

# HCL Technologies

**BSE SENSEX** 76,139  
**S&P CNX** 23,031

## HCLTech

### Stock Info

Bloomberg	HCLT IN
Equity Shares (m)	2714
M.Cap.(INRb)/(USDb)	4621.6 / 53.2
52-Week Range (INR)	2005 / 1231
1, 6, 12 Rel. Per (%)	-14/12/-4
12M Avg Val (INR M)	5247
Free float (%)	39.2

### Financials & Valuations (INR b)

Y/E Mar	FY25E	FY26E	FY27E
Sales	1,173	1,267	1,369
EBIT Margin (%)	18.2	18.6	18.8
PAT	173	190	211
EPS (INR)	63.7	70.0	77.7
EPS Gr. (%)	10.0	9.8	11.0
BV/Sh. (INR)	248	245	241

### Ratios

RoE (%)	25.6	28.5	32.0
RoCE (%)	22.7	25.5	28.3
Payout (%)	90.0	90.0	90.0

### Valuations

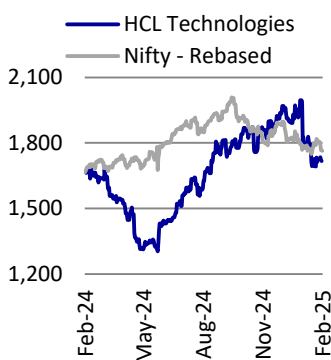
P/E (x)	26.7	24.3	21.9
P/BV (x)	6.9	6.9	7.1
EV/EBITDA (x)	18.0	16.1	14.8
Div Yield (%)	3.4	3.7	4.1

### Shareholding pattern (%)

As On	Dec-24	Sep-24	Dec-23
Promoter	60.8	60.8	60.8
DII	15.2	15.8	15.2
FII	19.5	18.9	19.6
Others	4.4	4.5	4.4

FII Includes depository receipts

### Stock performance (one-year)



**CMP: INR1,703** **TP: INR2,200 (+29%)** **Buy**

### Short-term uncertainty, long-term value

We met with Mr. Shiv Walia, the CFO of HCL Technologies (HCLT), and left with a positive view on the company's growth quality despite the near-term uncertainties.

Management highlighted that deal durations are shortening, with larger deals being broken into smaller chunks, though the pipeline remains strong, and deal momentum is improving. While we have tempered growth expectations due to a slower exit in 3Q and 4Q, HCLT's differentiated positioning in hi-tech and semiconductors, along with its low reliance on pass-through revenues, bodes well for the medium term. The HP CTG acquisition reinforces its telecom presence, diversifying exposure beyond North America and enhancing its capabilities in network solutions. On margins, Project Ascend is driving efficiencies, helping to offset cost pressures, and while shorter deal durations may affect predictability, HCLT remains focused on reinvesting in growth. We now value HCLT at 28x FY27E EPS (vs. 30x earlier) owing to a slower-than-expected discretionary pick-up across the industry. We reiterate our BUY rating with a TP of INR2,200.

### Key highlights from our discussion

- **Deal trends:** Management reiterated that deal durations are shortening, with larger deals being split into smaller chunks. The deal pipeline is near all-time highs, and if conversions materialize, Total Contract Value (TCV) could rise from USD 2b to USD 2.3-2.5b. The Annual Contract Value (ACV) grew 23% YoY in 3QFY25, reflecting this trend.
- **Growth outlook:** While near-term uncertainty remains, HCLT's growth quality is strong. We estimate ~6.5% YoY growth in constant currency for FY26e; a softer 3Q and 4Q exit has tempered expectations. A stronger discretionary spending environment could present an upside risk to these numbers.
- **Growth quality vs. peers:** HCLT has the lowest pass-through revenue contribution among peers, signaling higher-quality growth. While pass-through revenues are necessary for cost-takeout deals and GCC setups, HCLT's control over these low-margin revenues is commendable.
- **Hi-Tech exposure favorable to industry tailwinds:** HCLT works with 8 of the top 10 R&D spenders in the hi-tech space. In the semiconductor space, HCLT has one of the most diversified service offerings, spanning chip design, assembly, testing, validation, and platform solutions. Hi-tech, along with the US BFSI, should be one of the fastest-growing verticals in FY26E, in our view, and HCLT's differentiated offerings in this space position its hi-tech vertical well for the next 12-18 months.
- **HP CTG acquisition could unlock new geographies but hurt margins:** The HP CTG acquisition expands HCLT's telecom footprint; HP CTG works with 25 of the top 30 global communication service providers (CSPs), helping HCLT diversify away from North America and expanding its footprint in Europe and Japan, providing deeper access to high-value telecom engineering and network transformation projects. We note, however, that the acquisition is dilutive to margins and could present near-term risks to its profitability.

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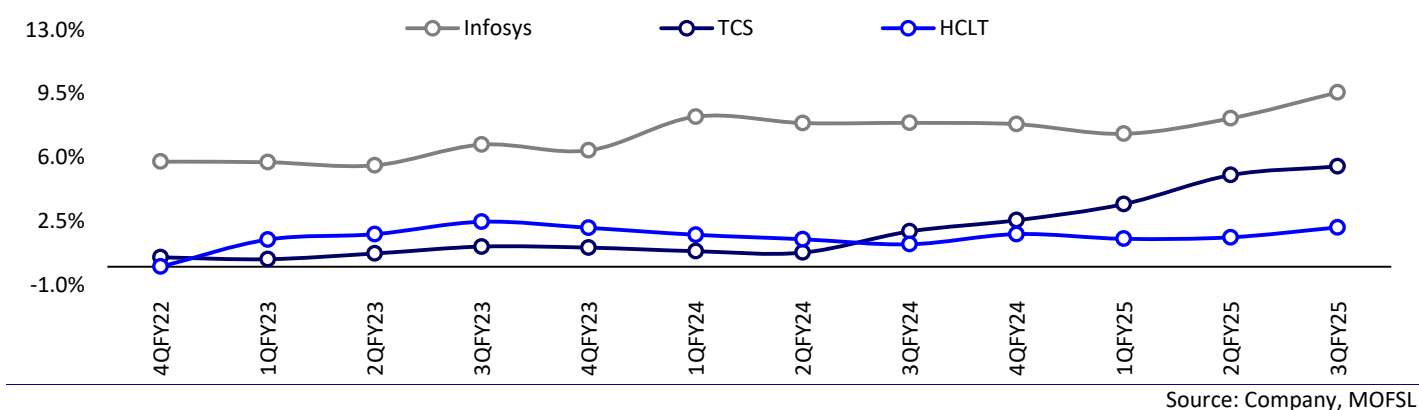
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- The TMT vertical, after a torrid couple of years, could begin to turn around in FY26E, and the company expects the vertical to do well in the coming year.
- **Margins & FY26 outlook:** Project Ascend is driving efficiency gains, offsetting wage hikes. Shorter-duration deals may reduce margin predictability, but FY26 is expected to be a stable margin environment. HCLT may reinvest gains, yet margins could still improve by 30bp, per our estimates.

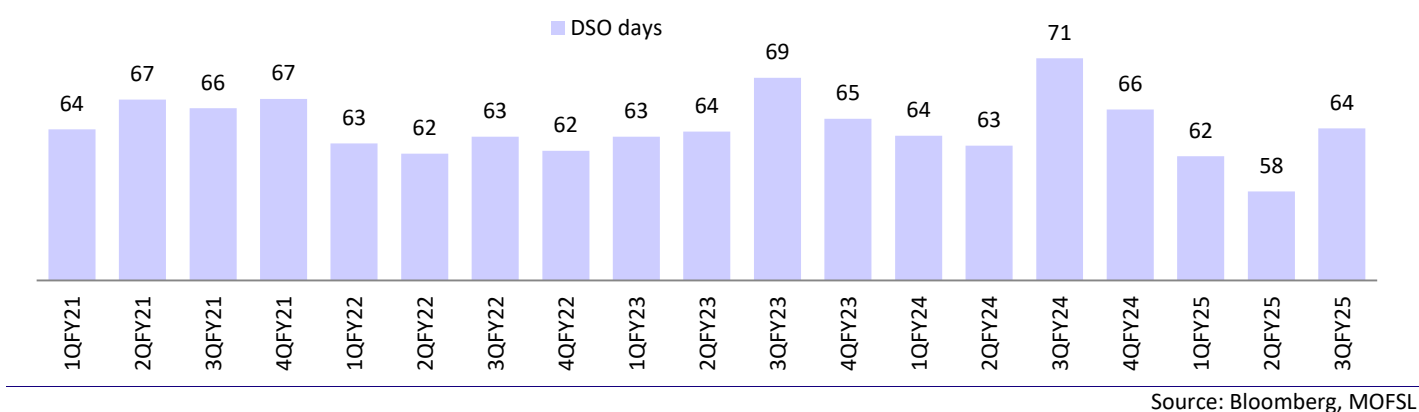
#### Valuations and View

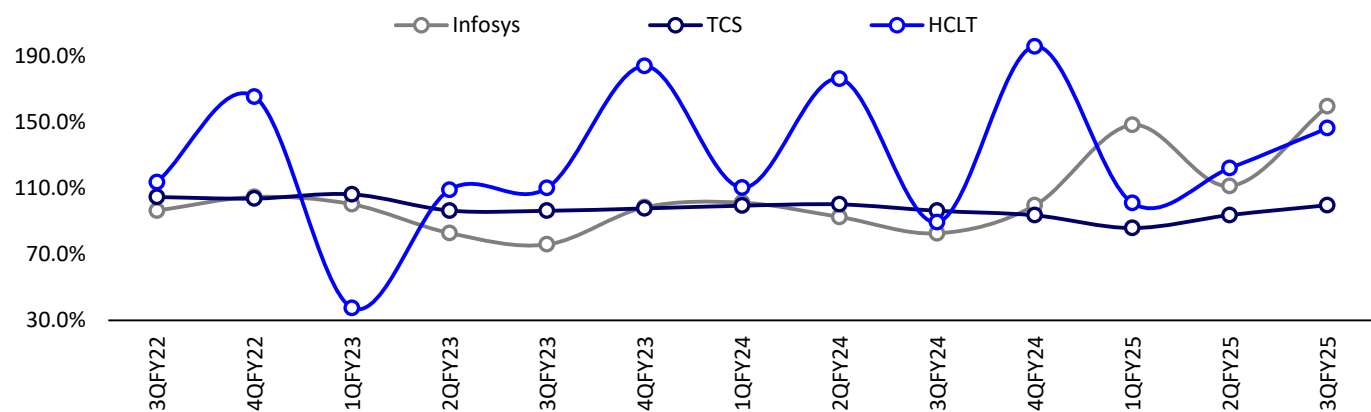
- We expect HCLT to deliver an 18.2% EBIT margin in FY25, which should recover to 18.6% in FY26 as growth improves. We expect HCLT to deliver a CAGR of 6.2%/10.3% in USD revenue/INR PAT over FY25-27E. **We now value HCLT at 28x FY27E EPS (vs. 30x earlier) owing to a slower-than-expected discretionary pick-up across the industry. We reiterate our BUY rating with a TP of INR2,200.**

**Exhibit 1: HCLT's pass-through revenue contribution is the lowest among peers, indicating better-quality growth**

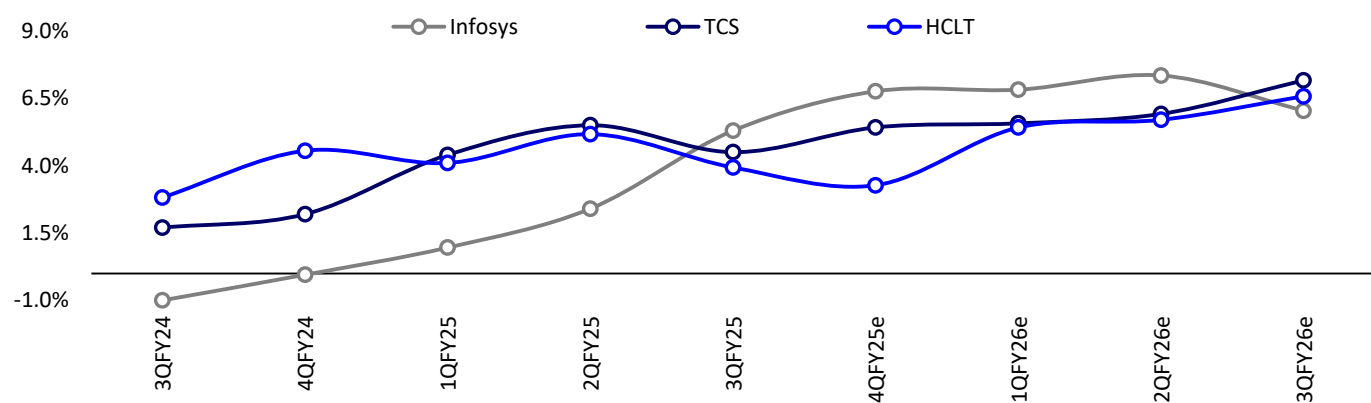


**Exhibit 2: DSO days remain steady within the historical average of ~64-65 days**



**Exhibit 3: HCLT continues to have a superior FCF conversion compared to its peers**

Source: Bloomberg, MOFSL

**Exhibit 4: HCLT's CC YoY organic growth may lag peers in the short term, but we expect it to catch up by FY27E**

Source: Company, MOFSL

**Valuations and View**

- We expect HCLT to deliver an 18.2% EBIT margin in FY25, which should recover to 18.6% in FY26 as growth improves. We expect HCLT to deliver a CAGR of 6.2%/10.3% in USD revenue/INR PAT over FY25-27E. **We now value HCLT at 28x FY27E EPS (vs. 30x earlier) owing to a slower-than-expected discretionary pick-up across the industry. We reiterate our BUY rating with a TP of INR2,200.**

## Financials and valuations

### Income Statement

(INR b)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>Sales</b>	<b>707</b>	<b>754</b>	<b>857</b>	<b>1,015</b>	<b>1,099</b>	<b>1,173</b>	<b>1,267</b>	<b>1,369</b>
Change (%)	17.0	6.7	13.6	18.5	8.3	6.7	8.1	8.0
Cost of Goods Sold	453	467	546	662	721	782	829	896
<b>Gross Profit</b>	<b>254</b>	<b>287</b>	<b>311</b>	<b>353</b>	<b>378</b>	<b>390</b>	<b>438</b>	<b>473</b>
Selling & Admin Exp.	87	93	109	127	136	136	157	166
<b>EBITDA</b>	<b>167</b>	<b>193</b>	<b>202</b>	<b>226</b>	<b>242</b>	<b>254</b>	<b>281</b>	<b>306</b>
% of Net Sales	23.6	25.6	23.6	22.3	22.0	21.7	22.2	22.4
Depreciation	28	40	40	41	42	41	46	49
<b>EBIT</b>	<b>139</b>	<b>153</b>	<b>162</b>	<b>185</b>	<b>200</b>	<b>213</b>	<b>235</b>	<b>257</b>
% of Net Sales	19.6	20.4	18.9	18.2	18.2	18.2	18.6	18.8
Other Income	2	7	8	10	9	19	19	24
<b>PBT</b>	<b>140</b>	<b>160</b>	<b>170</b>	<b>195</b>	<b>210</b>	<b>232</b>	<b>254</b>	<b>281</b>
Tax	29	41	34	46	53	59	64	70
Rate (%)	20.9	25.4	20.3	23.8	25.1	25.2	25.0	25.0
EO Item (net)	0	0	0	0	0	0	0	0
Minority interest	0	1	0	0	0	0	0	0
<b>Adjusted PAT</b>	<b>111</b>	<b>119</b>	<b>135</b>	<b>148</b>	<b>157</b>	<b>173</b>	<b>190</b>	<b>211</b>
Change (%)	9.3	7.4	13.7	9.9	5.7	10.5	9.8	10.6

### Balance Sheet

(INR b)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Reserves	517	615	620	654	683	674	664	653
<b>Net Worth</b>	<b>517</b>	<b>615</b>	<b>620</b>	<b>654</b>	<b>683</b>	<b>674</b>	<b>664</b>	<b>653</b>
Loans	51	39	39	21	22	22	22	22
Other liabilities	55	55	43	45	66	68	71	73
<b>Capital Employed</b>	<b>623</b>	<b>709</b>	<b>703</b>	<b>720</b>	<b>771</b>	<b>763</b>	<b>757</b>	<b>749</b>
Gross Block	511	546	560	596	643	672	698	725
Less : Depreciation	128	168	208	249	291	332	378	427
<b>Net Block</b>	<b>383</b>	<b>378</b>	<b>352</b>	<b>347</b>	<b>352</b>	<b>340</b>	<b>320</b>	<b>298</b>
Other assets	65	69	57	51	52	52	52	52
Investments	105	140	85	112	178	178	178	178
<b>Curr. Assets</b>	<b>279</b>	<b>291</b>	<b>397</b>	<b>425</b>	<b>416</b>	<b>436</b>	<b>469</b>	<b>504</b>
Debtors	178	175	207	255	255	270	289	310
Cash & Bank Balance	38	65	105	91	95	95	104	112
Other Current Assets	64	50	85	80	66	71	76	82
<b>Current Liab. &amp; Prov</b>	<b>209</b>	<b>168</b>	<b>188</b>	<b>214</b>	<b>227</b>	<b>242</b>	<b>262</b>	<b>283</b>
<b>Net Current Assets</b>	<b>70</b>	<b>123</b>	<b>209</b>	<b>211</b>	<b>189</b>	<b>193</b>	<b>207</b>	<b>221</b>
<b>Application of Funds</b>	<b>623</b>	<b>709</b>	<b>703</b>	<b>720</b>	<b>771</b>	<b>763</b>	<b>757</b>	<b>749</b>

## Financials and valuations

### Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>Diluted (INR)</b>								
<b>EPS</b>	<b>40.7</b>	<b>43.8</b>	<b>49.8</b>	<b>54.8</b>	<b>57.9</b>	<b>63.7</b>	<b>70.0</b>	<b>77.7</b>
Cash EPS	51.2	58.5	64.6	70.1	73.3	78.8	86.7	95.8
Book Value	190.4	226.7	228.6	241.6	252.1	247.5	245.2	241.1
DPS	8.0	26.0	44.0	48.0	48.0	57.3	63.0	69.9
Payout (%)	19.6	59.4	88.3	87.6	82.9	90.0	90.0	90.0
<b>Valuation (x)</b>								
P/E	41.8	38.9	34.2	31.1	29.4	26.7	24.3	21.9
Cash P/E	33.3	29.1	26.3	24.3	23.2	21.6	19.6	17.8
EV/EBITDA	27.8	23.8	22.5	20.1	18.8	18.0	16.1	14.8
EV/Sales	6.6	6.1	5.3	4.5	4.1	3.9	3.6	3.3
Price/Book Value	8.9	7.5	7.4	7.1	6.8	6.9	6.9	7.1
Dividend Yield (%)	0.5	1.5	2.6	2.8	2.8	3.4	3.7	4.1
<b>Profitability Ratios (%)</b>								
RoE	23.6	21.0	21.9	23.3	23.5	25.6	28.5	32.0
RoCE	21.3	18.7	19.6	21.1	21.7	22.7	25.5	28.3
<b>Turnover Ratios</b>								
Debtors (Days)	92	85	88	92	85	84	83	83
Asset Turnover (x)	1.8	2.0	2.4	2.9	3.1	3.4	4.0	4.6

### Cash Flow Statement

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>(INR b)</b>								
CF from Operations	149	166	174	193	201	215	236	260
Chg. in Working Capital	-16	30	-5	-13	23	-2	-3	-3
<b>Net Operating CF</b>	<b>134</b>	<b>196</b>	<b>169</b>	<b>180</b>	<b>224</b>	<b>213</b>	<b>233</b>	<b>257</b>
Net Purchase of FA	-18	-18	-16	-14	-10	-29	-25	-27
Net Purchase of Invest.	-105	-40	30	-25	-57	0	0	0
<b>Net Cash from Inv.</b>	<b>-124</b>	<b>-57</b>	<b>15</b>	<b>-39</b>	<b>-67</b>	<b>-29</b>	<b>-25</b>	<b>-27</b>
Issue of shares/other adj.	0	0	0	0	0	0	0	0
Proceeds from LTB/STB	-15	-79	-31	-29	-14	0	0	0
Dividend Payments	-16	-33	-114	-130	-141	-183	-200	-222
<b>Net CF from Finan.</b>	<b>-32</b>	<b>-112</b>	<b>-145</b>	<b>-159</b>	<b>-154</b>	<b>-183</b>	<b>-200</b>	<b>-222</b>
Free Cash Flow	115	179	153	166	214	183	208	230
<b>Net Cash Flow</b>	<b>-22</b>	<b>27</b>	<b>39</b>	<b>-18</b>	<b>3</b>	<b>1</b>	<b>8</b>	<b>8</b>
Forex difference	0	1	1	4	1	0	0	0
<b>Opening Cash Balance</b>	<b>60</b>	<b>38</b>	<b>66</b>	<b>106</b>	<b>91</b>	<b>95</b>	<b>96</b>	<b>104</b>
<b>Closing Cash Balance</b>	<b>38</b>	<b>66</b>	<b>106</b>	<b>91</b>	<b>95</b>	<b>96</b>	<b>104</b>	<b>112</b>

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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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