profit margin (%)	14.6	14.3	14.9	14.8	14.9
Total asset turnover (x)	1.5	1.5	1.5	1.6	1.7
Assets/Equity (x)	1.1	1.1	1.1	1.1	1.1
RoE (%)	23.3	23.5	24.8	25.9	27.4
DuPont-RoIC					
NOPLAT margin (%)	13.9	13.7	13.6	13.8	13.9
IC turnover (x)	2.1	2.3	2.5	2.7	3.0
RoIC (%)	28.7	31.1	33.5	37.8	42.0
Operating metrics					
Core NWC days	52.8	40.0	42.1	42.1	42.1
Total NWC days	52.8	40.0	42.1	42.1	42.1
Fixed asset turnover	2.9	3.1	3.4	3.9	4.5
Opex-to-revenue (%)	77.7	78.0	78.0	77.7	77.6

Source: Company, Emkay Research

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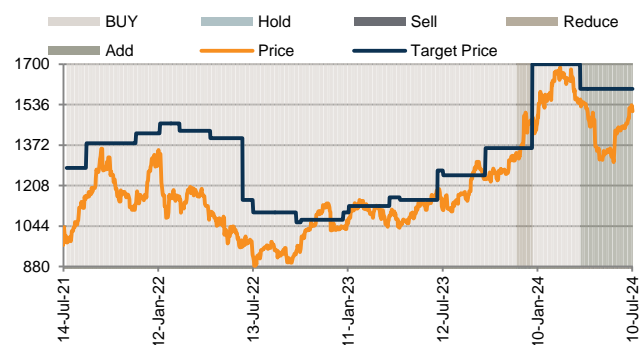
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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
09-Jun-24	1,432	1,600	Add	Dipeshkumar Mehta
03-Jun-24	1,314	1,600	Add	Dipeshkumar Mehta
27-May-24	1,353	1,600	Add	Dipeshkumar Mehta
27-Apr-24	1,474	1,600	Add	Dipeshkumar Mehta
01-Apr-24	1,557	1,600	Add	Dipeshkumar Mehta
31-Mar-24	1,544	1,700	Buy	Dipeshkumar Mehta
01-Mar-24	1,644	1,700	Buy	Dipeshkumar Mehta
13-Jan-24	1,541	1,700	Buy	Dipeshkumar Mehta
31-Dec-23	1,466	1,700	Buy	Dipeshkumar Mehta
30-Nov-23	1,341	1,360	Reduce	Dipeshkumar Mehta
13-Oct-23	1,256	1,360	Buy	Dipeshkumar Mehta
02-Oct-23	1,235	1,360	Buy	Dipeshkumar Mehta
13-Jul-23	1,109	1,250	Buy	Dipeshkumar Mehta
02-Jul-23	1,188	1,270	Buy	Dipeshkumar Mehta
21-Apr-23	1,049	1,150	Buy	Dipeshkumar Mehta
01-Apr-23	1,085	1,160	Buy	Dipeshkumar Mehta
13-Jan-23	1,078	1,125	Buy	Dipeshkumar Mehta
02-Jan-23	1,039	1,100	Buy	Dipeshkumar Mehta
13-Oct-22	982	1,070	Buy	Dipeshkumar Mehta
04-Oct-22	946	1,060	Buy	Dipeshkumar Mehta
13-Jul-22	918	1,100	Buy	Dipeshkumar Mehta
23-Jun-22	971	1,150	Buy	Dipeshkumar Mehta
12-May-22	1,059	1,400	Buy	Dipeshkumar Mehta
22-Apr-22	1,102	1,400	Buy	Dipeshkumar Mehta
01-Apr-22	1,170	1,430	Buy	Dipeshkumar Mehta
22-Feb-22	1,150	1,430	Buy	Dipeshkumar Mehta
15-Jan-22	1,337	1,460	Buy	Dipeshkumar Mehta
01-Jan-22	1,319	1,420	Buy	Dipeshkumar Mehta
30-Nov-21	1,139	1,420	Buy	Dipeshkumar Mehta
15-Oct-21	1,251	1,380	Buy	Dipeshkumar Mehta
02-Oct-21	1,274	1,380	Buy	Dipeshkumar Mehta
27-Aug-21	1,163	1,380	Buy	Dipeshkumar Mehta
20-Jul-21	977	1,280	Buy	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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