INVasset Corporate Insights

HCL TECHNOLOGIES

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Comprehensive Corporate Analysis of HCL Technologies: Strategic Insights and Growth Prospects

Overview of HCL Technologies: HCL Technologies, a prominent player in the global IT services sector since its IPO in 1999, emphasizes transformational outsourcing and offers a comprehensive suite of services including IT solutions, remote infrastructure management, engineering, and R&D. With a presence in 46 countries, it caters to diverse industry verticals leveraging its extensive offshore infrastructure.

Financial Performance: In FY22, HCL witnessed a robust revenue distribution with IT and Business Services dominating at 72%, followed by Engineering and R&D services at 16%, and Products & Platforms at 12%. Geographically, America contributed 56% of the revenue, followed by Europe at 27%.

Client Base and Deals: The company saw a notable increase in $100 million clients, reaching 16, while $50 million clients surged to 44. A substantial portion of revenue growth stemmed from 40 Fortune 500 or Global 500 accounts. FY22 saw HCL sealing over 50 deals, totaling $8.3 billion, including significant contracts in Europe and the US.

Strategic Acquisitions: HCL made strategic acquisitions to bolster its portfolio, including a majority stake in Gbs-Gesellschaft für Banksysteme GmbH and full ownership of Starschema Kft. Additionally, the acquisition of Cisco's Self-Optimizing Network (SON) products expanded its offerings.

Subsidiaries and Expansion: In FY22, HCL established four new wholly owned subsidiaries and made strategic moves like incorporating HCL Technologies Costa Rica Sociedad De Responsabilidad Limitada. It also expanded its global presence with initiatives like the inauguration of a delivery center in Vancouver, Canada.

Ecosystem and Partnerships: HCL boasts a robust ecosystem of nearly 100 companies, forging alliances with industry giants like Microsoft, Cisco, EMC, and SAP. Specialist partnerships with Salesforce, Informatica, SAS, among others, augment its capabilities in niche technologies.

Industry Recognition: HCL Technologies has consistently emerged as the fastest-growing large technology company globally for four consecutive years. Its commitment to innovation and customer-centric solutions has garnered recognition and solidified its position in the market.

Future Outlook and Focus: Looking ahead, HCL aims to capitalize on the expanding technology services market by focusing on innovation, strategic acquisitions, and geographical expansion. Its dedication to meeting evolving client needs positions it for sustained growth and leadership in the IT services landscape.

Stock Data	
CMP (30-04-2024)	1,368
52 Week High/Low	1,697.35/1,048.3
Face Value	2.00
Market Cap (In Crs)	3,73,265
Enterprise Value (In Crs)	3,58,871
NSE	HCLTECH
BSE	532281
Bloomberg	HCLT:IN
Sector	IT - SOFTWARE

Shareholding Pattern (in %)		
	DEC 23	MAR 24
Promoter	60.82%	60.82%
FII	19.42%	19.65%
DII	15.12%	14.95%
Government	0.02%	0.02%
Public	4.40%	4.35%

Price Performance (in%)			
(%)	1M	6M	1Yr
Nifty 50	0.87	19.04	24.56
HCL Tech	-12.16	8.62	28.09

Key Ratios	
P/E	23.6
P/S	3.38
P/B	5.45
Debt To Equity	0.08
ROE	23.5%
ROCE	29.8%
Dividend Yield	3.76%
EV/EBITDA	13.9

Q4 FY 24 Result Update

Q4 FY24 Result Comparison (In Rs Cr)					
	Q4 FY24	Q3 FY24	Q4 FY23	QOQ	YOY
Sales	28,499	28,446	26,606	0.19%	7.11%
EBITDA	5,701	6,417	5,410	-11%	5.38%
EBIT	4,608	5,274	4,383	-12.63%	5.13%
Net Profit	3,995	3,995	3,981	0%	0.35%
EPS	14.69	16.03	14.68	-8.36%	0.07%

Result Highlights

Steady Strides and Fiscal Fluctuations: A Financial Scorecard of Q4 Fy24

Sales Stability Amidst Tides of Change: In a dynamic economic landscape, the company showcased robust sales performance in Q4 FY24, achieving a modest quarter-over-quarter increase of 0.19%. This slight growth underlines the resilience of the sales strategies amidst competitive and market pressures. The 7.11% year-over-year sales surge further indicates the company's ability to expand its market footprint significantly, suggesting effective long-term strategies that cater to evolving customer demands and industry trends.

Operational Efficacy in the Spotlight: The EBITDA's quarter-over-quarter decline of 11% could raise eyebrows, signaling a need to scrutinize operational costs and efficiencies closely. However, the broader picture is more optimistic, as evidenced by a 5.38% year-over-year increase, implying that the company has effectively managed its operational undertakings to bolster its EBITDA margins over a year-long period.

EBIT Analysis: A Mixed Financial Narrative: EBIT numbers paint a contrasting picture, with a notable 12.63% quarter-over-quarter dip, which could be indicative of higher operational costs or other financial headwinds. Nonetheless, the annual increase of 5.13% in EBIT signals underlying strength and suggests that the quarterly figures may represent a short-term variation rather than a long-term trend.

Unwavering Net Profits Amidst Variability: Net Profit stands as a testament to stability, remaining steady when compared to the previous quarter. This constancy is commendable, given the fluctuations in other financial metrics, and suggests effective cost control measures. The year-over-year increase of a slim 0.35% may appear modest but is significant in demonstrating the company's capability to sustain profitability in a fluctuating economic climate.

EPS: Deciphering Shareholder Value: Earnings Per Share (EPS), a critical metric for shareholders, showed an 8.36% dip from the previous quarter, raising concerns over immediate financial returns. However, the marginal year-over-year EPS increase of 0.07% provides a silver lining, implying that the company has maintained its earning power over the past fiscal year despite short-term challenges.

Fiscal Fortitude: A Comprehensive Financial Reflection: The comprehensive financial assessment of Q4 FY24 reveals a company withstanding the ebbs and flows of economic challenges. While the quarter has seen some financial strain, particularly in operational profitability and EPS, the year-over-year gains across all metrics affirm a strategic direction focused on sustainable growth and resilience in the face of market volatility.

Concall Highlights

Consistent Growth Amidst Economic Fluctuations: HCLTech's Performance Review FY20-FY24: HCLTech has demonstrated a commendable financial trajectory over the last five fiscal years, showcasing robust growth across major financial metrics. Revenues have witnessed a compelling compound annual growth rate (CAGR) of 11.7%, climbing from ₹70,676 crore in FY20 to ₹109,913 crore in FY24. This growth is indicative of the company's strong market position and its ability to adapt and innovate in a rapidly evolving tech landscape. Similarly, EBIT and Net Income have also seen steady rises, with CAGRs of 9.5% and 9.2% respectively, reflecting efficient operational management and strategic investments. Despite some fluctuations in EBIT and Net Income margins, which slightly dipped due to varying market conditions and investment phases, the company maintained a consistent performance. Notably, the EBIT margin hovered around 18.2% in FY24, slightly down from a high of 20.5% in FY21, while Net Income margin also showed a gradual decrease but remained strong at 14.3% in FY24. This financial resilience underscores HCLTech's capability to sustain profitability while expanding its service offerings and customer base globally.

Strategic Growth and Margin Analysis in HCLTech's Diverse Portfolio: HCLTech's recent financial highlights reveal a nuanced yet strategic performance across its diversified service segments. The consolidated revenue mix shows that IT and Business Services, along with Engineering and R&D Services, maintain a steady growth, contributing significantly to the overall 6% year-on-year revenue growth. Particularly impressive is the HCLTech Services segment, which showed robust growth in both year-on-year and quarter-over-quarter assessments, underscoring HCLTech's ability to scale its core offerings effectively. However, the EBIT margin dynamics present a mixed scenario. While the Engineering and R&D Services showed resilience with an increase in EBIT margin, the HCLSoftware segment faced challenges, with a notable drop in its quarter-over-quarter and year-on-year margins. This indicates varying operational efficiencies and market conditions impacting the segments differently. Overall, HCLTech's strategic focus on enhancing service delivery while managing costs across segments has facilitated stable financial growth, despite some fluctuations in profitability margins.

Analyzing Capital Efficiency in HCLTech's Operational Segments: HCLTech's strategic management of invested capital and its subsequent return on invested capital (ROIC) illustrate a comprehensive view of operational efficiency and financial health. As observed, HCLTech Services stands out with a consistently high ROIC, peaking at 41.6% in March 2024, indicating exceptional efficiency in utilizing capital to generate profits. Conversely, the HCLSoftware segment, while showing stable ROIC percentages around 16.5%, highlights challenges in matching the stellar performance of the services division. This segment, however, demonstrates significant potential for growth and efficiency improvements. Overall, the company's total ROIC has shown a healthy average of 33.8%, underscoring HCLTech's robust financial management practices and strategic allocation of resources across its portfolio. This analysis suggests that while there is a disparity in performance between segments, the overall capital utilization remains strong, driving sustained profitability and shareholder value.

Strategic Client Growth and Efficient Revenue Management in HCLTech: HCLTech's recent client metrics offer a deep dive into the company's client management and revenue efficiency strategies. Notably, the number of high-value clients has shown impressive growth; the 100 million dollar plus client segment increased from 19 to 22 year-on-year. This growth is indicative of HCLTech's strong relationships and service excellence in high-stake engagements. Furthermore, the company's ability to manage client contributions effectively is highlighted by the increase in revenue contributions from top clients, with the top 5 and top 10 clients now accounting for 10.4% and 18.8% of total revenues, respectively. These numbers not only underscore a deepening trust and reliance by major clients but also reflect HCLTech's strategic focus on nurturing key client relationships. Additionally, improvements in Days Sales Outstanding, decreasing from 66 to 61 days, signify a more efficient cash flow management, crucial for sustaining operational agility and financial health. This combination of client growth and operational efficiency exemplifies HCLTech's strategic prowess in navigating complex market environments.

Diverse and Strategic Alliances: HCLTech's Key Deal Wins in Q4 Fy24: In Q4 FY24, HCLTech has impressively secured 13 major deals across a wide range of industries, underscoring its strategic expansion and adaptability in a competitive global market. These deals highlight HCLTech's proficiency in delivering comprehensive tech solutions tailored to specific industry needs. For instance, a significant partnership with a US-based insurance company utilizes HCLTech to provide specialized services, enhancing customer interaction and operational efficiency. Similarly, a collaboration with a leading European bank showcases HCLTech's capability in facilitating digital transformations, emphasizing secure and efficient financial transactions. Furthermore, the company's engagements with sectors such as healthcare and manufacturing not only diversify its portfolio but also reinforce its presence as a pivotal player in driving technological innovation and digital transformation globally. These strategic deals not only bolster HCLTech's market position but also demonstrate its capacity to meet diverse client demands in dynamic environments.

HCLTech's Pinnacle of Prestige: Celebrating a Year of Acclaimed Honors: HCLTech has marked a year of unparalleled recognition, garnishing its legacy with numerous prestigious awards that showcase its leadership in the IT industry and beyond. Notably, Chairperson Roshni Nadar Malhotra's dual accolades from Fortune India and the Express Awards for Women Entrepreneurs 2024 highlight her influential leadership. Additionally, HCLTech's commitment to excellence is mirrored in CFO Prateek Aggarwal's accolade as the "Group CFO of the Year". Ethical business practices and rapid brand growth have earned the company spots on both the Ethisphere's Most Ethical Companies list and the Brand Finance Global 500. The firm's proactive approach to sustainability and employee development has been recognized by CDP and the ETHISRWorld Awards, respectively, reflecting its dedication to corporate responsibility and human capital. Achievements in partnership and innovation were also spotlighted through awards from Google Cloud, IBM, and AWS, asserting HCLTech's formidable presence as a transformative force in the technology sector.

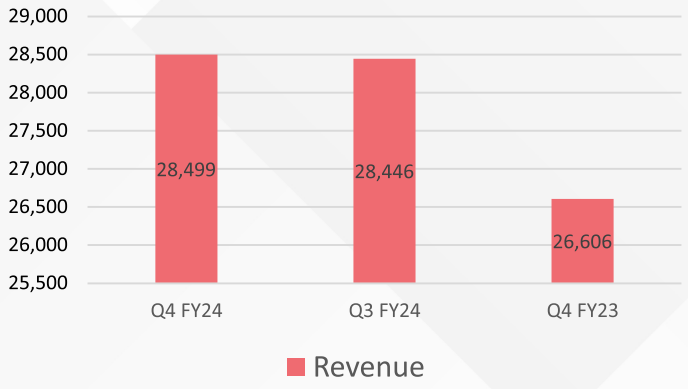
Catalyzing Change: HCL Foundation's Impactful Social Endeavors: The HCL Foundation has engineered an expansive suite of initiatives, forging impactful change and nurturing sustainable development in India and beyond. In their dedicated pursuit, they have trained over 10,000 individuals for open school exams under the Samuday project, thereby bolstering educational empowerment. The project also catalyzed economic upliftment by facilitating a significant income for farmers through milk collection initiatives. In the healthcare sector, the Uday initiative's establishment of STEM labs and over 24,000 medical consultations underline HCL's commitment to education and wellbeing. The environmental stewardship is evidenced by planting over 225,000 mangrove saplings under Harit and managing vast quantities of waste with My Clean City, enhancing ecological resilience. Moreover, HCLTech's Global Initiatives reflect a dedication to humanitarian assistance, showcased by providing substantial hunger relief across the Americas. This robust social tapestry, woven with diverse threads of community aid, highlights HCL's vision of fostering inclusive progress and environmental consciousness on a global scale.

HCLTech's GenAI Drives Innovation Across Industries: HCLTech has secured a series of strategic partnerships, showcasing its GenAI solution's ability to spearhead digital transformation and efficiency across various industry sectors. A leading U.S.-based technology company has entrusted HCLTech with transforming its product validation and sustenance experience, aiming to refine customer engagement and streamline operational costs. In data center optimization, HCLTech's GenAI stands out for enhancing compatibility and expediting deployment processes for a tech major. Moreover, a telecommunications giant has harnessed GenAI to automate its analytics and reporting, underlining the solution's versatility in bolstering governance and quality. In the pharmaceutical realm, HCLTech's GenAI is pivotal in managing complex data, thereby augmenting the client's product prioritization and customer interaction. These collaborations underscore HCLTech's pivotal role in delivering cutting-edge AI solutions that empower its clients to navigate the complexities of modern business, ensuring agility, innovation, and superior service delivery in the digital era.

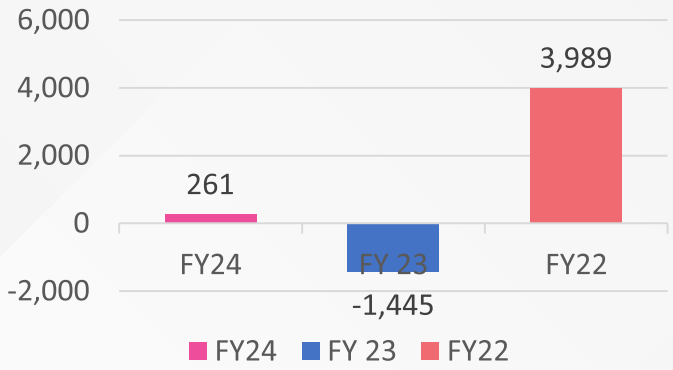
Financial Fortitude: Insights from HCLTech's Consolidated Balance Sheet: HCLTech's consolidated balance sheet from March 2023 to March 2024 portrays a company in a state of robust financial health and expansion. Total assets experienced an upward trend, increasing from ₹93,411 crores to ₹99,777 crores, indicative of strategic growth and asset accumulation. The increment in unbilled receivables and treasury investments points to the company's proactive revenue management and financial prudence. Liabilities have seen a proportional increase, with total liabilities and equity rising from ₹93,411 crores to ₹99,777 crores, maintaining a balanced financial structure. This controlled growth in liabilities, including a marginal uptick in borrowings and lease liabilities, suggests a strategic approach to leverage and capital financing. The stability in equity, with a commendable increase, reflects the company's ability to enhance shareholder value while supporting expansive initiatives. HCLTech's balance sheet reflects not just financial strength but also a strategic approach to sustaining long-term growth and market confidence.

Robust Fiscal Management: HCLTech's Cash Flow Evolution: HCLTech's Consolidated Cash Flow Summary for the fiscal years ended March 2023 and March 2024 showcases the company's robust fiscal management and strategic allocation of financial resources. In the year ended March 2024, there was a notable increase in profit before tax, leading to a net operating cash flow surge to ₹22,448 crores, a significant jump from the previous year. This financial fortitude is further illustrated by the increased free cash flow, despite a higher dividend payout and the purchase of property, plant, and equipment. The company's gross cash has also seen a substantial rise, with net cash reflecting an upward trend due to prudent borrowing strategies and investment securities. These figures not only highlight HCLTech's successful execution of its operational strategies but also reflect its commitment to maintaining liquidity and ensuring sustainable growth, which is crucial in funding future innovation and expansion efforts in a competitive technology landscape.

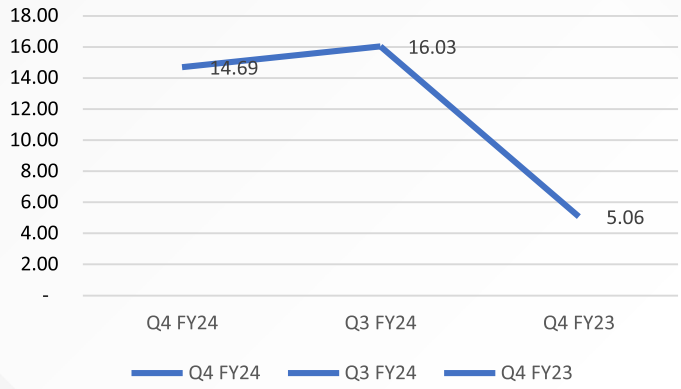
Revenue (In Cr)



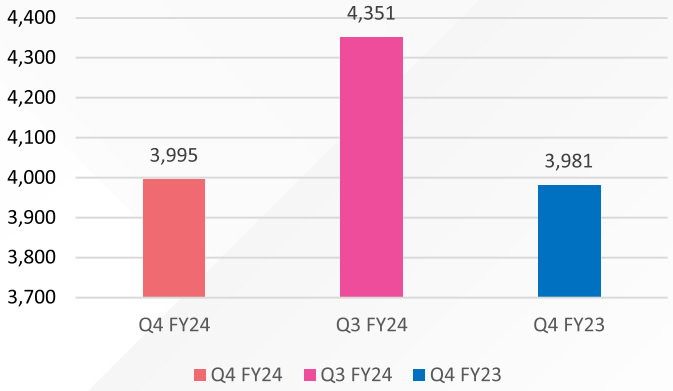
Cashflow (In Cr)



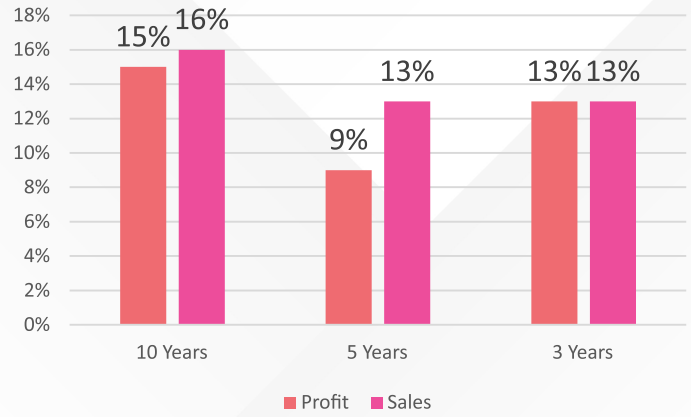
EPS



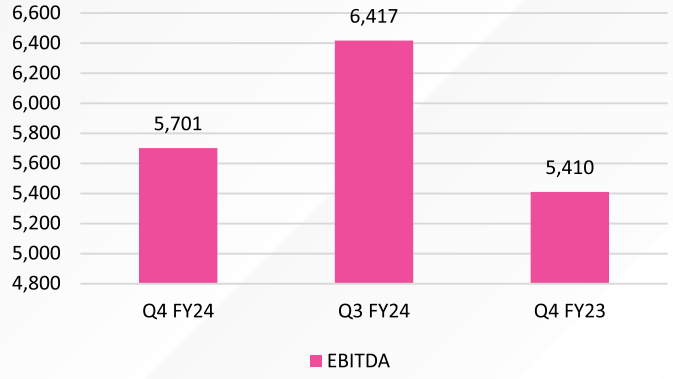
PAT (In Cr)



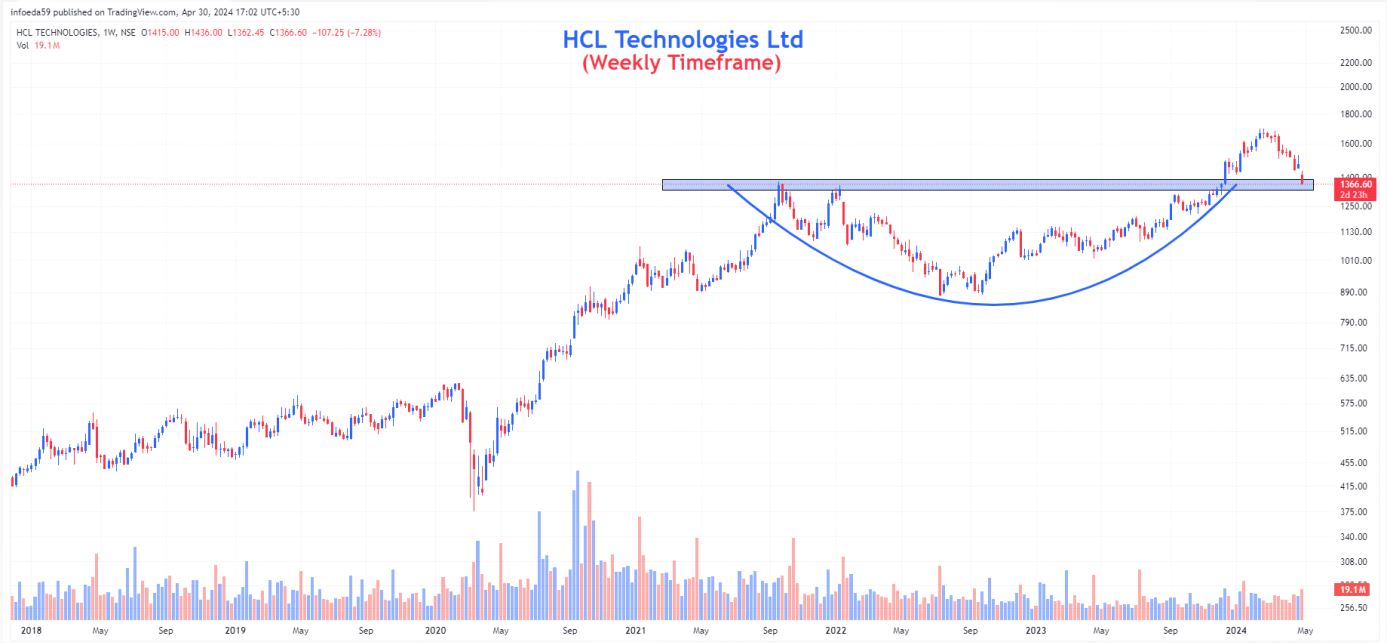
Compounded Growth (In %)



EBITDA (In Cr)



Technical Outlook



The chart provided is of weekly price movement of HCL Technologies Ltd which has shown a rounded bottom pattern, a bullish reversal pattern, which indicates a gradual shift from a bearish to a bullish trend. Additionally, the chart identifies a critical resistance level around the 1365-1380 range, which the stock has tested multiple times, suggesting a significant price ceiling at this level. As of the latest data, there is a noticeable pullback with the price closing around 1366 after a decline, marked by a substantial red candle. The volume accompanying these price movements is robust, suggesting active trading during these periods.

The moving averages for HCL Technologies show a consistent upward trend across both simple and exponential measures, reflecting strong bullish momentum. Shorter-term averages exceeding longer-term ones suggest a positive outlook and recent price strength.

The Relative Strength Index (RSI) values for both daily and weekly time frames suggest that the stock is currently in the oversold territory. Daily RSI at 25.28 and weekly at 39.31 indicate potential undervaluation, possibly signaling a buying opportunity.

Moving Averages Days	Simple Moving Average	Exponential Moving Average
5	1466.3	1451.0
10	1469.4	1471.6
20	1504.2	1501.7
50	1583.8	1538.6
100	1540.6	1509.2
200	1381.9	1415.4

Pivot Levels : FIBONACCI		
R1 1421.9	Pivot 1401.47	S1 1366.9
R2 1456.5		S2 1346.5
R3 1476.9		S3 1311.9

	Daily	Weekly
Relative Strength Index (RSI)	25.28	39.31

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