

- ❑ The revenue from operations of the company increased by 8.2% year-on-year to ₹ 2,88,620 million on a consolidated basis. In constant currency (CC) terms the revenue grew by 6.2% YoY and 1.6% QOQ. This strong growth is aided by surge in license revenue of software business with while digital revenue grew by 7.8% YoY along with manufacturing, BFSI and recovery seen in ER&D services.
- ❑ On the business segment front, revenue for IT Business services, Engineering and R&D services grew YoY by 6.2% and 4.3% respectively in constant currency terms.
- ❑ On Vertical front, revenue for financial services stood by (4.5%), Manufacturing by 7.1%, Life sciences & Healthcare by (2.8%), Technology and Services by 5.6%, Telecommunication by 61.2%, Retail & CPG by 6.2% and Public services grew by (2.0%) on YoY CC growth basis .On geography front, revenue for America, Europe and except ROW grew YOY by 7.5%, 4.2% and (2.6%) respectively in constant currency terms.
- ❑ On profitability front, the company's EBITDA for the quarter increased by 7.4% year-on-year to ₹ 63,690 million with a margin of 22.0% in Q2 FY25. The company's net profit stood at ₹ 42,370 million, with a net margin of 14.6% .
- ❑ The company's TCV (New deal wins) stood at US\$ 2,218 mn compared to US\$ 1960 mn in previous quarter. The voluntary employee attrition rate came to 12.9%, down from 14.2% in Q2 of last year.
- ❑ The management has revised the lower band of revenue guidance to 3.5% to 5.0% (from 3-5% guided earlier) YoY on CC basis and EBIT margin guidance remains same i.e 18.0% to 19.0% for FY25. The Board has declared an interim dividend of Rs 12 for the quarter.
- ❑ Going forward for remaining H2 FY25 management expects guided range 0-2% of revenue growth. In 3QFY25, the management expects furlough to remain similar to last year. The company has multiple growth opportunity with focus on data modernization, GenAI stacks, security privacy, cloud engineering and low code capabilities across geographies and verticals. We maintain **HOLD** rating on the stock with a revised target price of **₹2020 per share**.

## Key takeaways from Concall

- ❑ HCL technologies delivered above estimate Q2 numbers in terms of both revenue and profits. Revenue grew by 2.4% QoQ (up 6.8% YoY) to US\$3.44bn in 2QFY25, which is above our estimate. CC revenue increased by 1.6% QoQ (up 5.9% YoY), while digital revenue grew by 7.8% YoY.
- ❑ The management expects BFSI vertical to witness further improvement, while discretionary spend remains unclear. The company is expected to witness impact on margin ~65-80bps in Q4FY25 and 50-60bps in Q4FY24 due to wage hike for India based employees to be around 7% average and top performer by 12-15% while outside India it depends on local statutory requirements.
- ❑ It is also seeing good traction in AI and GenAI related opportunities wherein AI force platform is widely adopted for service transformation and HCL is partnering with companies like Microsoft, AWS, Google cloud to accelerate AI adaption.
- ❑ Despite the headwinds faced due to divestment of the State Street joint venture BPO business the company's service business grew at 1.6% sequentially and 5.9% year-on-year in CC. The top performing verticals on a sequential basis were retail, CPG, life sciences and healthcare, technology and services, and energy, utility and public services in that order. On a year-on-year basis, telecom and media, manufacturing, retail and CPG, and technology and services fared well.
- ❑ All the three geographies grew this quarter with rest of the world having a strong growth of 7.2% on a constant currency basis sequentially, largely driven by financial services and some uptick in manufacturing. On a year-on-year basis, Americas grew 7.5%, Europe grew, 4.2% whereas ROW declined by 2.6% in CC.
- ❑ In this quarter, company acquired Zeenea, Paris based software company at \$26.5mn. It specializes in data catalog and governance solutions which would enhance company's data and analytics business. Management was cognizant of acquisition driving growth for the product business in coming years. Management expects mid-single digit growth in product business for medium term.

## Financials:

(In ₹ mn)	Q2-FY25	Q1-FY25	Q2-FY24	Chg	H1 FY25	H1 FY24	Chg
Net Sales	2,88,620	2,80,570	2,66,720	8.2%	5,69,190	5,29,680	7.5%
Operating Expense	2,24,930	2,22,640	2,07,430	8.4%	4,47,570	4,16,740	7.4%
EBITDA	63,690	57,930	59,290	7.4%	1,21,620	1,12,940	7.7%
Other Income	4,560	11,030	3,650		15,590	7,090	
Depreciation	10,070	9,980	10,100		20,050	19,370	
EBIT	58,180	58,980	52,840	10.1%	1,17,160	1,00,660	16.4%
Interest	1,310	1,910	1,560		3,220	2,420	
PBT	56,870	57,070	51,280	10.9%	1,13,940	98,240	16.0%
Tax	14,500	14,480	12,950		28,980	24,600	
Exceptional Items	-	-	-		-	-	
<b>PAT</b>	<b>42,370</b>	<b>42,590</b>	<b>38,330</b>	<b>10.5%</b>	<b>84,960</b>	<b>73,640</b>	<b>15.4%</b>
Minority /Other Adj.	(20)	(20)	(10)		(40)	20	
<b>Consolidated PAT</b>	<b>42,350</b>	<b>42,570</b>	<b>38,320</b>	<b>10.5%</b>	<b>84,920</b>	<b>73,660</b>	<b>15.3%</b>

Margins	Q2-FY25	Q1-FY25	Q2-FY24	Chg BPS	H1 FY25	H1 FY24	Chg BPS
Operating Margin %	22.1%	20.6%	22.2%	-16	21.4%	21.3%	4
Net Margin %	14.7%	15.2%	14.4%	31	14.9%	13.9%	101

## Consolidated Financials:

(In ₹ mn)	FY-23	FY-24	FY-25E	FY-26E
Net Sales	10,14,560	10,99,130	11,43,095	12,00,250
Operating Expense	7,88,320	8,57,150	8,87,007	9,24,133
EBITDA	2,26,240	2,41,980	2,56,089	2,76,117
Other Income	13,620	14,950	15,548	16,325
Depreciation	41,450	41,730	45,532	46,262
EBIT	1,98,410	2,15,200	2,26,105	2,46,181
Interest	3,530	5,530	4,606	4,606
Misc. items	-	-	-	-
PBT	1,94,880	2,09,670	2,21,499	2,41,575
Tax	46,430	52,570	55,375	60,394
Minority Interest	60	(40)	-	-
PAT	1,48,510	1,57,060	1,66,124	1,81,181

Margins	FY-23	FY-24	FY-25E	FY-26E
Sales Growth %	18.5%	8.3%	4.0%	5.0%
Operating Margin %	22.3%	22.0%	22.4%	23.0%
Net Margin %	14.6%	14.3%	14.5%	15.1%
EBIT Margin %	19.6%	19.6%	19.8%	20.5%

(In ₹ mn)	FY-23	FY-24E	FY-25E	FY-25E
<b>Liabilities</b>				
Equity Share Capital	9,310	5,430	5,430	5,430
Reserves & Surplus	6,44,740	6,77,200	8,45,927	10,29,947
Total Shareholder's Funds	6,54,050	6,82,630	8,51,357	10,35,377
Minority Interest	(70)	80	80	80
Long-Term Liabilities	21,110	22,230	22,230	22,230
Other Long-term Liabilities	43,100	57,860	57,860	57,860
Deferred Tax Liability	(10,910)	(2,600)	(2,600)	(2,600)
Short-term Liabilities	2,14,310	2,27,260	2,30,143	2,47,784
<b>Total</b>	<b>9,21,590</b>	<b>9,87,460</b>	<b>11,59,070</b>	<b>13,60,731</b>
<b>Assets</b>				
Net Fixed Assets	3,46,590	3,51,710	3,05,338	2,87,994
Long-Term L&A	8,860	9,643	9,643	9,643
Non Current Investments	1,100	940	940	940
Other Non-Current Assets	29,270	31,857	31,857	31,857
Current Asset	5,35,770	5,93,310	8,11,292	10,30,297
<b>Total</b>	<b>9,21,590</b>	<b>9,87,460</b>	<b>11,59,070</b>	<b>13,60,731</b>

(In ₹ mn)	FY-23	FY-24	FY-25E	FY-25E
EPS (₹)	54.7	57.9	61.2	66.8
P/E (x)	34.1	32.2	30.5	28.0
P/B (x)	7.7	7.4	5.9	4.9
ROE	22.7%	23.0%	19.5%	17.5%
ROCE	28.1%	28.3%	24.3%	22.1%

Source: Company, Anand Rathi Research

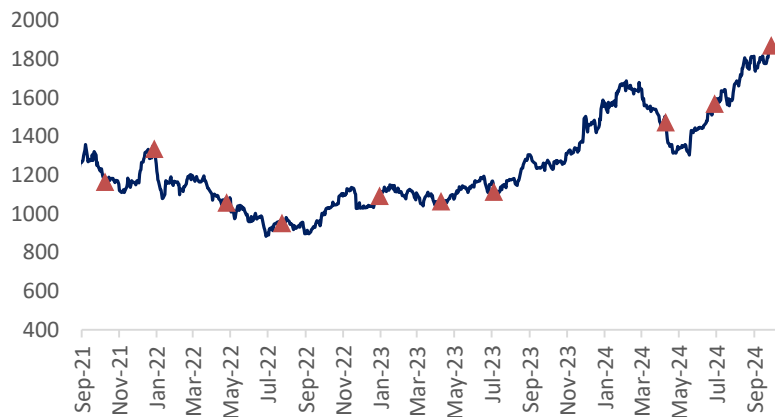
## Key Risks:

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



## Rating and Target Price history:

### HCLTECH's rating history & price chart



Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on 15 Oct 2024 close.

### HCLTECH's rating details

Date	Rating	Target Price (₹)	Share Price (₹)
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
26-Apr-23	HOLD	1,200	1,065
21-Jul-23	HOLD	1,250	1,115
31-Jan-24	HOLD	1,745	1,574
29-Apr-24	HOLD	1,500	1,387
11-Jul-24	HOLD	1725	1569
15-Oct-24	HOLD	2020	1870

Source: Bloomberg, Anand Rathi Research

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