

**BUY**

TP: Rs 1,610 | ▲ 46%

**HCL TECHNOLOGIES**

Technology & Internet

21 April 2022

### Growth muted; TCV and guidance robust

- Q4 revenue growth of 0.5% QoQ USD underperformed our estimate owing to a double-digit slowdown in Mode-3 business
- EBIT margin at 18% (-110bps QoQ) fell slightly below expectations despite deft operations. TCV stood at US\$ 2.3bn, up 6% QoQ
- We cut FY23/FY24 EPS by 3%/0.4%; on rollover, our TP remains at Rs 1,610 – retain BUY on robust growth and margin guidance

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**Growth affected by Mode-3 seasonality:** HCLT's Q4FY22 revenue grew 0.5% QoQ USD, below our estimate of 1.9% due to a slowdown in Mode-3 business (-20.3%). Mode-2 and Mode-1 were up 7.2% and 2.9% QoQ USD respectively. Growth in the US market was muted whereas APAC performed well, rising 2.8% QoQ USD. Within verticals, BFSI was subdued (-0.4%) while retail saw the sharpest decline (-6.4%). Media & entertainment/life sciences grew by 6.7%/4%. HCLT continues to see traction in ER&D services (driven by IoT), SaaS and cloud. The company has guided for double-digit revenue growth of 12-14% CC for FY23.

**Margin stable:** EBIT margin declined 110bps QoQ to 18%, falling slightly below our estimate. SG&A expense and employee cost both increased sequentially. Although the services margin expanded 85bps QoQ, this was offset by a 178bps P&P (products and platforms) seasonality impact. Net profit margin expanded 50bps QoQ to 15.9% due to a lower tax rate and higher forex and other income. Management has guided for an FY23 EBIT margin in the range of 18-20%.

**TCV robust:** TCV at US\$ 2.3bn increased 6% QoQ as HCLT signed a total of 10 new transformational deals in Q4. Bookings and deal pipeline remain strong, per management, with the latter comprising a mix of small and large projects. Deal cycles have become shorter due to faster digital transformation adoption. Cloud has become one of the key demand drivers for HCLT and its AWS offerings have been expanded

**Attrition rises:** Attrition stood at 21.9% in Q4, up 210bps QoQ, but still lower than industry levels. HCLT hired ~11.1k employees during the quarter. Management is leaning towards hiring more freshers and indicated that it continues to invest in training to prepare for future demand.

**Maintain BUY:** We lower our FY23/FY24 EPS estimates by 3%/0.4% to factor in the Q4 results. On rolling valuations over to Jun'23, our TP remains at Rs 1,610 based on an unchanged target P/E of 26x. Maintain BUY on robust FY23 revenue growth and margin guidance coupled with strong TCV.

### Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	HCLT IN/Rs 1,099
Market cap	US\$ 39.2bn
Free float	38%
3M ADV	US\$ 56.4mn
52wk high/low	Rs 1,378/Rs 891
Promoter/FPI/DII	60%/27%/13%

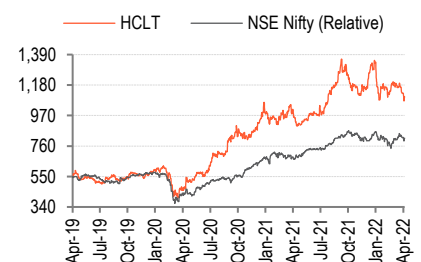
Source: NSE | Price as of 21 Apr 2022

### Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	856,510	973,266	1,070,517
EBITDA (Rs mn)	201,920	237,538	268,946
Adj. net profit (Rs mn)	135,560	147,414	171,499
Adj. EPS (Rs)	50.0	54.3	63.2
Consensus EPS (Rs)	49.8	56.7	63.5
Adj. ROAE (%)	20.7	20.2	21.1
Adj. P/E (x)	22.0	20.2	17.4
EV/EBITDA (x)	14.7	12.2	10.4
Adj. EPS growth (%)	4.3	8.7	16.3

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance



Source: NSE



**Fig 1 – Quarterly performance**

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)
<b>Revenues (US\$ mn)</b>	<b>2,993</b>	<b>2,696</b>	<b>11.0</b>	<b>2,978</b>	<b>0.5</b>
<b>Revenue</b>	<b>225,970</b>	<b>196,410</b>	<b>15.1</b>	<b>223,310</b>	<b>1.2</b>
Operating Expenditure	175,440	143,650	22.1	169,380	3.6
Cost of revenues	142,920	115,840	23.4	137,980	3.6
as % of sales	63.2	59.0	-	61.8	-
SG&A expenses	32,520	27,810	16.9	31,400	3.6
as % of sales	14.4	14.2	-	14.1	-
<b>EBITDA</b>	<b>50,530</b>	<b>52,760</b>	<b>(4.2)</b>	<b>53,930</b>	<b>(6.3)</b>
Depreciation	9,840	12,680	-	11,360	-
<b>EBIT</b>	<b>40,690</b>	<b>40,080</b>	<b>1.5</b>	<b>42,570</b>	<b>(4.4)</b>
Other Income	2,520	860	-	1,730	-
PBT	43,210	40,940	5.5	44,300	(2.5)
Total Tax	7,210	11,860	-	9,820	-
<b>Adjusted PAT</b>	<b>36,000</b>	<b>29,080</b>	<b>23.8</b>	<b>34,480</b>	<b>4.4</b>
(Profit)/loss from JV's/Ass/MI	(60)	(100)	-	(60)	-
APAT after MI	35,940	28,980	24.0	34,420	4.4
Extra ordinary items	0	0	-	0	-
<b>Reported PAT*</b>	<b>35,940</b>	<b>28,980</b>	<b>24.0</b>	<b>34,420</b>	<b>4.4</b>
Reported EPS	13.2	10.7	24.0	12.7	4.4
<b>Margins (%)</b>			<b>(bps)</b>		<b>(bps)</b>
EBITDA	22.4	26.9	(450)	24.2	(180)
EBIT	18.0	20.4	(240)	19.1	(110)
EBT	19.1	20.8	(170)	19.8	(70)
PAT	15.9	14.8	110	15.4	50
Effective Tax rate	16.7	29.0	(1,230)	22.2	(550)

Source: Company, BOBCAPS Research | \* Excluding DTL on goodwill and milestone bonus impact

**Fig 2 – Operating metrics**

(in USD terms)	Q4FY22 (% Contr. to Revenue)	Growth	
		QoQ (%)	YoY (%)
<b>Revenue by Business Segment</b>			
Mode 1	60.9	2.9	10.1
Mode 2	27.2	7.2	29.0
Mode 3	11.9	(20.3)	(13.1)
<b>Revenue by Geography</b>			
US	62.8	0.0	12.5
Europe	28.3	0.5	8.0
Asia Pacific	8.9	2.8	11.0
<b>Revenue by Service Offering</b>			
IT and Business Services	73.5	4.7	13.5
Engineering and R&D Services	16.4	3.7	20.6
Products & Platforms	10.20	(24.0)	(12.9)
<b>Revenues by Industry</b>			
BFSI	20.9	(0.4)	7.4
Retail	9.4	(6.4)	3.3

(in USD terms)	Q4FY22 (% Contr. to Revenue)	Growth	
		QoQ (%)	YoY (%)
Media, Publishing & Entertainment	8.6	6.7	17.9
Life Sciences	14.9	4.0	17.3
Energy Utilities -Public Sector	10.7	3.4	6.1
Manufacturing	18	3.4	12.9
Technology Services	17.5	(4.4)	13.0
<b>Client Contribution to Revenue</b>			
Top 5	11.6	(4.4)	(1.7)
Top 10	19.8	(2.0)	7.9
Top 20	29.1	(0.5)	7.7
	<b>Q4FY22</b>	<b>Q3FY22</b>	<b>Q4FY21</b>
<b>Total Employees</b>	208,877	197,777	168,977
Net Addition	11,100	10,143	9,295
Attrition	21.9	19.8	9.9
<b>Revenues by Contract Type (%)</b>			
Time & Material	36.4	34.5	32.3
Fixed Price	63.6	65.5	67.7

Source: Company, BOBCAPS Research

## Valuation methodology

We lower our FY23/FY24 EPS estimates by 3%/0.4% to factor in the Q4 results. On rolling valuations over to Jun'23, our TP for HCLT remains at Rs 1,610 based on an unchanged P/E of 26x. We maintain BUY on robust FY23 revenue growth and margin guidance coupled with strong TCV.

**Fig 3 – Revised estimates**

(Rs mn)	New		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenues (US\$ mn)	12,806	14,086	12,911	14,128	(0.8)	(0.3)
YoY Growth (%)	11.5	10.0	12.0	9.4	-	-
Revenues	973,266	1,070,517	981,214	1,073,707	(0.8)	(0.3)
EBITDA	237,538	268,946	244,272	269,747	(2.8)	(0.3)
EBITDA margin (%)	24.4	25.1	24.9	25.1	-	-
EBIT margin (%)	19.3	20.3	19.9	20.4	-	-
Net profits	147,414	171,499	152,610	172,221	(3.4)	(0.4)
EPS (Rs)	54.3	63.2	56.2	63.5	(3.4)	(0.4)

Source: BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- growth slowdown in the BFSI vertical, and
- high attrition impacting margins.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Coforge	COFORGE IN	3.3	4,093	7,080	BUY
eClerx Services	ECLX IN	1.2	2,433	3,790	BUY
HCL Technologies	HCLT IN	39.2	1,099	1,610	BUY
Infosys	INFO IN	90.5	1,619	2,130	BUY
L&T Infotech	LTI IN	11.7	5,077	8,140	BUY
Mindtree	MTCL IN	8.1	3,738	5,610	BUY
Mphasis	MPHL IN	7.1	2,901	3,470	HOLD
Persistent Systems	PSYS IN	4.2	4,012	4,580	HOLD
Tata Consultancy Services	TCS IN	178.8	3,629	4,660	BUY
Tech Mahindra	TECHM IN	15.0	1,313	1,940	BUY
Wipro	WPRO IN	39.1	539	850	BUY

Source: BOBCAPS Research, NSE | Price as of 21 Apr 2022

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Total revenue</b>	<b>706,780</b>	<b>753,780</b>	<b>856,510</b>	<b>973,266</b>	<b>1,070,517</b>
EBITDA	166,930	202,350	201,920	237,538	268,946
Depreciation	28,400	41,360	40,190	49,509	51,257
EBIT	138,530	160,990	161,730	188,029	217,689
Net interest inc./(exp.)	0	0	0	0	0
Other inc./(exp.)	1,790	5,540	8,260	5,937	7,968
Exceptional items	0	0	0	0	0
EBT	140,320	166,530	169,990	193,966	225,657
Income taxes	29,380	36,580	34,430	46,552	54,158
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>110,940</b>	<b>129,950</b>	<b>135,560</b>	<b>147,414</b>	<b>171,499</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>110,940</b>	<b>129,950</b>	<b>135,560</b>	<b>147,414</b>	<b>171,499</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Accounts payables	0	0	0	0	0
Other current liabilities	259,090	217,050	299,779	340,643	374,681
Provisions	0	0	17,130	19,465	21,410
Debt funds	50,930	39,070	39,070	39,070	39,070
Other liabilities	5,280	5,850	5,850	5,850	5,850
Equity capital	2,812	2,812	2,812	2,812	2,812
Reserves & surplus	514,048	612,248	682,208	758,686	847,660
Shareholders' fund	522,140	620,910	690,870	767,348	856,322
<b>Total liab. and equities</b>	<b>832,160</b>	<b>877,030</b>	<b>1,046,848</b>	<b>1,166,526</b>	<b>1,291,483</b>
Cash and cash eq.	48,430	65,150	189,374	274,096	372,288
Accounts receivables	177,720	175,250	211,194	239,983	263,963
Inventories	0	0	0	0	0
Other current assets	79,030	74,290	85,651	97,327	107,052
Investments	105,680	140,220	168,264	185,090	203,599
Net fixed assets	62,440	62,450	40,910	10,402	(21,855)
CWIP	0	0	0	0	0
Intangible assets	294,210	291,500	291,500	291,500	291,500
Deferred tax assets, net	0	0	0	0	0
Other assets	64,650	68,170	59,956	68,129	74,936
<b>Total assets</b>	<b>832,160</b>	<b>877,030</b>	<b>1,046,849</b>	<b>1,166,527</b>	<b>1,291,484</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Cash flow from operations</b>	<b>143,665</b>	<b>80,174</b>	<b>228,258</b>	<b>185,548</b>	<b>210,258</b>
Capital expenditures	(150,090)	(41,370)	(18,650)	(19,000)	(19,000)
Change in investments	47,160	34,540	28,044	16,826	18,509
Other investing cash flows	1,790	5,540	(47,829)	(27,716)	(29,050)
<b>Cash flow from investing</b>	<b>(101,140)</b>	<b>(1,290)</b>	<b>(38,435)</b>	<b>(29,890)</b>	<b>(29,541)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(53,384)	(62,532)	(65,231)	(70,936)	(82,525)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(53,384)</b>	<b>(62,532)</b>	<b>(65,231)</b>	<b>(70,936)</b>	<b>(82,525)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(10,859)</b>	<b>16,352</b>	<b>124,591</b>	<b>84,722</b>	<b>98,192</b>
<b>Closing cash &amp; cash eq.</b>	<b>48,430</b>	<b>64,782</b>	<b>189,374</b>	<b>274,096</b>	<b>372,288</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22A	FY23E	FY24E
Reported EPS	40.9	47.9	50.0	54.3	63.2
Adjusted EPS	40.9	47.9	50.0	54.3	63.2
Dividend per share	16.4	19.2	20.0	21.7	25.3
Book value per share	192.4	228.8	254.6	282.8	315.6

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22A	FY23E	FY24E
EV/Sales	4.2	3.9	3.5	3.0	2.6
EV/EBITDA	17.8	14.7	14.7	12.2	10.4
Adjusted P/E	26.9	23.0	22.0	20.2	17.4
P/BV	5.7	4.8	4.3	3.9	3.5

### DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22A	FY23E	FY24E
Tax burden (Net profit/PBT)	79.1	78.0	79.7	76.0	76.0
Interest burden (PBT/EBIT)	101.3	103.4	105.1	103.2	103.7
EBIT margin (EBIT/Revenue)	19.6	21.4	18.9	19.3	20.3
Asset turnover (Rev./Avg TA)	99.5	88.2	89.0	87.9	87.1
Leverage (Avg TA/Avg Equity)	1.5	1.5	1.5	1.5	1.5
Adjusted ROAE	23.5	22.7	20.7	20.2	21.1

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22A	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	17.0	6.6	13.6	13.6	10.0
EBITDA	19.2	21.2	(0.2)	17.6	13.2
Adjusted EPS	11.5	17.1	4.3	8.7	16.3
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	23.6	26.8	23.6	24.4	25.1
EBIT margin	19.6	21.4	18.9	19.3	20.3
Adjusted profit margin	15.7	17.2	15.8	15.1	16.0
Adjusted ROAE	23.5	22.7	20.7	20.2	21.1
ROCE	23.4	22.2	22.5	26.4	31.0
<b>Working capital days (days)</b>					
Receivables	84	85	82	85	86
Inventory	0	0	0	0	0
Payables	130	158	144	159	163
<b>Ratios (x)</b>					
Gross asset turnover	7.3	12.1	16.6	37.9	(186.9)
Current ratio	1.4	1.8	1.7	1.9	2.1
Net interest coverage ratio	NA	NA	NA	NA	NA
Adjusted debt/equity	0.0	0.0	(0.2)	(0.3)	(0.4)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

## Disclaimer

### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

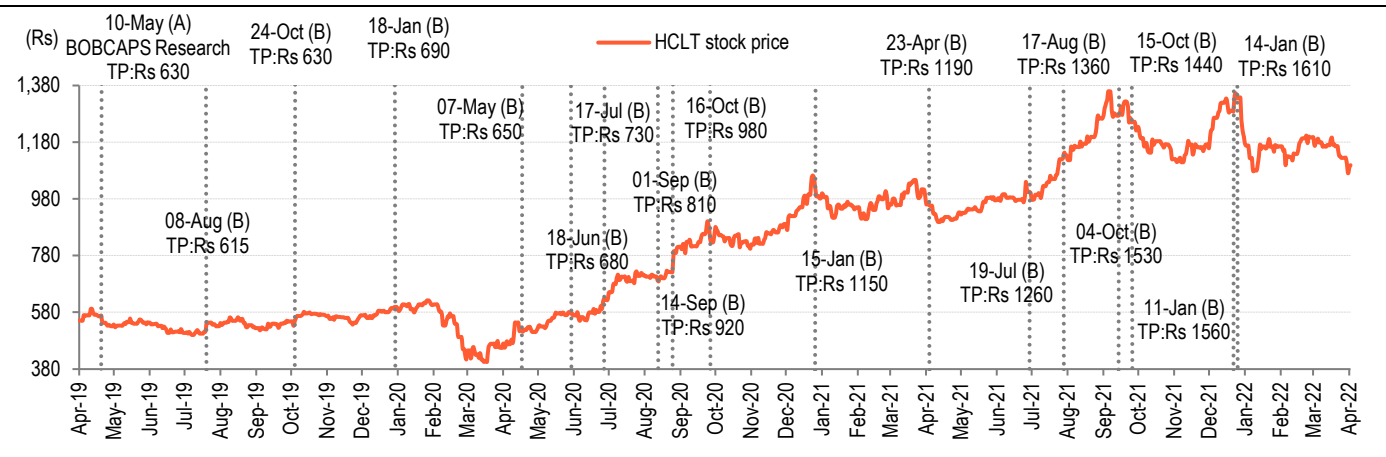
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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