HCL TECHNOLOGIES

RESULT UPDATE

KEY DATA

Rating	HOLD
Sector relative	Outperformer
Price (INR)	1,495
12 month price target (INR)	1,650
52 Week High/Low	2,005/1,303
Market cap (INR bn/USD bn)	4,056/45.7
Free float (%)	31.9
Avg. daily value traded (INR mn)	4,927.5

SHAREHOLDING PATTERN

	June-25	Mar-25	Dec-24
Promoter	60.81%	60.81%	60.81%
FII	18.56%	19.14%	19.38%
DII	16.21%	15.48%	15.24%
Pledge	0%	0%	0%

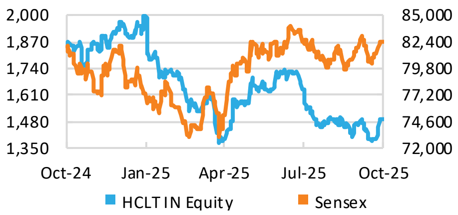
FINANCIALS (INR bn)

Year to March	FY25A	FY26E	FY27E	FY28E
Revenue	1,171	1,275	1,371	1,475
EBITDA	255	266	290	314
Adjusted profit	174	174	194	212
Diluted EPS (INR)	64.1	64.2	71.5	78.1
EPS growth (%)	10.7	0.2	11.3	9.1
RoAE (%)	25.2	24.7	27.1	29.3
P/E (x)	23.3	23.3	20.9	19.2
EV/EBITDA (x)	15.5	14.9	13.7	12.6
Dividend yield (%)	4.0	4.3	4.7	5.0

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY26E	FY27E	FY26E	FY27E
Rev (USD mn)	14,601	15,575	1.0%	0.6%
EBIT	223.0	246.2	2.0%	2.2%
Adjusted profit	174.3	194.1	0.3%	0.9%
Diluted EPS (INR)	64.2	71.5	0.3%	0.9%

PRICE PERFORMANCE



Decent results; valuations full

HCL Tech (HCLT) reported decent Q2FY26 results. Revenue grew +2.4% CC QoQ to USD3,644mn, beating our/Streets' estimate of +1.5% CC QoQ. EBIT margins expanded 110bp QoQ to 17.4%, above our estimate. TCV too was solid at USD2569mn (+42% QoQ/+16% YoY). It also narrowed its FY26 Services revenue growth guidance to 4–5% on solid deal-wins and pipeline while keeping margin guidance intact.

The margin reset for HCLT has hurt its earnings growth profile. Given valuations are on a par with TCS and Infosys, we see limited upside potential. We are making minor tweaks to FY26E/27E EPS (< 1%) and roll forward target valuation to 22x PE (from 23x) average of FY27–28E EPS, yielding a TP of INR1,650 (earlier INR1,630); maintain 'HOLD'.

Sequential broad-based growth with improved margins

HCLT's Q2 revenue grew +2.4% CC QoQ/+4.6% CC YoY, mainly driven by services business (+2.5% CC QoQ). IT Services/ER&D grew +2.6%/+2.2% CC QoQ while Software business posted modest +0.5% CC QoQ growth. Management saw good momentum in Healthcare and Public services along with market share gains in BFSI. EBIT margin expanded 115bp QoQ to 17.4%. Higher margin in Product contributed +35bp while Services margin expansion was driven by lower one-offs (+30bp), improved Utilisation (+50bp) and Fx benefit (+56bp), partly offset by restructuring (-55bp). Advance AI revenue scaled up to USD100mn (~3% of revenue). Its products (AI Force and AI Factory) are receiving strong client interest with AI force now deployed in 47 accounts (versus 35 QoQ). Management expects no major impact from recent change in H1B visa policy due to its lower dependence on the visa.

Strong TCV; lower end of Services guidance raised

TCV was strong at USD2569mn, including two large deals that were delayed in Q1. Management is aiming to maintain USD2.5bn in deal-win run-rate. They upgraded their FY26 Services revenue growth guidance to 4–5% (from 3–5%) while maintaining the guidance at consolidated level (3–5%)—given softness in Software segment due to fall in perpetual licenses sales. EBIT margin guidance stays unchanged at 17–18%. Wage hike cycle will commence in Q3 with a likely margin impact of 70–80bp in Q3 and 40–50bp in Q4, which is factored in the margin guidance.

'HOLD' maintained on limited upside potential

The lower margin profile shall leave HCLT with almost zero EPS growth in FY26 and an overhang on FY27 earnings growth as well. We continue to like HCLT's revenue growth and cash flow profile. However, with valuations at 21x FY27 PE—on a par with TCS and Infosys—we see limited upside potential from current levels.

Financials

Year to March	Q2FY26	Q2FY25	% Change	Q1FY26	% Change
Net Revenue	319,420	288,620	10.7	303,490	5.2
EBITDA	65,930	63,690	3.5	60,350	9.2
Adjusted Profit	42,370	42,390	0	38,450	10.2
Diluted EPS (INR)	15.6	15.6	0	14.2	10.2

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Financial Statements

Income Statement (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Total operating income	1,170,550	1,275,178	1,370,593	1,475,224
Cost of revenues	778,150	853,534	926,033	1,001,122
Gross Profit	392,400	421,644	444,560	474,102
SG&A	137,350	155,331	154,113	160,392
EBITDA	255,050	266,313	290,447	313,710
Depreciation	40,840	43,279	44,240	44,273
EBIT	214,210	223,034	246,207	269,438
Add: Other income	17,550	10,653	11,888	12,312
Profit before tax	232,620	233,708	258,894	282,550
Prov for tax	58,620	59,309	64,724	70,637
Less: Other adj	0	0	0	0
Reported profit	173,910	174,338	194,091	211,832
Less: Excp.item (net)	0	0	0	0
Adjusted profit	173,910	174,338	194,091	211,832
Diluted shares o/s	2,714	2,714	2,714	2,714
Adjusted diluted EPS	64.1	64.2	71.5	78.1
DPS (INR)	60.0	64.0	70.0	75.0
Tax rate (%)	25.2	25.4	25.0	25.0

Balance Sheet (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Share capital	2,714	2,714	2,714	2,714
Reserves	693,836	711,070	715,204	723,512
Shareholders funds	696,550	713,784	717,918	726,225
Minority interest	180	220	220	220
Borrowings	0	0	0	0
Trade payables	284,560	289,747	310,603	332,204
Other liabs & prov	0	0	0	0
Total liabilities	1,055,440	1,076,006	1,105,119	1,139,155
Net block	421,380	427,909	424,365	420,796
Intangible assets	0	0	0	0
Capital WIP	0	0	0	0
Total fixed assets	421,380	427,909	424,365	420,796
Non current inv	215,840	218,150	218,150	218,150
Cash/cash equivalent	94,510	79,080	84,777	93,395
Sundry debtors	258,420	279,491	300,404	323,337
Loans & advances	0	0	0	0
Other assets	65,290	71,376	77,423	83,477
Total assets	1,055,440	1,076,006	1,105,119	1,139,155

Important Ratios (%)

Year to March	FY25A	FY26E	FY27E	FY28E
Direct costs (%)	66.5	66.9	67.6	67.9
SG&A costs (%)	11.7	12.2	11.2	10.9
Depreciation (%)	3.5	3.4	3.2	3.0
EBIT margin (%)	18.3	17.5	18.0	18.3
Net profit margin (%)	14.9	13.7	14.2	14.4
Revenue growth (% YoY)	6.5	8.9	7.5	7.6
EBIT growth (% YoY)	7.0	4.1	10.4	9.4
Adj. profit growth (%)	10.8	0.2	11.3	9.1

Free Cash Flow (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Reported profit	174,000	174,398	194,171	211,912
Add: Depreciation	40,840	43,279	44,240	44,273
Interest (net of tax)	0	0	0	0
Others	0	0	0	0
Less: Changes in WC	24,680	(21,990)	(6,183)	(7,466)
Operating cash flow	239,520	195,687	232,228	248,719
Less: Capex	(61,570)	(49,808)	(40,697)	(40,704)
Free cash flow	177,950	145,879	191,531	208,015

Assumptions (%)

Year to March	FY25A	FY26E	FY27E	FY28E
GDP (YoY %)	6.0	6.2	6.2	6.2
Repo rate (%)	6.0	5.0	5.0	5.0
USD/INR (average)	84.6	87.3	88.0	88.0
USD revenue (USD mn)	13,840.3	14,601.1	15,574.9	16,763.9
YoY growth (%)	4.3	5.5	6.7	7.6
CC YoY growth (%)	4.7	4.5	6.7	7.6
Tax Rate (%)	25.2	25.4	25.0	25.0
Capex (INR mn)	61,570.0	49,807.7	40,696.6	40,703.9

Key Ratios

Year to March	FY25A	FY26E	FY27E	FY28E
RoE (%)	25.2	24.7	27.1	29.3
RoCE (%)	25.1	24.7	27.0	29.3
Div Payout Ratio(%)	93.6	99.6	97.9	96.1
Working cap/Sales (%)	3	5	5	5
Receivable days	80	77	77	77
Asset Turnover Ratio	0.6	0.6	0.6	0.7
Current Ratio	1.5	1.5	1.5	1.5
Net debt/equity (x)	(0.1)	(0.1)	(0.1)	(0.1)

Valuation Metrics

Year to March	FY25A	FY26E	FY27E	FY28E
Diluted P/E (x)	23.3	23.3	20.9	19.2
Price/BV (x)	5.8	5.7	5.7	5.6
EV/EBITDA (x)	15.5	14.9	13.7	12.6
Dividend yield (%)	4.0	4.3	4.7	5.0

Source: Company and Nuvama estimates

Valuation Drivers

Year to March	FY25A	FY26E	FY27E	FY28E
EPS growth (%)	10.7	0.2	11.3	9.1
RoE (%)	25.2	24.7	27.1	29.3
EBITDA growth (%)	5.4	4.4	9.1	8.0
Payout ratio (%)	93.6	99.6	97.9	96.1

Q2FY26 earnings call: Key highlights

- **Revenue growth:** Revenue grew 2.4% QoQ in CC with robust growth in IT services and ER&D services.
- **IT Services business** grew 2.6% QoQ CC and ER&D grew 2.2% QoQ CC. Product grew 0.5% QoQ. Within Product, subscription and support grew 8% QoQ.
- **Deal-wins** of USD2.6bn, broad based across verticals and Geo. Moreover, signed two large deal, which were delayed last quarter. Well positioned for USD2.5bn run rate.
- **Margin** increased +116bp QoQ to 17.4%. Margin improvement was led by higher margin in Product business (+46bp), Services improvement was led by lower one off versus last quarter (+30bp), project higher utilisation (+50bp), fx benefit of (+56bp), partially offset by restructuring headwind of 55bp.
- **AI/GenAI:** Achieved USD100mn in Advance AI revenue, contribute 3% of revenue. Management highlighted significant investments on building partnership, IP and capability. These investments are yielding result as AI moves to monetisation phase. This excludes Classical AI, data and analytics services and the services delivered using GenAI and Agentic AI.
- HCLT is proactively transforming services even if it is leading to disrupting part of existing services and are working on differentiate IPs, which can help scale IP adoption for its client.
- **Platform AI force** is deployed in 47 accounts compared with 35 last quarter. Using AI Force, it is automating design, built and test workflows resulting in 30% to 40% increased developer productivity, shorter cycle times and greater agility in software development
- **Launched two AI products**: AI factory and AI advisory. Taking AI Factory proposition in close partnership with partners like NVIDIA, Dell and HPE. AI factory –engaging with one of the Top 10 tech company in implementing global AI factories. Most of the services deal are embedded with advance AI. Out of Top 10, 5 large renewal deal saw increase in ACV despite of AI while rest declined.
- **Employee front:** Added ~3,500 employees in Q2, in-line with demand and management intend to continue to grow revenue/employee. Undertaken an initiative to identify 14 top AI skills to enhance AI workforce and intend to raise local hiring. Dependence on H1B visa is down to few hundred visa per year.
- **Outlook:** Increasing lower end of services guidance to 4–5% from 3–5%. Maintaining consolidated growth guidance of 3–5% given the softness in Software segment due to decline in perpetual licenses revenue. Restructuring cost will be slightly higher than 40bp with some of the restructuring spilling to Q4 now. EBIT margin guidance maintained at 17–18%. Wage hike cycle shall kick in Q3 with an expected margin impact of 70–80bp in Q3 and 40–50bp in Q4, which is baked into the margin guidance.

Exhibit 1: Financial snapshot (INR mn)

Year to March	Q2FY26	Q1FY26	QoQ	Q2FY25	YoY	FY25	FY26E	FY27E
Total revenues	319,420	303,490	5.2	288,620	10.7	1,170,550	1,275,178	1,370,593
Direct cost	215,380	205,830	4.6	191,840	12.3	778,150	853,534	926,033
Gross profit	104,040	97,660	6.5	96,780	7.5	392,400	421,644	444,560
SG&A expenses	38,110	37,310	2.1	33,090	15.2	137,350	155,331	154,113
EBITDA	65,930	60,350	9.2	63,690	3.5	255,050	266,313	290,447
Depreciation	10,430	10,930	(4.6)	10,070	3.6	40,840	43,279	44,240
EBIT	55,500	49,420	12.3	53,620	3.5	214,210	223,034	246,207
Other income	2,050	2,420	(15.3)	3,220	(36.3)	17,550	10,653	11,888
FX Gains/ (Loss)	(530)	50	(1,160.0)	30	NA	860	20	800
Profit before tax	57,020	51,890	9.9	56,870	0.3	232,620	233,708	258,894
Tax provision	14,660	13,450	9.0	14,500	1.1	58,620	59,309	64,724
Minority Interest	10	10		20		90	60	80
Reported Profit	42,350	38,430	10.2	42,350	0.0	173,910	174,338	194,091
Less: Exceptional items (net of tax)								
Adjusted profit	42,350	38,430	10.2	42,350	0.0	173,910	174,338	194,091
as % of net revenues								
Gross profit	32.6	32.2		33.5		33.5	33.1	32.4
SG&A expenses	11.9	12.3		11.5		11.7	12.2	11.2
EBITDA	20.6	19.9		22.1		21.8	20.9	21.2
EBIT	17.4	16.3		18.6		18.3	17.5	18.0
Adjusted profit	13.3	12.7		14.7		14.9	13.7	14.2
Tax rate	25.7	25.9		25.5		25.2	25.4	25.0

Source: Company, Nuvama Research

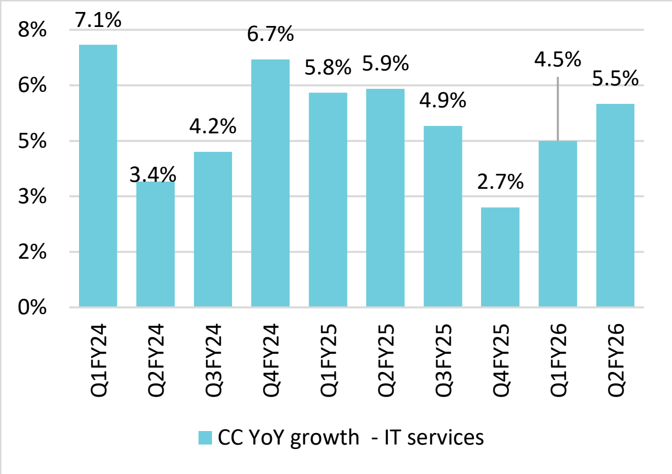
Exhibit 2: Revenue growth (CC YoY) by vertical and service lines

CC YoY growth %	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26
Verticals										
Financial Services	14.4%	12.5%	12.9%	8.6%	-1.3%	-4.5%	-1.4%	0.7%	6.8%	11.4%
Manufacturing	16.5%	3.3%	5.8%	14.3%	3.5%	7.1%	0.0%	-6.1%	-1.0%	-1.8%
Technology & Services	-7.0%	-9.5%	-9.2%	-8.7%	2.7%	5.6%	7.6%	10.8%	13.7%	13.9%
Retail & CPG	3.2%	8.1%	11.7%	9.4%	9.7%	6.2%	17.2%	9.5%	8.2%	5.5%
Telecom, Media & Entertainment	-11.7%	-10.4%	8.3%	39.2%	69.2%	61.2%	33.1%	24.3%	13.0%	11.7%
Life Sciences & Healthcare	13.4%	9.8%	0.5%	-1.0%	-4.1%	-2.8%	-1.1%	-7.4%	-4.0%	-3.0%
Public Services	6.8%	1.7%	-0.6%	-7.0%	-3.7%	-2.0%	-4.6%	-0.5%	-2.4%	2.2%
Service Lines										
IT and Business Services	9.1%	4.6%	4.3%	6.7%	5.3%	6.2%	5.8%	1.4%	3.0%	3.8%
ER&D Services	-1.8%	-2.0%	3.6%	6.4%	8.4%	4.3%	1.1%	8.5%	11.8%	13.4%
Products & Platforms	-0.1%	3.6%	5.0%	NA	3.5%	9.4%	-2.1%	4.9%	-3.0%	-3.7%

Source: Company, Nuvama Research

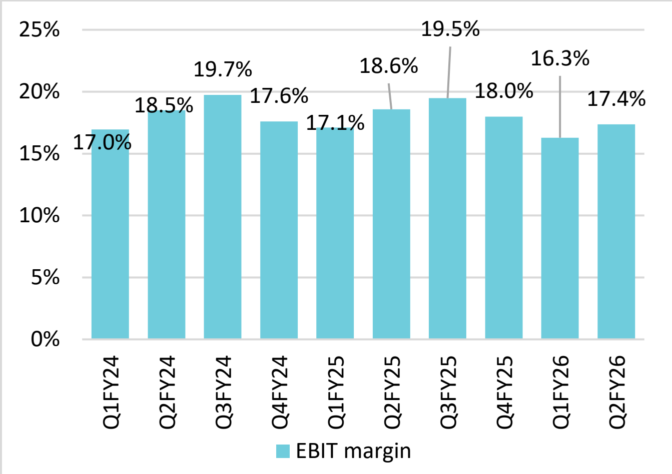
Key charts

Exhibit 3: Revenue growth (CC YoY) – IT services



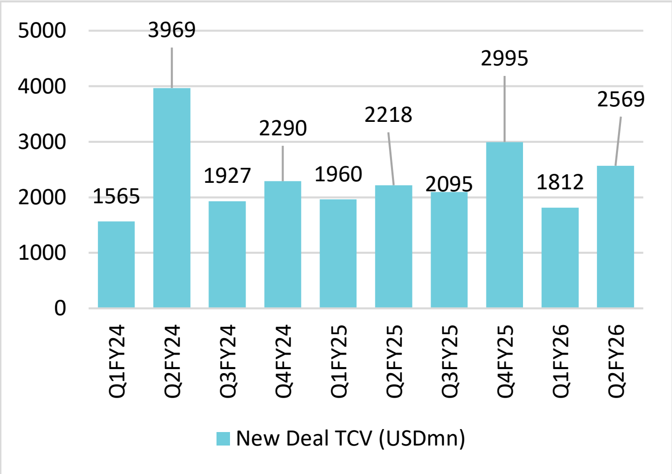
Source: Company, Nuvama Research

Exhibit 4: EBIT margins



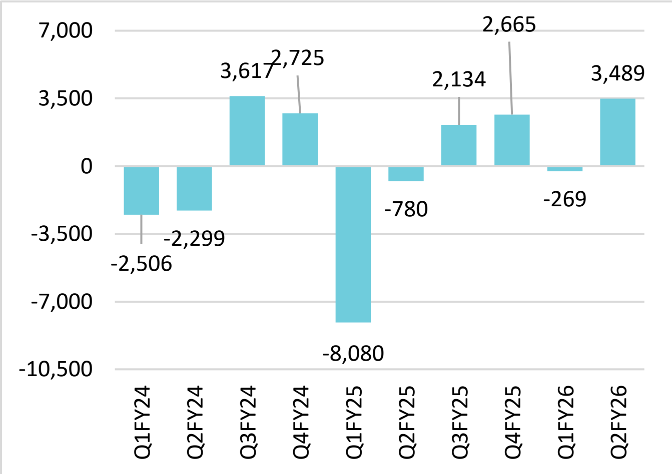
Source: Company, Nuvama Research

Exhibit 5: New deals' TCV (USD mn)



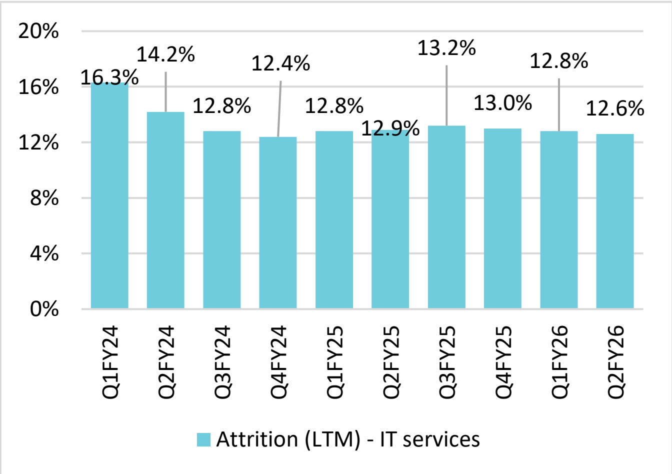
Source: Company, Nuvama Research

Exhibit 6: Net headcount



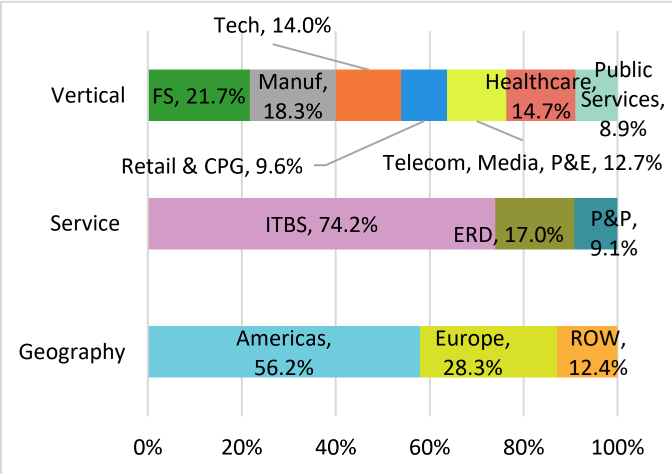
Source: Company, Nuvama Research

Exhibit 7: Attrition – IT services



Source: Company, Nuvama Research

Exhibit 8: Revenue breakdown by vertical, geo and services



Source: Company, Nuvama Research

Company Description

HCL Technologies is a next-generation global technology company that helps enterprises reimagine their businesses for the digital age. HCL offers an integrated portfolio of products and services through three business units: IT and Business Services (ITBS), Engineering and R&D Services (ERS), and Products and Platforms (P&P). Through its worldwide network of R&D facilities and co-innovation labs, global delivery capabilities and more than 220,000 employees across 52 countries, HCL delivers holistic services across industry verticals to leading enterprises, including 250 of the Fortune 500 and 650 of the Global 2000.

Investment Theme

As a scale player, HCLT is expected to gradually increase its share of the total IT pie, largely through its rapidly growing infrastructure management practice and robust order book. HCLT has been aggressively pursuing large deals over the past few quarters.

Over the last two decades, HCLT has actively pursued inorganic growth route with acquisitions such as Volvo-IT, Geometric, Butler America and IBM product portfolio Over the last two years however, it has followed a more efficient capital allocation policy, promising to return 75% of earnings to shareholders. We expect HCLT to continue on this trajectory while maintaining caution on big-ticket acquisitions.

HCLT’s strong growth in the services business, lower exposure to the troubled BFSI segment and a stable margin profile imply a high probability of a stable earnings growth profile. Inexpensive valuations and a high dividend yield provide a floor to the stock price.

Key Risks

Key risks to our investment thesis include: i) A persistent slowdown in the US. ii) Failure in maintaining margins at current levels while pursuing large deals. iii) Higher wage inflation and other costs resulting in significant margin dilution. iv) Appreciation of the INR against the USD, the EUR and the GBP.

Additional Data

Management

CEO	C. Vijayakumar
CFO	Shiv Walia
CTO	Kalyan Kumar
Other	
Auditor	KPMG LLP

Holdings – Top 10*

	% Holding		% Holding
Vama Sundari In	44.17	Vanguard Group	1.70
Hcl holdings Pv	16.46	Blackrock Inc	1.68
LIC	5.31	SBI Funds Manag	1.67
Artisan partner	2.02	HDFC Trustee Co	1.53
HDFC AMC	1.90	ICICI Pru AMC	1.21

**Latest public data*

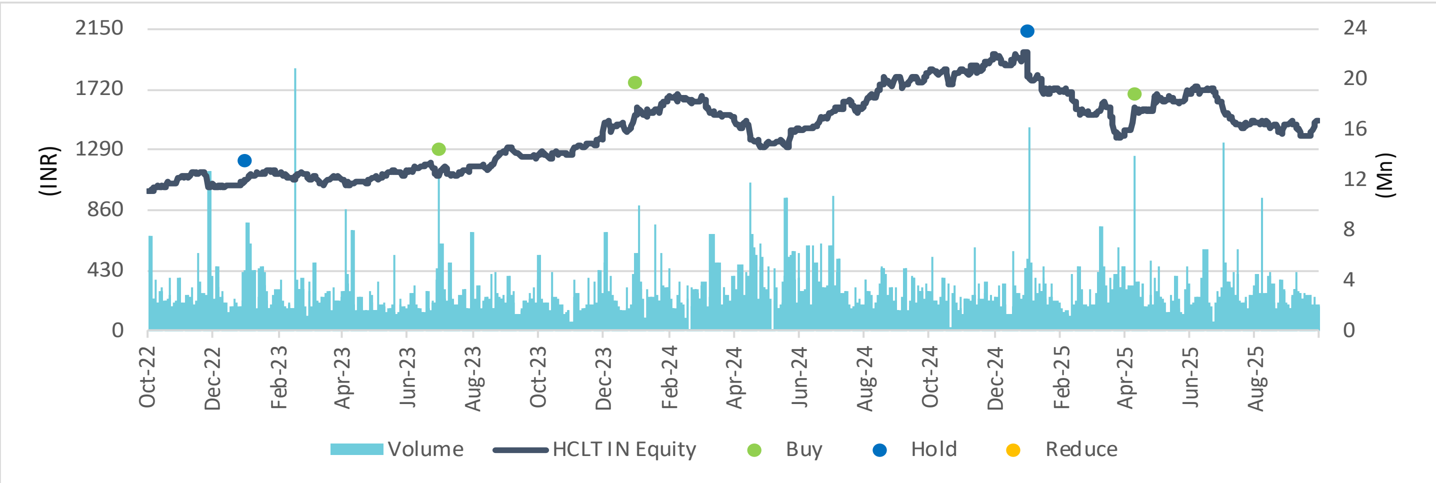
Recent Company Research

Date	Title	Price	Reco
14-Jul-25	Weak margins leave limited upside potent; *Result Update*	1,619	Hold
22-Apr-25	Outgrowing peers amid macro uncertainty; *Result Update*	1,479	Buy
13-Jan-25	Results in-line; fully valued ; *Result Update*	1,989	Hold

Recent Sector Research

Date	Name of Co./Sector	Title
09-Oct-25	TCS	Decent results; capital allocation in fo; *Result Update*
01-Oct-25	IT	Stable quarter amid high uncertainty ; *Sector Update*
25-Sep-25	IT	Accenture: Decent results and guidance; *Sector Update*

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	205
Hold	<15% and >-5%	68
Reduce	<-5%	37

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