

Price: 1,471

Recommendation: Buy

Industry: Computers - Software

Sector: Information Technology

Report Date: 03-Apr-2025

HCL Technologies, a leader in IT services, reported \$3,533 million in quarterly revenue, a 3.8% increase. Their EBIT reached \$690 million, marking a record high. The company is advancing AI and digital transformation, enhancing capabilities through strategic acquisitions and partnerships. With a strong pipeline and focus on AI and cloud initiatives, HCLTech is poised for growth, despite challenges in deal tenures and global market shifts.

Sales		Profit & Loss		Profitability Matrix	
Current Year	49750 Cr	Operating Profit(Year)	17349 Cr	Operating Profit Margin	34.9 %
Previous Year	46276 Cr	Operating Profit(Quarter)	4987 Cr	EBITDA Margin	35.78 %
Current Quarter	13274 Cr	PAT (Year)	11561 Cr	Net Profit Margin	24.0 %
Previous Quarter	12615 Cr	PAT (Quarter)	3526 Cr	EPS	44.2
Revenue (QYoY)	12531 Cr				
Valuation Matrix		Growth(YoY)		Growth(QoQ)	
Trailing P/E	33.3	Sales Growth	4.35 %	Sales Growth	5.22 %
PEG Ratio	4.49	PAT Growth	2.7 %	Sales Growth QYoY	5.93 %
EV/EBITDA	21.2	EPS Growth	2.79 %	PAT Growth	9.64 %
P/B	11.1	Dividend Yield	3.59	PAT Growth QYoY	5.29 %
Capital Allocation		Holdings		Leverage	
RoE	28.7 %	Promoter	60.8 %	Debt/Equity	0.02
RoA	21.9 %	FII	19.4 %	Debt	895 Cr
RoCE	37.5 %	DII	15.2 %	Market Cap	399126 Cr
RoIC	40.4 %	Public	4.42 %	Enterprise value	394892 Cr
		No of Shares	271 Cr	Cash Equivalents	5129 Cr

source : Company filings

Company's Overview Based on Recent Concall and Performance:

HCL Technologies' recent earnings call highlighted several strategic initiatives and business strategies aimed at driving growth and diversification. The company reported a total revenue of \$3,533 million for the quarter, marking a 3.8% increase quarter-on-quarter and a 4.1% growth year-on-year in constant currency terms. The services revenue increased by 2.2% quarter-on-quarter and 4.9% year-on-year, while software revenue saw an 18.7% increase quarter-on-quarter despite a 2.1% year-on-year decline. The company's EBIT reached \$690 million, representing 19.5% of revenue, which is an improvement of 93 basis points quarter-on-quarter. This quarter marked the highest ever EBIT and net income for HCLTech, showcasing the effectiveness of their margin improvement plan, Project Ascend, which contributed approximately 100 basis points to the quarter's performance.

HCLTech is actively pursuing new initiatives, particularly in the realm of AI and digital transformation. The company is spearheading Gen AI innovation, leveraging partnerships and dedicated labs to integrate AI solutions for clients. This includes AI-driven contact center transformation and network modernization efforts. The acquisition of CTG assets from HPE has expanded HCLTech's capabilities in engineering services and strengthened its position in the telecom services market. The company is also focusing on enhancing digital customer experiences and has seen strong momentum with recent wins, including partnerships with Fortune 50 telecom companies to enhance client operations with automation and AI solutions.

Looking ahead, HCLTech is optimistic about future growth and scaling opportunities. The company has a robust pipeline, nearing an all-time high, driven by digital application business, engineering and R&D; services, and digital process operations. The Americas and Europe have shown strong growth in the pipeline, indicating a positive outlook for the coming quarters. HCLTech's strategic focus on AI and cloud-related initiatives, along with partnerships with industry leaders like SAP and ServiceNow, positions the company well for sustained growth. The company expects an overall improvement in the discretionary spending environment, with clients investing in innovation and efficiency driven by Gen AI and data.

While the company is confident in its growth trajectory, there are areas for improvement. The shift towards shorter tenured deals has led to moderated TCV, although the ACV has shown significant growth. The company acknowledges the potential impact of changes in the global business landscape and client spending priorities. Despite these challenges, HCLTech remains well-prepared to harness upcoming momentum, with a focus on maximizing opportunities in both engineering and application spaces. The company's commitment to delivering innovative solutions and exceptional service is underscored by its strong financial performance and strategic initiatives.

HCLTECH Daily Closing One Year Price Chart



Name	Mar Cap (Rs. Cr.)	P/E	ROE	Sales(G) QoQ	Sales(G) QYoY	PAT(G) QoQ	PAT(G) QYoY
Persistent Sys	74839.13	56.66	23.99%	5.70%	22.58%	14.77%	30.36%
Infosys	621743.60	22.52	31.83%	1.90%	7.58%	4.61%	11.46%
HCL Technologies	399125.73	33.27	28.70%	5.22%	5.93%	9.64%	5.29%
Wipro	268505.62	21.65	14.31%	0.08%	0.51%	4.52%	24.48%
Tech Mahindra	134087.85	35.84	8.63%	-0.21%	1.41%	-21.35%	92.63%

Aspect	Commentary
Revenue	The company experienced a revenue increase, with current year sales at 49750 Cr, up from 46276 Cr the previous year. Quarterly revenue also rose to 13274 Cr from 12615 Cr. This growth indicates a positive trend in sales performance, reflecting effective market strategies and possibly increased demand for the company's offerings.
Profit & Loss	Operating profit for the year reached 17349 Cr, with a quarterly figure of 4987 Cr. The PAT for the year was 11561 Cr, and 3526 Cr for the quarter. These figures suggest strong operational efficiency and profitability, highlighting the company's ability to convert revenue into profit effectively.
Profitability Matrix	The company maintains robust profitability with an operating profit margin of 34.9% and an EBITDA margin of 35.78%. The net profit margin stands at 24.0%, and EPS is 44.2, indicating strong earnings performance and efficient cost management, contributing to shareholder value.
Valuation Matrix	The trailing P/E ratio is 33.3, with a PEG ratio of 4.49, and EV/EBITDA at 21.2. The P/B ratio is 11.1, suggesting the company is valued at a premium, reflecting investor confidence in its growth prospects and financial health, despite a relatively high valuation.
Growth (YoY)	Year-over-year growth shows sales increased by 4.35%, PAT by 2.7%, and EPS by 2.79%. The dividend yield is 3.59, indicating steady growth and a commitment to returning value to shareholders, although growth rates are moderate, suggesting stable but not rapid expansion.
Growth (QoQ)	Quarter-over-quarter growth is strong, with sales up 5.22% and PAT up 9.64%. Sales growth QYoY is 5.93%, and PAT growth QYoY is 5.29%, reflecting effective short-term strategies and operational improvements, contributing to consistent quarterly performance enhancements.
Capital Allocation	The company demonstrates efficient capital allocation with RoE at 28.7%, RoA at 21.9%, RoCE at 37.5%, and RoIC at 40.4%. These metrics indicate strong returns on investment and effective use of capital resources, enhancing overall financial stability and growth potential.
Holdings	Promoter holdings are at 60.8%, with FII at 19.4%, DII at 15.2%, and public at 4.42%. The number of shares is 271 Cr. This distribution suggests strong promoter confidence and significant institutional interest, providing a stable ownership structure and potential for strategic influence.
Leverage	The company maintains a low debt/equity ratio of 0.02, with total debt at 895 Cr. The market cap is 399126 Cr, and enterprise value is 394892 Cr, with cash equivalents of 5129 Cr. This low leverage indicates financial prudence and a strong balance sheet, minimizing risk exposure.

Analyst viewpoint: HCL Technologies has consistently demonstrated robust financial performance with a notable 3.8% increase in quarterly revenue, reflecting strong operational strategies and market demand. Their focus on AI and digital transformation initiatives, including strategic partnerships and acquisitions, positions them strongly in the rapidly evolving tech landscape. Key financials reveal a QoQ sales growth of 5.22% and PAT growth of 9.64%, highlighting effective cost management and profit conversion. Valuation metrics such as a P/E ratio of 33.3 indicate investor confidence, further complemented by efficient capital allocation strategies evident from a RoE of 28.7%. These strengths, paired with a low debt-equity ratio, underscore financial health and operational resilience, fostering a positive outlook for short to mid-term growth.

Amid the optimistic growth prospects, the recent earnings call outlined challenges such as a shift toward shorter-tenured deals, impacting the total contract value albeit countered by strong growth in annual contract value. This careful acknowledgment underscores HCLTech's strategic adaptability to global market shifts, thus ensuring sustained competitive advantage. Their commitment to innovation through AI solutions and expanding digital experiences, alongside solid financial metrics and a promising growth pipeline, makes HCLTech an attractive buy. The company is well-positioned to leverage upcoming opportunities while navigating potential risks with prudent strategic initiatives.

Please read detailed disclosure on next page.

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BUY	>=15%
SELL	<-10%
NEUTRAL	>-10% to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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Research Analyst Details:

Name: Robin Arya

Email: smallcase@goalfi.in

Contact: +91-9394306085

GOALZEN CAPITAL SERVICES PRIVATE LIMITED

CIN: U66190TS2023PTC176030

Address: Co ikeva Office 10, Level 3, NSL Centrum, Serene Estate Pvt Ltd, Site No. Phase I and II, Opp KPHB Colony Lane Opp. Forum Mall Kukatpally, HYDERABAD, TELANGANA, 500072

Support Telephone: +91 9063309052, Support Email – support@goalfi.in

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