SAMNIDHY

FOSTERING FORTUNES

COMPANY ANALYSIS

HINDUSTAN COMPUTERS LTD.

HCLTech | Supercharging Progress™

HCL

Hindustan Computers Limited, now known as HCL Technologies or HCLTech, is a Noida-based worldwide provider of IT services and consultancy. HCL entered the software services industry in 1991 and became an independent firm. It went public in 1999 and trading commenced on 11th January 2000. With nearly 210,966 people, the corporation operates offices in 52 different countries today and is one of the largest corporations according to market cap in India.

Industry: InfoTech

Area of Expertise: Digital, Engineering and Cloud

HCL around the world

Current Market Capitalization

INR 6.03 Trillion

Price Earning Multiple

23.38

Current Market Price

INR 1132.90

Business Model

The Mode 1-2-3 Strategy serves as the basis for this company strategy. The three modes assist the business in planning its operations and developing a growth strategy.

The strategy's first mode focuses on essential services. Services in these categories are provided in: Services for Applications-processing services Facilities Services R&D and engineering services With the use of these services, HCL helps its clients stay competitive in the business world by helping them become more agile and efficient.

The second mode of the strategy focuses on new or next-generation services that assist businesses in utilizing new or next-generation technologies. HCL provides services in the areas of digital and analytics, IoT, cloud native services, cybersecurity, and GRC. The clients of HCL can stay current in the digital world with the help of these services.

Platforms and products are the emphasis of strategy's third mode. These services focus on cutting-edge software solutions that assist customers in becoming future-ready.

Engineering and R&D Services (ERS) from HCL Technologies assist clients in modernizing their companies for the digital age. They collaborate with multinational corporations to hasten the development of products and platforms by utilizing cutting-edge digital technology to monetize product services and deliver top-notch customer experiences.

Some products and services offered by them are:

- **DRYice Software:** DRYiCE, a dedicated organic IP-based software unit of the provider. An industry leading solution for enterprise automation and AI-based transformation initiatives, it is a highly adapted product for clients. It focuses on building products for transforming and simplifying IT and business operations by leveraging AI and Cloud
- **Actian:** With a broad range of products and services in data management, integration, and analytics, Actian helps businesses in the financial services, retail, telecommunications, media, healthcare, and manufacturing industries unlock the potential of hybrid data.
- **Banking Transformational Platform:** With the help of their functional knowledge in banking and their capacity for product engineering, HCLTech and DXC have an IP relationship that modernizes the historical product set across three crucial areas: Core Banking, Lending, and Payments.

SWOT

S Strengths

- Reported a robust Q3 despite the seasonal slowdown
- Offers a diverse range of products and services across three segments
- Well-recognized goodwill
- Focuses on innovation and developing new offerings.

W Weakness

- It has minimal presence in emerging markets ,it focuses more on North America and Europe.
- It is dependent on few key clients.
- As compared to competitors HCL tech has low brand awareness.

O Opportunities

- Expansion in emerging markets.
- Acquisition of companies that complement its existing service
- With the increase in demand for digital transformation it has a chance to expand its services.

T Threats

- Geopolitical risks such as political instability and trade restrictions could impact its operations.
- Rapidly changing technology
- Competition from large companies such as TCS, Infosys, and Accenture etc.

Recent Highlights

Revenues grew by 5% and 13.1% in CC terms sequentially and YoY basis in Q3 respectively. This was because of performance in the software business which grew by 30.5% on QoQ basis.

In terms of geography, European business grew by 7.2% while American business grew by 0.5% QoQ in constant currency terms. In terms of verticals, Life Sciences and Healthcare, Manufacturing, and Telecom and Media grew by 5.5%, 4.9%, and 4.5% in constant currency respectively. While on the other hand, revenue from rest of the world and financial services has fallen by 1.2% and 1.7% respectively.

There was net addition of 2945 headcount in Q3, and LTM attrition declined to 21.7% as compared to 23.8% in the previous quarter.

Sector-wise Trend

01 DECREASE IN HIRING

Major firms are conducting internal tests to evaluate the right fit among the candidates for their company and giving a letter of termination to employees on large numbers If they fail to deliver.

02 TREND IN AUTOMATION TECHNOLOGY

With the advent of chatbots and services such as chatgpt, people have started to expect more automation and customer friendly services for their functioning.

03 DECREASE IN IT SPENDING

The BFSI sector (banks and financial services) have reduced the amount of spending on IT services needed by them. This has led to a decrease in revenue being generated from that segment as well as loss in large deals being signed.

04 REDUCTION IN ATTRITION

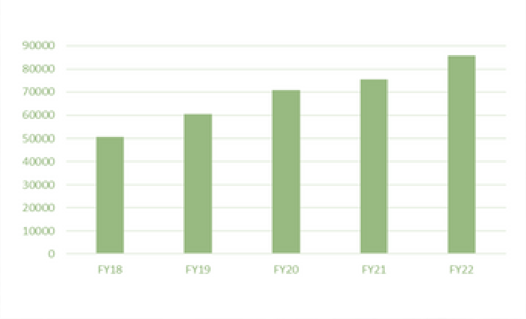
With a saturated job market and many candidates already jobless, the employees have understood it is not a good idea to jump companies anymore, and thus the attrition has reduced for the industry.

Financial Highlights

PARTICULARS	FY 19-20	FY 20-21	FY 21-22	COMMENTS
PROFIT MARGIN	25.33	27.82	25.21	COVID reduced expenses, 2022 staff retention raised costs, margin decreased.
EPS	40.75	41.07	49.77	Like revenue, the EPS of the company grew exponentially in the past year.
DPS	10.00	10.00	42.00	Dividend 4.2x higher than total of past 2 years.
ROE	21.56	18.60	21.80	Equity grew fast in 2021, but profit didn't follow, this, decrease in ROE.
RoCE	24.47	23.78	24.58	The ROCE also fell in 2021 due to lower profits and increased value of shareholders funds.

Ratio Analysis

REVENUE



The revenue growth for the company has been healthy in the past years with the rate slowing down a little in the covid year. The FYE 2022 was a promising rise in revenue for the company .

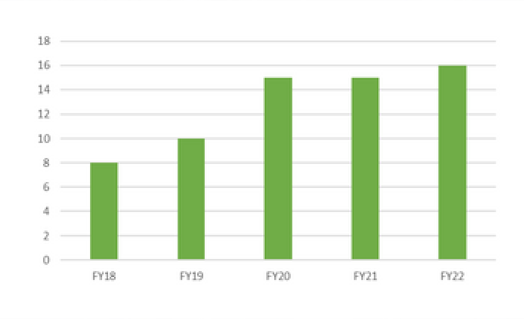
PBIT

The PBIT has also grown with a similar trend, with growth numbers falling slightly in 2022 due to higher employee retention costs and contractor/sub-contractor costs.

ATTRITION RATE

The rate of attrition was falling but has risen significantly in the last financial year due to various reasons such as policies on moonlighting, better pay elsewhere and economic tensions.

$100M+ CLIENTS



For the past 5 years, the company has continuously gained $100mn+ clients, whose deals are valued over $100mn in TCV (total contract value).

Future Outlook

1 FOR THE INDUSTRY

- According to Gartner, Inc.'s most recent projection, the global IT expenditure would reach $4.6 trillion in 2023, an increase of 5.1% from 2022.
- The information technology sector may experience future challenges related to a funding freeze, decrease in spending because of recession fear, but will gain benefit from reduction in the attrition rate and strong performance of USD.
- Reduction in hiring and chances of mass layoff due to low global IT demand particularly in the BFSI and telecom segment.

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2 FOR THE COMPANY

- The company reduced its revenue growth guidance for the current FY from 13.5%-14.5% to 13.5%-14% on YoY basis in CC terms. Service revenue growth is expected at 16-16.5% YoY in CC terms.
- EBIT margin guidance also narrowed to 18-18.5% from the previous expectation of 18-19%.
- The management is expecting growth in the financial service segment in the next financial year which was adversely hit in Q3.
- Expectation of high demand for cloud services due to an increase in cloud adoption by major clients in recent period.