

HCL Technologies

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	HCLT IN
Equity Shares (m)	2714
M.Cap.(INRb)/(USDb)	4395.6 / 51.1
52-Week Range (INR)	2005 / 1303
1, 6, 12 Rel. Per (%)	-6/-19/1
12M Avg Val (INR M)	5035

Financials & Valuations (INR b)

Y/E Mar	FY25	FY26E	FY27E
Sales	1,171	1,278	1,375
EBIT Margin (%)	18.3	17.8	18.2
PAT	174	182	206
EPS (INR)	63.9	67.0	75.9
EPS Gr. (%)	10.3	4.9	13.2
BV/Sh. (INR)	256	254	250

Ratios

RoE (%)	25.2	26.4	30.1
RoCE (%)	22.9	24.5	27.5
Payout (%)	93.9	90.0	90.0

Valuations

P/E (x)	25.3	24.1	21.3
P/BV (x)	6.3	6.4	6.5
EV/EBITDA (x)	16.9	15.7	14.2
Div Yield (%)	3.7	3.7	4.2

Shareholding pattern (%)

As On	Mar-25	Dec-24	Mar-24
Promoter	60.8	60.8	60.8
DII	15.5	15.2	15.0
FII	19.3	19.5	19.9
Others	4.4	4.4	4.3

FII Includes depository receipts

CMP: INR1,620 TP: INR2,000 (+23%) Buy

Continues to impress despite margin hiccup

Tightens guidance as growth visibility improves

- HCL Technologies (HCLT) reported 1QFY26 revenue of USD3.5b, down 0.8% QoQ CC vs. our estimate of 1.2% QoQ CC decline. EBIT margins came in at 16.3% vs. our estimate of 17.5%. New deal TCV stood at USD1.8b (down 8% YoY) in 1QFY26. For FY26, revenue growth guidance was increased to 3%-5% YoY CC (from 2%-5% earlier), implying a CQGR range of 1.4%-2.7% for the next three quarters. EBIT margin guidance was lowered to 17%-18% for FY26 (from 18%-19% earlier).
- For 1QFY26, revenue/EBIT grew 8.2%/3.0% and PAT declined 10% YoY in INR terms. We expect revenue/EBIT/PAT to grow by 9.4%/2.1%/5.3% YoY in 2QFY26. HCLT remains the fastest-growing large-cap IT services company, and we like its all-weather portfolio. We reiterate our **BUY** rating on HCLT with a TP of INR2,000, implying a 23% potential upside.

Our view: HCLT holds growth fort

- **Revenue beat estimates, and HCLT upgraded the bottom end of its revenue guidance.** The guidance implies total revenue CQGR of 2.7% at the top end of the guidance range, whereas, for services, it implies a CQGR of 2.0%. HCLT is on track to be the fastest-growing company among the top 4 names.
- **Margins missed estimates, however,** impacted by higher GenAI and SG&A investments (30bps), but primarily due to lower utilization (80bps), as employees released from select projects (on productivity gains) couldn't be re-deployed in time. We expect both these factors to spill over to 2Q, but expect margins to normalize post that.
- **TCV optically appears tepid, but pipeline remains healthy:** New deal TCV stood at USD1.8b, down 8% YoY. However, this is not reflective of demand weakness – two large deals initially expected in 1Q were deferred to 2Q (unrelated to macro concerns) and a sizeable vendor consolidation deal in financial services (not included in 1Q) will start contributing to revenue from 2QFY26 onward.
- **Discretionary demand in financial services and hi-tech improves:** HCLT called out a recovery in discretionary spends in financial services and hi-tech, while weakness continued in manufacturing, life sciences, and retail.
- We cut FY26 estimates by 3-4% to account for higher investments, whereas we keep FY27 estimates largely unchanged. We believe FY27 margins can again get back to normalized levels of 18-18.5%.

Beat on revenue and miss on margins; upgrades lower end of guidance

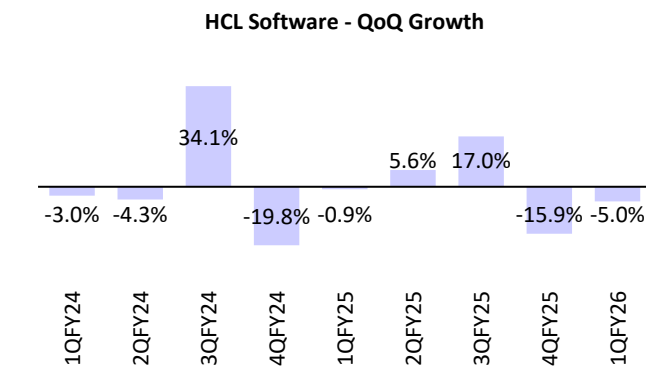
- Revenue was down 0.8% QoQ in CC vs. our estimate of 1.2% decline.
- New deal TCV stood at USD1.8b (down 40% QoQ/8% YoY).
- IT business was flat QoQ CC, while ER&D/P&P were down 0.5%/7.1% QoQ cc.
- EBIT margin was 16.3% – below our estimate of 17.5%.
- For FY26, revenue growth guidance was increased to 3%-5% YoY CC from 2%-5% earlier. EBIT margin guidance was lowered to 17%-18% for FY26 (from 18%-19% earlier).
- In 1QFY26, PAT was down 10.8% QoQ/9.7% YoY at INR38b vs. our est. of INR43b.
- LTM attrition was down 20bp QoQ at 12.8%. Net employee headcount increase was flat in 1QFY26. Net employee headcount stood at 223,151 as of 1QFY26 end. HCLT added 1,984 freshers in this quarter.
- LTM FCF to net income stood at 121%.
- Management declared an interim dividend of INR12/share for 1QFY26.

Key highlights from the management commentary

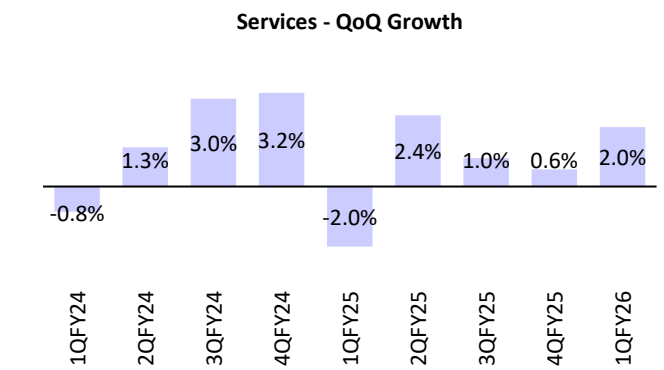
- The environment remained stable with some variations across verticals. It did not deteriorate as feared.
- Discretionary spending trends vary by vertical.
- Discretionary spending in Financial Services and Technology has not worsened as earlier anticipated.
- Revenue declined by 0.8% QoQ in CC. Growth was seen in the Tech Services vertical, especially around conversational AI and contact center management, which ramped up in Mar'25 and revenue realized in 1Q.
- Two large deals expected to close in 1Q have moved to 2Q. The delays are unrelated to macro factors, and management remains optimistic about conversions.
- Revenue growth guidance for FY26 was raised to 3-5% YoY in CC (from 2–5%) due to better-than-expected 1Q performance and an improved outlook.
- EBIT margin guidance was reduced to 17-18% (from 18–19%) due to lower utilization and restructuring efforts. One-time restructuring costs are factored into the guidance.
- GenAI and GTM investments are expected to normalize as growth improves by FY27.
- Agentic AI gaining traction in operational efficiency and application modernization.

Valuation and view

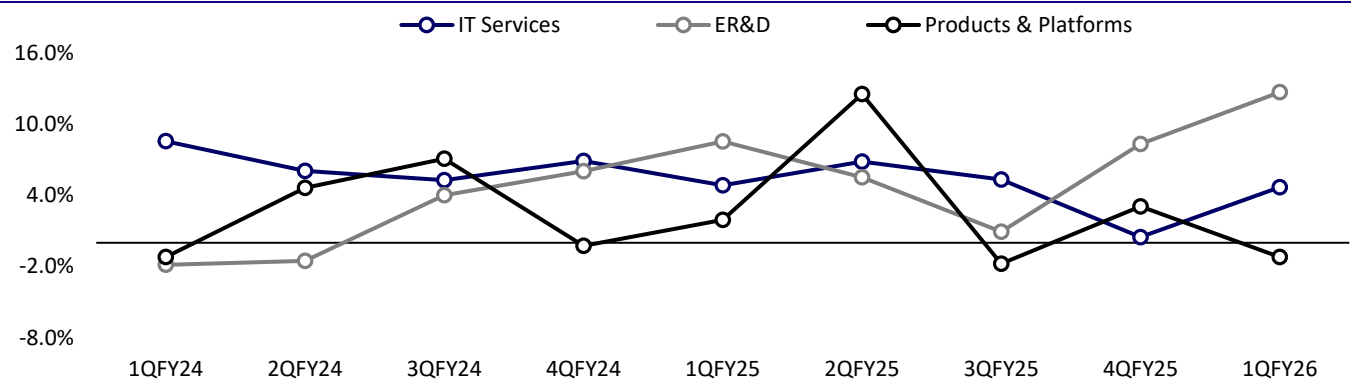
- We expect HCLT to deliver a CAGR of 7.0%/8.8% in USD revenue/INR PAT over FY25-27E. HCLT remains the fastest-growing large-cap IT services company, and we like its all-weather portfolio. We reduce our FY26 estimates by 3-4% to account for higher investments, whereas we keep FY27 estimates largely unchanged. Reiterate **BUY** with a TP of INR2,000 (based on 26x FY27E EPS).

Exhibit 1: P&P business was weak due to seasonality


Source: MOFSL, Company

Exhibit 2: FY26 IT services growth guidance at 3-5% YoY CC


Source: MOFSL, Company

Exhibit 3: P&P business saw YoY decline in USD terms, while IT Services and ER&D delivered healthy growth


Source: Company, MOFSL

Exhibit 4: ROW and Europe showed growth, while Americas remained flat

Geographies (YoY CC Growth, %)	1Q FY23	2Q FY23	3Q FY23	4Q FY23	1Q FY24	2Q FY24	3Q FY24	4Q FY24	1Q FY25	2Q FY25	3Q FY25	4Q FY25	1Q FY26
Americas	17.5	18.2	12.3	10.0	7.3	3.9	6.7	6.8	8.0	7.5	6.2	0.1	0.5
Europe	22.5	21.8	23.3	14.6	10.5	3.9	1.7	5.5	3.0	4.2	2.6	4.3	9.6
ROW	18.2	13.7	11.6	1.4	-6.0	-3.6	-7.5	-7.1	-3.6	-2.6	2.9	23.2	15.0

Source: Company, MOFSL; Note: There is re-segmentation from this quarter onward. New segment - India - grew 1.3% YoY CC in 1QFY26.

Exhibit 5: Hi-tech and Telecom showing signs of recovery while healthcare remains soft

Verticals (YoY CC Growth, %)	1Q FY23	2Q FY23	3Q FY23	4Q FY23	1Q FY24	2Q FY24	3Q FY24	4Q FY24	1Q FY25	2Q FY25	3Q FY25	4Q FY25	1Q FY26
Financial Services	16.4	15.4	8.8	9.6	14.4	12.5	12.9	12.1	-1.3	-4.5	-1.4	0.7	6.8
Manufacturing	19.1	21.8	21.2	11.8	16.5	3.3	5.8	9.8	3.5	7.1	0.0	-6.1	-1.0
Technology & Services	34.2	26.6	19.3	17.9	-7.0	-9.5	-9.2	-8.6	2.7	5.6	7.6	10.8	13.7
Retail & CPG	5.8	11.9	-3.8	11.8	3.2	8.1	11.7	8.2	9.7	6.2	17.2	9.5	8.2
Telecommunications, Media, Publishing & Entertainment	29.2	27.1	27.9	8.9	-11.7	-10.4	8.3	6.5	69.2	61.2	33.1	24.3	13.0
Lifesciences & Healthcare	15.7	14.4	19.5	1.6	13.4	9.8	0.5	5.4	-4.1	-2.8	-1.1	-7.4	-4.0
Public Services#	15.2	17.6	16.7	7.6	6.8	1.7	-0.6	0.1	-3.7	-2.0	-4.6	-0.5	-2.4

Source: Company, MOFSL

Quarterly Performance

(INR b)

Y/E March	FY25				FY26E				FY25	FY26E	Est. 1QFY26	Var. (% / bp)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Revenue (USD m)	3,364	3,445	3,533	3,498	3,545	3,642	3,775	3,822	13,840	14,783	3,517	0.8
QoQ (%)	-1.9	2.4	2.5	-1.0	1.3	2.7	3.7	1.3	4.3	6.8	0.5	81bp
Revenue (INR b)	281	289	299	302	303	316	327	331	1,171	1,278	301	0.9
YoY (%)	6.7	8.2	5.1	6.1	8.2	9.4	9.5	9.6	6.5	9.2	7.2	93bp
GPM (%)	34.5	34.9	35.6	34.7	33.7	34.8	36.2	35.5	34.9	35.1	34.9	-122bp
SGA (%)	12.4	11.5	11.3	11.8	12.3	12.5	12.3	12.3	11.7	12.3	12.5	-21bp
EBITDA	58	64	69	65	60	66	74	73	255	273	63	-4.7
EBITDA Margin (%)	20.6	22.1	23.0	21.5	19.9	20.9	22.6	21.9	21.8	21.4	21.0	-116bp
EBIT	48	54	58	54	49	55	62	61	214	227	53	-6.0
EBIT Margin (%)	17.1	18.6	19.5	18.0	16.3	17.3	19.0	18.3	18.3	17.8	17.5	-119bp
Other income	9	3	3	3	2	5	5	5	18	17	5	-45.3
ETR (%)	25.4	25.5	25.1	24.9	25.9	25.0	25.0	25.0	25.2	25.2	25.0	91bp
Adjusted PAT	43	42	46	43	38	45	50	49	174	182	43	-10.1
QoQ (%)	6.8	-0.5	8.4	-6.2	-10.8	16.0	12.7	-2.1			-0.7	-1007bp
YoY (%)	20.5	10.5	5.5	8.1	-9.7	5.3	9.5	14.2	10.8	4.9	0.4	-1019bp
EPS	15.7	15.6	16.9	15.9	14.2	16.4	18.5	18.1	63.9	67.0	15.8	-10.1

Key Performance Indicators

Y/E March	FY25				FY26	FY25
	1Q	2Q	3Q	4Q	1Q	
Revenue (QoQ CC %)	-1.6	1.6	3.8	-0.8	-0.8	
Costs (% of revenue)						
COGS	65.5	65.1	64.4	65.3	66.3	65.1
SGA	12.4	11.5	11.3	11.8	12.3	11.7
Margins						
Gross Margin	34.5	34.9	35.6	34.7	33.7	34.9
EBIT Margin	17.1	18.6	19.5	18.0	16.3	18.3
Net Margin	15.2	14.7	15.4	14.2	12.7	14.9
Operating metrics						
Headcount (k)	219	219	221	223	223	223
Attrition (%)	12.8	12.9	13.2	13.0	12.8	13.0
Key Verticals (YoY CC %)						
BFSI	-1.3	-4.5	-1.4	0.7	6.8	-1.6
Manufacturing	3.5	7.1	0.0	-6.1	-1.0	0.9
Key Geographies (YoY CC %)						
North America	8.0	7.5	6.2	0.1	0.5	5.3
Europe	3.0	4.2	2.6	4.3	9.6	3.5



Key highlights from the management commentary

Demand and industry outlook

- The environment remained stable with some variations across verticals. It did not deteriorate as feared.
- Discretionary spending trends vary by vertical.
- Clients are willing to invest in AI-led transformation for both software development and IT operations.
- Discretionary spending in Financial Services and Technology has not worsened as earlier anticipated.
- Revenue declined by 0.8% QoQ in CC. Growth was seen in the Tech Services vertical, especially around conversational AI and contact center management, which ramped up in Mar'25 and revenue realized in 1Q.
- New deal TCV stood at USD1.8b. A large vendor consolidation deal in FS, not accounted for in 1Q, will contribute to revenue in FY26-27.
- Two large deals expected to close in 1Q have moved to 2Q. The delays are unrelated to macro factors, and management remains optimistic about conversions.
- The digital business has a strong deal pipeline.
- Application modernization continues to be a key contributor to the growth pipeline.
- GenAI and GTM investments are expected to normalize as growth improves by FY27.
- **BFSI:** Confident of maintaining growth momentum. Vendor consolidation deal provides visibility.
- **Technology Services:** This remains a growth vertical. A gradual ramp-up of large deals. Optimal performance expected by 3Q. Strong traction for contact center-led transformation deals.
- **Manufacturing:** Facing pressure due to challenges in the Automotive segment. A quick recovery is not expected.
- **ER&D:** Expected to be the top growth driver. Strong traction in telecom engineering services, supported by the CTG acquisition last year.
- **P&P:** Significant traction seen in Agentic AI-based experience solutions. Transitioning toward outcome-based models instead of traditional subscription models.
- LTM attrition stood at 12.8%, down 20bp QoQ. Focus for freshers is shifting toward specialization.
- **GenAI:** Agentic AI gaining traction in operational efficiency and application modernization. HCLT is investing in AI-driven data lifecycle platforms.
- HCL is seen as an attractive partner by leading tech OEMs, ISVs, and hyperscalers.
- Engagements are growing—from pilots to multi-million-dollar partnerships. Signed a multi-million-dollar AI-led service transformation deal with a major Australian logistics firm.
- AI-led offerings may reduce traditional revenue but are expected to increase wallet share.
- Productivity is estimated to improve by 30-35% in the software development lifecycle.

Margin performance

- EBIT margin for 1QFY26 was 16.3%, down 160bp QoQ.
- The below-target margin was primarily due to 1) lower utilization caused by delays in project ramp-ups and capacity building for specialized skills, 2) supply-demand mismatch in the IT Services business, 3) ramp-downs in the automotive segment, resulting in a larger bench, and 4) one-time impact from a client bankruptcy in IT Services.
- Margin walk: Headwinds — GTM and GenAI investments (-30bp), lower utilization (-80bp), client bankruptcy (-30bp), and change in mix between software and services (-20bp)
- **Restructuring exercise:** Facilities outside India that are underutilized will be optimized. Talent ramp-downs planned in overseas geographies. Restructuring to occur between 2Q and 4Q; expected cost impact is 30-40bp.
- GTM investments will have ~30bp impact, while lower utilization will have ~20bp impact in FY26.
- GenAI and GTM investments should normalize as growth improves by FY27.
- 2Q margins are likely to moderate further before an uptick in 3Q.

Valuation and view

- We expect HCLT to deliver a CAGR of 7.0%/8.8% in USD revenue/INR PAT over FY25-27E. We reduce our FY26 estimates by 3-4% to account for higher investments, whereas FY27 estimates are largely unchanged. Reiterate **BUY** with a TP of INR2,000 (based on 26x FY27E EPS).

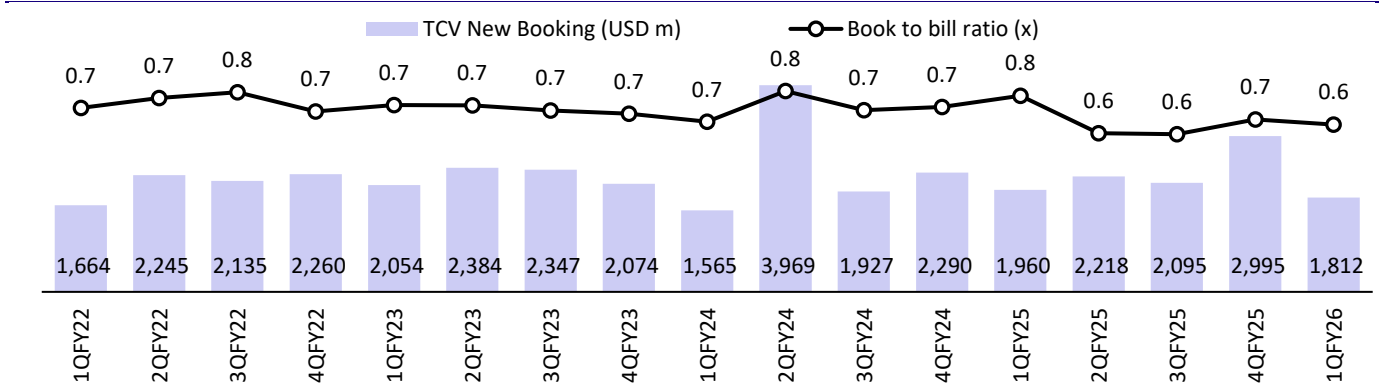
Exhibit 6: Revised estimates

	Revised		Earlier		Change	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
INR/USD	86.4	86.7	86.4	86.7	0.0%	0.0%
USD Revenue - m	14,783	15,859	14,658	15,636	0.9%	1.4%
Growth (cc %)	5.0	7.2	4.2	6.6	80bps	70bps
EBIT margin - Overall (%)	17.8	18.2	18.4	18.6	-70bps	-40bps
PAT (INR B)	182	206	189	207	-3.6%	-0.7%
EPS	67.0	75.9	69.5	76.4	-3.6%	-0.7%

Source: MOFSL

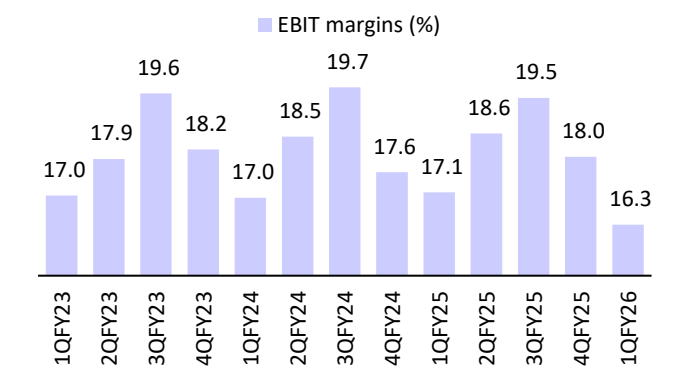
Story in charts

Exhibit 7: TCV (new deal wins) at USD1,812m; book-to-bill at 0.6x



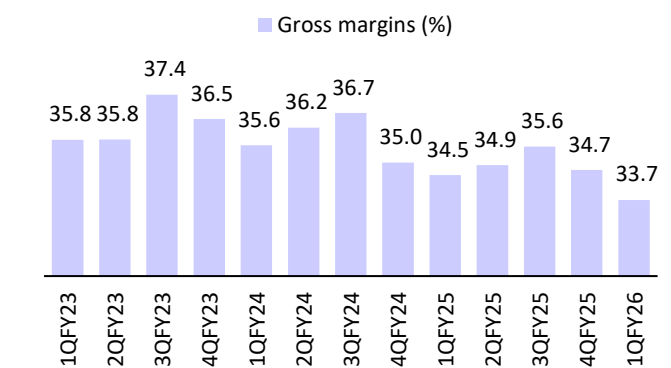
Source: Company, MOFSL

Exhibit 8: FY26 EBIT margin guidance cut to 17-18% (from 18-19%), reflecting GenAI and SG&A investments, along with lower utilization



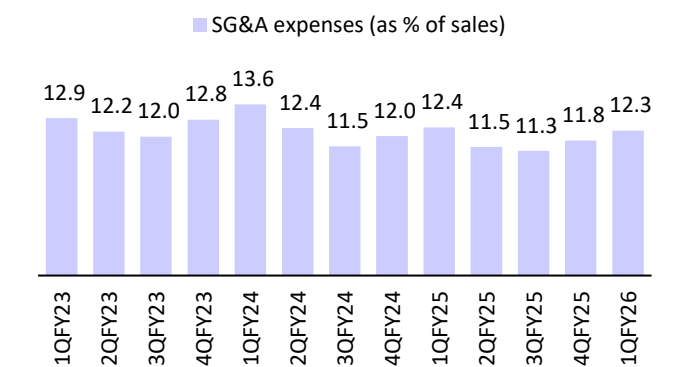
Source: Company, MOFSL

Exhibit 9: Gross margins dipped 100bp QoQ



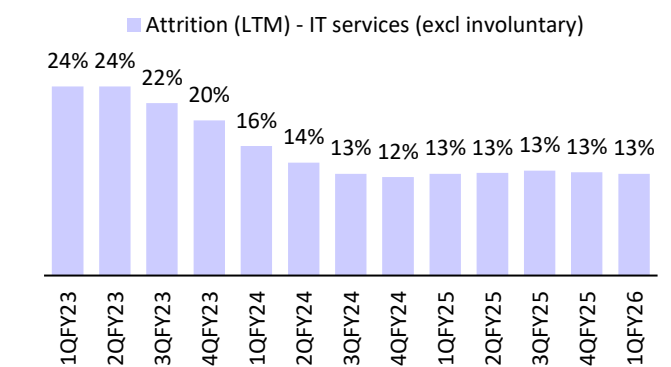
Source: Company, MOFSL

Exhibit 10: SG&A expenses were up by 50bp QoQ



Source: Company, MOFSL

Exhibit 11: LTM attrition has stabilized for last few quarters



Source: Bloomberg, MOFSL

Operating metrics

Exhibit 12: Operating metrics

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
Service-wise (%)									
IT and Business Services	74.7	74.6	71.7	74.4	74.5	74.6	73.0	73.3	74.0
Engineering and R&D Services	15.4	16.0	16.4	16.1	15.9	15.8	16.0	17.1	17.0
Products and Platform	9.9	9.4	11.9	9.5	9.6	9.9	11.3	9.6	9.0
Vertical-wise (Services) (%)									
BFSI	22.6	22.6	21.7	21.6	21.0	20.5	20.3	21.1	21.6
Manufacturing	19.0	19.0	20.1	20.4	19.4	19.5	19.1	18.6	18.6
Technology and Services	14.4	14.4	12.8	12.3	13.0	13.1	13.3	13.4	14.0
Retail and CPG	9.1	9.6	9.6	9.1	9.4	9.6	10.6	9.7	9.7
Telecom MP&E	7.6	8.0	9.7	11.5	12.2	12.1	12.3	13.9	13.1
Life Sciences	17.5	17.5	16.4	16.3	15.9	16.0	15.5	14.7	14.5
Public Services	10.0	9.9	9.7	8.8	9.1	9.2	8.9	8.6	8.5
Geography-wise (Services) (%)									
US	64.5	64.5	64.5	65.2	59.6	65.1	65.5	57.4	56.5
Europe	28.7	28.5	29.0	28.9	25.9	28.4	28.2	27.5	28.3
RoW	6.8	7.0	6.4	5.9	11.0	6.5	6.3	12.0	11.9
India*					3.5			3.1	3.3
Client-wise (%)									
Top five clients	9.8	9.8	9.8	10.4	11.4	12.1	12.6	12.7	12.6
Top 10 clients	17.2	17.2	17.7	18.8	19.6	20.1	20.3	20.2	20.2
Top 20 clients	27.2	27.3	28.0	29.0	30.1	30.8	30.9	30.4	29.9

Source: Company, MOFSL. Note: *There is re-segmentation from this quarter onward.

Financials and valuations

Income Statement							(INR b)	
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Sales	707	754	857	1,015	1,099	1,171	1,278	1,375
Change (%)	17.0	6.7	13.6	18.5	8.3	6.5	9.2	7.6
Cost of Goods Sold	453	467	546	662	721	778	847	907
Gross Profit	254	287	311	353	378	392	431	468
Selling & Admin Exp.	87	93	109	127	136	137	158	168
EBITDA	167	193	202	226	242	255	273	300
% of Net Sales	23.6	25.6	23.6	22.3	22.0	21.8	21.4	21.8
Depreciation	28	40	40	41	42	41	46	50
EBIT	139	153	162	185	200	214	227	251
% of Net Sales	19.6	20.4	18.9	18.2	18.2	18.3	17.8	18.2
Other Income	2	7	8	10	9	18	17	24
PBT	140	160	170	195	210	233	244	275
Tax	29	41	34	46	53	59	62	69
Rate (%)	20.9	25.4	20.3	23.8	25.1	25.2	25.2	25.0
EO Item (net)	0	0	0	0	0	0	0	0
Minority interest	0	1	0	0	0	0	0	0
Adjusted PAT	111	119	135	148	157	174	182	206
Change (%)	9.3	7.4	13.7	9.9	5.7	10.8	4.9	12.8

Balance Sheet							(INR b)	
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Reserves	517	615	620	654	683	697	688	677
Net Worth	517	615	620	654	683	697	688	677
Loans	51	39	39	21	22	1	1	1
Other liabilities	55	55	43	45	66	78	82	86
Capital Employed	623	709	703	720	771	775	771	764
Gross Block	511	546	560	596	643	694	720	747
Less : Depreciation	128	168	208	249	291	332	378	428
Net Block	383	378	352	347	352	362	342	320
Other assets	65	69	57	51	52	71	74	75
Investments	105	140	85	112	178	206	206	206
Curr. Assets	279	291	397	425	416	416	455	492
Debtors	178	175	207	255	255	258	280	298
Cash & Bank Balance	38	65	105	91	95	82	94	105
Other Current Assets	64	50	85	80	66	75	82	88
Current Liab. & Prov	209	168	188	214	227	280	306	329
Net Current Assets	70	123	209	211	189	136	149	162
Application of Funds	623	709	703	720	771	775	771	764

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Diluted (INR)								
EPS	40.7	43.8	49.8	54.8	57.9	63.9	67.0	75.9
Cash EPS	51.2	58.5	64.6	70.1	73.3	78.9	83.9	94.1
Book Value	190.4	226.7	228.6	241.6	252.1	256.0	253.8	249.9
DPS	8.0	26.0	44.0	48.0	48.0	60.0	60.3	68.3
Payout (%)	19.6	59.4	88.3	87.6	82.9	93.9	90.0	90.0
Valuation (x)								
P/E	39.6	36.8	32.4	29.4	27.9	25.3	24.1	21.3
Cash P/E	31.5	27.6	25.0	23.0	22.0	20.5	19.2	17.1
EV/EBITDA	26.3	22.5	21.3	19.0	17.8	16.9	15.7	14.2
EV/Sales	6.2	5.8	5.0	4.2	3.9	3.7	3.3	3.1
Price/Book Value	8.5	7.1	7.1	6.7	6.4	6.3	6.4	6.5
Dividend Yield (%)	0.5	1.6	2.7	3.0	3.0	3.7	3.7	4.2
Profitability Ratios (%)								
RoE	23.6	21.0	21.9	23.3	23.5	25.2	26.4	30.1
RoCE	21.3	18.7	19.6	21.1	21.7	22.9	24.5	27.5
Turnover Ratios								
Debtors (Days)	92	85	88	92	85	81	80	79
Asset Turnover (x)	1.8	2.0	2.4	2.9	3.1	3.2	3.7	4.3

Cash Flow Statement

(InR b)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
CF from Operations	149	166	174	193	201	213	228	255
Chg. in Working Capital	-16	30	-5	-13	23	10	0	1
Net Operating CF	134	196	169	180	224	223	228	256
Net Purchase of FA	-18	-18	-16	-14	-10	-11	-26	-28
Net Purchase of Invest.	-105	-40	30	-25	-57	-38	0	0
Net Cash from Inv.	-124	-57	15	-39	-67	-49	-26	-28
Issue of shares/other adj.	0	0	0	0	0	0	0	0
Proceeds from LTB/STB	-15	-79	-31	-29	-14	-23	0	0
Dividend Payments	-16	-33	-114	-130	-141	-163	-191	-217
Net CF from Finan.	-32	-112	-145	-159	-154	-186	-191	-217
Free Cash Flow	115	179	153	166	214	212	202	228
Net Cash Flow	-22	27	39	-18	3	-12	11	12
Forex difference	0	1	1	4	1	0	0	0
Opening Cash Balance	60	38	66	106	91	95	83	94
Closing Cash Balance	38	66	106	91	95	83	94	106

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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
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