

Weak guidance for FY25E; Focus on leveraging GenAI model

HCL Tech reported Q4FY24 revenues at \$3,430mn, up 0.3% QoQ and 6.0% YoY in cc terms. In USD terms, reported revenue was up 0.4% QoQ and 6.0% YoY. INR revenue stood at INR285bn, up 0.2% sequentially and 7.1% YoY. FY24 revenues stood at \$13,270mn, up 5.0% YoY in cc terms and 5.4% YoY in USD terms driven by good momentum in Services business i.e. 5.4% YoY cc growth which is fastest in the industry. INR revenues stood at INR1,099.1bn, up 8.3% YoY. FY24 Order Book TCV (new deal wins) stood at \$9,759mn (+10.0%), consisting of 36 large deals in Services and 37 in Software. PAT for the full year came in at INR1575bn (+5.7% YoY) with EPS at INR58.

- **Organizational changes in FY25E:** HCLT has announced few organizational changes i.e. integrating its Engineering and R&D services with IT and Business services. It has an integrated go-to-market structure and this is aligned with the increasing demand of clients seeking strategic partners with comprehensive capabilities across engineering and IT services. This will enable a broader reach of its ERD capabilities across all geographies, all the verticals which will accelerate the growth for its Engineering business and IT and Business services segment as well. Going into FY25E, there has been role changes of three leaders in view of this integration.
- **Outlook for FY25E:** The Services business delivered an outstanding performance by growing 5.4% YoY in cc attributed to 12.1% growth in Financial services. Digital cc revenue was up 5.3% driven by cloud transformation and cybersecurity and contributed 37.3% to annual revenues. The software business delivered a 2.3% cc YoY growth by focusing on subscription and software revenue. An ARR growth slowdown will be seen in coming years on the back of decisions made to discontinue some small parts in Telecom product portfolio. Management is seeing a lot of traction on AI and GenAI related opportunities where clients are seeking realistic benefits. Company is channeling its efforts to get people trained on GenAI to ensure they are able to deliver software development in the most effective way possible. Management believes FY25E would be a year of consolidation both on demand and supply side where clients would be consolidating their tech spends. It would be invested back into AI and other emerging technologies that drive productivity, resilience and business growth. Company has guided for a weaker 3-5% cc YoY growth for FY25E led by negative Q1 growth due to an annual production passback activity and an offshoring impact in one of the largest FSBs.
- **Margins to remain range-bound:** Operating margins for the year came at 18.2%, flat YoY. Margins fell in Q4 due to a seasonal impact in software business. However, management expects margins to remain in the 18-19% range for FY25E as well.

Valuation: Going ahead, global enterprise technology spend will only grow with adoption of AI. HCLT is well positioned to capitalize with its AI-led propositions, Global delivery model and ideal mix of technology services and products. We maintain our rating to **BUY** with a revised target price of INR1,550 implying a PE of 21.5x on FY26E EPS of INR72.1.

Financial Snapshot

Year end: March	FY22	FY23	FY24	FY25E	FY26E
Revenue (USD Mn.)	11,482	12,586	13,270	13,909	15,415
Revenue (INR Mn.)	8,56,510	10,14,560	10,99,130	11,55,627	12,80,768
Gross Profit (INR Mn.)	2,56,000	2,92,210	3,10,580	3,31,458	3,71,554
EBIT (INR Mn.)	1,62,030	1,84,830	2,00,250	2,13,584	2,44,451
EBIT Margin (%)	18.9	18.2	18.2	18.5	19.1
EPS (INR)	49.8	54.9	58.0	62.3	72.1

Source: Company, CEBPL

Apr 28, 2024

CMP (Rs.)	1,427
Target Price (Rs.)	1,550
Potential Upside (%)	5.4

Company Info

BB Code	HCLT IN EQUITY
ISIN	INE860A01027
Face Value (Rs.)	2.0
52 Week High (Rs.)	1,696.5
52 Week Low (Rs.)	1,048.0
Mkt Cap (Rs bn.)	3,995.3
Mkt Cap (\$ bn.)	47.9
Shares o/s (Mn.)/Float	2,713.7/39
FY24 EPS (Rs.)	58.0
FY26E EPS (Rs.)	72.1

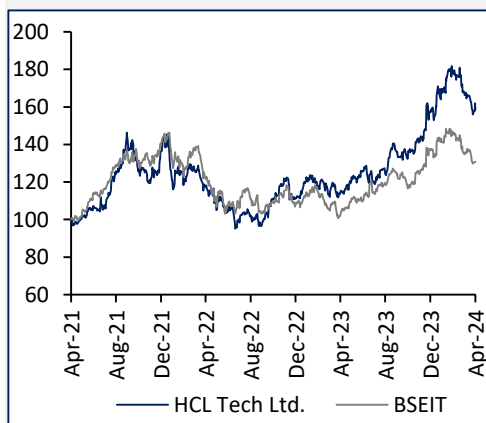
Shareholding Pattern (%)

	Mar-24	Dec-23	Sep-23
Promoters	60.82	60.82	60.82
FII's	19.65	19.42	18.80
DII's	14.95	15.12	15.62
Public	4.58	4.64	4.76

Relative Performance (%)

YTD	3Y	2Y	1Y
BSE IT	30.8	6.9	27.9
HCL TECH	58.6	34.6	38.2

Rebased Price Performance



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Sequential Operating Performance

	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
Income Statement						
Revenues (USD Mn.)	3,244	3,235	3,200	3,225	3,415	3,430
Revenues (INR Mn.)	2,67,000	2,66,060	2,62,960	2,66,720	2,84,460	2,84,990
Gross Profit (INR Mn.)	80,180	75,920	71,190	75,090	85,020	79,280
Gross Margin (%)	30.0	28.5	27.1	28.2	29.9	27.8
EBIT (INR Mn.)	52,280	48,360	44,380	49,190	56,440	50,240
EBIT Margin (%)	19.6	18.2	16.9	18.4	19.8	17.6
PAT (INR Mn.)	40,960	39,790	35,280	38,320	43,500	39,860
Basic EPS (INR)	15.1	14.7	13.0	14.2	16.1	14.7
Operating Metrics						
Revenue Geographical (%)						
America	63.5	63.8	64.5	64.5	64.5	65.2
Europe	29.1	28.9	28.7	28.5	29.0	28.9
Rest Of World	7.4	7.3	6.8	7.0	6.5	5.9
Total	100.0	100.0	100.0	100.0	100.0	100.0
Revenue by Verticals (%)						
Financial Services	19.9	21.2	22.6	22.6	21.7	21.6
Manufacturing	19.7	19.0	19.9	19.3	20.0	20.4
Technology & Services	14.8	14.4	13.4	13.1	12.8	12.3
Retail & CPG	8.9	9.0	9.1	9.6	9.6	9.1
Teleco, Media, Publishing & Entertainment	9.4	8.8	7.6	8.0	9.7	11.5
Lifesciences & Healthcare	17.1	17.5	17.5	17.5	16.4	16.3
Public Services	10.2	10.2	10.0	9.9	9.8	8.8
Others	-	-	-	-	-	-
Total	100.0	100.0	100.0	100.0	100.0	100.0
Revenue from Business Segments (%)						
IT and Business Services	71.7	73.8	74.7	74.6	71.7	74.4
Engineering and R&D Services	16.5	16.1	15.4	16.0	16.4	16.1
HCL Software	11.8	10.1	9.9	9.4	11.9	9.5
Total	100.0	100.0	100.0	100.0	100.0	100.0
Employee Metrics						
Total Headcount	2,22,270	2,25,944	2,23,438	2,21,139	2,24,756	2,27,481
Attrition Rate LTM (%)	21.7	19.5	16.3	14.2	12.8	12.4

Source: Company, CEBPL

CEBPL Estimates vs Actual for Q4FY24

HCL Tech (INR Mn.)	Q4FY24	Q4FY23	YoY(%)	Q3FY24	QoQ (%)	CEBPL Est.	Dev. (%)
Revenues (\$ mn.)	3,430	3,235	6.0	3,415	0.4	3,467	(1.1)
Revenues	2,84,990	2,66,060	7.1	2,84,460	0.2	2,88,809	(1.3)
Employee Cost	1,63,510	1,46,650	11.5	1,58,620	3.1		
Gross Profit (INR mn.)	79,280	75,920	4.4	85,020	(6.8)	83,275	(4.8)
Gross Margin (%)	27.8	28.5	(72) bps	29.9	(207) bps	28.8	(102) bps
Other costs	18,110	17,290	4.7	17,150	5.6		
Depreciation	10,930	10,270	6.4	11,430	(4.4)		
EBIT (INR mn.)	50,240	48,360	3.9	56,440	(11.0)	53,817	(6.6)
EBIT Margin (%)	17.6	18.2	(55) bps	19.8	(221) bps	18.6	(101) bps
Other Income	4,160	4,530	(8.2)	3,700	12.4		
Interest	1,710	940	81.9	1,400	22.1		
PBT (INR mn.)	52,690	51,950	1.4	58,740	(10.3)		
Tax	12,740	12,140	4.9	15,230	(16.3)		
Adj. PAT (INR mn.)	39,860	39,790	0.2	43,500	(8.4)	42,657	(6.6)
Basic EPS (INR)	14.7	14.7	0.1	16.1	(8.3)	15.8	(6.5)

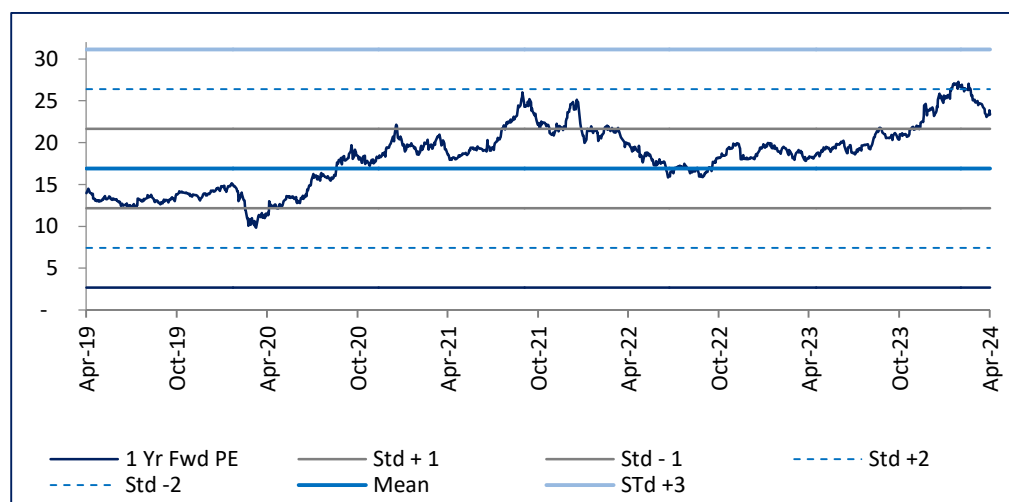
Source: Company, CEBPL

Change in Estimates

Income Statement (INR Mn.)	FY25E			FY26E		
	Old	New	Dev. (%)	Old	New	Dev. (%)
Revenues (USD Mn.)	14,691	13,909	(5.3)	16,348	15,415	(5.7)
Revenues	12,23,745	11,55,627	(5.6)	13,61,725	12,80,768	(5.9)
Gross Profit Margin (%)	29.2	28.7	(49) bps	29.6	29.0	(57) bps
EBIT	2,32,222	2,13,584	(8.0)	2,67,711	2,44,451	(8.7)
EBIT Margin (%)	19.0	18.5	(49) bps	19.7	19.1	(57) bps
EPS	68.2	62.3	(8.6)	79.5	72.1	(9.3)

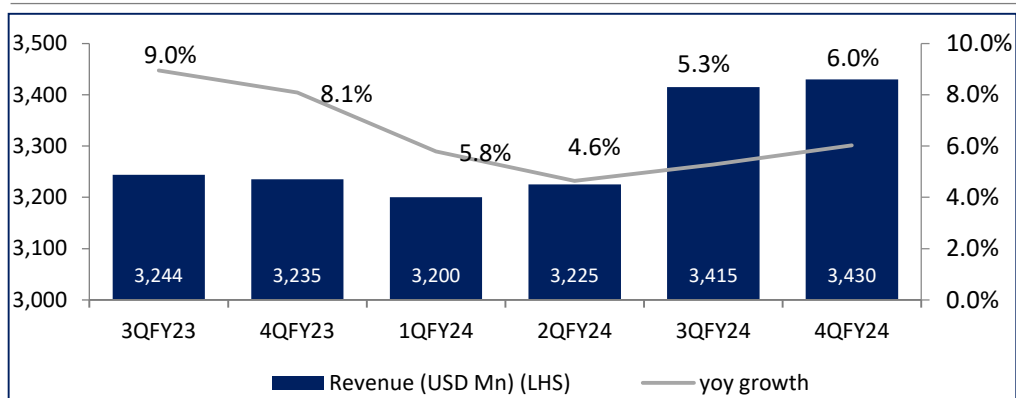
Source: Company, CEBPL

Historical 1 Yr Fwd PE Band



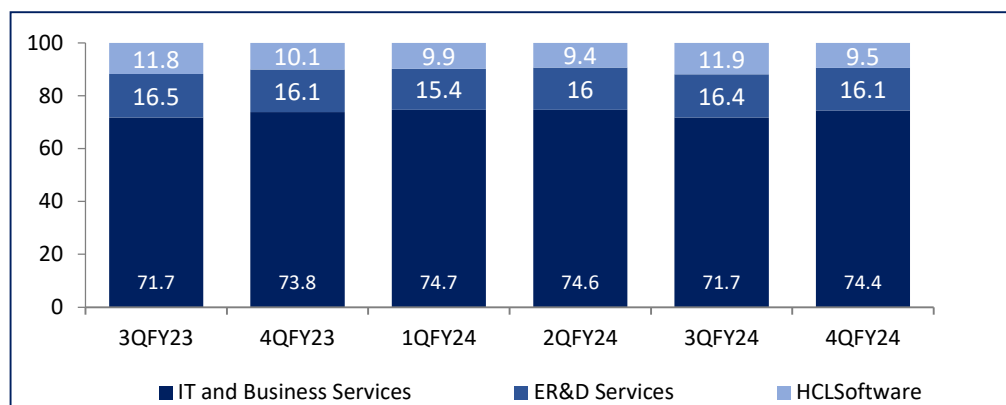
Source: Company, CEBPL

Revenue growth trend



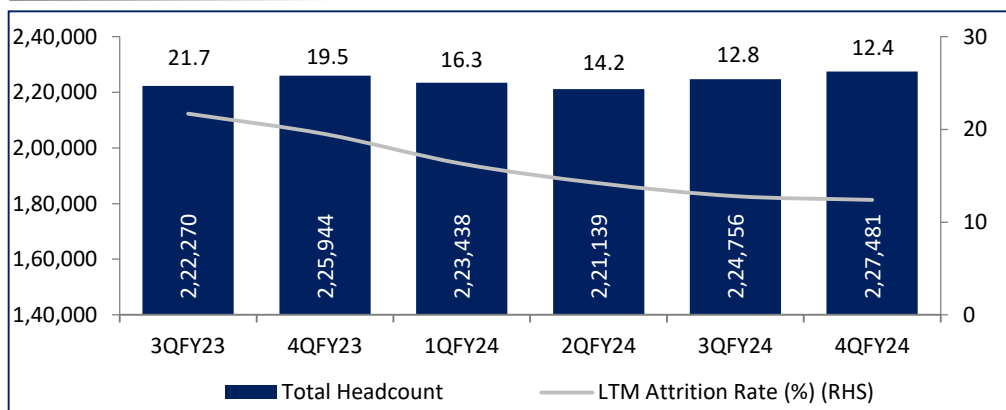
Source: Company, CEBPL

IT and Business Services segment inching up its revenue share



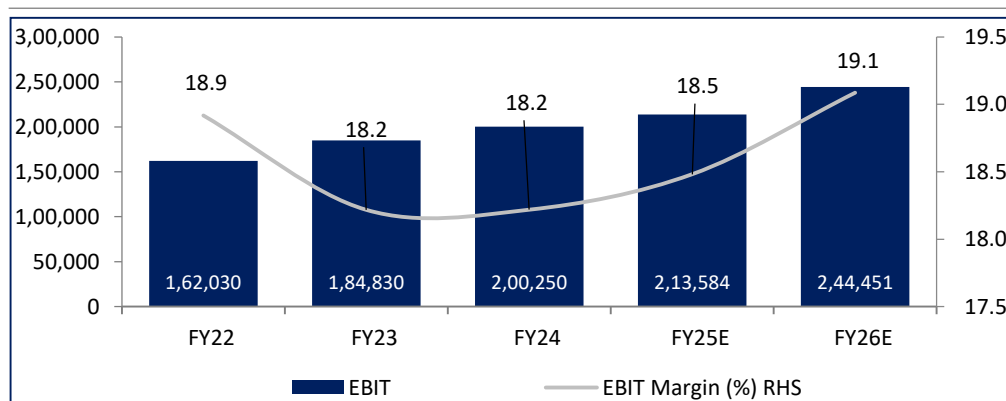
Source: Company, CEBPL

Positive net addition this quarter



Source: Company, CEBPL

EBIT margins to remain rangebound



Source: Company, CEBPL

Management Call - Highlights

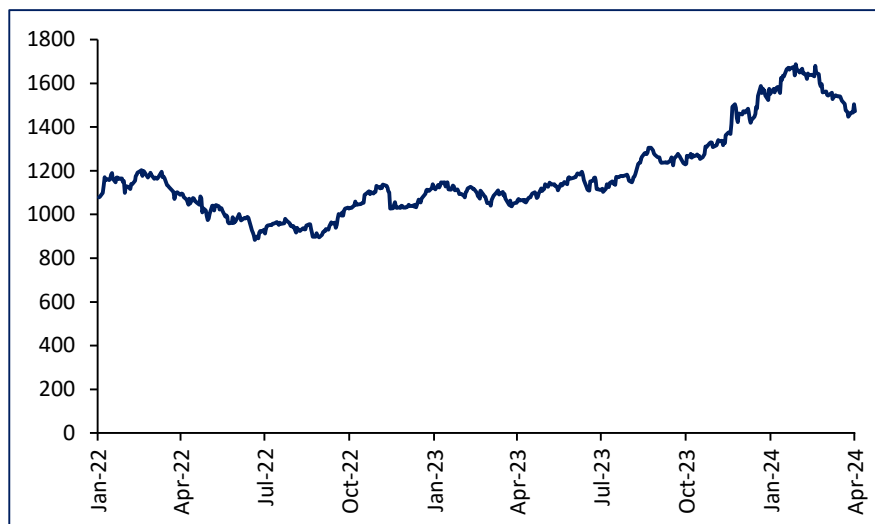
- IT and business services experienced a 6.2% YoY growth, while engineering services saw a decline of 1.6% YoY in cc. Despite a slowdown in discretionary spending, its digital foundation, digital process outsourcing, and overall digital services portfolio contributed to the YoY growth. Specifically, its digital growth reached 5.3% YoY and now accounts for 37.3% of its revenue.
- The software business experienced a 2.3% YoY growth in cc. Notably, this sector has achieved significant strategic advancements by prioritizing subscription and support revenue, leading to a consistent increase in annual recurring revenue. Specifically, the subscription and support revenue share has risen from 78.8% in FY23 to 83.8% in FY24.
- Its geographic growth was spearheaded by the America, the largest among its IT services geographies, achieved a robust 6.8% YoY growth in cc. Following closely, Europe exhibited a 5.5% YoY growth in cc. However, the rest of the world experienced a decline of 7.1% YoY in cc.
- HCLTech has expanded its clientele significantly, particularly in the high-value segment. The company added 3 new customers to the \$100mn category, bringing the total to 22 clients in this bracket. Additionally, there has been notable growth in the \$20mn category, with 137 clients now onboard, representing an increase of 6 clients on a YoY basis.
- Employee headcount stood at 227,481 as of Q4FY24, net addition of 2,725. Voluntary LTM attrition rate dropped to 12.4% v/s 19.5% in Q4FY23.
- The board declared an interim dividend of INR18 per share bringing the total dividend to INR52 per share for FY24.
- HCL Tech's annual bookings have reached \$9.759bn, marking a notable 10.2% growth compared to FY23. Throughout the year, the company secured a total of 73 large deals, with 21 of them sealed during this quarter across both products and services offerings.

Financial Summary (Consolidated in INR Mn.)

Income Statement (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Revenue (USD Mn.)	11,482	12,586	13,270	13,909	15,415
Revenue	8,56,510	10,14,560	10,99,130	11,55,627	12,80,768
Gross profit	2,56,000	2,92,210	3,10,580	3,31,458	3,71,554
EBITDA	2,05,290	2,26,280	2,41,980	2,58,654	2,93,427
Depreciation	43,260	41,450	41,730	45,069	48,976
EBIT	1,62,030	1,84,830	2,00,250	2,13,584	2,44,451
Other income	10,670	13,580	14,950	14,432	19,212
Interest expense	3,190	3,530	5,530	5,778	6,404
Reported PAT	1,34,990	1,48,510	1,57,020	1,68,701	1,95,317
EPS	49.8	54.9	58.0	62.3	72.1
Balance Sheet (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Tangible fixed assets	80,460	53,710	79,090	86,999	95,699
Goodwill & intangible assets	2,71,600	2,92,880	2,72,620	2,72,620	2,72,620
Investments	62,480	54,950	71,370	73,131	74,936
Cash & Cash equivalents	1,05,100	90,650	94,560	81,688	68,822
Other non-current assets	57,770	50,650	51,810	56,370	56,370
Other current assets	3,12,920	3,91,270	4,28,320	4,57,966	4,95,286
Total assets	8,90,330	9,34,110	9,97,770	10,28,774	10,63,732
Shareholder's funds	6,19,140	6,54,050	6,82,630	6,99,510	7,19,041
Minority interest	920	(70)	80	80	80
Borrowings	39,850	22,510	23,270	24,434	25,655
Lease Liabilities	23,580	25,350	34,290	36,005	37,805
Other non-current liabilities	26,700	28,070	42,180	43,631	45,197
Other current liabilities	1,80,140	2,04,200	2,15,320	2,25,115	2,35,954
Total equity & liabilities	8,90,330	9,34,110	9,97,770	10,28,774	10,63,732
Cash Flows (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Cash flows from Operations	1,69,000	1,80,090	2,24,480	1,82,362	2,06,820
Cash flows from Investing	14,770	(39,310)	(67,230)	(38,546)	(38,464)
Cash flows from financing	(1,45,080)	(1,58,810)	(1,54,640)	(1,56,688)	(1,81,222)
Ratio Analysis	FY22	FY23	FY24	FY25E	FY26E
Growth Ratios (%)					
Revenues	13.6	18.5	8.3	5.1	10.8
Gross Profit	3.8	14.1	6.3	6.7	12.1
EBITDA	2.4	10.2	6.9	6.9	13.4
EBIT	5.0	14.1	8.3	6.7	14.5
Margin Ratios (%)					
Gross Profit Margin	29.9	28.8	28.3	28.7	29.0
EBITDA Margin	24.0	22.3	22.0	22.4	22.9
EBIT Margin	18.9	18.2	18.2	18.5	19.1
Profitability (%)					
Return on equity	21.7	24.0	24.0	24.7	27.9
Return on invested capital	20.2	21.6	21.4	22.2	24.0
Return on capital employed	18.4	19.6	19.5	20.5	22.8
Valuation					
OCF / Net profit (%)	125.2	121.3	143.0	108.1	105.9
EV / EBITDA (x)	16.6	10.7	10.0	9.4	8.4
Book Value per share (x)	328.2	345.0	368.5	379.9	392.9
Free Cash flow yield (%)	4.4	6.7	8.7	5.3	6.1

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.	18-03-2024	Buy,	Target Price 1,670
12.	28-04-2024	Buy,	Target Price 1,550

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BUY	The security is expected to generate greater than 5% to less than 25% returns over the next 12 months
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