

Q3-FY23 Result Update

- ❑ The revenue from operations of the company increased by 19.6% year-on-year to ₹ 2,67,000 million (Mn) on a consolidated basis. In constant currency (CC) terms the revenue grew by 13.1% YoY and 5.0% QOQ. The growth was attributed to a strong momentum in HCL Software business as well as in services business. Service business grew 15.4% YoY and 2.2% sequentially in constant currency.
- ❑ Mode-2 business grew by 27.0% YoY in constant currency terms. Segment-wise - IT business services, Engineering services showed robust growth during the quarter which grew by 15.3% and 16.0% respectively. Vertical wise growth momentum was led by Telecom, Media, Publishing & Entertainment (27.9%), Life sciences & Healthcare (19.5%), Manufacturing (21.2%), Technology & Services (19.3%), and Financial Services (8.8%) YoY in constant currency.
- ❑ On profitability front, the company's EBITDA from operations for the quarter increased by 18.0% year-on-year to ₹ 63,650 million with a margin of 23.8% in Q3FY23. The company's net profit stood at ₹ 40,960 Mn, with a net margin of 15.3% translating into EPS of 15.3 per share for the quarter. EBIT has improved 165 basis point out of which 155-157 basis points has been contributed by HCL Software. Services margin improved by 8 basis points to 10 basis points after absorbing the increment of 70 bps. Furloughs and holiday season also impacted by about 60 basis points, This quarter, company gained 40 basis points through pyramid optimization and deployment of and billing of fresher's as well as the 30 basis points on top by realization improvements and other efficiencies. And forex gain was another 70 basis points as well.
- ❑ The company reported employee attrition rate of 21.7% during Q3-FY23. However, It added 5,892 employees in Q3-FY23, net adds were 2,945 employees.
- ❑ The management has reduced its revenue guidance of 13.5-14% from 13.55 to 14.5% for FY23 (in CC terms) and expects EBIT margins to narrow in the range of 18-18.5%. The management declared an interim dividend of ₹ 10 per share for the quarter.
- ❑ With continuity of robust growth across Mode-2 and Mode-3 business, we expect the growth momentum to continue supported by strong products, deal pipeline, cost optimization and vendor consolidation. We recommend **HOLD** rating on the stock with a revised target price of **₹1,225 per share**, implying 20X FY24E P/E.

Key takeaways from Concall

- ❑ As per management, company continue to see great potential for vendor consolidation, cost optimization and large integrated opportunities in near to medium term which forms significant part of its booking.
- ❑ Company's booking has increased to 10% year-on-year on a total contract value basis and 2% on an annual contract value basis with 17 large deals across services and products among the large seven services wins. Top three deals gave a TCV of close to \$1 bn this quarter.
- ❑ Financial segment performed worse due to high furloughs but going forward management expects this segment to improve because of two large deal wins and expects the sector to recover fast.
- ❑ While there were decision making delays in Europe, company expects Europe to do good in coming quarters due its pipeline. Europe had a pretty strong quarter followed by previous quarter.
- ❑ HCL Tech is seeing large number of cost optimization deals in unqualified pipeline which will soon start contributing towards revenue. The Financial services segment is lagging behind but strong growth is expected there.
- ❑ While there is visible weakness in macro, especially in Europe, increased vendor consolidation deals, a strong pipeline of cost-take out deals and favorable pricing should help HCL tech tackle weak macro scenario.

Financials:

(In ₹ mn)	Q3 FY23	Q2 FY23	Q3 FY22	Chg BPS	9M-FY23	9M-FY22	Chg BPS
Net Sales	2,67,000	2,46,860	2,23,310	19.6%	7,48,500	6,30,540	18.7%
Operating Expense	2,03,350	1,92,610	1,69,380	20.1%	5,80,850	4,75,770	22.1%
EBITDA	63,650	54,250	53,930	18.0%	1,67,650	1,54,770	8.3%
Other Income	2,600	2,360	2,550		9,050	7,500	
Depreciation	11,370	9,980	11,360		31,180	33,420	
EBIT	54,880	46,630	45,120	21.6%	1,45,520	1,28,850	12.9%
Interest	1,160	790	820		2,590	2,540	
PBT	53,720	45,840	44,300	21.3%	1,42,930	1,26,310	13.2%
Tax	12,760	10,970	9,820		34,290	27,070	
PAT	40,960	34,870	34,480	18.8%	1,08,640	99,240	9.5%
Minority /Other Adj.		20	(60)		(80)	(290)	
Consolidated PAT	40,960	34,890	34,420	19.0%	1,08,560	98,950	9.7%

Margins	Q3 FY23	Q2 FY23	Q3 FY22	Chng BPS	9M-FY23	9M-FY22	Chg BPS
Operating Margin %	23.8%	21.9%	24.2%	-31	22.4%	24.5%	-215
Net Margin %	15.3%	14.1%	15.4%	-7	14.5%	15.7%	-122



Consolidated Financials:

(In ₹ mn)	FY-21	FY-22	FY-23E	FY-24E
Net Sales	753,790	856,510	9,67,856	10,93,678
Operating Expense	553,540	651,250	7,45,869	8,38,065
EBITDA	200,250	205,260	2,21,988	2,55,613
Other Income	9,500	10,710	10,839	13,124
Depreciation	46,110	43,260	52,264	61,246
EBIT	163,640	172,710	1,80,562	2,07,491
Interest	5,110	3,190	3,228	3,228
PBT	158,530	169,520	1,77,334	2,04,263
Tax	46,840	34,280	35,862	41,308
Minority Interest	(240)	(250)	(240)	(144)
PAT	111,450	134,990	1,41,232	1,62,811

Margins	FY-21	FY-22	FY-23E	FY-24E
Sales Growth %	6.7%	13.6%	13.0%	13.0%
Operating Margin %	26.6%	24.0%	22.9%	23.4%
Net Margin %	14.8%	15.8%	14.6%	14.9%
EBIT Margin %	20%	19%	18%	18%

Source: Company, Anand Rathi Research

(In ₹ mn)	FY-21	FY-22	FY-23E	FY-24E
Liabilities				
Equity Share Capital	5,430	6,250	6,250	6,250
Reserves & Surplus	593,700	612,890	7,54,122	9,16,933
Total Shareholder's Funds	599,130	619,140	7,60,372	9,23,183
Minority Interest	1,690	920	920	920
Long-Term Liabilities	38,280	39,230	39,230	39,230
Other Long-term Liabilities	47,540	42,170	42,170	42,170
Deferred Tax Liability	(10,340)	(10,640)	(10,640)	(10,640)
Short-term Liabilities	173,830	187,750	1,57,692	1,78,192
Total	850,130	878,570	9,89,744	11,73,056
Assets				
Net Fixed Assets	374,570	352,060	2,76,094	2,77,760
Long-Term L&A	13,900	15,080	15,080	15,080
Non Current Investments	890	1,120	1,120	1,120
Other Non-Current Assets	30,260	29,900	29,900	29,900
Current Asset	430,510	480,410	6,67,550	8,49,196
Total	850,130	878,570	9,89,744	11,73,056

Key Ratios	FY-20	FY-21	FY-22E	FY-23E
EPS (₹)	41.1	49.7	52.0	60.0
P/E (x)	26.6	22.0	21.0	18.2
P/B (x)	5.0	4.8	3.9	3.2
ROE	18.6%	21.8%	18.6%	17.6%

Key Risks:

- ☐ US H1-B Visa regulations.
- ☐ Foreign currency fluctuations.
- ☐ Employee attrition.



Rating and Target Price history:

HCLTECH’s rating history & price chart



HCLTECH’s rating details

Date	Rating	Target Price (₹)	Share Price (₹)
18-Sep-20	Buy	931	807
21-Jan-21	Buy	1125	994
28-Apr-21	Buy	1075	924
23-Jul-21	Buy	1150	994
26-Oct-21	Buy	1350	1167
14-Jan-22	Buy	1550	1337
12-May-22	Buy	1350	1059
10-Aug-22	Buy	1183	952
16-Jan-23	HOLD	1,225	1,094

Source: Bloomberg, Anand Rathii Research
NOTE: Prices are as on 16 January 2023 close.

Source: Bloomberg, Anand Rathii Research



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Ratings Guide (12 months)	Buy	Hold	Sell
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