

Slight miss in services revenue in FY23; 6.5-8.5% CC growth guidance for FY24

About the stock: HCL Technologies (HCLT) offers IT, ER&D and products to BFSI, retail, health, telecommunication, manufacturing, media & hi-tech verticals.

- HCL Tech has 250 Fortune 500 and 650 global 2000 clients
- It has grown organically and inorganically (14.9% CAGR over FY18-23)

Q4FY23 Results: HCLT reported steady Q4FY23 results.

- In CC terms on a QoQ basis, revenue declined 1.2%; IT Services increased 1.6%, ER&D declined 3.8% & P&P declined 14.6%
- EBIT margin at the company level declined ~150 bps QoQ to 18.1%
- Reported TCV of US\$2.1 billion (bn), down 11.6% QoQ

What should investors do? HCLT's share price has grown by ~2.1x over the past five years (from ~₹ 458 in April 2018 to ~₹ 1,050 levels in April 2023).

- We maintain our **BUY** rating on the stock

Target Price and Valuation: We value HCLT at ₹ 1220 i.e. 19x P/E on FY25E EPS.

Key triggers for future price performance:

- The company continues to win multiyear deals in Cloud transformation, cyber security, etc, as new deal bookings continue to be strong
- Guidance of FY24 for company revenue growth of 6-8% & services revenue growth of 6.5-8.5% provides visibility for steady growth
- With improvement in large deal wins, vendor consolidation opportunity, expansion in geographies, investment in sales & capabilities, we expect HCLT to register 9.8% CAGR in revenues over FY23-25E

Alternate Stock Idea: Apart from HCLT, in our IT coverage we also like Infosys.

- Key beneficiary of improved digital demand, industry leading revenue growth and healthy capital allocation prompt us to be positive
- BUY with target price of ₹ 1,600



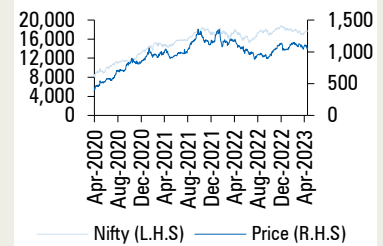
Particulars

Particular	Amount
Market Cap (₹ Crore)	2,84,764.7
Total Debt (₹ Crore)	2,111.0
Cash & Equivalent (₹ Crore)	20,109.0
EV (₹ Crore)	2,66,766.7
52 week H/L	1157 / 876
Equity capital	543.0
Face value	₹ 2

Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoters	60.3	60.7	60.7	60.8
FII	17.9	17.2	18.3	18.9
DII	15.5	16.6	15.9	15.3
Public	6.2	5.6	5.1	5.0

Price Chart



Recent Event & Key risks

- FY24 guidance: Revenue growth of 6-8%, Services growth of 6.5-8.5%, EBIT margin 18-19%
- **Key Risks:** (i) Lower than expected growth ii) Lower than expected margins

Research Analyst

Sameer Pardikar
sameer.pardikar@icicisecurities.com

Sujay Chavan
sujay.chavan@icicisecurities.com

Key Financial Summary

Key Financials	FY21	FY22	FY23	5 year CAGR (FY18-23)	FY24E	FY25E	2 year CAGR FY(23-25E)
Net Sales	75,379	85,651	1,01,456	14.9	1,11,462	1,22,329	9.8
EBITDA	19,482	20,041	22,628	14.6	24,744	27,035	9.3
Margins (%)	25.8	23.4	22.3		22.2	22.1	
Net Profit	12,435	13,516	14,851	11.1	15,914	17,463	8.4
EPS (₹)	45.8	49.8	54.8		58.7	64.4	
P/E	22.9	21.1	19.2		17.9	16.3	
RoNW (%)	20.8	21.8	22.7		23.2	24.8	
RoCE (%)	23.5	24.2	27.1		28.4	30.6	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

- Reported term:** The company reported rupee revenues of ₹ 26,606 crore, down 0.4% QoQ & up 17.7% YoY while dollar revenues came in at US\$3,235 million (mn), down 0.3% QoQ & up 8.1% YoY. IT Services reported revenue of US\$2,387 mn, up 2.6% QoQ. ER&D revenue declined 3.3% QoQ to US\$521 mn due to ramp down by certain clients while Software (P&P) revenue declined 14.1% QoQ to US\$343 mn due to seasonality impact. The company for the first time reported Annual Recurring Revenue (ARR) for software business, which is annualised value of all subscription licenses & SaaS contracts active on the last day of quarter. The company reported ARR value of US\$1,028.2 mn, up 5.2% YoY in CC terms & 3.6% in dollar terms
- In CC terms:** Revenue declined 1.2% QoQ. IT services revenue grew 1.6% QoQ while ER&D & Software business declined 3.8% & 14.6% QoQ
- Vertical wise, in CC terms, financial services (21.2% of mix) grew 6.9% QoQ and Lifescience (17.5% of mix) grew 3.6% QoQ while TMPE, Manufacturing & Hi-tech declined 5.6%, 3.5% & 1.6%, respectively, on a QoQ basis
- Geography wise in CC terms, America region (63.8% of mix) grew 1.8% QoQ while Europe (28.9% of mix) & RoW declined 1.4% & 1.9% QoQ, respectively
- At the company level, EBIT margin declined ~150 bps QoQ to 18.1% while IT services margin increased ~30 bps. The company indicated the following headwinds for decline in margins: i) -125 bps impact of software business decline & ii) -50 bps impact of decline in ER&D business mitigated by +30 impact due to cost efficiency levers
- For FY23, the company reported revenue of US\$12,586 mn, up 9.6% while in CC terms it grew 13.7%. IT services revenue grew 15.8% CC terms while in dollar terms the revenue came in at US\$9,187 mn, up 11%. The company for FY23 reported EBIT margin of 18.2% compared to 18.9% in FY22. IT services EBIT margin came in at 16.6% for FY23
- The company indicated that it started the year on a strong note but geopolitical issues, high inflation as well as high interest rate has deteriorated market sentiments in H2. HCLT indicated that despite these challenges, overall growth for the year was better. It was broad based across sectors and verticals. The company indicated that it crossed the milestone of ₹ 1 lakh crore revenue in FY23 and growth of 15.8% in CC for FY23 was completely organic. HCLT also indicated that it continues to gain market share in FY23 and has also aided strong growth. The company also indicated that at the company level in FY23, it witnessed minimum margin dilution among peers. HCLT mentioned ER&D revenue decline for the quarter largely pertains to project ramp-downs across its hi-tech & telecom clients. The company indicated that the pain likely to continue in Q1
- The company mentioned that since clients' budgets normally freeze in Q1CY23 and it does not have a visibility of its spending pattern. It does not see any incremental project ramp downs by clients in the near future beyond discretionary spending in nature. The company also indicated that budgets in tech and telecom sectors have been finalised and it is not seeing any pain. The company mentioned that in the BFSI vertical, there could be some pain in the banking subsector but spending patterns in investment banking & insurance continue to be strong. It also added that spending in a few verticals due to high inflation is under check

- The company indicated that IT infrastructure modernisation, data & analytics, cloud & cybersecurity continue to be key areas of investment from a client perspective as it has ever increased demand in the market. HCLT indicated it is well prepared for any cyclicalities in the business cycles and corresponding tech spends. The company mentioned that it is witnessing a delay in decision making from clients as well as few ramp downs but that largely pertains to discretionary spends. HCLT mentioned that clients are looking to optimise its costs. That is where cost take out deal opportunity pie is expanding. The company also indicated that in case of its large clients where there have been layoffs recently, it is not hiring resources at its end but is using external providers like HCL Tech for fulfilling demand. The company indicated that another leg of growth, which it is currently witnessing is in the form of business restructuring from a few of its large clients
- The company won 13 large deals in the quarter which include i) one mega deal that it won in September 2023. It has started execution in Q4. The execution started in the last month of Q4 and the full impact of this will be visible from Q1FY24 onwards ii) it won a large deal in the BFSI space in December 2023. The company indicated that deal execution for the same has started in Q1FY24 while it mentioned that the deal has started as per original plan and there is no delay
- The company indicated that it has minimal exposure to the regional banks, which are in financial trouble in the US region. HCLT indicated that its exposure to lower credit rating banks is <1% as per its internal assessment. The company indicated that it continues to increase market share in FY23 and that trend is likely to continue in FY24. In the BFSI space, it indicated that it registered three wins during the quarter across three geographies including two large deals. It also indicated that in its deal with a large capital market player, it is benefitting from vendor consolidation as it is consolidating its position with another player of one-third size that of HCL Tech. The company is also seeing a number of consolidation opportunities in the technology and telecom verticals where it is likely to consolidate with small players. HCLT is expecting to gain market share in the telecom space as all large telecom players are likely to increase their spending
- The company indicated that tax rate for FY23 was 23.9% but the tax rate for FY24 will be in the range of 25.5-26.5%. HCLT mentioned that higher tax rate is due to certain units moving to higher tax rate as well some units are coming out of tax benefits. The company mentioned that cash tax rate will be in the range of 20.5% to 21.5% as it continues to pay MAT in India and also mentioned that there is MAT credit available with it, which is to the tune of US\$225 mn, 50% of which would be used in FY24 and the rest in FY25
- The company indicated that customers who have expanded digital landscape and in cloud transformation journey, are now looking to optimise their spend on cloud. HCLT also indicated it is now making some changes in its operations to facilitate the same. The company also indicated that it is not discretionary in nature and is run to business opportunity. It further mentioned that it is also visible in the product business
- The company indicated that Europe region is not performing for them despite strong bookings there due to slower decision making. The company indicated that pipeline continue to be strong there and expects a recovery in the region from Q2FY24 onwards. The company mentioned that in the US region it sees a continuance of its programs
- The company indicated that ER&D business lost US\$18-19mn revenue for the quarter due to client ramp downs. HCLT indicated that margins also were down in ER&D as the company carry costs despite ramp down from clients

- The company continued to win TCV in its aspired ranged of US\$2-2.5 bn and in Q4 it won TCV of US\$2.1 bn, down 11.6% QoQ and 8.2% YoY
- The company during the quarter added 3,674 net new employees taking the total employee count to 225,944. The company during the quarter added 4,480 freshers taking the fresher hiring to 26,734 for FY23, which was lower than the guided range of 30-35 freshers. For FY23, the company added 17,067 net new employees compared to 39,900 net employees' additions in FY22
- LTM attrition of the company declined 220 bps QoQ to 19.5%
- The company declared a final dividend of ₹ 18 per share bringing total dividend payout for FY23 to ₹ 48 per share. HCLT indicated that the dividend payout for FY23 came in at 87.5% and also mentioned that it has fixed April 28 as the record date for determining the eligible shareholders for payment of dividend

Exhibit 1: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Revenue	26,606	26,504	22,597	17.7	26,700	-0.4	In CC terms, IT services revenue grew by 1.6% QoQ while ER&D and Software business reported decline of 3.8% & 14.6%. At company level the revenue declined by 1.2% QoQ in CC terms
Cost of sales (including employee expenses)	17,327	17,148	14,672	18.1	17,135	1.1	
Gross Margin	9,279	9,356	7,925	17.1	9,565	-3.0	
Gross margin (%)	34.9	35.3	35.1	-20 bps	35.8	-95 bps	
Selling & marketing costs	3,416	3,340	2,872	18.9	3,200	6.8	
EBITDA	5,863	6,016	5,053	16.0	6,365	-7.9	
EBITDA Margin (%)	22.0	22.7	22.4	-32 bps	23.8	-180 bps	
Depreciation	1,027	1,200	984	4.4	1,136	-9.6	
EBIT	4,836	4,816	4,069	18.8	5,229	-7.5	
EBIT Margin (%)	18.2	18.2	18.0	17 bps	19.6	-141 bps	headwinds for decline in margins: i) -125 bps impact of software business decline & ii) -50 bps impact of decline in ER&D business mitigated by +30 impact due to cost efficiency levers
Other income	357	144	252	41.7	144	147.9	
PBT	5,193	4,960	4,321	20.2	5,373	-3.4	
Tax paid	1,214	1,240	721	68.4	1,276	-4.9	
PAT	3,983	3,719	3,594	10.8	4,096	-2.8	

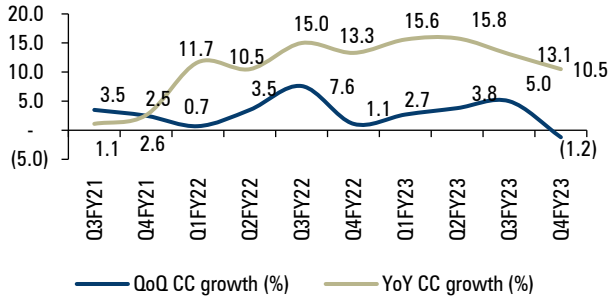
Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY24E			FY25E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	1,13,139	1,11,462	-1.5	1,21,172	1,22,329	1.0	
EBIT	20,537	20,494	-0.2	22,390	22,580	0.8	
EBIT Margin (%)	18.2	18.4	24 bps	18.5	18.5	-2 bps	
PAT	16,052	15,914	-0.9	17,320	17,463	0.8	
EPS (₹)	59.2	58.7	-0.9	63.9	64.4	0.8	

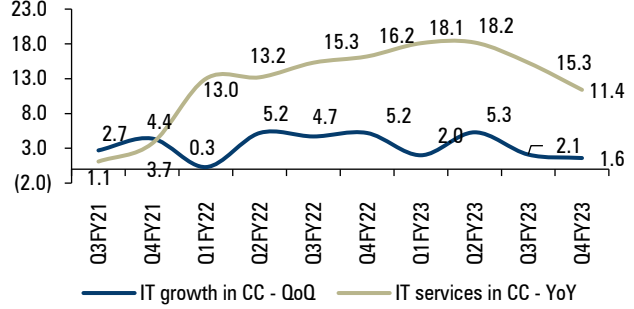
Source: Company, ICICI Direct Research

Exhibit 3: Ramp down in ER&D impacts Q4 revenue



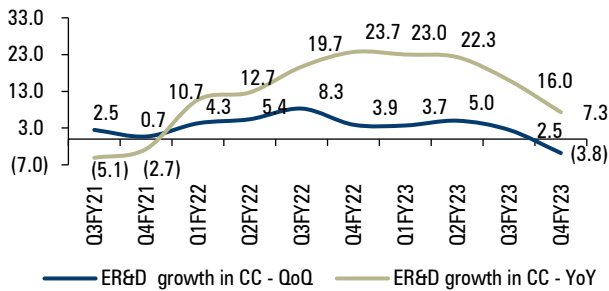
Source: Company, ICICI Direct Research

Exhibit 4: IT services report mild slowdown



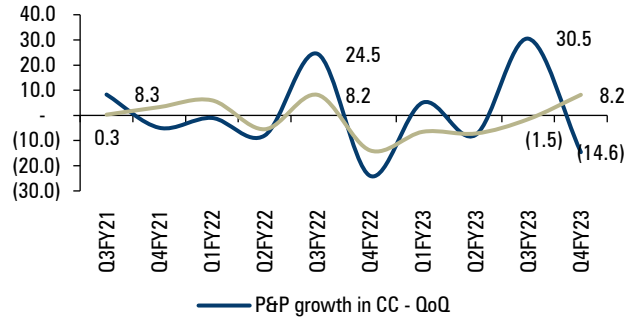
Source: Company, ICICI Direct Research

Exhibit 5: ER&D impacted by ramp down of certain clients in Hitech & Telecom



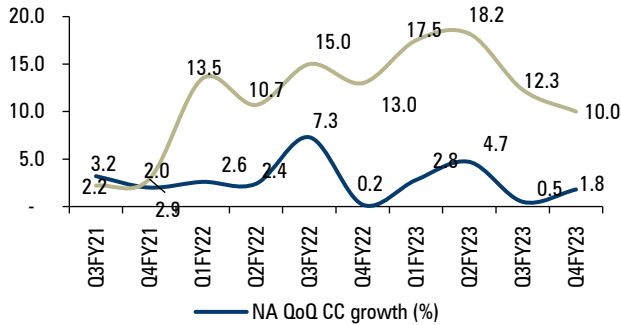
Source: Company, ICICI Direct Research

Exhibit 6: Seasonality in P&P for Q4



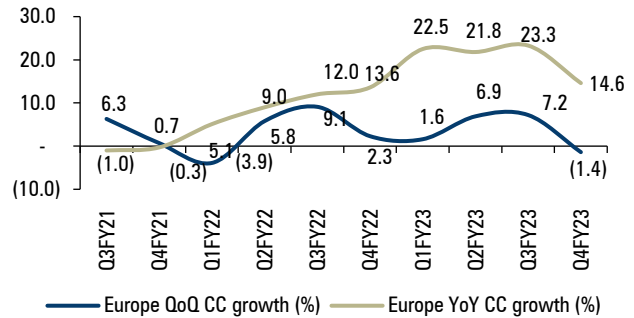
Source: Company, ICICI Direct Research

Exhibit 7: North America steady despite uncertainties



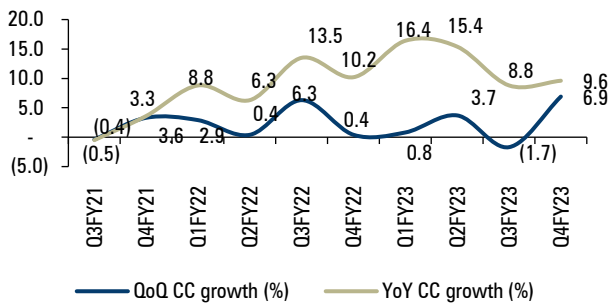
Source: Company, ICICI Direct Research

Exhibit 8: While Europe sees some moderation



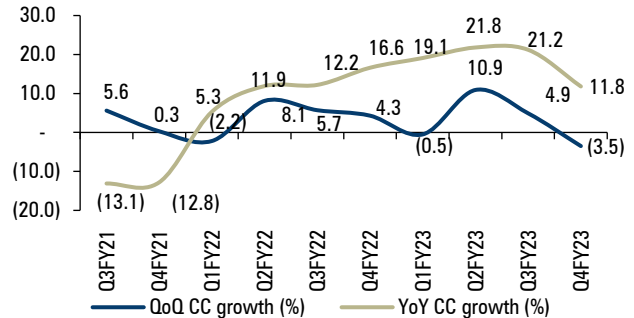
Source: Company, ICICI Direct Research

Exhibit 9: BFSI sees reversal in Q4



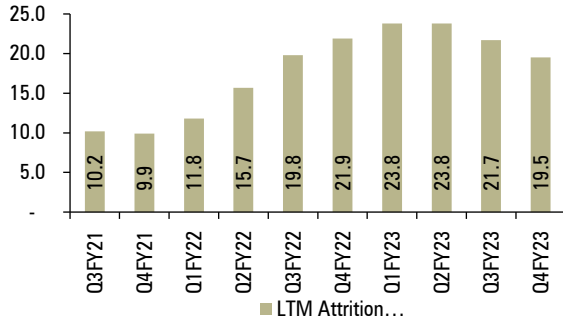
Source: Company, ICICI Direct Research

Exhibit 10: While manufacturing was down



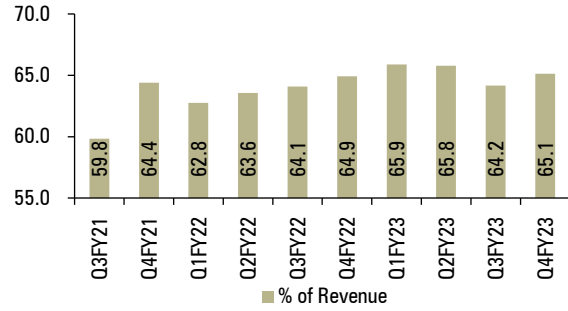
Source: Company, ICICI Direct Research

Exhibit 11: Attrition continues to moderate



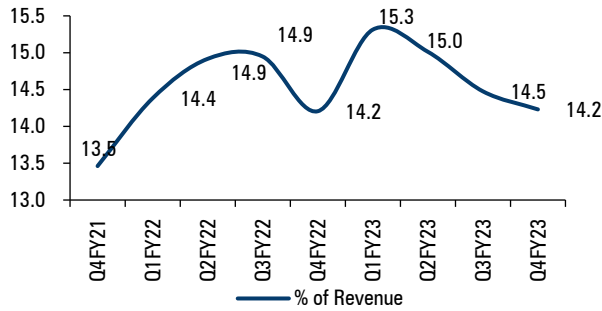
Source: Company, ICICI Direct Research

Exhibit 12: Employee costs increase slightly



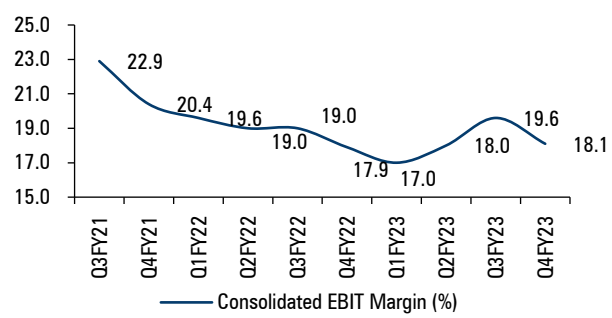
Source: Company, ICICI Direct Research

Exhibit 13: While outsourcing costs continue to decline



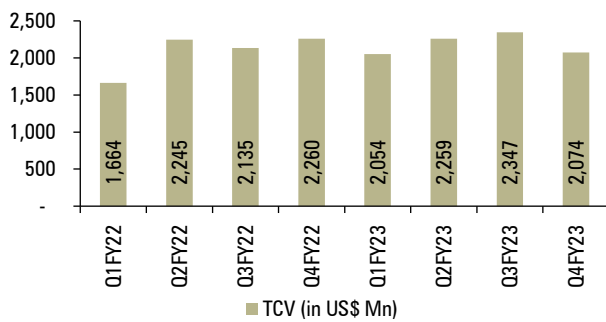
Source: Company, ICICI Direct Research

Exhibit 14: Keeping margins in guided range



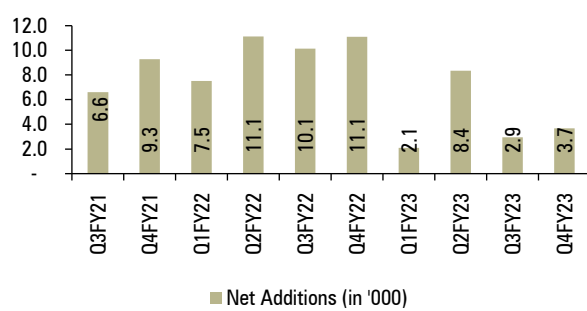
Source: Company, ICICI Direct Research

Exhibit 15: TCV win steady in range of US\$2-2.5 bn



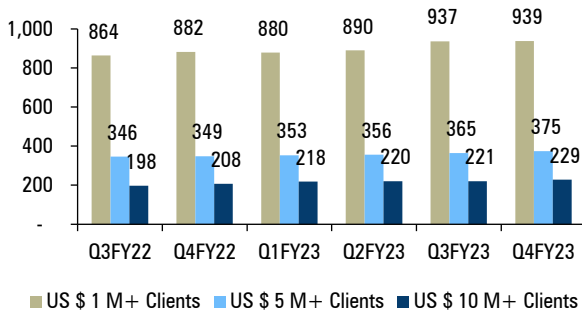
Source: Company, ICICI Direct Research

Exhibit 16: Employee addition reflection of demand



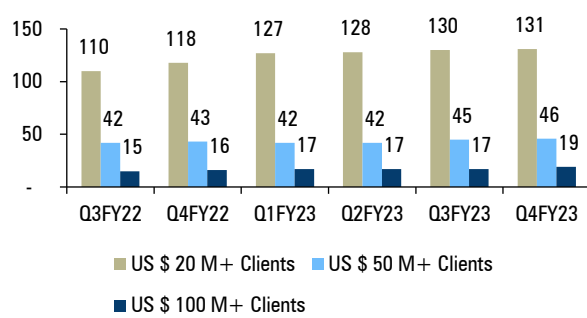
Source: Company, ICICI Direct Research

Exhibit 17: Customer bucket trend



Source: Company, ICICI Direct Research

Exhibit 18: Adds two clients in US\$100 mn YoY



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 19: Profit and loss statement				
	₹ crore			
	FY22	FY23	FY24E	FY25E
Total operating Income	85,651	1,01,456	1,11,462	1,22,329
Growth (%)	13.6	18.5	9.9	9.7
Direct costs	54,701	66,155	71,670	78,535
S,G&A expenses	10,909	12,673	15,047	16,759
Total Operating Expenditure	65,610	78,828	86,717	95,294
EBITDA	20,041	22,628	24,744	27,035
Growth (%)	2.9	12.9	9.4	9.3
Depreciation	3,874	4,145	4,250	4,455
Amortisation	-	-	-	-
Net Other Income	856	1,005	724	704
PBT	17,023	19,488	21,218	23,284
Forex adjustments	-	-	-	-
Total Tax	3,458	4,643	5,305	5,821
PAT	13,516	14,851	15,914	17,463
Growth (%)	8.7	9.9	7.2	9.7
EPS (₹)	49.8	54.8	58.7	64.4
Growth (%)	8.8	9.9	7.2	9.7

Source: Company, ICICI Direct Research

Exhibit 20: Cash flow statement				
	₹ crore			
	FY22	FY23	FY24E	FY25E
PBT	17,023	19,488	21,218	23,284
Depreciation & Amortisation	4,326	4,145	4,250	4,145
(Inc)/dec in Current Assets	(2,383)	(2,360)	(3,301)	3,044
Inc/(dec) in CL and Provisions	1,834	1,055	2,243	(2,243)
Taxes paid	(3,443)	(3,698)	(5,305)	(4,643)
CF from operating activities	16,900	18,009	18,382	18,792
(Inc)/dec in Investments	2,994	(1,788)	724	1,005
(Inc)/dec in Fixed Assets	(1,555)	(1,444)	(1,713)	(452)
CF from investing activities	1,477	(3,931)	(989)	553
Issue/(Buy back) of Equity	-	-	-	-
Inc/(dec) in loan funds	(60)	(1,848)	(500)	(500)
Dividend paid & dividend tax	(12,135)	(12,995)	(12,731)	(13,017)
Inc/(dec) in debentures	-	-	-	-
Others	(1,942)	(1,007)	-	-
CF from financing activities	(14,508)	(15,881)	(13,231)	(13,517)
Net Cash flow	3,869	(1,803)	4,162	5,828
Exchange difference	120	358	-	-
Opening Cash	8,888	12,636	14,724	14,995
Cash & bank c/f to balance sheet	12,636	14,724	14,995	20,823

Source: Company, ICICI Direct Research

Exhibit 21: Balance sheet				
	₹ crore			
	FY22	FY23	FY24E	FY25E
Liabilities				
Equity Capital	543	543	543	543
Reserve and Surplus	61,371	64,862	68,045	69,879
Total Shareholders funds	61,914	65,405	68,588	70,422
Total Debt	3,923	2,111	1,611	1,111
Other liabilities + Provisions	4,329	4,471	4,601	4,471
Minority Interest / Others	92	(7)	(7)	(7)
Total Liabilities	70,258	71,980	74,792	75,997
Assets				
Net Block + CWIP	8,055	7,748	11,440	10,026
Intangible assets + Goodwill	27,160	26,911	24,574	22,294
Investments	103	110	110	110
Liquid investments	6,239	5,385	5,385	5,385
Inventory	161	228	250	228
Debtors	15,476	19,572	21,502	19,572
Loans and Advances	3,008	2,603	2,860	2,860
Other Current Assets	10,521	11,065	12,156	11,065
Cash & Bank	12,636	14,724	14,995	20,823
Total Current Assets	48,041	53,577	57,149	59,933
Total Current Liabilities	18,775	21,431	23,545	21,431
Net Current Assets	29,266	32,146	33,604	38,502
Other non current assets	5,674	5,065	5,065	5,065
Application of Funds	70,258	71,980	74,792	75,997

Source: Company, ICICI Direct Research

Exhibit 22: Key ratios				
	₹ crore			
	FY22	FY23	FY24E	FY25E
Per share data (₹)				
EPS	49.8	54.8	58.7	64.4
Cash EPS	64.1	70.0	74.3	80.8
BV	228.3	241.2	252.9	259.7
DPS	42.0	48.0	46.9	51.5
Cash Per Share	46.6	54.3	55.3	76.8
Operating Ratios (%)				
EBIT Margin	18.9	18.2	18.4	18.5
PBT Margin	19.9	19.2	19.0	19.0
PAT Margin	15.8	14.6	14.3	14.3
Debtor days	66	70	70	58
Return Ratios (%)				
RoE	21.8	22.7	23.2	24.8
RoCE	24.2	27.1	28.4	30.6
RoIC	31.5	35.6	37.7	45.4
Valuation Ratios (x)				
P/E	21.1	19.2	17.9	16.3
EV / EBITDA	13.5	11.8	10.7	9.6
EV / Net Sales	3.2	2.6	2.4	2.1
Market Cap / Sales	3.3	2.8	2.6	2.3
Price to Book Value	4.6	4.4	4.2	4.0
Solvency Ratios				
Debt/EBITDA	0.2	0.1	0.1	0.0
Debt/EBITDA	0.2	0.1	0.1	0.0
Current Ratio	1.6	1.6	1.6	1.6
Quick Ratio	1.5	1.6	1.6	1.6

Source: Company, ICICI Direct Research

Exhibit 23: ICICI Direct coverage universe (IT)

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
HCL Tech (HCLTEC)	1,050	1,220	BUY	2,84,935	54.8	58.7	64.4	19.2	17.9	16.3	27.1	28.4	30.6	22.7	23.2	24.8
Infosys (INFTEC)	1,227	1,600	BUY	5,13,633	57.6	64.5	73.1	21.3	19.0	16.8	38.5	37.8	39.3	31.8	32.5	33.4
TCS (TCS)	3,161	3,720	BUY	11,56,626	115.2	129.6	143.1	27.4	24.4	22.1	56.0	54.6	52.4	46.6	45.6	43.3
Tech M (TECMAH)	998	1,130	HOLD	97,087	63.0	74.0	86.3	15.8	13.5	11.6	20.9	21.8	22.9	18.6	19.5	20.2
Wipro (WIPRO)	368	455	BUY	2,01,711	23.3	26.4	28.4	15.8	13.9	13.0	18.9	20.5	21.0	18.7	20.3	21.0
LTIM (LTINFO)	4,170	5,320	BUY	1,23,347	153.9	181.0	221.7	27.1	23.0	18.8	33.8	34.2	35.9	27.2	27.6	28.9
Coforge (NIIITEC)	3,830	4,870	BUY	23,326	148.9	172.7	194.7	25.7	22.2	19.7	31.8	31.5	30.6	28.5	28.0	26.9
TeamLease (TEASER)	2,160	2,335	HOLD	3,693	73.7	77.5	93.4	29.3	27.9	23.1	15.5	14.3	14.9	15.3	14.0	14.5
Infoedge (INFEDG)	3,632	3,265	HOLD	45,645	52.1	54.6	58.2	69.7	66.5	62.4	6.3	6.3	6.5	4.7	4.8	4.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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