

Price: 1,532

Recommendation: Buy

Industry: Computers - Software

Sector: Information Technology

Report Date: 02-Apr-2025

HCL Technologies is driving growth through strategic initiatives and innovation. With a recent revenue of \$3,533 million, the company focuses on next-gen technologies like cloud and AI, and has acquired CTG assets to enhance its Telecom Services, especially in Japan and Europe. HCLTech is advancing AI solutions, improving digital experiences, and expanding partnerships. Despite challenges, it remains optimistic about future growth, supported by strong cash flow and a robust project pipeline.

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	34.8	Sales Growth	4.35 %	Sales Growth	5.22 %
PEG Ratio	4.69	PAT Growth	2.7 %	Sales Growth QYoY	5.93 %
EV/EBITDA	22.1	EPS Growth	2.79 %	PAT Growth	9.64 %
P/B	11.4	Dividend Yield	3.52	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	415693 Cr
RoIC	40.4 %	Public	4.42 %	Enterprise value	411459 Cr
		No of Shares	271 Cr	Cash Equivalents	5129 Cr

source : Company filings

Company's Overview Based on Recent Concall and Performance:

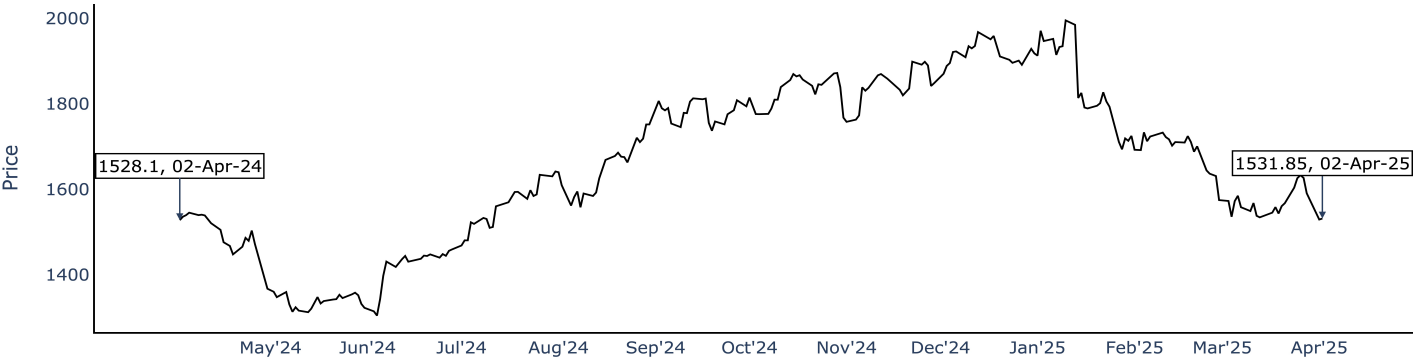
HCL Technologies' recent earnings call highlighted several key initiatives and strategies aimed at driving growth and innovation. The company reported a total revenue of \$3,533 million for the quarter, marking a 3.8% increase quarter-on-quarter and a 4.1% growth year-on-year in constant currency terms. A significant focus was placed on leveraging next-generation technologies like cloud and generative AI, alongside the acquisition of CTG assets from HPE, to deliver transformative, future-ready solutions. This acquisition is expected to strengthen HCLTech's Engineering Services capability and expand its position in the Telecom Services market, particularly in Japan and Europe. The company is also spearheading Gen AI innovation, integrating AI solutions for clients through partnerships and dedicated labs.

In terms of business strategies, HCLTech is focusing on network modernization and enhancing digital customer experience, positioning itself for sustained growth in the Telecom vertical. The company has seen strong momentum with recent wins, including an expanded partnership with a Fortune 50 Telecom Company to enhance client operations with automation and AI solutions. In the Financial Services sector, HCLTech is witnessing an improvement in client spending, with enterprises progressing from proof-of-concept to enterprise rollout of AI-driven analytics, enhancing risk assessment, fraud detection, and personalized financial advice. The company has also secured a 7-year contract with the Central Bank of Ireland for data center managed services, emphasizing its commitment to delivering innovative solutions and exceptional service.

Looking ahead, HCLTech is optimistic about future growth and scaling opportunities. The company expects an overall improvement in the discretionary spending environment, with clients investing to drive innovation and efficiency with Gen AI and data at the center of such initiatives. The company's pipeline continues to grow and remains strong, getting closer to an all-time high. HCLTech is also focusing on repeatable horizontal and vertical solutions to accelerate high-impact use cases, such as intelligent regulatory and safety platforms in pharma, trade surveillance in Financial Services, and smart eye quality assistants in manufacturing. The company is well-prepared to harness the upcoming momentum, although it remains cautious of potential changes in the global business landscape that could impact client spending priorities.

On the positive side, HCLTech's strong cash generation and improved DSO performance are noteworthy. The company's operating cash flow over the last 12 months was 285 billion, with a free cash flow of 2.72 billion. The balance sheet continues to strengthen, with gross cash at 3.5 billion and net cash at 3.24 billion. However, there are areas for improvement, such as the need to accelerate the conversion of larger deals, which are taking longer compared to smaller deals. The company is also addressing challenges in the automotive sector, which continues to face pressure and declines. Despite these challenges, HCLTech remains confident in its ability to deliver strong performance and drive growth in the coming quarters.

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	83036.94	62.93	23.99%	5.70%	22.58%	14.77%	30.36%
Infosys	643070.52	23.18	31.83%	1.90%	7.58%	4.61%	11.46%
HCL Technologies	415692.80	34.75	28.70%	5.22%	5.93%	9.64%	5.29%
Wipro	275731.30	22.30	14.31%	0.08%	0.51%	4.52%	24.48%
Tech Mahindra	139281.39	37.21	8.63%	-0.21%	1.41%	-21.35%	92.63%

Aspect	Commentary
Revenue	The company shows a steady revenue increase, with a 4.35% YoY growth and a 5.22% QoQ growth, indicating consistent performance. The current year revenue stands at 49750 Cr, reflecting a robust market position and effective sales strategies.
Profit & Loss	Operating profit margins are strong at 34.9%, with a PAT growth of 2.7% YoY. The quarterly PAT growth of 9.64% suggests improved operational efficiency and cost management, contributing to a healthy bottom line.
Profitability Matrix	The company maintains a solid profitability profile with an EBITDA margin of 35.78% and a net profit margin of 24.0%. These figures highlight effective cost control and pricing strategies, ensuring sustainable profit levels.
Valuation Matrix	The valuation metrics show a trailing P/E of 34.8 and a PEG ratio of 4.69, indicating market confidence in future earnings growth. The EV/EBITDA of 22.1 suggests a premium valuation, reflecting strong investor sentiment.
Growth (YoY)	Year-over-year growth metrics reveal a stable performance with sales growth at 4.35% and EPS growth at 2.79%. This steady growth trajectory underscores the company's ability to adapt and thrive in a competitive market.
Growth (QoQ)	Quarter-over-quarter growth is robust, with sales increasing by 5.22% and PAT by 9.64%. This indicates effective short-term strategies and operational improvements, positioning the company well for future quarters.
Capital Allocation	The company demonstrates efficient capital allocation with a RoE of 28.7% and RoCE of 37.5%. These metrics reflect strong returns on investment and effective use of capital to drive growth and shareholder value.
Holdings	Promoter holdings are stable at 60.8%, with significant institutional interest from FIIs and DIIs. This ownership structure suggests confidence in the company's governance and long-term strategic direction.
Leverage	The company maintains a low debt-to-equity ratio of 0.02, indicating prudent financial management and a strong balance sheet. This low leverage enhances financial flexibility and reduces risk exposure.

Analyst viewpoint: HCL Technologies exhibits a robust short to mid-term growth potential, driven by strategic emphasis on next-gen technologies like cloud and AI. The company reported a healthy 5.22% QoQ sales growth while its PAT increased by 9.64%, indicating effective cost management and operational improvements. This momentum is supported by substantial acquisitions, such as the CTG asset acquisition, reinforcing its telecom services in key markets like Japan and Europe. Valuation metrics underscore market confidence, as evidenced by a trailing P/E of 34.8 and a promising EV/EBITDA of 22.1. Capital is deployed efficiently with a commendable return on equity of 28.7%, and strategic partnerships further bolster its competitive edge.

Despite facing challenges in the automotive sector, the overall fiscal outlook remains optimistic. The company's strategic capital allocation, as reflected by a low debt-to-equity ratio of 0.02, alongside significant client interest in AI-driven solutions, encourages a positive growth trajectory. HCLTech continues to sustain a strong project pipeline, close to an all-time high, signaling robust future prospects and adaptability amidst a competitive landscape. Meanwhile, concerns regarding the slower conversion of larger deals warrant attention to ensure sustained efficiencies and growth momentum.

Please read detailed disclosure on next page.

Explanation of Investment Rating*	
Investment Rating	Expected Return (over 12-month)
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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