

January 13, 2024

RESULT REPORT Q3 FY24 | Information Technology

HCL Technologies Ltd

Strong operating performance with revenue guidance for FY24 at 5.0%-5.5% in cc terms

Result Synopsis

HCL Technologies (HCLT) reported strong performance for the quarter. Both revenue & EBIT margin was above expectation; HCL software segment (12.3% of revenue) increased by 5.0% YoY in cc terms, while ER&D and IT services (88.2% of revenue) increased by 4.2% YoY in cc terms. Telecommunication, Media and Entertainment vertical reported highest sequential growth at 25.9% QoQ in cc terms. The overall revenue increased by 6.0% QoQ in cc terms. There was sequential improvement in EBIT margin (up 124 bps QoQ) led by decrease in SG&A. Employee attrition continues to moderate as LTM attrition was down 140 bps QoQ to 12.8%.

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 12.5% over FY23-26E with average EBIT margin of 19.1%. We maintain our ADD rating on the stock with revised target price of Rs 1,750/share at 21.0x on FY26E EPS. The stock trades at PER of 21.0x/18.5x on FY25E/FY26E EPS.

Result Highlights

- Reported revenue of Rs 284.5bn (up 6.7% QoQ in INR terms, up 5.9% QoQ in USD terms). HCL software segment (12.3% of revenue) increased by 5.0% YoY in cc terms, while ER&D and IT services (88.2% of revenue) increased by 4.2 YoY in cc terms. The revenue increased by 6.0% QoQ in cc terms. Telecommunication, Media and Entertainment vertical reported highest sequential growth at 25.9% QoQ in cc terms.
- EBIT margin increased by 124 bps QoQ to 19.7% led by decrease in SG&A Expenses (down 1.2% QoQ).
- It reported new deal wins TCV of \$1.9bn (vs \$3.9bn in Q2FY24).
- Headcount increased by 3,617 employees QoQ to close at 224,756 employees. LTM attrition decreased by 140 bps QoQ to 12.8%.
- Revenue Growth (including ASAP acquisition) guidance for FY24 between 5.0%-5.5% YoY in cc terms, while EBIT margin guidance remain unchanged in the range of 18.0%-19.0%.
- Declared Dividend of Rs 12/share, payment date: 31st January 2023.

Rsmn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	284,460	271,678	280,770	4.7%	1.3%
EBITDA	67,580	61,088	63,280	10.6%	6.8%
EBITDA Margin (%)	23.76%	22.49%	22.54%	127 bps	122 bps
Adjusted PAT	43,510	40,298	41,200	8.0%	5.6%

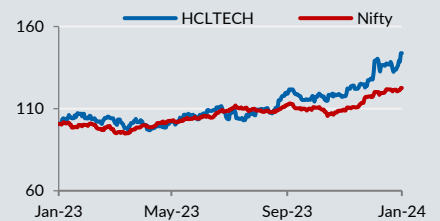
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 1,541
Target Price	: Rs 1,750
Potential Return	: + 13.6%

Stock data (as on January 12, 2024)

Nifty	21,895
52 Week h/l (Rs)	1555 / 1016
Market cap (Rs/USD mn)	4020700 / 48526
Outstanding Shares (mn)	2,708
6m Avg t/o (Rs mn):	2,988
Div yield (%):	3.9
Bloomberg code:	HCLT IN
NSE code:	HCLTECH

Stock performance



	1M	3M	1Y
Absolute return	12.5%	22.7%	43.0%

Shareholding pattern (As of Sep'23 end)

Promoter	60.8%
FII+DII	34.5%
Others	4.5%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	1,750	1,388

Δ in earnings estimates

	FY24E	FY25E	FY26E
EPS (New)	59.7	73.4	83.4
EPS (Old)	58.2	69.4	NA
% change	2.6%	5.7%	NA

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Net Revenue	1,107,601	1,274,190	1,443,441
YoY Growth	9.2%	15.0%	13.3%
EBIDTA	248,769	302,010	345,423
YoY Growth	9.9%	21.4%	14.4%
PAT	161,995	199,088	226,370
YoY Growth	9.1%	22.9%	13.7%
ROE	23.8%	26.5%	26.7%
EPS	60	73	83
P/E	25.8	21.0	18.5
BV	261	292	333
P/BV	5.9	5.3	4.6

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Exhibit 1: Quarterly snapshot Console: Operating performance improved for the quarter

Particulars(Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	yoy%	qoq%	9MFY24	9MFY23	yoy%
Sales (\$ mn)	3,244	3,235	3,200	3,225	3,415	5.3	5.9	9,840	9,351	5.2
Sales	267,000	266,060	262,960	266,720	284,460	6.5	6.7	814,140	748,500	8.8
EBITDA	63,650	58,630	53,870	59,440	67,580	6.2	13.7	180,890	167,660	7.9
EBITDA %	23.8	22.0	20.5	22.3	23.8	-8 bps	147 bps	22.2	22.4	-18 bps
Depreciation	11,360	10,270	9,270	10,100	11,430	0.6	13.2	30,800	31,170	-1.2
EBIT	52,290	48,360	44,600	49,340	56,150	7.4	13.8	150,090	136,490	10.0
EBIT Margin %	19.6	18.2	17.0	18.5	19.7	15 bps	124 bps	18.4	18.2	20 bps
Other income	1410.0	3970.0	2580.0	2090.0	2300.0	63.1	10.0	6,970	5,150	35.3
PBT	53,730	51,930	46,960	51,280	58,740	9.3	14.5	156,980	142,950	9.8
Tax	12,760	12,140	11,650	12,950	15,230	19.4	17.6	39,830	34,280	16.2
PAT	40,970	39,790	35,310	38,330	43,510	6.2	13.5	117,150	108,670	7.8
Minority Interest	0	-20	-30	10	10	#DIV/0!	0.0	-10	-30	-66.7
Net Income after MI	40,970	39,810	35,340	38,320	43,500	6.2	13.5	117,160	108,700	7.8
NPM (%)	15.3	15.0	13.4	14.4	15.3	-5 bps	92 bps	14.4	14.5	-13 bps

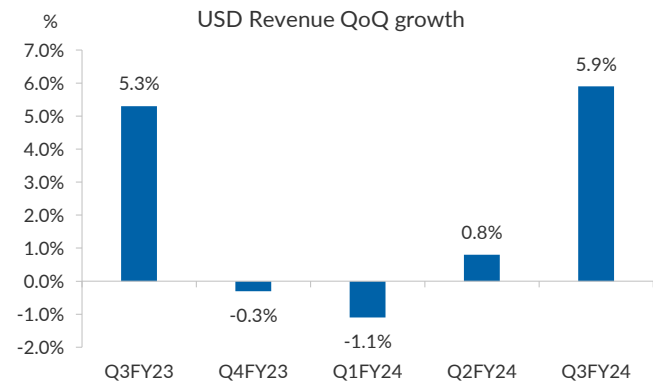
Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- Revenue growth was due to ramping up of deals signed during previous quarters and execution of vendor consolidation deals.
- Deal bookings were sequentially softer due to 1 mega deal signed in Q2FY24. Deal bookings in YTD terms grew 10% YoY in cc.
- Deal Pipeline remain robust with well diversified long tenure and medium tenure deals.
- Won 18 large deals during Q3FY24. 6 large deals in Services Segment and 12 large deals in Software Segment.
- EBIT Margins improved despite impact of wage hikes and seasonal furloughs. Impact of wage hikes were 25bps to overall margins.
- HCL Software ARR stood at \$1.06Bn (up 2.9% YoY cc terms), Software segment grew 5.0% YoY in cc terms.
- Americas grew 3.1% QoQ in cc terms and Europe grew 5.0% QoQ in cc terms despite macroeconomic uncertainties.
- ROIC on LTM basis stood at 32.8% (up 301 bps YoY) and for services segment stood at 40.1% (up 273 bps YoY).
- Expecting to end FY24 with strong deal bookings and healthy growth momentum.
- Q4FY24 is expected to have revenue growth momentum due to reversal of furloughs and traction in demand environment due to changing macros.

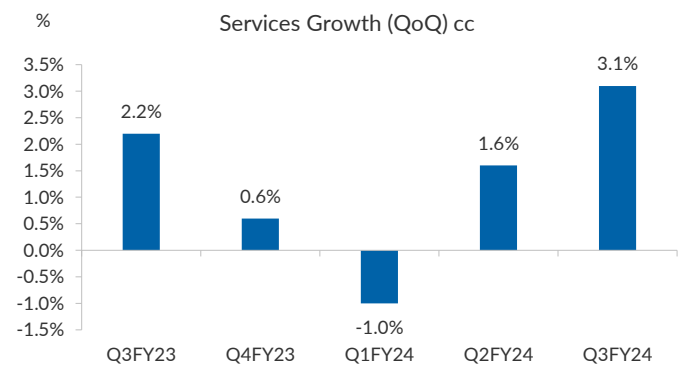
STORY IN CHARTS

Exhibit 2: USD QoQ growth was led by ramping up of deal execution



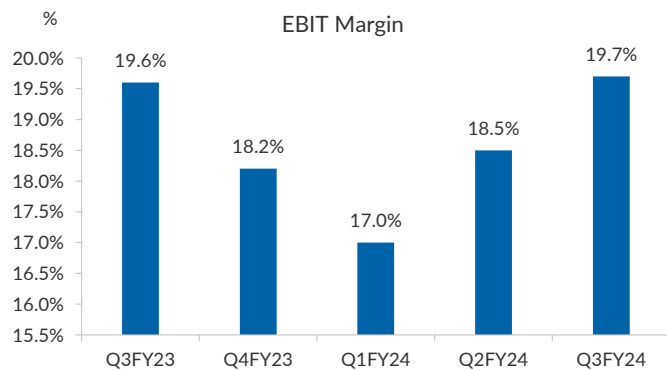
Source: Company, YES Sec

Exhibit 3: Services continue to grow inline with industry trend



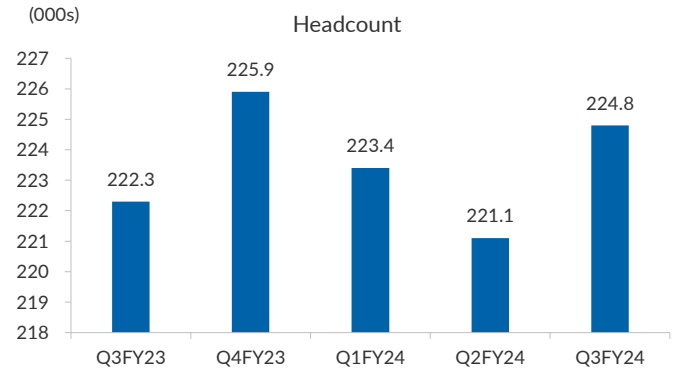
Source: Company, YES Sec

Exhibit 4: EBIT Margins improved due to decrease in SG&A Expenses



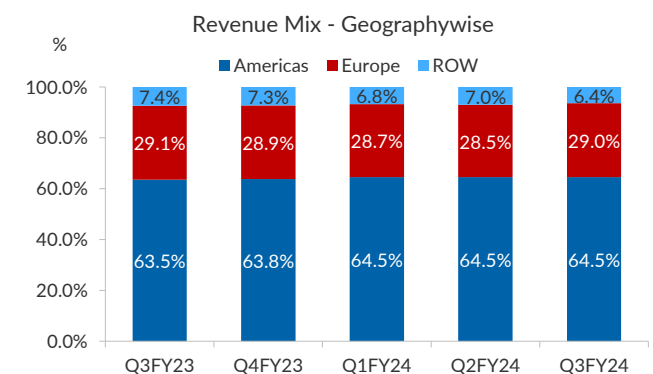
Source: Company, YES Sec

Exhibit 5: Headcount increased during the quarter



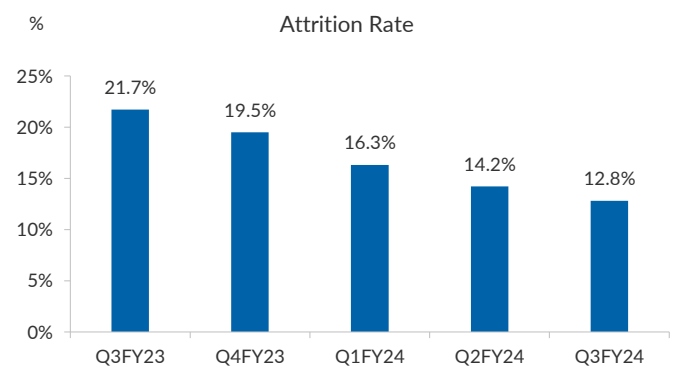
Source: Company, YES Sec

Exhibit 6: Americas dominate revenue mix



Source: Company, YES Sec

Exhibit 7: Attrition rate continues to decline



Source: Company, YES Sec

FINANCIALS

Exhibit 8: Balance Sheet

Y/e March 31 (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share capital	5,430	5,430	5,430	5,430	5,430	5,430
Reserves & surplus	593,700	613,710	648,620	702,069	787,193	896,887
Shareholders' funds	599,130	619,140	654,050	707,499	792,623	902,317
Non-current liabilities	87,290	82,520	65,820	66,671	67,738	69,032
Long-term borrowings	38,280	39,230	21,110	20,055	19,052	18,099
Other non-current liabilities	49,010	43,290	44,710	46,617	48,686	50,933
Current liabilities	173,830	187,750	214,310	217,473	231,320	246,199
ST borrowings, Curr maturity	0	620	1,400	1,442	1,485	1,530
Other current liabilities	173,830	187,130	212,910	216,031	229,835	244,669
Total (Equity and Liabilities)	861,940	890,330	934,110	991,743	1,091,786	1,217,667
Non-current assets	431,430	409,920	398,340	429,966	440,278	447,131
Fixed assets (Net block)	202,650	177,890	160,920	177,666	185,938	190,549
Non-current Investments	890	1,030	1,100	1,100	1,100	1,100
Other non-current assets	227,890	231,000	236,320	251,200	253,239	255,482
Current assets	430,510	480,410	535,770	561,777	651,508	770,536
Cash & current investment	156,610	188,750	201,090	184,605	227,435	297,946
Other current assets	273,900	291,660	334,680	377,172	424,073	472,590
Total (Assets)	861,940	890,330	934,110	991,743	1,091,786	1,217,667

Source: Company, YES Sec

Exhibit 9: Income Statement

Y/e March 31 (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	753,790	856,510	1,014,560	1,107,601	1,274,190	1,443,441
Operating expenses	(553,230)	(654,590)	(788,270)	(858,832)	(972,180)	(1,098,017)
EBITDA	200,560	201,920	226,290	248,769	302,010	345,423
Depreciation	(39,850)	(40,190)	(41,440)	(42,592)	(51,199)	(57,999)
EBIT	160,710	161,730	184,850	206,177	250,811	287,424
Other income	6,440	8,260	10,030	9,411	9,434	8,485
Profit before tax	167,150	169,990	194,880	215,588	260,246	295,909
Tax (current + deferred)	(36,630)	(34,430)	(46,420)	(53,603)	(61,158)	(69,539)
Reported Profit / (Loss)	130,080	135,150	148,510	161,995	199,088	226,370
Adjusted net profit	130,080	135,150	148,510	161,995	199,088	226,370

Source: Company, YES Sec

Exhibit 10: Cash Flow Statement

Y/e March 31 (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	167,150	169,990	194,880	215,588	260,246	295,909
Depreciation	39,850	40,190	41,440	42,592	51,199	57,999
Change in working capital	(53,660)	(4,190)	(26,360)	(40,600)	(34,478)	(35,230)
Total tax paid	(23,130)	(33,830)	(39,060)	(64,480)	(58,794)	(66,938)
Others	(5,980)	(4,980)	(9,120)	(9,201)	(8,274)	(7,325)
Cash flow from operations (a)	124,230	167,180	161,780	143,899	209,898	244,415
Capital expenditure	(25,140)	(15,430)	(24,470)	(59,338)	(59,471)	(62,610)
Change in investments	2,040	5,200	8,470	(2,693)	(2,827)	(2,968)
Others	3,840	4,070	16,060	7,348	6,236	5,083
Cash flow from investing (b)	(19,260)	(6,160)	60	(54,682)	(56,062)	(60,495)
Free cash flow (a+b)	104,970	161,020	161,840	89,217	153,836	183,920
Equity raised/(repaid)	0	0	0	0	0	0
Debt raised/(repaid)	(8,650)	1,570	(17,340)	(1,014)	(959)	(908)
Dividend (incl. tax)	(32,560)	(113,890)	(129,950)	(108,537)	(113,964)	(116,677)
Others	(24,640)	(11,220)	6,330	1,156	1,090	1,208
Cash flow from financing (c)	(65,850)	(123,540)	(140,960)	(108,394)	(113,833)	(116,377)
Net change in cash (a+b+c)	39,120	37,480	20,880	(19,177)	40,003	67,543

Source: Company, YES Sec

Exhibit 11: Ratio Analysis

Y/e March 31	FY21	FY22	FY23	FY24E	FY25E	FY26E
Growth(%)						
Revenue Growth	6.7	13.6	18.5	9.2	15.0	13.3
EBITDA Growth	20.1	0.7	12.1	9.9	21.4	14.4
EBIT Growth	16.0	0.6	14.3	11.5	21.6	14.6
Net Profit Growth	17.6	3.9	9.9	9.1	22.9	13.7
Profitability Ratios(%)						
EBITDA Margin	26.6	23.6	22.3	22.5	23.7	23.9
EBIT margin	21.3	18.9	18.2	18.6	19.7	19.9
Net Profit margin	17.3	15.8	14.6	14.6	15.6	15.7
RoA	19.0	18.5	20.3	21.4	24.1	24.9
RoE	23.4	22.2	23.3	23.8	26.5	26.7
RoCE	24.8	23.2	26.0	27.5	30.6	31.3
Liquidity Ratios						
Net debt/Equity (x)	(0.2)	(0.2)	(0.3)	(0.2)	(0.3)	(0.3)
Current ratio (x)	2.5	2.6	2.5	2.6	2.8	3.1
Quick ratio (x)	2.5	2.6	2.5	2.6	2.8	3.1
Valuation Ratios						
PER(x)	NA	21.5	28.2	25.8	21.0	18.5
PCE(x)	NA	16.6	22.0	20.4	16.7	14.7
Price/Book(x)	NA	4.7	6.4	5.9	5.3	4.6
EV/EBITDA(x)	NA	13.7	17.7	16.2	13.2	11.3

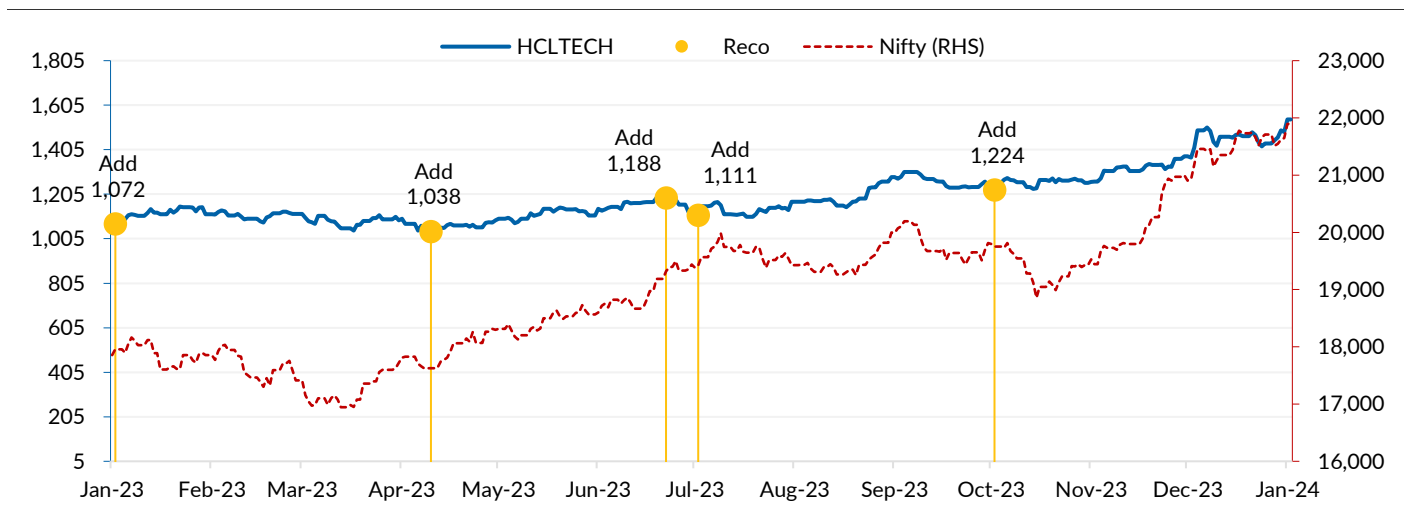
Source: Company, YES Sec

Exhibit 12: Dupont Analysis

Dupont Analysis	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net margin(%)	17.3	15.8	14.6	14.6	15.6	15.7
Asset turnover (x)	0.9	1.0	1.1	1.2	1.2	1.3
Leverage factor (x)	1.5	1.4	1.4	1.4	1.4	1.4
Return on Equity(%)	23.4	22.2	23.3	23.8	26.5	26.7

Source: Company, YES Sec

Recommendation Tracker



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YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.