ADD HCL Tech

Strong quarter; narrows services revenue growth guidance

Information Technology ▸ Result Update ▸ **October 14, 2025**

CMP (Rs): 1,495 | TP (Rs): 1,550

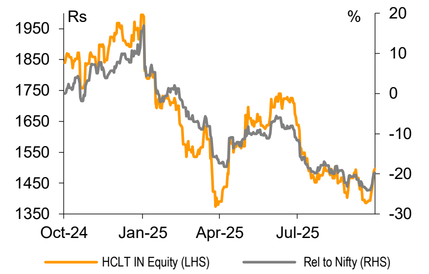
Target Price – 12M	Sep-26
Change in TP (%)	-
Current Reco.	ADD
Previous Reco.	ADD
Upside/(Downside) (%)	3.7

Stock Data	**HCLT IN**
52-week High (Rs)	2,005
52-week Low (Rs)	1,303
Shares outstanding (mn)	2,713.7
Market-cap (Rs bn)	4,056
Market-cap (USD mn)	45,741
Net-debt, FY26E (Rs mn)	(218,849.0)
ADTV-3M (mn shares)	3
ADTV-3M (Rs mn)	4,927.5
ADTV-3M (USD mn)	55.6
Free float (%)	39.0
Nifty-50	25,227.3
INR/USD	88.7
Shareholding,Jun-25	
Promoters (%)	60.8
FPIs/MFs (%)	18.6/16.2

Price Performance

(%)	**1M**	**3M**	**12M**
Absolute	1.9	(8.8)	(18.5)
Rel. to Nifty	1.4	(9.0)	(19.3)

1-Year share price trend (Rs)



HCL Tech posted better-than-expected operating performance in Q2. Revenue grew 2.4% QoQ CC, ~1% ahead of our estimates. Services and Software revenue increased 2.5% and 0.5% CC QoQ, respectively. EBITM expanded by 110bps QoQ to 17.4%, beating our estimate on the back of improvement in software business profitability, absence of certain one-offs, benefits from Project Ascend, and a weak rupee partly negated by restructuring costs. New deal wins were robust at USD2.6bn. HCLT generated over USD100mn in advanced AI revenue, ie ~3% of revenue, through diverse service lines and IPs. Considering the strong Q2, robust deal booking, and pipeline, the company narrowed Services revenue growth guidance to 4-5% (implying 0.1-1.4% CQGR in H2; earlier 3-5% CC YoY) for FY26, while it retained overall revenue growth guidance at 3-5% (implying CQGR of 0.5-3% in H2) due to softness in Software and EBITM guidance of 17-18%. We tweak FY26-28E EPS by 0-2%, factoring in the Q2 beat. We retain ADD with TP of Rs1,550 at 21x Sep-27E EPS.

Results Summary

Revenue grew 2.8% QoQ (2.4% CC) to USD3.6bn, above our estimate of 1.4% CC QoQ. All segments grew CC QoQ, with IT and Business Services taking the lead with 2.6% growth, followed by ER&D Services and Software revenue growth at 2.2% and 0.5%, respectively. EBITM increased by 110bps QoQ to 17.4%, above our expectations of 16.7%, driven by higher profitability in Software (+35bps) and Services (+81bps) – within Services, gains were driven by benefits from Project Ascend (+50bps), a weak rupee (+56bps), and absence of certain one-offs that hurt Q1 margins (+30bps), partially offset by restructuring expenses (-55bps). Services revenue growth was broad-based led by Public Services (7.8% in USD terms), Lifesciences and Healthcare (4.4%), Financial Services (3.5%), and Technology & Services (3.0%). Headcount increased 1.6% QoQ to 226,640. HCLT announced interim dividend of Rs12/sh. **What we liked:** operating performance beat, broad-based revenue growth, continued momentum in BFSI (3rd quarter of >3% QoQ), healthy deal wins. **What we did not like:** softness in Software.

Earnings Call KTAs

1) Its AI strategy includes 4 key elements: a) proactively transforming services with a long-term view and confidence to evolve, even if it means disrupting part of the existing revenue base, b) continuous investments in differentiated IPs that accelerate and scale-up AI adoption for clients, c) expanding into new AI-led services which includes AI engineering, AI factory, and AI advisory, and d) strengthening and expanding AI partnership across technology stack from GPU providers to model and agentic platform providers…(contd)…

HCL Tech: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	**FY24**	**FY25**	**FY26E**	**FY27E**	**FY28E**
Revenue	1,099,130	1,170,550	1,283,671	1,370,769	1,469,633
EBITDA	241,980	255,040	266,078	292,444	315,002
Adj. PAT	157,020	173,900	173,999	194,727	213,414
Adj. EPS (Rs)	57.9	64.1	64.1	71.8	78.6
EBITDA margin (%)	22.0	21.8	20.7	21.3	21.4
EBITDA growth (%)	6.9	5.4	4.3	9.9	7.7
Adj. EPS growth (%)	5.7	10.8	0.1	11.9	9.6
RoE (%)	23.5	25.2	24.8	27.2	29.1
RoIC (%)	30.8	33.2	32.7	35.6	39.7
P/E (x)	25.8	23.3	23.3	20.8	19.0
EV/EBITDA (x)	15.9	15.1	14.5	13.2	12.2
P/B (x)	5.9	5.8	5.7	5.6	5.5
FCFF yield (%)	5.6	5.5	4.7	5.5	5.9

Source: Company, Emkay Research

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…(contd)…2) The company made significant investments in building IPs, deepening partnerships, strengthening GTMs, and delivery team. These efforts are yielding results as company transition from the AI-pilot phase to the AI-monetization phase. It derived over USD100million in advanced AI revenue in Q2, representing ~ 3% of total revenue. Advanced AI includes rapidly evolving AI technologies like Agentic AI, Physical AI, AI Engineering, and AI Factory, though it excludes classical AI and basic data/analytics services as well as the services delivered using GenAI and Agentic AI. 3) HCL Tech saw strong bookings and a good demand environment with pipeline at record-high and new bookings crossing the USD2.5bn mark for the first time without a mega deal (2 large deals signed in Q2 which were deferred in Q1; the management targets a USD2.5bn quarterly run-rate). 4) The company is undergoing restructuring that began in Q2FY25 and will continue through Q3 with some spillovers into Q4 as well. It expects full-year impact from the restructuring to be slightly higher than 40bps in FY26. 5) Annual wage revisions will begin in Q3, with expected margin impact of 70-80bps in Q3 and an additional hit of 40-50bps in Q4. 6) H-1B reliance materially reduced to a few hundred visas a year. 7) AI is expected to have varying productivity impact across different service lines – 40-50% impact on the BPO business, 25-30% impact on SDLC, and 10-15% impact on IT operations as well as application support and maintenance. 8) HCL's AI Force platform has expanded deployment to 47 accounts (vs 35 in Q1) and aspires to reach 100 top clients. 9) Five of the top-10 renewals saw an increase in ACV, while the others saw a decline due to AI-linked productivity gains. AI played a central role in nearly every deal, with the company's AI offerings helping to secure several major strategic wins. 10) The highest demand elasticity is in legacy modernization, where many new programs are emerging despite uncertain discretionary spending. 11) The company is growing strong in the BFSI, Technology, Telecom, and Media verticals. It expects similar growth trends to emerge in the Retail and CPG vertical which would see broad-based revenue growth. A couple of areas in Retail and CPG where the company is seeing traction include integration work in M&As or carve-out-related separation work, and large-scale SDLC transformation work supported by Gen AI, specifically the AI-Force platform. 12) Auto vertical pipeline remains strong, though client decision-making is delayed, especially in Europe, keeping near-term growth muted. 13) Software business revenue declined 3.7% CC YoY in Q2 owing to decline in perpetual license revenue, while Subscription and Support and Professional Services revenue grew 8%.

Exhibit 1: Quarterly snapshot

(Rs mn)	Q2FY26	Q1FY26	QoQ (%)	Q2FY25	YoY (%)
Net sales (USD mn)	3,644	3,545	2.8	3,445	5.8
Net sales	319,420	303,490	5.2	288,620	10.7
Operating expenses	253,440	243,140	4.2	224,930	
EBITDA	65,980	60,350	9.3	63,690	3.6
Margin (%)	20.7	19.9	80	22.1	-140.0
Depreciation	10,430	10,930		10,070	
EBIT	55,550	49,420	12.4	53,620	3.6
Margin (%)	17.4	16.3	110	18.6	-120.0
Other income	1,470	2,470		3,250	
Pre-tax profit	57,020	51,890	9.9	56,870	
Tax provided	14,660	13,450		14,500	
Profit after tax	42,360	38,440	10.2	42,370	0.0
Emkay - Net profit	42,350	38,430	10.2	42,350	0.0
EPS (Rs)	15.6	14.2	10.4	15.6	0.2

Source: Company, Emkay Research

Exhibit 2: Actuals vs estimates

(Rs mn)	Actual	Estimate		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue (USD mn)	3,644	3,603	3,613	1.1%	0.9%	Revenue came ahead of expectations.
Sales	319,420	315,992	316,209	1.1%	1.0%	
EBIT	55,550	52,667	54,072	5.5%	2.7%	Margin was better than estimates.
EBIT margin	17.4%	16.7%	17.1%	70 bps	30 bps	
PAT	42,350	41,909	43,004	1.1%	-1.5%	Profit came in higher than expectations on the back of strong operating performance.

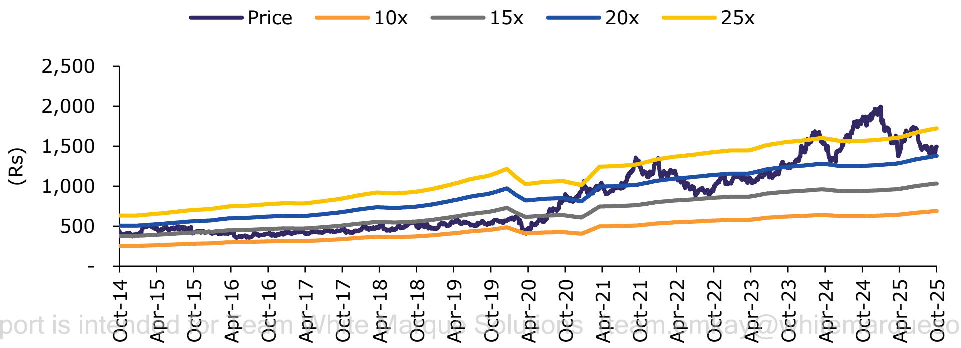
Source: Company, Emkay Research

Exhibit 3: Changes in estimates

(Rs mn)	FY26E			FY27E			FY278E		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue (USD mn)	14,621	14,698	0.5	15,496	15,577	0.5	16,434	16,513	0.5
YoY growth	5.6%	6.2%		6.0%	6.0%		6.0%	6.0%	
Revenue	1,273,369	1,283,671	0.8	1,363,676	1,370,769	0.5	1,462,606	1,469,633	0.5
EBIT	217,064	221,769	2.2	245,668	246,497	0.3	267,967	269,463	0.6
EBIT margin (%)	17.0	17.3		18.0	18.0		18.3	18.3	
Net profit	171,339	173,999	1.6	194,022	194,727	0.4	212,158	213,414	0.6
EPS (Rs)	63.2	64.1	1.5	71.5	71.8	0.4	78.2	78.7	0.6

Source: Company, Emkay Research

Exhibit 4: HCL Tech – One-year forward PER



Source: Company, Emkay Research

HCL Tech: Consolidated Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	**1,099,130**	**1,170,550**	**1,283,671**	**1,370,769**	**1,469,633**
Revenue growth (%)	8.3	6.5	9.7	6.8	7.2
EBITDA	**241,980**	**255,040**	**266,078**	**292,444**	**315,002**
EBITDA growth (%)	6.9	5.4	4.3	9.9	7.7
Depreciation & Amortization	41,730	40,840	44,309	45,947	45,539
EBIT	**200,250**	**214,200**	**221,769**	**246,497**	**269,463**
EBIT growth (%)	8.3	7.0	3.5	11.2	9.3
Other operating income	-	-	-	-	-
Other income	14,950	24,850	19,656	21,871	24,173
Financial expense	5,530	6,440	7,334	6,883	7,066
PBT	**209,670**	**232,610**	**234,090**	**261,485**	**286,569**
Extraordinary items	0	0	0	0	0
Taxes	52,570	58,620	60,031	66,679	73,075
Minority interest	(80)	(90)	(60)	(80)	(80)
Income from JV/Associates	0	0	0	0	0
Reported PAT	**157,020**	**173,900**	**173,999**	**194,727**	**213,414**
PAT growth (%)	5.7	10.8	0.1	11.9	9.6
Adjusted PAT	**157,020**	**173,900**	**173,999**	**194,727**	**213,414**
Diluted EPS (Rs)	**57.9**	**64.1**	**64.1**	**71.8**	**78.6**
Diluted EPS growth (%)	5.7	10.8	0.1	11.9	9.6
DPS (Rs)	**52.0**	**60.0**	**60.0**	**66.0**	**72.0**
Dividend payout (%)	**89.9**	**93.6**	**93.6**	**92.0**	**91.6**
EBITDA margin (%)	22.0	21.8	20.7	21.3	21.4
EBIT margin (%)	18.2	18.3	17.3	18.0	18.3
Effective tax rate (%)	25.1	25.2	25.6	25.5	25.5
NOPLAT (pre-IndAS)	**150,042**	**160,220**	**164,898**	**183,640**	**200,750**
Shares outstanding (mn)	2,714	2,714	2,714	2,714	2,714

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	5,430	5,430	5,430	5,430	5,430
Reserves & Surplus	677,200	691,120	702,300	717,924	735,955
Net worth	**682,630**	**696,550**	**707,730**	**723,354**	**741,385**
Minority interests	80	180	180	180	180
Non-current liab. & prov.	(10,310)	(10,640)	(10,640)	(10,640)	(10,640)
Total debt	**72,720**	**81,330**	**86,304**	**90,600**	**95,475**
Total liabilities & equity	**779,410**	**807,270**	**825,777**	**848,560**	**874,716**
Net tangible fixed assets	20,890	15,440	0	0	0
Net intangible assets	70,903	68,253	0	0	0
Net ROU assets	29,100	30,160	0	0	0
Capital WIP	0	0	0	0	0
Goodwill	-	-	-	-	-
Investments [JV/Associates]	-	-	-	-	-
Cash & equivalents	**272,870**	**288,530**	**305,153**	**338,864**	**372,895**
Current assets (ex-cash)	362,880	393,960	436,096	465,686	499,273
Current Liab. & Prov.	208,050	237,530	256,734	274,154	293,927
NWC (ex-cash)	**154,830**	**156,430**	**179,362**	**191,532**	**205,346**
Total assets	**779,410**	**807,270**	**825,777**	**848,560**	**874,716**
Net debt	(200,150)	(207,200)	(218,849)	(248,264)	(277,420)
Capital employed	779,410	807,270	825,777	848,560	874,716
Invested capital	**477,440**	**488,580**	**520,623**	**509,697**	**501,822**
BVPS (Rs)	251.6	256.7	260.8	266.6	273.2
Net Debt/Equity (x)	(0.3)	(0.3)	(0.3)	(0.3)	(0.4)
Net Debt/EBITDA (x)	(0.8)	(0.8)	(0.8)	(0.8)	(0.9)
Interest coverage (x)	38.9	37.1	32.9	39.0	41.6
RoCE (%)	**29.4**	**31.2**	**30.7**	**33.4**	**35.6**

Source: Company, Emkay Research

Cash flows

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
PBT (ex-other income)	209,670	232,610	234,090	261,485	286,569
Others (non-cash items)	33,880	22,330	44,249	45,867	45,459
Taxes paid	(42,120)	(42,430)	(60,031)	(66,679)	(73,075)
Change in NWC	23,050	10,100	(15,695)	(5,011)	(5,688)
Operating cash flow	**224,480**	**222,610**	**202,613**	**235,662**	**253,265**
Capital expenditure	(10,160)	(10,830)	(23,260)	(22,850)	(23,850)
Acquisition of business	(20,430)	(19,820)	0	0	0
Interest & dividend income	10,410	13,220	0	0	0
Investing cash flow	**(67,230)**	**(49,140)**	**(18,530)**	**(22,850)**	**(23,850)**
Equity raised/(repaid)	0	(6,760)	0	0	0
Debt raised/(repaid)	(1,810)	(810)	90	0	0
Payment of lease liabilities	(11,410)	(14,530)	0	0	0
Interest paid	(640)	(510)	0	0	0
Dividend paid (incl tax)	(140,730)	(162,500)	(162,820)	(179,102)	(195,384)
Others	(50)	(500)	0	0	0
Financing cash flow	**(154,640)**	**(185,610)**	**(162,730)**	**(179,102)**	**(195,384)**
Net chg in Cash	2,610	(12,140)	21,353	33,710	34,031
OCF	224,480	222,610	202,613	235,662	253,265
Adj. OCF (w/o NWC chg.)	201,430	212,510	218,308	240,673	258,953
FCFF	214,320	211,780	179,353	212,812	229,415
FCFE	219,200	218,560	172,019	205,929	222,348
OCF/EBITDA (%)	92.8	87.3	76.1	80.6	80.4
FCFE/PAT (%)	139.6	125.7	98.9	105.8	104.2
FCFF/NOPLAT (%)	**142.8**	**132.2**	**108.8**	**115.9**	**114.3**

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	25.8	23.3	23.3	20.8	19.0
EV/CE(x)	5.1	5.0	4.9	4.7	4.6
P/B (x)	5.9	5.8	5.7	5.6	5.5
EV/Sales (x)	3.5	3.3	3.0	2.8	2.6
EV/EBITDA (x)	15.9	15.1	14.5	13.2	12.2
EV/EBIT(x)	19.3	18.0	17.4	15.6	14.3
EV/IC (x)	8.1	7.9	7.4	7.6	7.7
FCFF yield (%)	5.6	5.5	4.7	5.5	5.9
FCFE yield (%)	5.4	5.4	4.2	5.1	5.5
Dividend yield (%)	3.5	4.0	4.0	4.4	4.8
DuPont-RoE split					
Net profit margin (%)	14.3	14.9	13.6	14.2	14.5
Total asset turnover (x)	1.5	1.5	1.6	1.6	1.7
Assets/Equity (x)	1.1	1.1	1.1	1.2	1.2
RoE (%)	**23.5**	**25.2**	**24.8**	**27.2**	**29.1**
DuPont-RoIC					
NOPLAT margin (%)	13.7	13.7	12.8	13.4	13.7
IC turnover (x)	2.3	2.4	2.5	2.7	2.9
RoIC (%)	**30.8**	**33.2**	**32.7**	**35.6**	**39.7**
Operating metrics					
Core NWC days	51.4	48.8	51.0	51.0	51.0
Total NWC days	**51.4**	**48.8**	**51.0**	**51.0**	**51.0**
Fixed asset turnover	3.4	3.6	3.8	4.2	4.8
Opex-to-revenue (%)	78.0	78.2	79.3	78.7	78.6

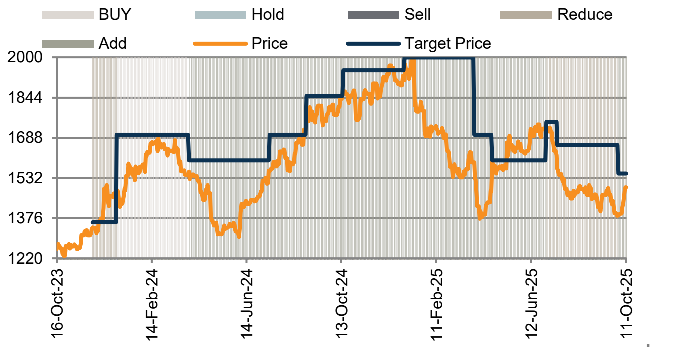
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (Rs)	TP (Rs)	Rating	Analyst
01-Oct-25	1,390	1,550	Add	Dipeshkumar Mehta
15-Jul-25	1,566	1,660	Reduce	Dipeshkumar Mehta
01-Jul-25	1,718	1,750	Reduce	Dipeshkumar Mehta
23-Apr-25	1,594	1,600	Add	Dipeshkumar Mehta
31-Mar-25	1,593	1,700	Add	Dipeshkumar Mehta
14-Jan-25	1,814	2,000	Add	Dipeshkumar Mehta
01-Jan-25	1,912	2,000	Add	Dipeshkumar Mehta
15-Oct-24	1,870	1,950	Add	Dipeshkumar Mehta
01-Oct-24	1,817	1,850	Add	Dipeshkumar Mehta
29-Aug-24	1,752	1,850	Add	Dipeshkumar Mehta
13-Jul-24	1,560	1,700	Add	Dipeshkumar Mehta
09-Jun-24	1,432	1,600	Add	Dipeshkumar Mehta
03-Jun-24	1,314	1,600	Add	Dipeshkumar Mehta
27-May-24	1,353	1,600	Add	Dipeshkumar Mehta
27-Apr-24	1,474	1,600	Add	Dipeshkumar Mehta
01-Apr-24	1,557	1,600	Add	Dipeshkumar Mehta
31-Mar-24	1,544	1,700	Buy	Dipeshkumar Mehta
01-Mar-24	1,644	1,700	Buy	Dipeshkumar Mehta
13-Jan-24	1,541	1,700	Buy	Dipeshkumar Mehta
31-Dec-23	1,466	1,700	Buy	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	>15% downside

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