

NOT RATED**HCL TECHNOLOGIES**

| IT Services

| 29 August 2024

Wants to deliver industry leading TSR in the future too

- Did not change its near-term commentary while being bullish on the medium-term outlook
- Expects a double-digit revenue growth potential in USD terms over the next 5 years compared to the ~9.5% CC growth seen in FY19-FY24
- Expects legacy modernization tailwind to more than offset the value compression headwind from Gen AI efficiency gain pass back.

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Solid TSR track record: Attended the investor day of HCL Technologies (HCLT) yesterday. HCLT has delivered industry leading TSR (total shareholder returns) in the last 10 years and aspires to deliver a similar performance in the future too.

No change in near term guidance: HCLT did not update its FY25 guidance of 3-5% CC YoY revenue growth and 18-19% margin. In the near term It stated that there is a modest improvement in demand in pockets like BFSI but at the same time indicated that there are ramp downs from some customers too. Pretty much what we heard in 1QFY25 industry commentary

Talks of a growth acceleration in the next 5 years: Stated that industry is seeing a significant inflection point – expects a double-digit revenue growth potential in USD terms over the next 5 years compared to the ~9.5% CC growth seen in FY19-FY24. HCLT believe the opportunity is large enough and that market participation must go up and the service models must be creative

Better market participation needed: Believes that currently it is addressing the needs of a third of global 2000 customers. And that in another third of this client set, it believes it is participating opportunistically. HCLT believes that it does not address the last third of the G2000 market at all. There is an opportunity in addressing better the latter two customer cohorts. Believes that there is a big opportunity in catering to the needs of the emerging Global 3000 companies. Believes the 'public sector' is not a well tapped opportunity.

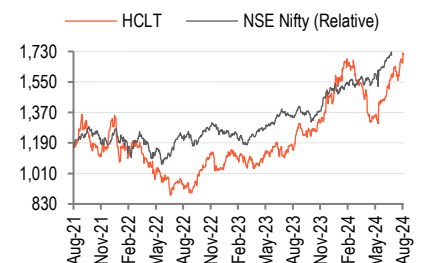
Gen AI value compression headwind offset by legacy modernization

opportunity: HCLT is proactively offering clients the efficiency gains that it gets from Gen AI initiatives in return for a larger scope of work. The latter would come from other vendors or internal work being outsourced. It stated that not all vendors are proactively trying to give back efficiencies to their customers. While HCLT stated that passing back of productivity gains to customers will be a headwind to revenue growth it seems greater volume of business from legacy modernization which was hitherto not attempted by customers as they felt that it was a risky proposition.

Ticker/Price	HCLT IN/Rs 1,719
Market cap	US\$ 55.6bn
Free float	39%
3M ADV	US\$ 62.9mn
52wk high/low	Rs 1,757/Rs 1,148
Promoter/FPI/DII	61%/18%/16%

Source: NSE | Price as of 28 Aug 2024

Stock performance



Source: NSE



Order inflow and margins are areas of improvement: Unhappy that it is stuck at the US\$2bn TCV (net new) level for many quarters now. Also wants to improve margins from the current 18-19% levels. "Project Ascend" has started to generate savings to fund growth and improve margins.

Generating Gen AI productivity gains in larger software development teams which run into 1000s of persons will be a bit more complex and requires running change management programs.

Believes that larger SIs have an advantage at the beginning of the Gen AI era compared to the beginning of the Digital services era (when smaller SIs were at an advantage) as the customers want things like data modernization and cloud services to be part of the offerings which the smaller SIs may not be able to deliver.

Project Ascend (margin improvement program)

- Proactively going to customers to share the benefits of Gen AI efficiencies would mean that HCLT would be able to retain a part of the gains with itself unlike in the situation when it is forced to react.
- Productivity – that the right person with the right skills is put on the job and that that effort is priced correctly will help generate better margins.
- New vistas - going into lower cost geographies for delivery centers – not just for cost but also more stability and predictability in the work force- helps in better productivity and utilization
- Industry focused repeatable solutions – lend itself to some non -linearity

Stated that it has delivered industry leading TSR over the last decade compared to its peers and stated that it would endeavor to continue to do so in the future too. Factors driving its performance

- An all-weather portfolio of businesses
- Strong execution
- People – entrepreneurial culture

Believes that the TAM for the IT services market will be US\$2 trillion by 2030

- Driven by Data and AI growing at 19% CAGR
- Enterprise biz applications (specifically SAP) growing at 14% till 2027
- Cloud migration and cyber security market, expects 70% of workloads will be in the cloud by 2028 compared to the current 25%. Security services to growth in the high teens rate for the next decade
- ERDS growing at 8-9% CAGR in the foreseeable future
- BPO business growing at 8% CAGR

- BFSI and TMT – two of the largest verticals growing at faster than market rate till 2028.

HCL Software – largest enterprise software business out of Asia – continues to be long term strategic priority

Key achievements: Portfolio stabilization, global GTM engine, growth in subscription and ARR, Large deal at SBI

Future priorities of HCL Software

- Step up growth from low single digit to mid-single digit – immediate priority in the next couple of years
- Traction for HCL software products is significantly higher in India, Africa and Middle East – expansion in these markets
- Continue to leverage synergy sales

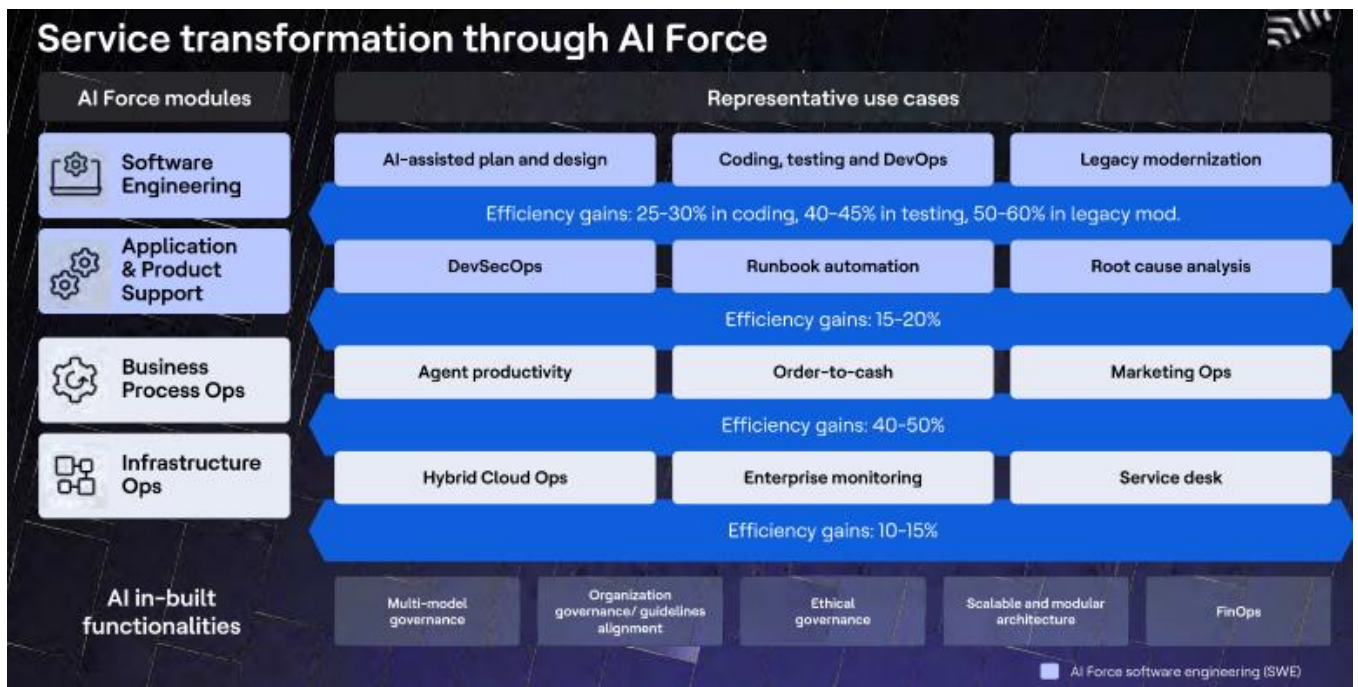
We will be initiating coverage on the sector shortly. We have currently no rating for HCL Technologies.

Fig 1 – Project Ascend to generate savings to fund growth



Source: Company

Fig 2 – AI generates significant savings in various services



Source: Company

Fig 3 – HCL Software performance track record



Source: Company

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