

Growth guidance improved for FY22; margins to improve on better product mix
Key result highlights
ITBS sustained momentum, while P&P and ER&D are picking up

Revenue for the quarter stood at INR 20,068 cr, witnessing a QoQ/YoY growth of 2.2%/12.5%, respectively. USD revenue grew at a QoQ/YoY rate of 15.5%/0.9%, respectively, to \$2,720 Mn during the quarter. In constant currency (CC) terms, revenue grew at a QoQ/YoY rate of 0.7%/11.1%, respectively. COVID-19 impacted the overall revenue by USD 7 mn in Q1FY22.

The revenue growth was mainly driven by the IT & Business Services (ITBS) segment, which recorded a QoQ/YoY growth of 1.8%/14.7% respectively to INR 14,370 cr, contributing 71.6% to revenue on account of increased focus of companies on offshoring, cloud adoption and digital services. Products & Platforms (P&P) grew at a QoQ/YoY rate of 2.9%/6.7% to INR 2,627 cr (revenue contribution of 13.1%), while the Engineering & R&D (ER&D) segment witnessed a QoQ/YoY growth of 3.7%/7.8% to INR 3,076 cr. The global economy is picking up on account of the vaccine rollout and an increase in spending, which has triggered the business performance of P&P and ER&D segments.

Focus on entry level recruitments arrested the cost and improved profitability

EBITDA grew at a QoQ/YoY rate of 11.3%/6.4%, respectively, to INR 5,062 cr, while EBITDA margins expanded by 206bps QoQ to 25.2% in Q4FY21. Employee cost declined at a QoQ rate of 1.5% to INR 10,708 cr in Q1FY22. HCLT recorded a net addition of 7,522 employees during the quarter, compared to a net addition of 9,295 employees in Q4FY21. A higher proportion of freshers in the new recruits and higher bonus in Q4FY21 reduced overall employee cost in Q1FY22.

Depreciation and interest cost declined at a QoQ rate of 11.0% and 44.0%, respectively, while other income grew at a QoQ rate of 4.5%. As a result, net profit grew at a QoQ/YoY rate of 189.2%/9.5%, respectively, to INR 3,213 cr, while net margins expanded by 1035bps QoQ to 16.0% in Q1FY22.

Bloomberg Code	HCLT.IN
No of share O/S (Cr)	271.4
Market Cap (Rs Cr)	2,71,421
Face Value (Rs)	2.0
Dividend Yield (%)	1.00
52 Wk High/Low (rs)	1074/627

Shareholding (%)	
Promoters	60.33
Institutional	35.63
Public	4.04
Total	100

Concall Highlights

- HCL won 8 large services deals and 4 significant product deals across the industry verticals of oil and gas, financial services and technology.
- The management stated that the global IT spend is increasing, which indicates the start of a multi-year investment cycle in the areas of cloud computing, cybersecurity, digitization and automation. Global companies are investing in these areas to improve connectivity in a new work from home culture, which has also reduced their office expenses and other opex.
- Incremental product innovation and continuous upgradation improved P&P has resulted in renewed interest among existing clients, which resulted a strong revenue growth from this segment. The management is focusing on building a unique product and platform business validated by better-than-expected performance through investments in sales teams and product engineering which will be rewarded in the medium term.
- The management has indicated that the company will hire more than 15-20k entry-level employees to be onboarded globally – India, US, Europe, Australia, Sri Lanka, Vietnam.
- The management is expecting double digit CC revenue growth in FY22 and EBIT margins are likely to be in the range of 19-21%.

Valuation

HCLT is currently trading at a FY23 forward P/E of 17.6x

Financial Summary

Management has raised the revenue growth guidance to double digits in FY22. We are expecting 10-13% CC revenue growth in the current fiscal.

Q1FY22 EBITDA margins at 25.2% was higher due to lower employee cost. Management is expecting EBITDA margins of 26-27% and EBIT margins of 19-21% in FY22

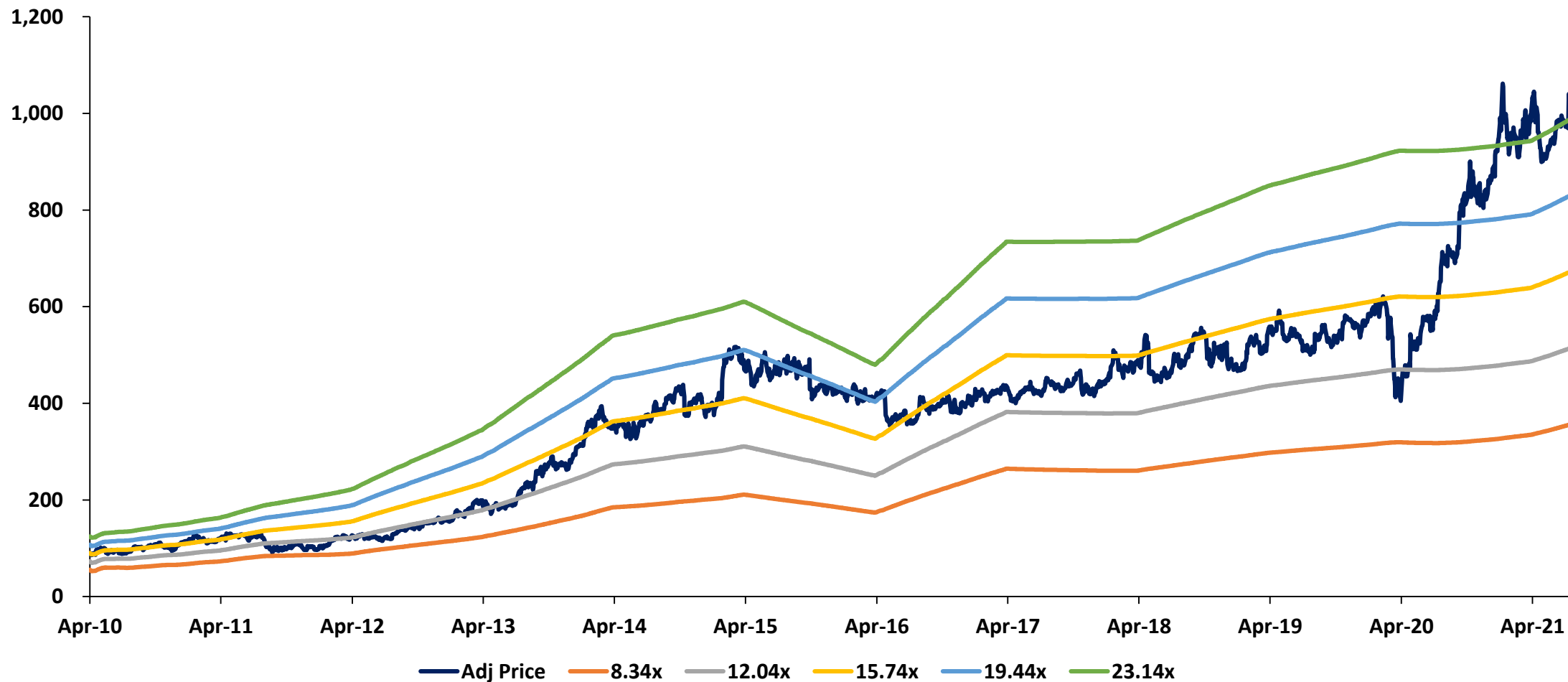
HCLT will continue to focus on inorganic expansion to sustain revenue growth

Figures are in Rs Cr	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY19	FY20	YoY (%)	FY21	YoY (%)	FY22E	YoY (%)	FY23E	YoY (%)
Revenue from operations	20,068	17,842	12.5	19,641	2.2	60,427	70,676	17.0	75,379	6.7	84,448	12.0	92,956	10.1
Employee Cost	10,708	9,091	17.8	10,871	-1.5	29,283	34,928	19.3	38,853	11.2	45,146	16.2	49,625	9.9
Employee Cost to Sales (%)	53.4	51.0		55.3		48.5	49.4		51.5		53.5		53.4	
Other Expenses	4,298	3,994	7.6	4,221	1.8	17,226	18,462	7.2	16,478	-10.7	18,140	10.1	19,000	4.7
Other expenses to Sales (%)	21.4	22.4		21.5		28.5	26.1		21.9		21.5		20.4	
EBITDA	5,062	4,757	6.4	4,549	11.3	13,918	17,286	24.2	20,048	16.0	21,162	5.6	24,331	15.0
EBITDA Margin (%)	25.2	26.7		23.2	2.06	23.0	24.5		26.6		25.1		26.2	
Depreciation	1,128	1,065	5.9	1,267	-11.0	2,073	3,420	65.0	4,611	34.8	4,878	5.8	5,100	4.6
Interest	89	125	-28.8	159	-44.0	174	505	190.2	535	5.9	364	-32.0	228	-37.3
Other Income	255	295	-13.6	244	4.5	951	619	-34.9	927	49.8	788	-15.0	971	23.3
Other Income to Sales (%)	1.3	1.7		1.2		1.6	0.9		1.2		0.9		1.0	
Profit Before Tax	4,100	3,862	6.2	3,367	21.8	12,622	13,980	10.8	15,829	13.2	16,708	5.5	19,974	19.5
Tax Rate (%)	21.6	24.0		67.0		19.8	20.9		29.6		23.0		23.0	
Profit After Tax	3,213	2,935	9.5	1,111	189.2	10,120	11,057	9.3	11,145	0.8	12,865	15.4	15,380	19.5
PAT Margin (%)	16.0	16.4		5.7		16.7	15.6		14.8		15.2		16.5	
Minority Int/Share of Associates	-	-	4.00	0		-	-		-7		-	-100.0	-	
Net Profit	3,213	2,931	9.6	1,111	189.2	10,120	11,057	9.3	11,138	0.7	12,865	15.5	15,380	19.5
Net Profit Margin (%)	16.0	16.4		5.7		16.7	15.6		14.8		15.2		16.5	
Adjusted EPS (Rs.)	0.0	10.8	-100.0	4.1	-100.0	37.3	40.7	9.3	41.0	0.8	47.4	15.5	56.7	19.5
Net Worth						41,366	51,267	23.9	59,913	16.9	67,632	12.9	72,246	6.8
Adjusted BVPS (Rs.)						152.4	188.8	23.9	220.7	16.9	249.1	12.9	266.1	6.8
Net Debt						-5,897	-6,873		-11,833		-16,935		-18,852	
Net Debt to Equity (x)						-0.1	-0.1		-0.2		-0.3		-0.3	
Net Debt to EBITDA (x)						-0.4	-0.4		-0.6		-0.8		-0.8	
RoE (%)						24.5	21.6		18.6		19.0		21.3	
RoCE (%)						20.8	19.5		17.1		17.9		19.9	
P/E (x)						26.8	24.5		24.4		21.1		17.6	

Segmental Performance

Year Ending Mar (INR Crores)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	FY19	FY20	FY21	FY22E	FY23E
Geographical Revenue Breakup (%)															
America	62.9	67.7	64.4	62.8	63.4	63.7	63.1	62.5	62.0	62.8	64.4	64.6	62.8	62.0	62.5
Europe	29.7	25.9	28.2	29.2	28.7	28.3	28.4	29.5	29.1	28.8	28.2	28.0	28.8	29.0	28.5
Rest of the world	7.4	6.3	7.4	8.0	7.8	8.0	8.5	8.0	8.9	8.4	7.4	7.4	8.4	9.0	9.0
Vertical Break Up (%)															
Banking, Financial & Insurance Services	22.3	23.8	22.4	21.6	21.1	22.4	22.1	21.4	21.6	21.9	22.3	21.5	21.9	22.0	22.0
Manufacturing	17.5	19.9	19.8	20.9	20.7	18.1	17.1	18.1	17.7	17.2	17.9	20.3	25.0	25.0	24.6
Technology & Services	18.7	16.6	15.4	15.1	16.2	17.2	17.3	17.8	17.2	17.3	18.5	16.4	10.3	10.0	10.5
Retail & CPG	9.9	9.1	10.0	10.3	10.2	10.0	10.4	10.5	10.1	10.3	9.9	10.0	10.3	10.0	10.5
Telecom, Media, Publishing & Ent	8.1	7.3	8.4	9.0	8.3	7.6	7.7	8.3	8.1	7.9	8.1	8.4	7.9	8.0	9.0
Lifesciences & Healthcare	12.9	12.8	12.9	12.2	12.5	13.7	14.1	13.6	14.1	13.9	12.9	12.6	13.9	14.5	15.0
Public Services	10.5	10.5	11.0	10.9	11.1	11.0	10.7	10.4	11.2	10.8	10.5	10.8	10.8	10.5	8.4
Clientwise Breakup (TTM)															
>\$100 mn	10	12	13	15	15	15	14	15	15	15	10	15	15	15	15
>\$50 mn	29	29	30	32	30	29	29	31	31	31	29	30	35	35	35
>\$20 mn	95	93	93	94	96	93	91	97	97	97	95	96	96	96	96
>\$10 mn	166	172	171	167	171	173	172	173	173	173	166	171	178	178	178
>\$5 mn	283	293	299	302	308	320	317	312	312	312	283	308	318	318	318
>\$1 mn	623	633	667	712	791	848	865	814	814	814	623	791	809	809	809
Contract Type (%)															
Managed Services & Fixed Price	63.7	63.5	66.5	67.8	68.3	66.7	67.4	68.4	68.4	68.4	62.7	66.5	67.0	67.5	68.0
Time & Material	36.3	36.5	33.5	32.2	31.7	33.3	32.6	31.6	31.6	31.6	37.3	33.5	33.0	32.5	32.0
Revenue by Offerings (%)															
IT & Business	75.8	75.3	71.4	70.2	70.6	70.2	70.8	70.4	71.9	71.6	74.6	71.8	70.8	71.5	71.5
Engineering and R&D	16.6	16.9	16.9	16.7	16.3	16.0	15.7	15.5	15.1	15.3	17.1	16.7	15.6	15.5	15.5
Products and Platform	7.6	7.8	11.7	13.1	13.1	13.8	13.5	14.1	13.0	13.1	8.3	11.5	13.6	13.0	13.0

1 year forward P/E band chart



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Ventura Securities Limited

Corporate Office: 8th Floor, 'B' Wing, I Think Techno Campus, Pokhran Road no. 02, Off Eastern Express Highway, Thane (West) 400 607

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