HCL Technologies (HCLT)

Information Technology | 3QFY24 Result Update

SELL

CMP: Rs1,543 | Target Price (TP): Rs1,245 | Downside: 19%

January 14, 2024

We expected good. HCLT delivered great

Key Points

- HCLT delivered 6% CC QoQ revenue growth better than our expected 4%, due to better performance by both Services and Products & Platform (P&P) businesses. This has to be seen in the context of weak numbers delivered by immediate peers. Margin performance was in line with our estimate but above consensus. The upper end of the FY24 revenue guidance has been cut from 5-6% to 5-5.5%. 18-19% EBIT margin guidance is maintained.
- Services growth was driven by 2 months of the Verizon mega deal, two extra months of the ASAP acquisition, continued traction in ERS business and strong seasonal growth in P&P business. TCV of order inflow (entirely net new) was at US$1.9bn, compared to the general US$2-2.5bn but is a sharp decline from 2QFY24 of ~US$4bn (due to the Verizon mega deal).
- We have tweaked EPS up for FY24-FY26 based on the 3QFY24 performance. We maintain a SELL on HCLT with TP of Rs1245, which is based on target PE multiple of 17x (15% discount to TCS, discount reduced from 25% due to the solid performance on revenue in FY24) on Dec'25 EPS. The discount of 15% is due to weakening of margins in the services business and lower ROIC compared to the benchmark.
- Our view remains unchanged on the IT sector and HCLT: We have been negative on HCLT and the IT sector since April 2022 and continue to be cautious as we believe that the worst on the macro front is ahead of us. We believe that our base case of a shallow US recession in 2024 could pose a risk to both our as well as consensus earnings & PE multiples. We believe that we are in a 'slower for longer' kind of environment.

Demand outlook: Discretionary spend remains uncertain as customers focus more on cost optimization to drive efficiencies. Projects related to transformation are facing delays while those on cost take outs and better ROI are pursued with urgency.

Gen AI opportunity present, but deal flow indicates the nascent state as technology is still evolving and use cases are being developed: While deal volumes indicate significant numbers of clients interested in leveraging Gen AI to optimize entire product life cycles and service delivery, the average deal size clearly shows caution, as discovery on what exactly can the highest ROI use case be is still several quarters away. Clients are spending sub-US$1mn in pilot programs across segments and geographies, as no one wants to miss out on AI transformation and while HCLT has the capability as indicated by the management to capture the opportunity, it is still in the early stages and will really start seeing traction once the use cases have been defined.

Surround services multiple of 25x would mean that Gen AI projects will be very ROI sensitive: HCL Tech CEO was of the view that surround services like Data modernization will require investment to the tune of 25x compared to every dollar of investment in Gen AI. This could, in our view, dampen any big uptake in Gen AI related services. While this ratio of 25:1 is very good for IT services players if a Gen AI project goes into the production phase, we expect customers to be extremely sensitive to visible ROI.

Please vote for us in the Institutional Investor poll – Click Here

Est Change	Upward
TP Change	Upward
Rating Change	No change

Company Data and Valuation Summary

Reuters	HCLT.BO
Bloomberg	HCLT IN Equity
Mkt Cap (Rsbn/US$bn)	4,181.2 / 50.3
52 Wk H / L (Rs)	1,555 / 1,016
ADTV-3M (mn) (Rs/US$)	3,392.8 / 40.8
Stock performance (%) 1M/6M/1yr	12.0 / 38.7 / 43.8
Nifty 50 performance (%) 1M/6M/1yr	4.3 / 11.0 / 21.9

Shareholding	4QFY23	1QFY24	2QFY24
Promoters	60.8	60.8	60.8
DIIs	15.3	15.4	15.6
FIIs	18.9	19.0	18.8
Others	5.0	4.9	4.8
Pro pledge	0.0	0.0	0.0

Financial and Valuation Summary

Particulars (Rsbn)	FY22	FY23	FY24E	FY25E
Revenue (Rsbn)	857	1,015	1,101	1,202
YoY Growth (%)	*13.6*	*18.5*	*8.5*	*9.1*
Gross Margin	38.4	36.4	36.1	36.2
EBIT (Rsbn)	162	185	203	221
EBIT (%)	*18.9*	*18.2*	*18.4*	*18.4*
Adj. PAT (Rsbn)	135	149	159	177
PAT Margin	15.8	14.6	14.4	14.7
YoY Growth (%)	*4.3*	*10.0*	*7.0*	*11.2*
FDEPS (Rs)	49.8	54.9	58.6	65.2
ROE (%)	*22.2*	*23.3*	*24.0*	*26.1*
Post Tax ROCE (%)	*18.4*	*19.6*	*20.3*	*21.6*
Post Tax ROIC (%)	*26.3*	*28.3*	*30.8*	*33.8*
P/E(x)	31.0	28.1	26.3	23.7
EV/EBITDA	19.6	17.7	16.2	14.8

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Key Links: Latest Sector update: A No/Soft Landing?

Last results note: 2QFY24 result update

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Exhibit 1: Quarterly Performance

Particulars (Rsmn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24E	FY23	FY24E	3Q24E	Var
Net Sales (USD mn)	**3,025**	**3,082**	**3,244**	**3,235**	**3,200**	**3,225**	**3,415**	**3,483**	**12,586**	**13,323**	**3,334**	*2.4*
QoQ Change (%)	**1.1**	**1.9**	**5.3**	**-0.3**	**-1.1**	**0.8**	**5.9**	**2.0**	**-**	**-**	**3.4**	-
Net Sales	**234,640**	**246,860**	**267,000**	**266,060**	**262,960**	**266,720**	**284,460**	**286,745**	**1,014,560**	**1,100,885**	**277,686**	*2.4*
YoY Change (%)	*16.9*	*19.5*	*19.6*	*17.7*	*12.1*	*8.0*	*6.5*	*7.8*	*18.5*	*8.5*	*4.0*	-
Software Expenses	**150,660**	**158,480**	**167,200**	**168,890**	**169,360**	**170,130**	**179,980**	**183,580**	**645,230**	**703,050**	**175,268**	*2.7*
% of Sales	*64.2*	*64.2*	*62.6*	*63.5*	*64.4*	*63.8*	*63.3*	*64.0*	*63.6*	*63.9*	*63.1*	-
Gross Profit	**83,980**	**88,380**	**99,800**	**97,170**	**93,600**	**96,590**	**104,480**	**103,166**	**369,330**	**397,836**	**102,418**	*2.0*
Margin (%)	*35.8*	*35.8*	*37.4*	*36.5*	*35.6*	*36.2*	*36.7*	*36.0*	*36.4*	*36.1*	*36.9*	-
Operating Expenses	**34,230**	**34,120**	**36,150**	**38,540**	**39,730**	**37,150**	**36,900**	**39,147**	**143,040**	**152,927**	**37,150**	*(0.7)*
% of Sales	*14.6*	*13.8*	*13.5*	*14.5*	*15.1*	*13.9*	*13.0*	*13.7*	*14.1*	*13.9*	*13.4*	-
EBIT	**39,920**	**44,280**	**52,290**	**48,360**	**44,600**	**49,340**	**56,150**	**52,511**	**184,850**	**202,601**	**54,824**	*2.4*
YoY Change (%)	*1.6*	*13.1*	*22.8*	*18.8*	*11.7*	*11.4*	*7.4*	*8.6*	*14.1*	*9.6*	*4.8*	-
Margin (%)	*17.0*	*17.9*	*19.6*	*18.2*	*17.0*	*18.5*	*19.7*	*18.3*	*18.2*	*18.4*	*19.7*	-
Foreign Exchange Gain Loss	820	460	30	-400	-220	-150	290	270	910	190	-	-
Other Income	2,630	1,110	1,410	3,970	2,580	2,090	2,300	3,026	9,120	9,996	1,968	*16.9*
PBT	**43,370**	**45,850**	**53,730**	**51,930**	**46,960**	**51,280**	**58,740**	**55,806**	**194,880**	**212,786**	**56,792**	*3.4*
Tax	10,560	10,960	12,760	12,120	11,650	12,950	15,230	14,119	46,400	53,949	14,342	*6.2*
ETR (%)	*24.3*	*23.9*	*23.7*	*23.3*	*24.8*	*25.3*	*25.9*	*25.3*	*23.8*	*25.4*	*25.3*	-
Reported PAT	32,830	34,900	40,970	39,830	35,340	38,320	43,500	41,677	148,510	158,837	42,450	*2.5*
Adj. PAT	**32,830**	**34,900**	**40,970**	**39,830**	**35,340**	**38,320**	**43,500**	**41,677**	**148,510**	**158,837**	**42,450**	*2.5*
YoY Change (%)	*2.1*	*6.9*	*19.0*	*10.9*	*7.6*	*9.8*	*6.2*	*4.6*	*14.6*	*14.4*	*3.6*	-
Adj. EPS	**12.1**	**12.9**	**15.1**	**14.7**	**13.0**	**14.1**	**16.0**	**15.4**	**54.9**	**58.6**	**15.7**	*2.3*

Source: Company, Nirmal Bang Institutional Equities Research.

Exhibit 2: Change in our estimates

HCL TECH	New			Old			*% Change*		
Change in estimates	**FY24E**	**FY25E**	**FY26E**	**FY24E**	**FY25E**	**FY26E**	***FY24E***	***FY25E***	***FY26E***
INR/USD	82.6	83.7	86.3	82.5	83.7	86.3	*0.1*	*-*	*-*
USD Revenue (USD mn)	13,323	14,355	16,241	13,215	14,234	16,232	*0.8*	*0.9*	*0.1*
USD Revenue Growth (%)	*5.9*	*7.7*	*13.1*	*5.0*	*7.7*	*14.0*	*-*	*-*	*-*
Revenue (Rsbn)	1,101	1,202	1,402	1,091	1,191	1,401	*0.9*	*0.9*	*0.1*
EBIT (Rsbn)	203	221	260	200	216	260	*1.2*	*2.4*	*(0.1)*
EBIT Margin (%)	*18.4*	*18.4*	*18.5*	*18.4*	*18.1*	*18.6*	*-*	*-*	*-*
PAT (Rsbn)	159	177	206	156	169	202	*1.7*	*4.3*	*1.7*
FDEPS (Rs)	58.6	65.2	75.9	57.6	62.5	74.6	*1.7*	*4.3*	*1.7*

Source: Company, Nirmal Bang Institutional Equities Research.

Exhibit 3: Vertical-based USD and CC QoQ and YoY revenue growth in 3QFY24

Verticals	**Contribution to Revenue (%)**	**CC Growth-QoQ(%)**	**CC Growth-YoY(%)**	**USD Growth-QoQ(%)**	**USD Growth-YoY(%)**
Financial Services	22.6	-1.3	12.9	1.7	14.8
Manufacturing	19.3	7.6	5.8	10.3	7.4
Life Sciences & Healthcare	17.5	-3.2	0.5	-0.8	1.0
Public Services	9.9	0.7	-0.6	3.8	0.1
Retail & CPG	9.6	2.9	11.7	5.9	13.6
Telecom	8.0	25.9	8.3	28.4	8.6
Technology & Services	13.1	0.5	-9.2	3.5	-9.0
Total	**100**	**6.0**	**4.3**	**5.9**	**5.3**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Geography- based USD and CC QoQ and YoY revenue growth in 3QFY24

Geographies	Contribution to Revenue	CC Growth-QoQ(%)	CC Growth-YoY(%)	USD Growth-QoQ(%)	USD Growth-YoY(%)
Americas	64.5	3.1	6.7	5.9	6.9
Europe	29.0	5.0	1.7	7.8	4.9
Rest of the World(ROW)	6.4	-5.3	-7.5	-3.2	-9.0
Total	**100**	**6.0**	**4.3**	**5.9**	**5.3**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Segment wide revenue analysis in 3QFY24

Mode	Revenue (in US$Mn)	Revenue Mix	EBIT Margin	QoQ Growth (in CC)	YoY Growth (in CC)
IT and Business Services	2449	71.7	17.1	1.90	4.30
Engineering and R&D Services	560	16.4	21.1	8.70	3.60
Products & Platforms	420	12.3	32.9	32.00	5.00
Total	**3429**	**100**	**19.7**	**6.0**	**4.3**

Source: Nirmal Bang Institutional Equities Research

Exhibit 7: Cashflow performance over the quarters

	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Operating Cash Flow (US$ mn)	584	735	229	506	582	924	484	827	462
Free Cash Flow (US$ mn)	521	685	166	462	531	886	452	792	438
Operating cash Flow/Net Income (%)	127	155	54	116	117	192	113	178	88
Net Cash (US$ mn)	2,140	2,388	1,724	1,760	1,760	2,536	2,394	2,558	2,617

Source: Nirmal Bang Institutional Equities Research

View on the Indian IT services sector: We had downgraded our view on the Indian IT Services sector to UW in a report on 10th April, 2022 (Positive surprises likely low in FY23; Tier-2 risky) and continued to remain underweight through our notes on 19th May, 2022 (Customer stress shows up), 8th July, 2022 (Negatives not in price), 10th October, 2022 (Growth expectations too high), 20th March, 2023 (Sell into delayed landing outperformance), 14thJune 2023 (Too early to be positive),and 26th September, 2023(Cut FY25 estimates; Slower for longer; Sell into the FOMO rally)

We advocate that investors use the 'delayed/no landing' rally seen since October 2022 to pare positions if 'overweight', especially in the Tier-2 set. Nifty IT index has advanced by ~117% from 31st Dec, 2019 till 14th Dec, 2023 while Nifty is up by ~73%. This massive outperformance of Nifty IT has been on the back of pandemic-driven Digital Transformation (DT) services-based earnings acceleration and significant multiple expansion on unprecedented monetary stimulus in the US/Europe. The DT high tide over 2HFY20-1HFY23 lifted all boats (including weak ones). However, accelerated normalization of monetary policy in the US raises probabilities of a shallow recession there and consequently high probability of negative surprises on the fundamental side over the next 12 months. We believe consensus is underestimating growth and margin risks in FY25 as it did in FY24. While DT services will continue to remain a key theme over the medium term, we believe IT spends will be curtailed by an 'ability-to-spend' problem as enterprise customers battle earnings pressure from wage inflation, reduced end customer spending power, higher interest rates and likely below-trend growth in western developed economies. This, in our view, will mean that the corporate profits of S&P 500 for CY24 will likely be weaker than currently estimated (although they have been better than expected in CY2023). We also believe that the broader enterprise customer profit picture might look worse. Beyond FY23, we see customers shifting from the current democratic 'skills/capability' focused vendor model to a more discriminating one based on an 'ability-to-deliver' (1) cost take outs and (2) business model changes - in that order. It is here that one will see divergence in growth and valuation. Incrementally, risks are to the downside from both valuation as well as fundamental perspective. We favor Tier-1 IT companies vs Tier-2.

We persist with our 20-month-old 'UW' stance. This is because: (1) We believe that a conclusive Fed pivot is likely only when US core inflation falls to ~2%, which we think is unlikely in the next six months. Financial stress/accident related stopping/easing of current hawkish monetary policy could induce a short-term rally that may not be sustainable (2) Consensus earnings estimates for FY25 continue to be too high and seem to implicitly assume a soft/no landing for the US economy. We are explicitly pricing in a shallow recession sometime in 2024. (3) Even if one were to ignore the next 12–18 months' risks around recession and take a 5-year view, we believe that starting valuations are expensive and can at best deliver mid to high single-digit total stock returns (including capital return to shareholders) for TCS/Infosys, as we believe that structural revenue/earnings growth is being overestimated by the street. We believe that USD revenue growth over a 5-year period (FY23-FY28) for Tier-1 set in aggregate will at best be at par with the FY15-FY20 period (~7%) whereas consensus believes it will be 300-500bps higher. We also expect margins for most companies to remain in a narrow band at around FY24 levels and not see a material expansion (except for Tech Mahindra where it starts from a very low base). *Ceteris Paribus,* this has valuation/return implications.

In our base case of a shallow recession in the US in CY24, we are expecting mid single-digit USD revenue growth for Tier-1 IT companies in FY25. In our estimates for FY25, we are assuming modest pricing compression while we believe the street is not considering the same. We continue to have a 'SELL' rating on all IT stocks under our coverage, except Tech Mahindra. Despite having EPS estimates lower than the street in FY25, we suspect it could still see downsides if there is a deep recession in the US.

We continue to maintain TCS as our industry valuation benchmark: We are valuing TCS at target 12-month forward PE of 20x on Dec. 25E EPS, which represents 0.5SD below the last 10-year mean. Target multiples for others are at a discount to TCS. If one were to look back in history, our Target PE multiples are not overly pessimistic as PE multiples of many Tier-1 IT stocks, including that of TCS and Infosys, had reached single-digit levels during GFC. Our target multiples are in fact at the higher end of the pre-pandemic PE range.

Tier-2 could face significant risks in the new environment: We fear that the Indian Tier-2 set would suffer more because of vendor consolidation under the pressured profit picture for customers, a less diversified revenue mix (client, service line, vertical), which could throw up negative growth surprises (as it has been doing for Mphasis in the last 12 months) and a larger exposure to non-Global 1000 clientele, whose profits are more vulnerable in the current macro environment. Indian Tier-2 IT is now at a PE premium of ~40% to Tier-1 (peak of ~60% in November 2021 and the recent low of 10% in January 2023). It used to trade at a discount of 14% on 1st January 2020.

This premium reflects expectations of big positive earnings growth gap between Tier-2 and Tier-1 IT companies over FY21-FY23 and improving return ratios sustaining beyond FY23. We do not agree with that view. We think that the earnings growth gap will compress due to slower revenue growth and next-to-no margin expansion from current levels for most Tier-2 companies. The high PE multiples are also a reflection of the market's view that some Tier-2 IT companies will become US$5-10bn enterprises in the next 10-20 years. Once the 'Digital' high tide recedes, it remains to be seen which of the current Tier-2 set will continue to show promise. In the initial phase of any new tech cycle, customers tend to be open to new vendors, but as the cycle matures (post FY23 in our view), vendors that have scale – Tier-1 - tend to do better. We think customers are looking for revolutionary transformation, which Tier-1 companies with multi-vertical exposure and deeper domain/technology skills are best placed to deliver.

Highlights from the 3QFY24 analyst call

Revenue beats estimates

- Revenue for 3QFY24 came in at US$3.415bn and was higher than our estimate of US$3.334bn by 2.4%. It was up by 6% and 4.3% on QoQ and YoY basis, respectively. 100bps of the QoQ growth came from the ASAP acquisition.
- The Services business delivered 3.1% QoQ CC growth while the HCL Software business surprised positively by 5% QoQ in CC terms, in a seasonally weak quarter. The management is attributing the improvement to subscription and support revenue. The ERS segment grew 8.7% in CC terms sequentially, including the recent ASAP acquisition related growth. Organic growth in the ER&D business was at 2.5% sequentially.
- Efficiency related projects have seen urgency, while transformation projects have been delayed by clients.
- Software revenue has grown 4.2% YoY in CC while in the same period previous year, it stood at a meagre 1.8% (ex-divestment of IP partnership with DXC).
- Services revenue run rate crossed US$12bn, $3bn for 3QFY24 and up 3.1% QoQ, out of which 2% is organic and 1.1% is from the ASAP acquisition.

Verticals and Geographies

- Telecom & Media had robust growth at 25.9%, primarily due to the Verizon deal ramping up while manufacturing grew 7.6%, with the ASAP acquisition contributing a healthy portion of this growth, on QoQ basis in CC terms.
- Retail grew by 2.9%, while Technology & services and Public services were flat at 0.5% and 0.7%, respectively.
- BFSI declined 1.3% QoQ due to higher furloughs, but grew 12.9% YoY on CC terms and Life Sciences & Healthcare declined by 3.2% QoQ.
- Americas and Europe grew by 3.1% and 5% on QoQ basis in CC terms while ROW declined by 5.3%. The ASAP acquisition is also included in the strong performance in Europe.

Guidance revised downward

- The FY24 guidance upper band has been narrowed down from 5-6% to 5-5.5% as the discretionary spend is still muted, apart from a few pockets like Cloud Migration, SAP, Cybersecurity and Advanced Analytics. These projects are taken forward by clients only if the ROI is justified. At a company level, the ask rate for 4Q is in a range of 0.3 to 2.1% and at a services level, 1.6% to 3.5%
- EBIT margin guidance for FY24 was maintained at 18-19%.

Margins in line with our estimates

- EBIT margin for 3QFY24 stood at 19.7%, meeting our estimate. It was higher by 16bps and 126bps on YoY and QoQ basis, respectively.
- Services margin was under pressure by 48bps QoQ, primarily due to increments weighing 65bps while Software outperformed and contributed 180bps at the company level.

Demand Environment/Outlook

- HCLT believes that while overall discretionary spend remains uncertain, there are opportunities that should persist like cloud migration, SAP, data modernization, cybersecurity, hyper automation, and advanced analytics.
- Growth should be persistent in the ER&D, as decent growth is expected in the coming quarter as well. Reversal of furloughs should also help in achieving expected growth in Q4.
- 20-25bps impact of wage hike charges on margins foreseen in 4QFY24.

Order Book

- Net new bookings for 3QFY24 stood at US$1.93bn after signing a mega deal the previous quarter. YTD bookings stood at US$7.5bn growing by 10% over the same period last year. Bookings are new deals and not renewals.
- 18 are large deals, 6 in services and 12 in the software business.
- HCLT indicated that a large Fortune 50 CPG company expanded its digital transformation partnership along with end-to-end full stack hyper automation and cloud native services. This is a 5-year mega deal which would allow HCLT to leverage its GenAI capabilities.
- Vendor consolidation for large clients is helping HCLT in expanding its product/service offering in US financial services. Some increases are visible in terms of big tech, while smaller clients are still in a challenged space.

Generative AI

- HCLT highlighted that it had 30 wins in GenAI related projects. It indicated that the pipeline, though not the highest, is still very strong distributed across large and medium deals even though it's still early and a lot of POCs and pilot projects are visible.
- It has trained 42,000 of its employees in the pursuit to build its AI capabilities for driving internal and external efficiencies as more demand is seen in cost optimization rather than transformation at the moment.
- Almost all products, including Unica and commerce are getting embedded with GenAI out of Indian facilities.

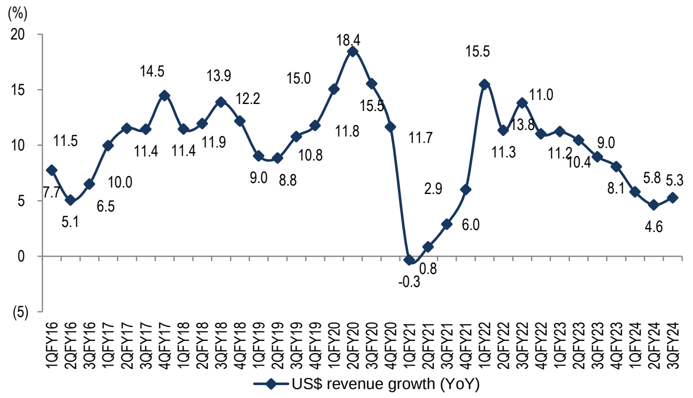
Employee metrics

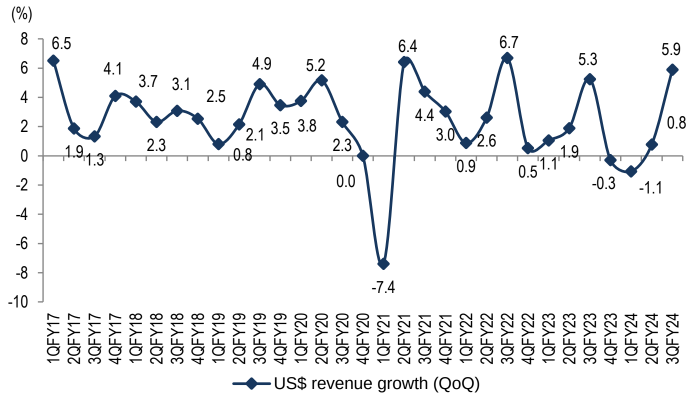
- Headcount at the end of 3QFY24 stood at 224,756 employees, with a net addition of 3,617 employees, an increase of 1.6% on a sequential basis.
- Attrition on LTM basis was 12.8% lower by 140bps on QoQ , the lowest since Q1FY21.
- 90% of employee base received an average salary increment of 5-7% and top performers received an average of 12-15% increment globally.

Miscellaneous

- On a YoY basis, HCLT added 3 clients to the US$100mn bucket, taking the total to 20, 4 to the US$50mn bucket, taking the total to 49 clients. It also added 2 clients to the US$20mn bucket, taking the total to 132 clients, added 29 clients to the US$10mn bucket, taking the total to 250 clients and 36 clients to the US$5mn bucket, taking the total to 401.
- HCLT declared a dividend of Rs12 per share in 3QFY24, at a DPR of 90%.
- It launched a GDC in Romania to grow near shore capabilities
- DSO including unbilled revenues were at 86 days, an improvement of 4 days YoY, in line as expected due to seasonality.
- Coforce launched, bringing support and software development lifecycle optimization.

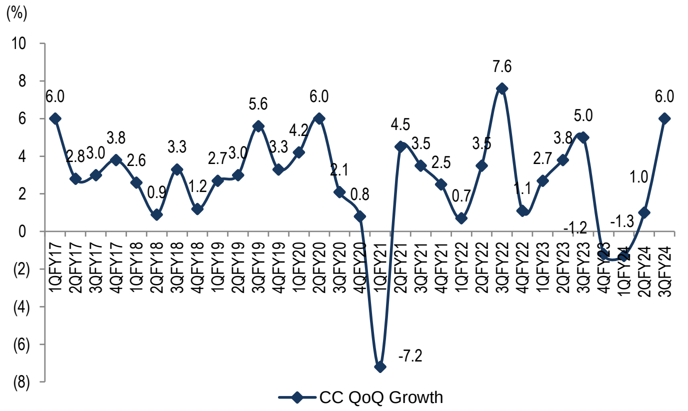
Exhibit 8: USD revenue growth (QoQ & YoY)





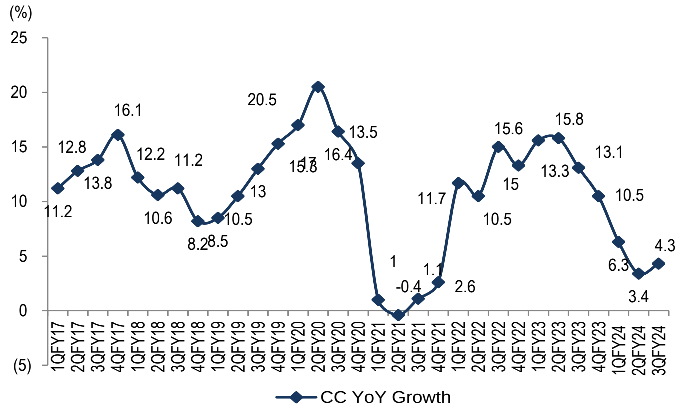
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: QoQ CC revenue growth



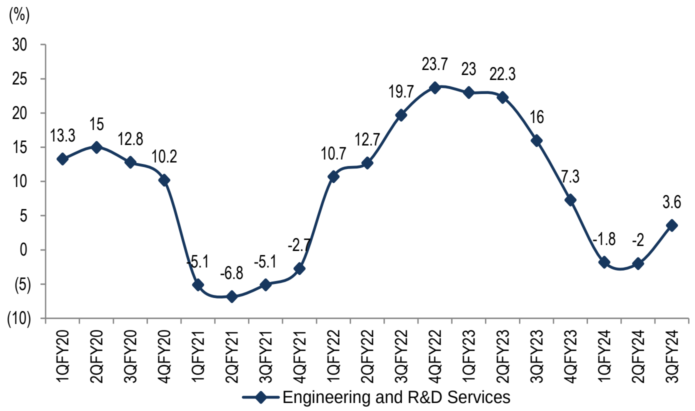
Source: Company, Nirmal Bang 4nstitutional Equities Research

Exhibit 10: Overall revenue growth YoY CC



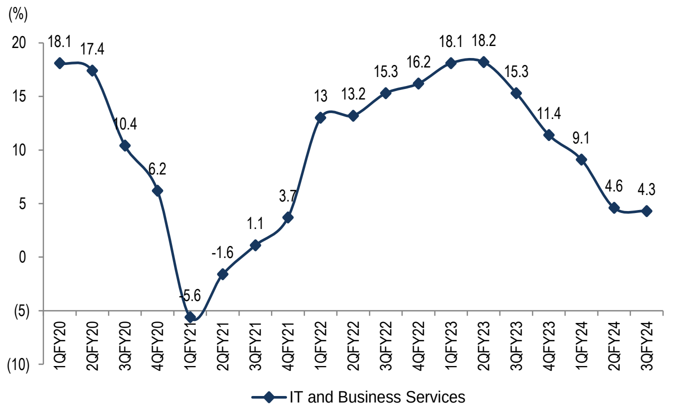
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: ITBS YoY CC



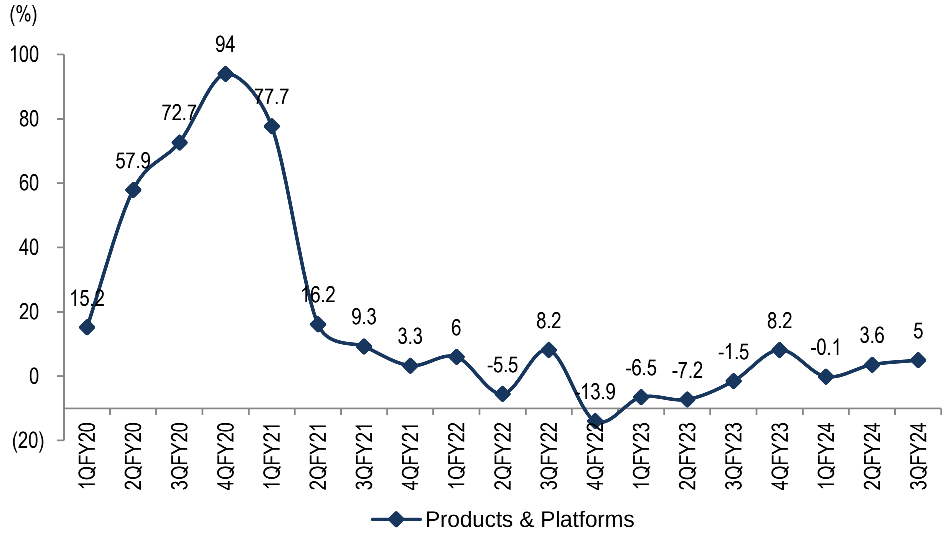
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: ERDS YOY CC growth



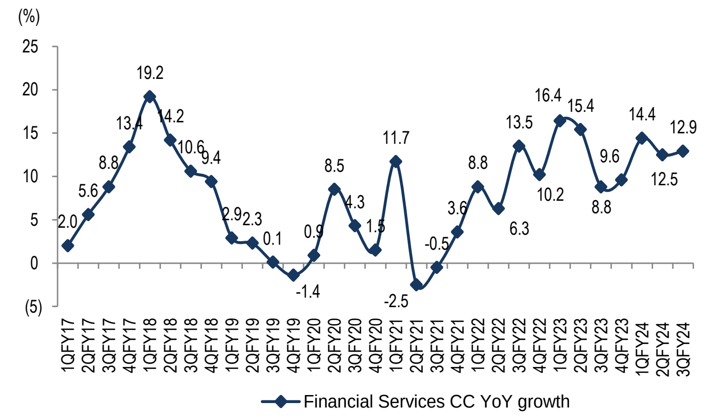
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Products and platforms YoY cc growth



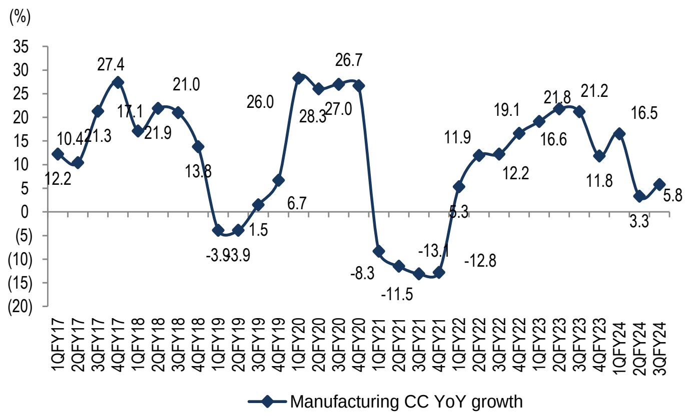
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: BFSI YoY CC growth



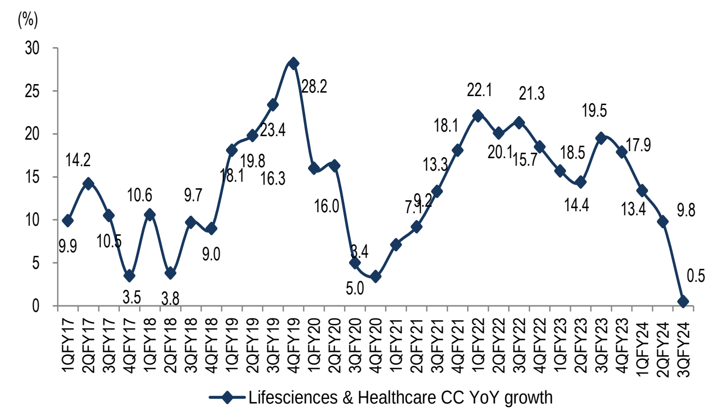
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Manufacturing YOY CC growth



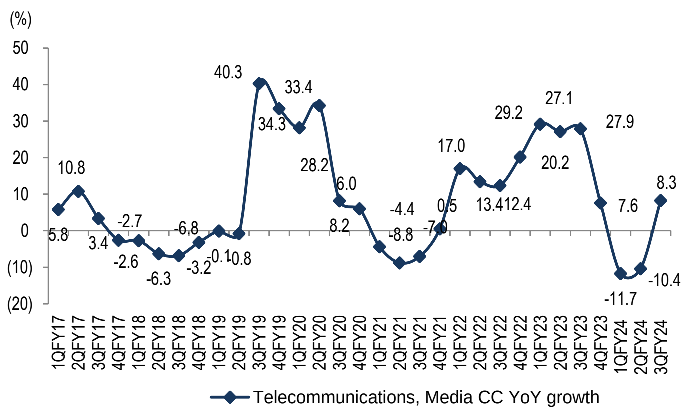
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Life sciences and Healthcare growth YoY CC



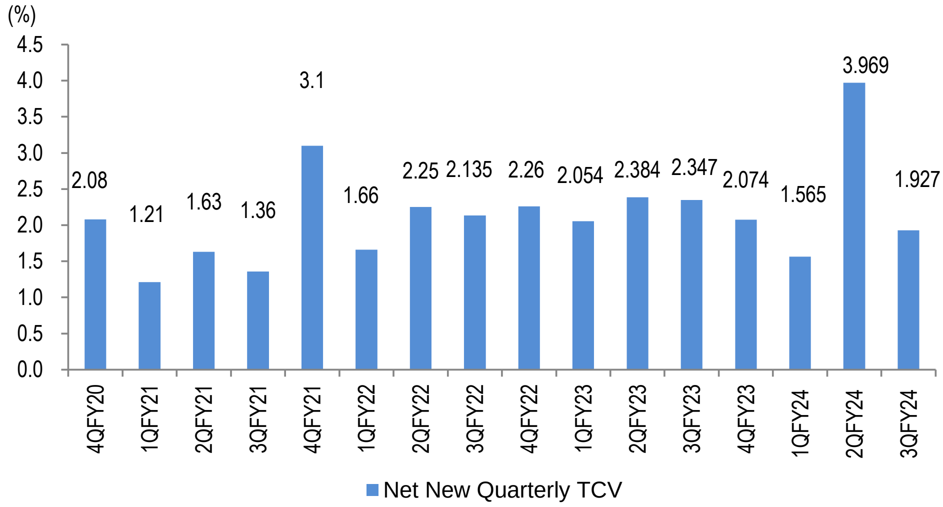
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Telecom, Media YOY CC growth



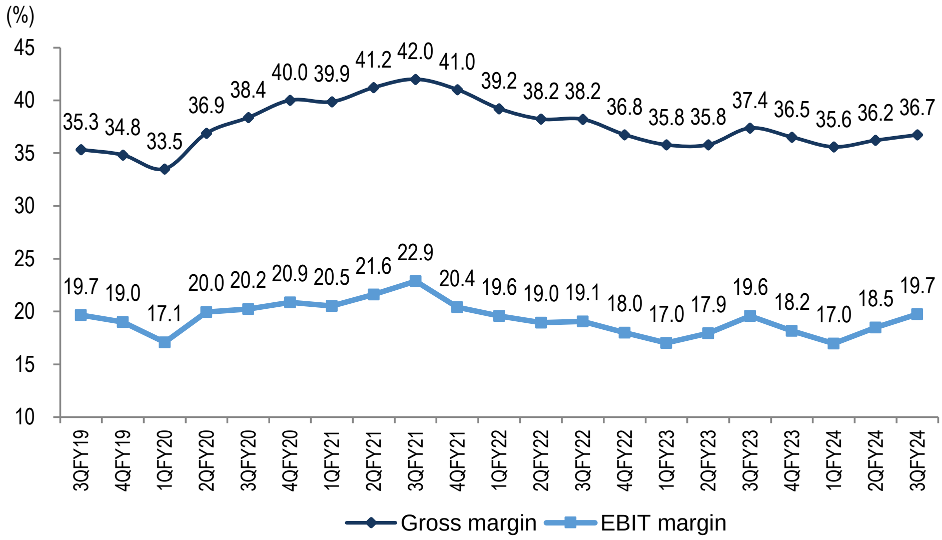
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Quarterly Net new TCV wins (in US$bn)



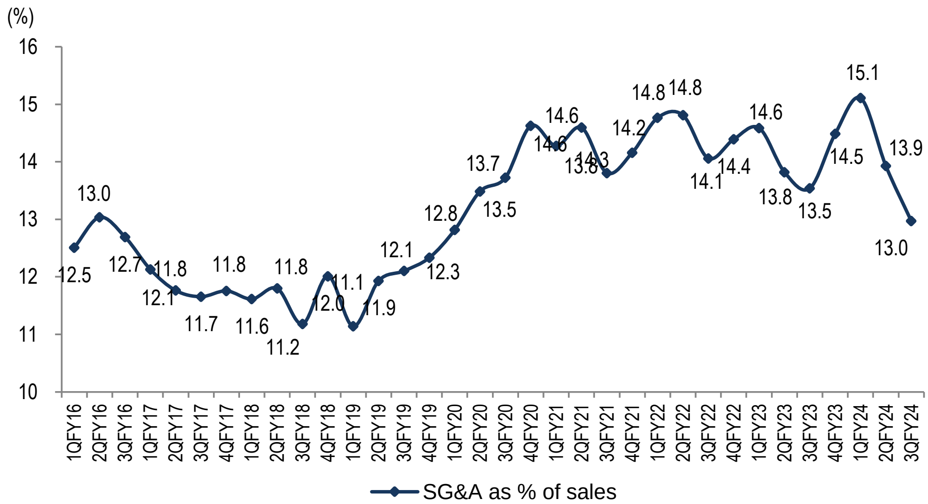
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 19: Gross Margin and EBIT Margin



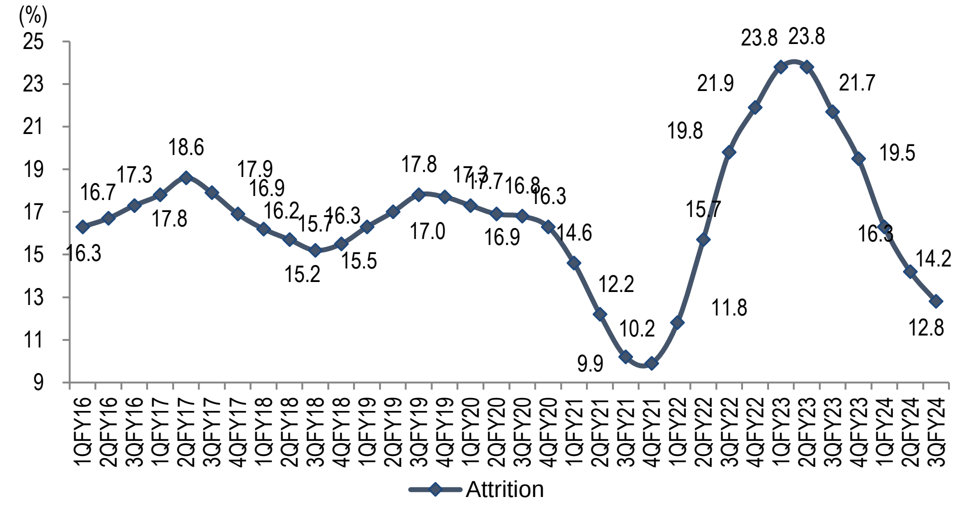
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 20: SG&A spending



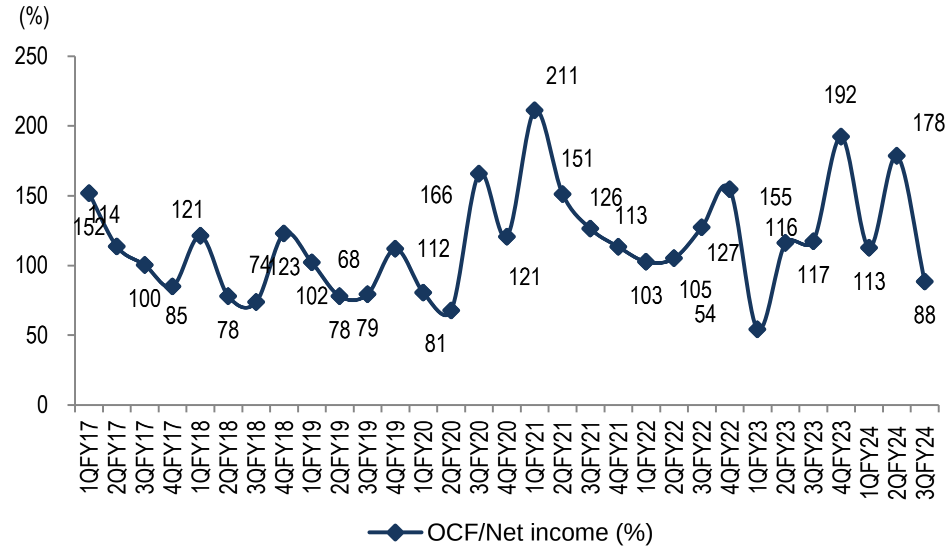
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 21: Attrition trends



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 22: OCF/Net income trend in the last few quarters



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 23: Top client analysis

	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Revenue concentration									
Top 5 clients	12.2	11.6	11.2	10.7	10.3	10.1	9.8	9.8	9.8
Top 10 clients	20.3	19.8	19.4	18.8	18.2	17.7	17.2	17.2	17.7
Top 20 clients	29.4	29.1	28.9	28.6	28.2	27.8	27.2	27.3	28.0
Non-top 20 clients	70.6	70.9	71.1	71.4	71.8	72.2	72.8	72.7	72.0
Revenue Growth (QoQ)									
Top 5 clients	2.5	-4.4	-2.4	-2.7	1.3	-2.2	-4.0	0.8	5.9
Top 6-10 clients	8.0	1.8	1.1	0.6	2.7	-4.1	-3.7	0.8	13.1
Top 10 clients	4.6	-2.0	-1.0	-1.3	1.9	-3.0	-3.9	0.8	9.0
Top 11-20 clients	5.5	2.7	3.2	5.1	7.4	0.7	-2.0	1.8	8.0
Top 20 clients	4.9	-0.5	0.4	0.8	3.8	-1.7	-3.2	1.1	8.6
Non-top 20 clients	7.5	1.0	1.3	2.3	5.8	0.3	-0.2	0.6	4.9
Relationship Distribution									
No. of USD1 mn+ Clients	864	882	880	890	937	939	947	971	958
No. of USD5 mn+ Clients	346	349	353	356	365	375	390	402	401
No. of USD10 mn+ Clients	198	208	218	220	221	229	237	243	250
No. of USD20 mn+ Clients	110	118	127	128	130	131	127	132	132
No. of USD50 mn+ Clients	17	18	19	19	20	20	24	25	25
No. of USD100 mn+ Clients	7	7	7	8	7	8	8	8	8

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 24: Quarterly snapshot

Year to 31 March (Rsmn)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
INR/USD	74.94	75.52	77.62	79.98	82.34	82.30	82.17	82.72	83.28
USD Revenue (USD mn)	2,978	2,993	3,025	3,082	3,244	3,235	3,200	3,225	3,415
INR Revenue	223,310	225,970	234,640	246,860	267,000	266,060	262,960	266,720	284,460
Gross margin	85,330	83,050	83,980	88,380	99,800	97,170	93,600	96,590	104,480
EBITDA	53,930	50,530	49,750	54,260	63,650	58,630	53,870	59,440	67,580
EBIT	42,570	40,690	39,920	44,280	52,290	48,360	44,600	49,340	56,150
Other income	1,730	2,520	3,450	1,570	1,440	3,570	2,360	1,940	2,590
PBT	44,300	43,210	43,370	45,850	53,730	51,930	46,960	51,280	58,740
Tax	9,820	7,210	10,560	10,960	12,760	12,120	11,650	12,950	15,230
One time bonus									
PAT	34,420	35,930	32,830	34,900	40,970	39,830	35,340	38,320	43,500
EPS	12.7	13.3	12.1	12.9	15.1	14.7	13.0	14.1	16.0
YoY growth (%)									
USD Revenue	13.8	11.0	11.2	10.4	9.0	8.1	5.8	4.6	5.3
INR Revenue	15.7	15.1	16.9	19.5	19.6	17.7	12.1	8.0	6.5
Gross Profit	5.2	3.1	6.7	11.9	17.0	17.0	11.5	9.3	4.7
EBITDA	-0.9	-4.2	1.4	12.2	18.0	16.0	8.3	9.5	6.2
EBIT	-3.6	1.5	1.6	13.1	22.8	18.8	11.7	11.4	7.4
Net Profit	-13.6	226.0	2.1	6.9	19.0	10.9	7.6	9.8	6.2
QoQ growth (%)									
USD Revenue	6.7	0.52	1.1	1.9	5.3	-0.3	-1.1	0.8	5.9
INR Revenue	8.1	1.2	3.8	5.2	8.2	-0.4	-1.2	1.4	6.7
EBITDA	11.5	-6.3	-1.5	9.1	17.3	-7.9	-8.1	10.3	13.7
EBIT	8.7	-4.4	-1.9	10.9	18.1	-7.5	-7.8	10.6	13.8
Net Profit	5.5	4.4	-8.6	6.3	17.4	-2.8	-11.3	8.4	13.5
Margins (%)									
Gross Margin	38.2	36.8	35.8	35.8	37.4	36.5	35.6	36.2	36.7
EBITDA	24.2	22.4	21.2	22.0	23.8	22.0	20.5	22.3	23.8
EBIT	19.1	18.0	17.0	17.9	19.6	18.2	17.0	18.5	19.7
PAT	15.4	15.9	14.0	14.1	15.3	15.0	13.4	14.4	15.3
SGA	14.1	14.4	14.6	13.8	13.5	14.5	15.1	13.9	13.0

Source: Company, Nirmal Bang Institutional Equities Research

Note: FY21 numbers exclude the one-time bonus payment

Exhibit 25: Key metrics

	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
P and L (Rs mn)											
Revenue	200,680	206,550	223,310	225,970	234,640	246,860	267,000	266,060	262,960	266,720	284,460
EBITDA	49,080	48,380	53,930	50,530	49,750	54,260	63,650	58,630	53,870	59,440	67,580
PAT	32,150	32,640	34,420	35,930	32,830	34,900	40,970	39,830	35,340	38,320	43,500
Vertical Mix (%)											
Banking, FS & Insurance (BFSI)	22.1	21.3	21.1	20.9	21.1	20.6	19.9	21.2	22.6	22.6	21.7
Hi-tech - Manufacturing	17.2	17.9	17.5	18.0	18.3	19.2	19.7	19.0	19.9	19.3	20.1
Telecom	7.9	7.9	8.1	8.6	9.2	9.2	9.4	8.8	7.6	8.0	9.7
Retail & CPG	10.0	9.8	10.1	9.4	9.4	9.2	8.9	9.0	9.1	9.6	9.6
Life Sciences	14.7	15.3	14.4	14.9	16.4	16.5	17.1	17.5	17.5	17.5	16.4
Energy-Utilities-Public Sector	10.8	10.6	10.4	10.7	10.2	10.2	10.2	10.2	10.0	9.9	9.7
Others	17.3	17.2	18.4	17.5	15.4	15.1	14.8	14.4	13.4	13.1	12.8
Geographical Mix (%)											
US	63.1	62.8	63.0	62.8	64.2	64.8	63.5	63.8	64.5	64.5	64.5
Europe	27.9	28.3	28.3	28.3	27.8	27.5	29.1	28.9	28.7	28.5	29.0
Asia pacific	9.0	8.9	8.7	8.9	8.0	7.7	7.4	7.3	6.8	7.0	6.4
Project Type (%)											
T&M	33.6	35.4	34.5	36.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fixed-Price	66.5	64.6	65.5	63.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Employees	176,499	187,634	197,777	208,877	210,966	219,325	222,270	225,944	223,438	221,139	224,756
Net new addition	7,522	11,135	10,143	11,100	2,089	8,359	2,945	3,674	-2,506	-2,299	3,617
Attrition (%)	11.8	15.7	19.8	21.9	23.8	23.8	21.7	19.5	16.3	14.2	12.8
Segmental revenue mix											
IT and Business Services	71.6	72.6	70.6	73.4	72.8	73.7	71.6	73.7	74.7	74.6	71.7
Engineering and R&D Services	15.3	15.7	15.9	16.4	16.6	17	16.6	16.1	15.4	16	16.4
Products & Platforms	13.6	12.2	14.0	10.8	11	9.8	12.3	10.6	10.4	9.9	12.3
Inter Segment	-0.5	-0.5	-0.5	-0.5	-0.4	-0.5	-0.5	-0.4	-0.5	-0.5	-0.4
Productivity Metrics(USD mn)											
Revenue	2,720	2,791	2,978	2,993	3,025	3,082	3,244	3,235	3,200	3,225	3,415
EBIT	535	529	567	537	515	553	635	584	543	597	675
PAT	436	443	459	475	423	436	496	481	430	463	523

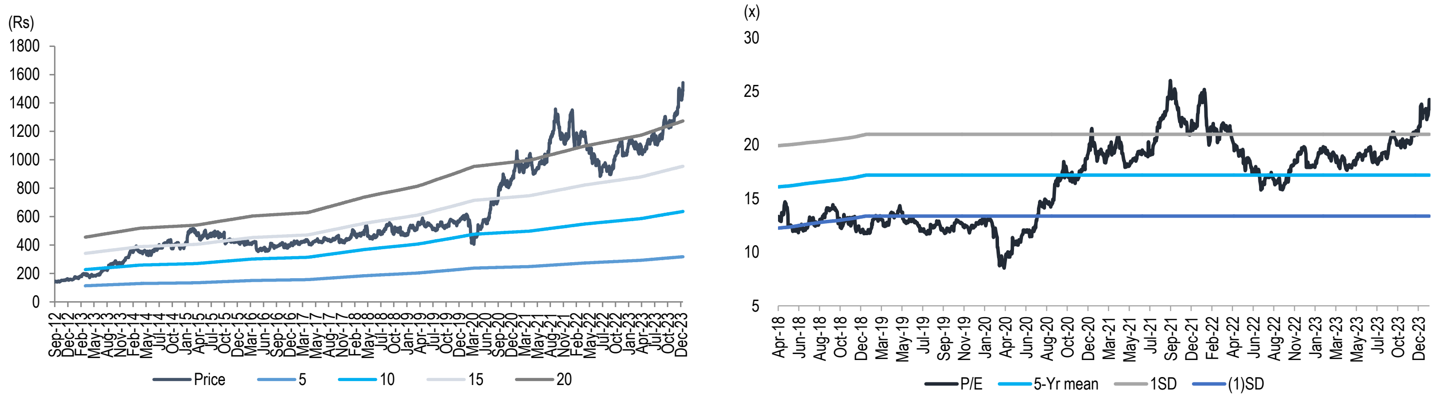
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 26: YoY and QoQ performance on various parameters

QoQ Growth (%)	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Geography-wise												
US	2	3	2	7	0	3	3	3	0	0	1	6
Europe	1.6	(3.3)	4.1	6.7	0.5	(0.7)	0.8	11.4	(1.0)	(1.8)	0.1	7.8
Asia pacific	15	2	1	4	3	(9)	(2)	1	(2)	(8)	4	(3)
Total	3	1	3	7	1	1	2	5	(0)	(1)	1	6
Non-US	4	(2)	3	6	1	(3)	0	9	(1)	(3)	1	6
Vertical Wise												
Banking, FS & Insurance (BFSI)	4	3	(1)	6	(0)	2	(1)	2	6	5	1	2
Hi-tech - Manufacturing	1	(2)	7	4	3	3	7	8	(4)	4	(2)	10
Telecom	1	(2)	3	9	7	8	2	8	(7)	(15)	6	28
Retail	(1)	(0)	1	10	(6)	1	(0)	2	1	0	6	6
Life Sciences	7	5	7	0	4	11	3	9	2	(1)	1	(1)
Energy-Utilities-Public Sector	11	(3)	1	5	3	(4)	2	5	(0)	(3)	(0)	4
Technology & Services	(0)	1	2	14	(4)	(11)	(0)	3	(3)	(8)	(1)	3
Client Concentration												
Top 5 clients	1	(1)	0	2	(4)	(2)	(3)	1	(2)	(4)	1	6
Top 10 clients	3	0	2	5	(2)	(1)	(1)	2	(3)	(4)	1	9
Top 20 clients	3	(0)	1	5	(1)	0	1	4	(2)	(3)	1	9
Segment wise												
IT and Business Services	5	0	4	4	5	0	3	2	3	0	1	2
Engineering and R&D Services	0	2	5	8	4	2	4	3	(3)	(5)	5	9
Products & Platforms	(5)	5	(8)	23	(23)	3	(9)	32	(14)	(3)	(4)	32
YoY Growth (%)												
Geography-wise												
US	4	14	11	15	12	13	14	10	10	6	4	7
Europe	7	14	11	9	8	11	7	12	10	9	8	5
Asia pacific	21	30	17	24	11	(1)	(4)	(7)	(11)	(10)	(5)	(9)
Total	6	15	11	14	11	11	10	9	8	6	5	5
Non-US	10	17	12	12	9	8	5	7	5	5	6	2
Vertical Wise												
Banking, FS & Insurance (BFSI)	9	14	7	12	7	6	7	3	10	13	15	15
Hi-tech - Manufacturing	(9)	10	13	10	13	18	18	23	14	15	5	7
Telecom	3	20	14	11	18	30	29	26	11	(13)	(9)	9
Retail	5	15	5	9	3	5	4	(4)	3	2	9	14
Life Sciences	20	24	21	20	17	24	19	29	27	13	11	1
Energy-Utilities-Public Sector	7	13	10	14	6	5	6	7	3	4	2	0
Technology & Services	13	16	11	18	13	(1)	(3)	(12)	(11)	(8)	(9)	(9)
Client Concentration												
Top 5 clients	(7)	8	3	3	(2)	(4)	(7)	(8)	(6)	(7)	(4)	0
Top 10 clients	1	15	10	10	5	4	0	(2)	(3)	(6)	(4)	2
Top 20 clients	2	14	9	8	5	6	6	5	3	(0)	(0)	5
Segment wise												
IT and Business Services	8	18	14	14	13	13	12	11	8	9	6	5
Engineering and R&D Services	(2)	11	11	17	20	20	20	14	6	(2)	(2)	4
Products & Platforms	5	14	0	13	(8)	(10)	(11)	(4)	6	0	6	5

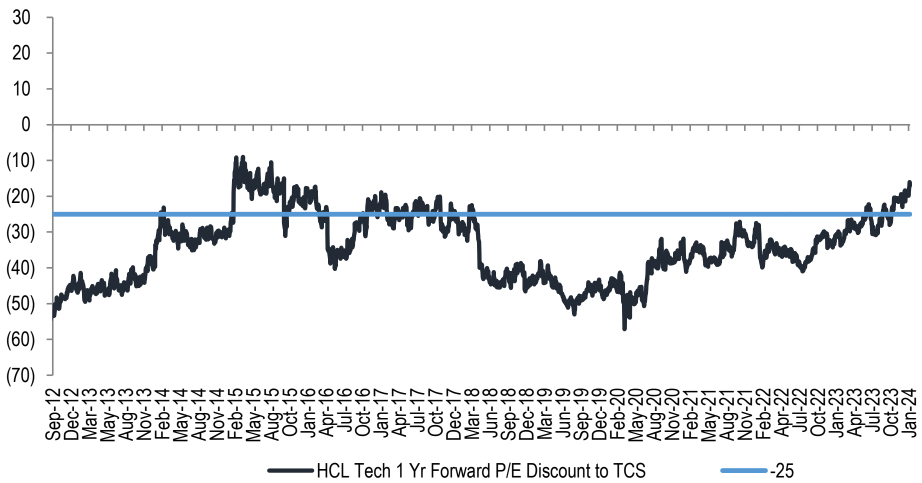
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 27: P/E charts



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 28: P/E (discount)/premium of HCLT to TCS



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Financials

Exhibit 29: Income statement

Y/E March (Rsbn)	FY22	FY23	FY24E	FY25E	FY26E
Average INR/USD	**74.6**	**80.6**	**82.6**	**83.7**	**86.3**
Net Sales (USD mn)	**11,481**	**12,586**	**13,323**	**14,355**	**16,241**
YoY Growth (%)	**12.8**	**9.6**	**5.9**	**7.7**	**13.1**
INR Net Sales (Rs bn)	**857**	**1,015**	**1,101**	**1,202**	**1,402**
YoY Growth (%)	13.6	18.5	8.5	9.1	16.7
Cost of Sales & Services	528	645	703	767	902
Gross Margin	**329**	**369**	**398**	**435**	**500**
% of sales	38.4	36.4	36.1	36.2	35.7
SG&A	124	143	153	166	189
% of sales	14.4	14.1	13.9	13.8	13.5
EBITDA	**205**	**226**	**245**	**268**	**311**
% of sales	24.0	22.3	22.2	22.3	22.2
Depreciation and Amortization	43	41	42	47	51
% of sales	5.1	4.1	3.8	3.9	3.7
EBIT	**162**	**185**	**203**	**221**	**260**
% of sales	**18.9**	**18.2**	**18.4**	**18.4**	**18.5**
Other income (net) (incl forex gain/loss)	7	10	10	15	16
PBT	170	195	213	236	275
Provision for tax	34	46	54	60	70
Effective tax rate (%)	20.2	23.8	25.4	25.3	25.3
Minority Interest	0	0	0	0	0
Net profit	**135**	**149**	**159**	**177**	**206**
-Growth (%)	4.3	10.0	7.0	11.2	16.4
-Net profit margin (%)	15.8	14.6	14.4	14.7	14.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 30: Cash flow

Y/E March (Rsbn)	FY22	FY23	FY24E	FY25E	FY26E
EBIT	**162**	**185**	**203**	**221**	**260**
(Inc.)/Dec. in Working Capital	(22)	(23)	(14)	(9)	(24)
Cash flow from Operations	**140**	**162**	**189**	**212**	**236**
Other Income	7	10	10	15	16
Depreciation & Amortisation	43	41	42	47	51
Tax Paid	(34)	(46)	(54)	(60)	(70)
Net Cash from Operations	**156**	**167**	**188**	**214**	**233**
Capital Expenditure	(22)	(36)	(53)	(59)	(66)
Net Cash after Capex	135	131	135	156	167
Inc./(dec.) in Debt	(2)	(16)	6	0	0
(Inc.)/Dec. in Investments	24	(25)	(52)	1	9
Equity Issue/(Buyback)	-	-	-	-	-
Dividends Paid	119	130	141	160	184
Cash from Financial Activities	(97)	(170)	(187)	(159)	(175)
Others	2	24	53	3	8
Opening Cash	65	105	91	91	91
Closing Cash	105	90	91	91	91
Change in Cash	40	(15)	1	(0)	(0)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 31: Balance sheet

Y/E March (Rsbn)	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	1	1	1	1	1
Minority Interest	1	0	0	0	0
Reserves & surplus	618	653	667	683	705
Net worth	**619**	**654**	**668**	**685**	**706**
Other liabilities	27	28	35	38	45
Total loans	40	23	24	24	24
Lease Liabilites	24	25	30	30	30
Total liabilities	**710**	**730**	**757**	**777**	**805**
Intangible assets	272	269	0	0	0
Net block	57	54	333	345	360
Investments	3	5	7	7	7
Other non-Current assets (FD,etc)	55	47	47	51	60
Debtors	155	196	212	229	273
Cash & bank balance	105	91	91	91	91
Other Current assets	221	249	245	249	252
Right of use assets	23	23	27	27	27
Total Current assets	503	559	576	596	642
Total Current liabilities	180	204	206	222	264
Net Current assets	323	355	370	374	378
Total assets	**710**	**730**	**757**	**776**	**805**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 32: Key ratios

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Per Share (Rs)					
EPS	49.8	54.9	58.7	65.2	75.9
FDEPS	49.8	54.9	58.6	65.2	75.9
Dividend Per Share	44.0	48.0	52.0	59.0	68.0
Dividend Yield (%)	2.9	3.1	3.4	3.8	4.4
Book Value	228	242	247	253	261
Dividend Payout Ratio (excl DDT)	88	88	89	90	90
Return ratios (%)					
RoE	22.2	23.3	24.0	26.1	29.6
Post Tax RoCE	18.4	19.6	20.3	21.6	24.5
Post Tax ROIC	26.3	28.3	30.8	33.8	37.5
Turnover Ratios					
Asset Turnover Ratio	1.0	1.1	1.1	1.1	1.2
Debtor Days (incl. unbilled Rev)	66	70	70	70	71
Working Capital Cycle Days	35	38	39	39	39
Valuation ratios (x)					
PER	31.0	28.1	26.3	23.7	20.3
P/BV	6.8	6.4	6.3	6.1	5.9
EV/EBTDA	19.6	17.7	16.2	14.8	12.8
EV/Sales	4.7	3.9	3.6	3.3	2.8
Net Debt/Equity	-0.3	-0.3	-0.3	-0.3	-0.3
M-cap/Sales	4.9	4.1	3.8	3.5	3.0

Source: Company, Nirmal Bang Institutional Equities Research

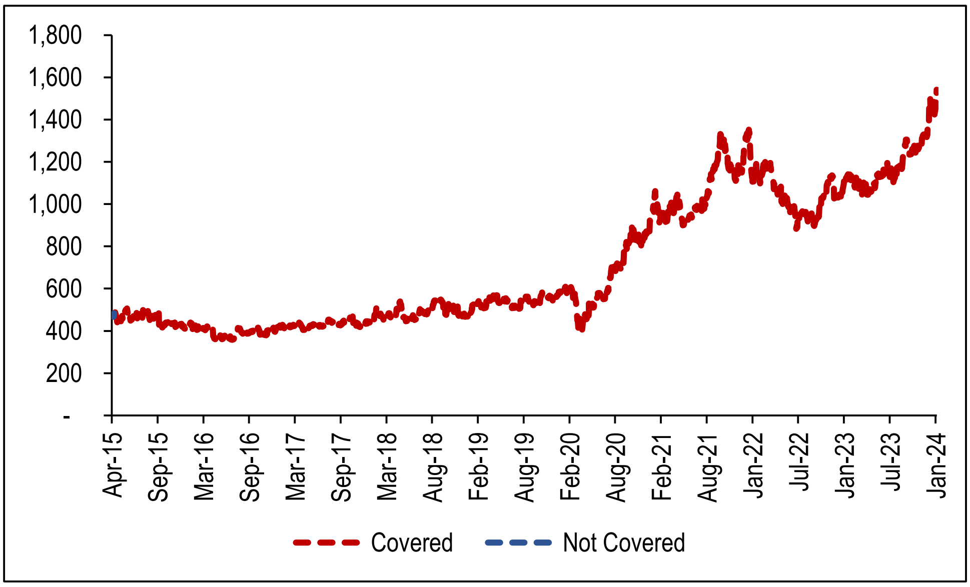
Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
13 April 2015	Accumulate	959	1,013
22 April 2015	Accumulate	895	1,014
4 August 2015	Accumulate	938	1,008
1 October 2015	Accumulate	982	991
5 October 2015	Accumulate	859	991
20 October 2015	Buy	859	989
8 January 2016	Under Review	828	-
20 January 2016	Under Review	841	-
14 March 2016	Sell	824	737
29 April 2016	Sell	799	719
4 August 2016	Sell	826	745
24 October 2016	Sell	832	718
10 January 2017	Sell	838	712
25 January 2017	Sell	849	718
14 February 2017	Sell	827	740
12 May 2017	Sell	839	743
21 June 2017	Sell	854	713
28 July 2017	Sell	899	764
28 September 2017	Sell	874	744
26October 2017	Sell	903	763
26 December 2017	Under Review	887	-
22 January 2018	Under Review	958	-
17 March 2018	Accumulate	968	1,048
16 April 2018	Accumulate	991	1,048
3 May 2018	Accumulate	1,001	1,041
3 July 2018	Buy	926	1,131
30 July 2018	Buy	963	1,172
5 October 2018	Buy	1,081	1,281
24 October 2018	Buy	952	1,277
11 December 2018	Buy	942	1,329
27 December 2018	Accumulate	942	1,072
7 January 2019	Accumulate	932	958
30 January 2019	Accumulate	988	1,054
19 March 2019	Accumulate	1,012	1,076
10 May 2019	Accumulate	1,139	1,090
13 August 2019	Accumulate	1,083	1,127
23 August 2019	Accumulate	1,026	1,150
24 October 2019	Accumulate	1,102	1,153
13 November 2019	Accumulate	1146	1,153
2 January 2020*	Under Review	572	-
20 January 2020	Under Review	601	-
31 March 2020	Accumulate	433	483
8 May 2020	Accumulate	512	535
9 July 2020	Under Review	588	-
20 July 2020	Under Review	628	-
6 September 2020	Buy	701	881
28 September 2020	Buy	828	958
18 October 2020	Buy	827	1,053
29 December 2020	Buy	922	1,141
16 January 2021	Buy	990	1,163
25 April 2021	Buy	956	1,150
5 July 2021	Buy	985	1,352
20 July 2021	Buy	1,000	1,334
22 September 2021	Buy	1,300	1,509
17 October 2021	Buy	1,251	1,518
20 December 2021	Buy	1,171	1,600
15 January 2022	Buy	1,337	1,651
8 April 2022	Accumulate	1,175	1,262
22 April 2022	Accumulate	1,099	1,247
19 May 2022	Sell	1,074	978
8 July 2022	Sell	992	898

13 July 2022	Sell	928	866
10 October 2022	Sell	958	850
13 October 2022	Sell	952	842
13 January 2023	Sell	1,072	847
20 March 2023	Sell	1,108	944
21 April 2023	Sell	1,038	930
14 June 2023	Sell	1,140	928
13 July 2023	Sell	1,111	982
26 September 2023	Sell	1,305	1,042
13 October 2023	Sell	1,224	1,029
15 December 2023	Sell	1,415	1,074
14 January 2024	Sell	1,533	1,245

* Post 1:1 Bonus Issue

Rating track graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to15%

SELL < -5%

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