

HCL Technologies Ltd.

BUY

Choice

Improved guidance for FY25E; Green shoots in Financial Services to see for

- HCL Tech reported Q2FY25 revenues at \$3,445mn, up 1.6% QoQ and 6.2% YoY in cc terms . In USD terms, reported revenue was up 2.4% QoQ and 6.8% YoY. INR revenue stood at INR288.6bn, up 2.9% sequentially and 8.2% YoY. This growth was well distributed across verticals, geographies, and offerings. Q2FY25 Order Book TCV (new deal wins) stood at \$2,218mn. PAT for the quarter came in at INR42.4bn (+10.5% YoY). EPS stood at INR15.6. Free Cash Flow of \$2,388mn (on LTM basis) was 119% of net income.**
- Traction in AI related opportunities:** HCLT is well-positioned to capitalize on emerging opportunities in the GenAI sector with its AI Force digital suite, which enhances workflow optimization, operational flexibility, efficiency, and service quality for clients. The increasing adoption of GenAI technologies is likely to boost demand for cloud services and data standardization, aligning with HCLT's strengths. Key offerings like AI Force and AI Foundry, supported by a global network of GenAI labs, are delivering significant value to clients worldwide. Strategic partnerships with leading hyperscalers, ISVs, and systems OEMs keep HCLT at the forefront of innovation, while strong client interest in their GenAI solutions suggests they will drive efficiency, growth, and innovation in the medium term. Legacy modernization offering shall become a huge growth driver going ahead because of GenAI technologies.
- Improved growth guidance for FY25E:** The Services business delivered impressive performance with a 5.9% YoY growth in cc, while digital revenue increased by 7.8%, driven by cloud transformation and cybersecurity, making up 38.5% of services revenue. The software segment showed strong growth of 9.4% YoY in cc, highlighting the increasing importance of its products in the digital economy. Management reports significant traction in AI and GenAI opportunities, as clients seek tangible benefits. They anticipate growth across all verticals (with green shoots visible in financial services) and geographies in Q3, with emerging markets driving growth in ROW geography. Furlough patterns in Q3 are expected to mirror last year's, and discretionary spending is projected to remain stable. As a result of higher-than-expected Q2 revenues, the company has raised its growth guidance for FY25E to 3.5-5% YoY in cc.
- Margins to remain range-bound:** Operating margins for the quarter rose to 18.6%, up 149bps sequentially and 14bps YoY due to improved share from software business. Margins shall keep improving in Q3 as well due to seasonality in software business. Management expects margins to remain range-bound in the 18-19% range for FY25E.
- Valuation:** The company remains committed to achieving business growth in a sustainable and responsible manner. Their deal pipeline is robust, featuring opportunities in Data & AI, Digital Engineering, SAP migration, and efficiency-driven programs. We have introduced FY27E and expect Revenue/EBIT/PAT to grow at a CAGR of 10.5%/13.5%/13.7% respectively over FY24-FY27E. We upgrade our rating to **BUY** with a revised target price of INR2,105 implying a PE of 27x on Sep-FY27E EPS of INR78.

Financial Snapshot

Year end: March	FY23	FY24	FY25E	FY26E	FY27E
Revenue (USD Mn.)	12,586	13,270	13,995	15,385	17,556
Revenue (INR Mn.)	10,14,560	10,99,130	11,72,061	12,94,564	14,82,844
Gross Profit (INR Mn.)	2,92,210	3,10,580	3,32,468	3,71,697	4,38,393
EBIT (INR Mn.)	1,84,830	2,00,250	2,14,525	2,43,229	2,93,041
EBIT Margin (%)	18.2	18.2	18.3	18.8	19.8
EPS (INR)	54.9	58.0	63.9	70.5	85.2

Source: Company, CEBPL

Oct 15, 2024

CMP (Rs.)	1,856
Target Price (Rs.)	2,105
Potential Upside (%)	13.4

Company Info

BB Code	HCLT IN EQUITY
ISIN	INE860A01027
Face Value (Rs.)	2.0
52 Week High (Rs.)	1,864.0
52 Week Low (Rs.)	1,210.0
Mkt Cap (Rs bn.)	5,036.6
Mkt Cap (\$ bn.)	59.9
Shares o/s (Mn.)/Float	2,713.7/39
FY24 EPS (Rs.)	58.0
FY27E EPS (Rs.)	85.2

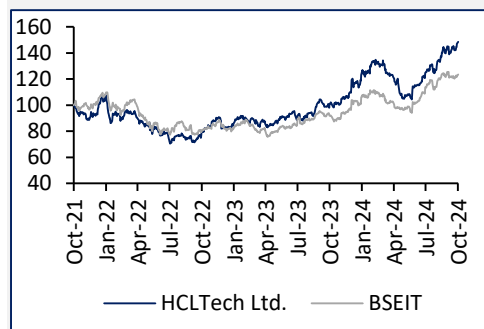
Shareholding Pattern (%)

	Jun-24	Mar-24	Dec-23
Promoters	60.82	60.82	60.82
FII's	18.45	19.65	19.42
DII's	15.77	14.95	15.12
Public	4.96	4.58	4.64

Relative Performance (%)

YTD	3Y	2Y	1Y
BSE IT	23.4	52.6	34.3
HCL TECH	48.4	85.1	47.9

Rebased Price Performance



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Sequential Operating Performance

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Income Statement						
Revenues (USD Mn.)	3,200	3,225	3,415	3,430	3,364	3,445
Revenues (INR Mn.)	2,62,960	2,66,720	2,84,460	2,84,990	2,80,570	2,88,620
Gross Profit (INR Mn.)	71,190	75,090	85,020	79,280	76,770	81,250
Gross Margin (%)	27.1	28.2	29.9	27.8	27.4	28.2
EBIT (INR Mn.)	44,380	49,190	56,440	50,240	47,950	53,620
EBIT Margin (%)	16.9	18.4	19.8	17.6	17.1	18.6
PAT (INR Mn.)	35,340	38,320	43,500	39,860	42,570	42,350
Basic EPS (INR)	13.1	14.2	16.1	14.7	15.7	15.6
Operating Metrics						
Revenue Geographical (%)						
America	64.5	64.5	64.5	65.2	66.0	65.1
Europe	28.7	28.5	29.0	28.9	27.9	28.4
Rest Of World	6.8	7.0	6.5	5.9	6.1	6.5
Total	100.0	100.0	100.0	100.0	100.0	100.0
Revenue by Verticals (%)						
Financial Services	22.6	22.6	21.7	21.6	21	20.5
Manufacturing	19.9	19.3	20.0	20.4	19.4	19.5
Technology & Services	13.4	13.1	12.8	12.3	13	13.1
Retail & CPG	9.1	9.6	9.6	9.1	9.4	9.6
Teleco, Media, Publishing & Entertainment	7.6	8.0	9.7	11.5	12.2	12.1
Lifesciences & Healthcare	17.5	17.5	16.4	16.3	15.9	16
Public Services	10.0	9.9	9.8	8.8	9.1	9.2
Others	-	-	-	-	-	-
Total	100.0	100.0	100.0	100.0	100.0	100.0
Revenue from Business Segments (%)						
IT and Business Services	74.7	74.6	71.7	74.4	74.5	74.6
Engineering and R&D Services	15.4	16	16.4	16.1	15.9	15.8
HCL Software	9.9	9.4	11.9	9.5	9.6	9.6
Total	100.0	100.0	100.0	100.0	100.0	100.0
Employee Metrics						
Total Headcount	2,23,438	2,21,139	2,24,756	2,27,481	2,19,401	2,18,621
Attrition Rate LTM (%)	16.3	14.2	12.8	12.4	12.8	12.9

Source: Company, CEBPL

CEBPL Estimates vs Actual for Q2FY25

HCL Tech (INR Mn.)	Q2FY25	Q2FY24	YoY(%)	Q1FY25	QoQ (%)	CEBPL Est.	Dev. (%)
Revenues (\$ mn.)	3,445	3,225	6.8	3,364	2.4	3,390	1.6
Revenues	2,88,620	2,66,720	8.2	2,80,570	2.9	2,82,828	2.0
Employee Cost	1,65,230	1,52,530	8.3	1,64,100	0.7		
Gross Profit (INR mn.)	81,250	75,090	8.2	76,770	5.8	77,948	4.2
Gross Margin (%)	28.2	28.2	(0) bps	27.4	79 bps	27.6	59 bps
Other costs	17,560	15,800	11.1	18,840	(6.8)		
Depreciation	10,070	10,100	(0.3)	9,980	0.9		
EBIT (INR mn.)	53,620	49,190	9.0	47,950	11.8	49,099	9.2
EBIT Margin (%)	18.6	18.4	14 bps	17.1	149 bps	17.4	122 bps
Other Income	4,560	3,650	24.9	11,030	(58.7)		
Interest	1,310	1,560	(16.0)	1,910	(31.4)		
PBT (INR mn.)	56,870	51,280	10.9	57,070	(0.4)		
Tax	14,500	12,950	12.0	14,480	0.1		
Adj. PAT (INR mn.)	42,350	38,320	10.5	42,570	(0.5)	38,683	9.5
Basic EPS (INR)	15.6	14.2	10.4	15.7	(0.5)	14.3	9.5

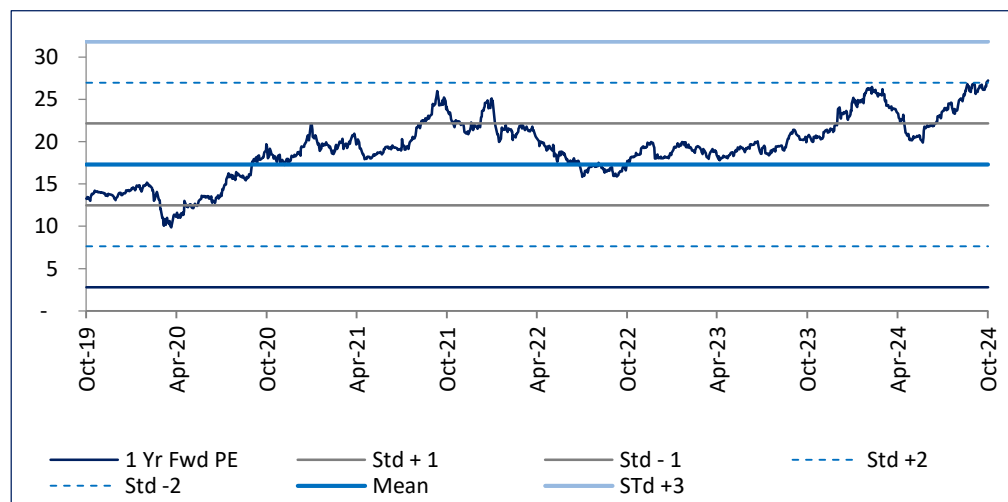
Source: Company, CEBPL

Change in Estimates

Income Statement (INR Mn.)	FY25E			FY26E			FY27E
	Old	New	Dev. (%)	Old	New	Dev. (%)	New
Revenues (USD Mn.)	13,911	13,995	0.6	15,163	15,385	1.5	17,556
Revenues	11,60,655	11,72,061	1.0	12,66,363	12,94,564	2.2	14,82,844
Gross Profit Margin (%)	28.5	28.4	(17) bps	29.3	28.7	(59) bps	29.6
EBIT	2,12,659	2,14,525	0.9	2,45,413	2,43,229	(0.9)	2,93,041
EBIT Margin (%)	18.3	18.3	(2) bps	19.4	18.8	(59) bps	19.8
EPS	63.5	63.9	0.7	71.3	70.5	(1.1)	85.2

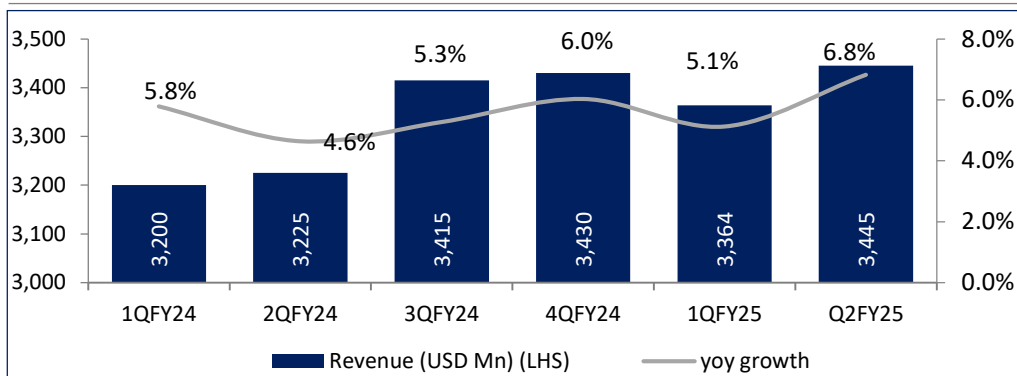
Source: Company, CEBPL

Historical 1 Yr Fwd PE Band



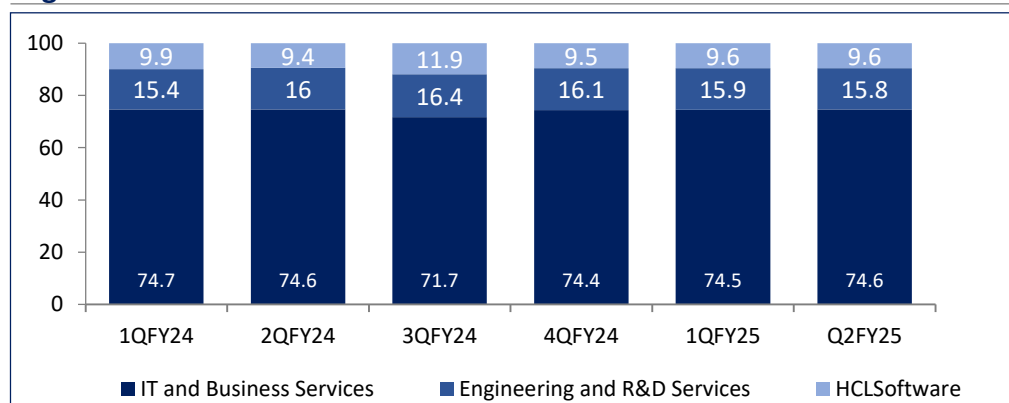
Source: Company, CEBPL

Industry-leading revenue growth



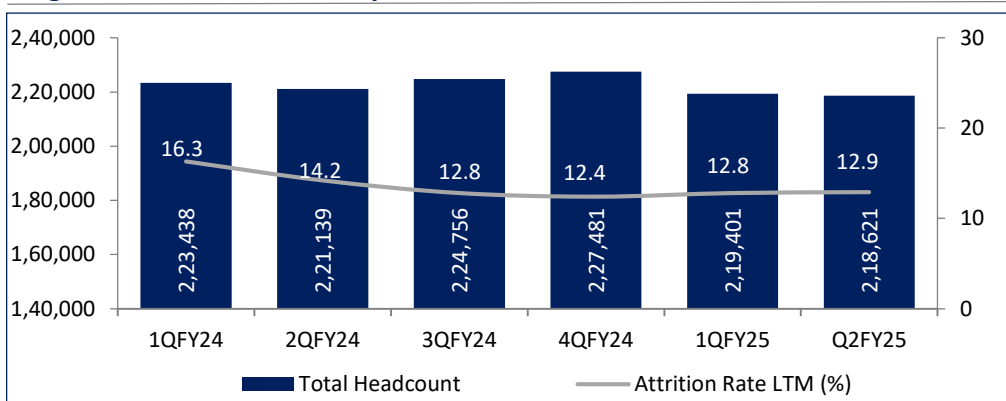
Source: Company, CEBPL

Segment-wise revenue details



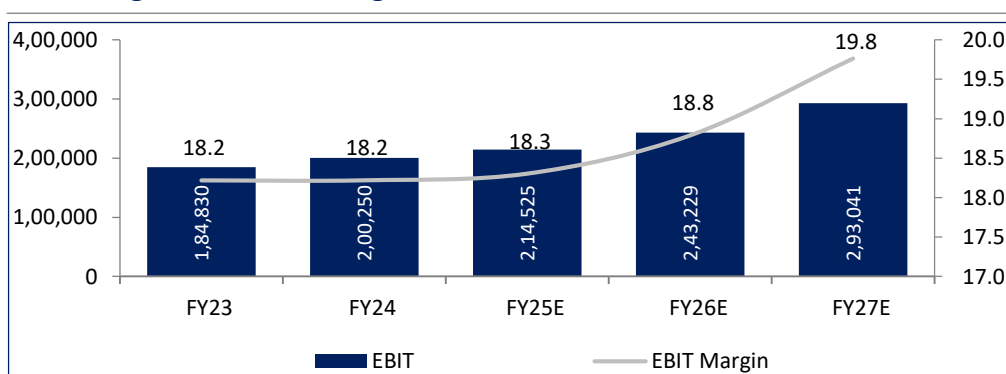
Source: Company, CEBPL

Negative net addition this quarter



Source: Company, CEBPL

EBIT margins to remain range bound



Source: Company, CEBPL

Management Call - Highlights

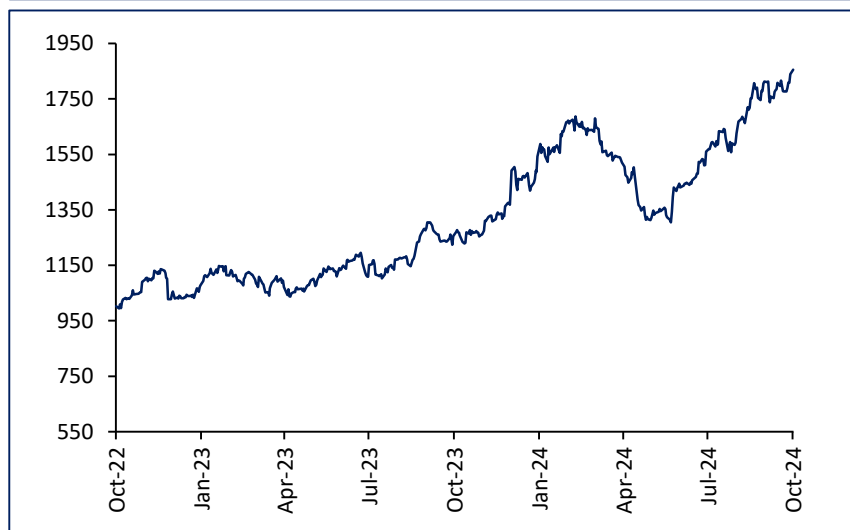
- In Q2FY25, the company secured a total of 20 deals, with 12 focused on services and the remaining 8 in software.
- The headcount for the quarter was 2,18,621, with a net reduction of 780 employees. Of these, 2,04,600 were in technical roles, reflecting a decrease of 597 from the previous quarter, while 14,021 were in sales and support roles, down by 183 employees. LTM attrition stood at 12.9% in Q2FY25, down from 14.2% in Q2FY24.
- In Q2FY25, the company on boarded 2,932 freshers, compared to 1,032 in Q1. So far, it has added over 4,000+ YTD and plans to continue hiring more.
- HCLTech plans to implement salary hikes in Q3FY25E, with an average increase of 7% for employees and 12-15% for top performers.
- In Q2FY25, the company filed 8 patents and received 13 grants, totaling 21 patents.
- DSO for the quarter was 57 days, improving by 3 days compared to the previous quarter and down from 61 days in Q2FY24.
- HCLTech's LTM ROIC was 35.7%, reflecting a YoY increase of 353bps, while HCL Services reported an LTM ROIC of 43.5%, up 403bps YoY. ARR reached \$1.05bn, reflecting a 0.6% YoY increase in cc.
- OCF stood at \$2,521mn, while FCF amounted to \$2,388mn on an LTM basis. The FCF to net income ratio was 119% during the same period.
- In Q2, HCLTech's margins improved by 149bps QoQ, driven by a 52bps increase in the software segment and a 110bps boost in the services segment, supported by operational efficiencies. Additionally, 24bps of the improvement resulted from favorable exchange movements.
- The board has approved a dividend of INR12 per share, marking the 87th consecutive quarter of dividend pay-outs.
- In Q2FY25, the company experienced growth across all client segments. The number of clients with revenues \$100mn+ increased by 10% YoY, reaching a total of 22. Clients in the \$50mn+ category grew by 6% YoY, totaling 52. Additionally, the \$20mn+ segment saw a 4% YoY increase, while clients generating over \$10mn grew by 3% YoY.

Financial Summary (Consolidated in INR Mn.)

Income Statement (INR Mn.)	FY23	FY24	FY25E	FY26E	FY27E
Revenue (USD Mn.)	12,586	13,270	13,995	15,385	17,556
Revenue	10,14,560	10,99,130	11,72,061	12,94,564	14,82,844
Gross profit	2,92,210	3,10,580	3,32,468	3,71,697	4,38,393
EBITDA	2,26,280	2,41,980	2,58,087	2,92,729	3,48,682
Depreciation	41,450	41,730	43,562	49,499	55,640
EBIT	1,84,830	2,00,250	2,14,525	2,43,229	2,93,041
Other income	13,580	14,950	24,030	19,113	22,243
Interest expense	3,530	5,530	6,837	7,426	7,414
Reported PAT	1,48,510	1,57,020	1,73,154	1,90,987	2,30,702
EPS	54.9	58.0	63.9	70.5	85.2
Balance Sheet (INR Mn.)	FY23	FY24	FY25E	FY26E	FY27E
Tangible fixed assets	53,710	79,090	86,999	95,699	1,00,484
Goodwill & intangible assets	2,92,880	2,72,620	2,72,620	2,72,620	2,72,620
Investments	54,950	71,370	73,131	74,936	76,785
Cash & Cash equivalents	90,650	94,560	92,262	85,956	84,247
Other non-current assets	50,650	51,810	56,991	61,550	64,012
Other current assets	3,91,270	4,28,320	4,58,754	4,84,521	5,11,214
Total assets	9,34,110	9,97,770	10,40,757	10,75,282	11,09,363
Shareholder's funds	6,54,050	6,82,630	7,11,493	7,30,591	7,53,662
Minority interest	(70)	80	80	80	80
Borrowings	22,510	23,270	24,434	25,655	26,938
Lease Liabilities	25,350	34,290	36,005	37,805	39,695
Other non-current liabilities	28,070	42,180	43,631	45,197	46,888
Other current liabilities	2,04,200	2,15,320	2,25,115	2,35,954	2,42,100
Total equity & liabilities	9,34,110	9,97,770	10,40,757	10,75,282	11,09,363
Cash Flows (INR Mn.)	FY23	FY24	FY25E	FY26E	FY27E
Cash flows from Operations	1,80,090	2,24,480	1,75,299	2,11,128	2,43,278
Cash flows from Investing	(39,310)	(67,230)	(27,441)	(39,087)	(43,050)
Cash flows from financing	(1,58,810)	(1,54,640)	(1,50,157)	(1,78,347)	(2,15,389)
Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
Growth Ratios (%)					
Revenues	18.5	8.3	6.6	10.5	14.1
Gross Profit	14.1	6.3	7.0	11.8	17.9
EBITDA	10.2	6.9	6.7	13.4	19.1
EBIT	14.1	8.3	7.1	13.4	20.5
Margin Ratios (%)					
Gross Profit Margin	28.8	28.3	28.4	28.7	29.6
EBITDA Margin	22.3	22.0	22.0	22.6	23.5
EBIT Margin	18.2	18.2	18.3	18.8	19.8
Profitability (%)					
Return on equity	24.0	24.0	25.4	26.8	21.1
Return on invested capital	21.6	21.4	21.7	23.6	29.1
Return on capital employed	19.6	19.5	20.0	22.1	27.5
Valuation					
OCF / Net profit (%)	121.3	143.0	101.2	110.5	105.5
EV / EBITDA (x)	10.7	10.0	9.4	8.3	7.0
Book Value per share (x)	345.0	368.5	384.4	397.1	409.7
Free Cash flow yield (%)	6.7	8.7	5.1	6.3	12.3

Source: Company, CEBPL

Historical recommendations and target price: HCL Technologies Limited



HCL Technologies Ltd.

1.	16-01-2022	Add,	Target Price 1,513
2.	25-04-2022	Add	Target Price 1,243
3.	13-07-2022	Outperform,	Target Price 1,257
4.	13-10-2022	Outperform,	Target Price 1,238
5.	10-01-2023	Add,	Target Price 1,207
6.	21-04-2023	Add,	Target Price 1,180
7.	13-07-2023	Add,	Target Price 1,190
8.	25-09-2023	Neutral,	Target Price 1,290
9.	13-10-2023	Add,	Target Price 1,300
10.	14-01-2024	Add,	Target Price 1,670
11.	28-04-2024	Buy,	Target Price 1,550
12.	14-07-2024	Reduce,	Target Price 1,615
13.	15-10-2024	Buy,	Target Price 2,105

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BUY	The security is expected to generate greater than 5% to less than 25% returns over the next 12 months
REDUCE	The security expected to show downside or upside returns by 0% to 5% over the next 12 months
SELL	The security expected to show Below 0% next 12 months

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