INSTITUTIONAL RESEARCH

HSIE Results Daily

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Results Reviews

- **HCL Technologies:** We maintain ADD on HCL Tech (HCLT IN), which posted in-line revenue but lower margins in Q1, while maintaining the FY23E revenue guidance (12-14% CC) and moderation within the unchanged margin band (lower-end of 18-20%). Key positives included (1) strong growth in ERS and growth ahead supported by two large ERS deals (both in the ISV segment); (2) positive commentary on the deal pipeline (near an all-time high) and net new bookings tracking higher (23% YoY) with TCV at USD2bn providing growth visibility; and (3) availability of margin levers supporting expansion from Q1 base – pricing, sub-contracting rationalisation (impacted by new region expansion), fresher/pyramid and utilisation (we maintain estimates below the target EBITM band). The weaker elements included a softer sequential trajectory in services (albeit the base impact of ~5% CQGR over the last three quarters) as well as a higher impact on IT & BS services margin (partial impact of Q1 seasonality + higher sub-con expenses). HCLT's strong credentials in ER&D services, Mode-2 driving IT & BS growth, cross-sell of services into the P&P customer base, and integrated/vendor consolidation deals are expected to be drivers. Our TP is INR 1,125, based on 19x FY24E EPS, supported by ~5% FCF & dividend yield; stock trades at 18x and 16x FY23/24E.

HSIE Research Team
hdfcsec-research@hdfcsec.com

HCL Technologies

Mixed bag

We maintain ADD on HCL Tech (HCLT IN), which posted in-line revenue but lower margins in Q1, while maintaining the FY23E revenue guidance (12-14% CC) and moderation within the unchanged margin band (lower-end of 18-20%). Key positives included (1) strong growth in ERS and growth ahead supported by two large ERS deals (both in the ISV segment); (2) positive commentary on the deal pipeline (near an all-time high) and net new bookings tracking higher (23% YoY) with TCV at USD2bn providing growth visibility; and (3) availability of margin levers supporting expansion from Q1 base – pricing, sub-contracting rationalisation (impacted by new region expansion), fresher/pyramid and utilisation (we maintain estimates below the target EBITM band). The weaker elements included a softer sequential trajectory in services (albeit the base impact of ~5% CQGR over the last three quarters) as well as a higher impact on IT & BS services margin (partial impact of Q1 seasonality + higher sub-con expenses). HCLT's strong credentials in ER&D services, Mode-2 driving IT & BS growth, cross-sell of services into the P&P customer base, and integrated/vendor consolidation deals are expected to be drivers. Our TP is INR 1,125, based on 19x FY24E EPS, supported by ~5% FCF & dividend yield; stock trades at 18x and 16x FY23/24E.

- **Q1FY23 highlights**: (1) HCLT revenue came in line with our estimate at USD 3,025mn, +2.7/+15.6% QoQ/YoY CC. (2) Total services revenue grew 2.3% QoQ CC, led by ER&D growth of 3.7% QoQ CC, followed by IT & BS growth of 2% QoQ CC. P&P revenue witnessed healthy growth of 5.1% QoQ CC. (3) HCLT booked a net-new TCV of USD 2.05bn (+23.4% YoY), which included seven large services deals and nine product deals in the quarter. (4) Within verticals, growth was led by technology & services (+10.9% QoQ CC) and telecom & media (+4.3% QoQ CC). (5) EBITM at 17% (below our estimate of 17.7%), -100bps QoQ, was impacted by the decline in services margin on account of higher sub-con, retention and travel cost. (6) Net additions were at 2,089 in Q1, taking the headcount to 210k, supported by 6k fresher added in Q1FY23. The management intends to add 10k fresher in Q2 and around 35k fresher for FY23E.
- **Outlook**: We assume a USD revenue CAGR of 10.5% and an EPS CAGR of 9% over FY22-24E, with IT&BS CAGR of 10.9%, ER&D CAGR of 13.9%, and a P&P CAGR of 2.6%. We factor in EBITM at 17.7/18.3% for FY23/24E. HCLT is trading at 18/16x FY23/24E earnings and a ~34% discount to TCS valuation.

Quarterly Financial summary

YE March (INR bn)	Q1 FY23	Q1 FY22	YoY (%)	Q4 FY22	QoQ (%)	FY20	FY21	FY22	FY23E	FY24E
Revenue (USD mn)	3,025	2,720	*11.2*	2,993	*1.1*	*9,936*	*10,176*	*11,481*	*12,629*	*14,007*
Net Sales	234.64	200.68	*16.9*	225.97	*3.8*	706.78	753.79	856.51	983.78	1,106.56
EBIT	39.92	39.31	*1.6*	40.69	*(1.9)*	138.53	160.71	162.04	174.56	202.45
APAT	32.83	32.14	*2.1*	35.93	*(8.6)*	110.62	124.62	134.99	139.34	160.42
Diluted EPS (INR)	12.1	11.9	*2.1*	13.3	*(8.6)*	40.8	46.0	49.8	51.4	59.2
P/E (x)						22.7	20.2	18.6	18.0	15.7
EV / EBITDA (x)						14.6	12.0	11.5	11.0	9.3
RoE (%)						23.8	22.4	22.1	22.2	24.7

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (INR bn)	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %
Revenue (USD mn)	12,640	12,629	*(0.1)*	14,019	14,007	*(0.1)*
Revenue	983.46	983.78	*0.0*	1,107.49	1,106.56	*(0.1)*
EBIT	176.43	174.56	*(1.1)*	205.27	202.45	*(1.4)*
EBIT margin (%)	17.9	17.7	-20bps	18.5	18.3	-24bps
APAT	140.94	139.34	*(1.1)*	162.67	160.42	*(1.4)*
EPS (INR)	51.9	51.4	*(1.0)*	59.9	59.2	*(1.2)*

Source: Company, HSIE Research

ADD

CMP *(as on 12 Jul 2022)*	**INR 928**
Target Price	**INR 1,125**
NIFTY	**16,058**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	INR 1,140	INR 1,125
EPS %	FY23E	FY24E
	-1.0	-1.2

KEY STOCK DATA	
Bloomberg code	HCLT IN
No. of Shares (mn)	2,714
MCap (INR bn) / ($ mn)	2,518/33,833
6m avg traded value (INR mn)	4,310
52 Week high / low	INR 1,378/925

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	(18.0)	(31.4)	(5.3)
Relative (%)	(10.0)	(19.5)	(8.2)

SHAREHOLDING PATTERN (%)	**Dec-21**	**Mar-22**
Promoters	60.33	60.72
FIs & Local MFs	13.73	14.68
FPIs	20.43	18.97
Public & Others	5.51	5.63
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

Apurva Prasad
apurva.prasad@hdfcsec.com
+91-22-6171-7327

Amit Chandra
amit.chandra@hdfcsec.com
+91-22-6171-7345

Vinesh Vala
vinesh.vala@hdfcsec.com
+91-22-6171-7332

Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential

Disclosure:

Analyst	Company Covered	Qualification	Any holding in the stock
Apurva Prasad	HCL Technologies	MBA	NO
Amit Chandra	HCL Technologies	MBA	NO
Vinesh Vala	HCL Technologies	MBA	NO

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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HDFC securities
Institutional Equities
Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,
Senapati Bapat Marg, Lower Parel, Mumbai - 400 013
Board: +91-22-6171-7330 www.hdfcsec.com