

HCL Technologies

BUY

AI driven growth fuels growth momentum

Summary

HCL Technologies reported a modest 0.8% QoQ decline in constant currency, primarily due to seasonal softness in its software business. Management anticipates the impact of tariffs to extend beyond retail and manufacturing to other verticals, albeit with a quarter's lag. Nonetheless, the company remains constructively optimistic on demand, led by its AI-led transformation initiatives. Company has delivered by a robust growth of 43% QoQ in net new deal TCV (\$3bn in Q4), taking FY25's total to \$9.4bn, driven largely by strong renewals. Riding this momentum, management has guided FY26 revenue growth of 3–5%, including a 50bps uplift from the HPE-CPG deal. Given HCL's superior deal traction and resilient guidance amidst macro uncertainty, we upgrade the stock from HOLD to BUY, assigning a target price of Rs1,725 based on 23x FY27E EPS. We view HCL as a relative outperformer among peers.

Key Highlights and Investment Rationale

- **AI Infusion:** Management highlighted a healthy pipeline of sizeable AI/GenAI-led transformational deals. Long-term growth will be driven by AI product development, legacy modernization, cloud adoption, and deepened partnerships with hyperscalers like SAP and ServiceNow.
- **New Oppty:** Management foresees good opptys to setup GCC's in India and has good opptys & deals in the pipeline.
- **Revenue & margins:** Management expects a stable demand environment and steady client behavior, with encouraging signs from faster deal conversions and shorter cycles. Accordingly, it has guided for 2–5% revenue growth and an EBIT margin of 18–19% for FY26.

TP **Rs 1,725**
CMP **Rs 1,480**

Potential upside/downside 17%

Previous Rating HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	(5.6)	(19.0)	1.0
Rel to Sensex	(9.1)	(23.2)	(7.1)

V/s Consensus

EPS (Rs)	FY26E	FY27E
IDBI Capital	68	75
Consensus	69	77
% difference	(1.7)	(2.1)

Key Stock Data

Bloomberg/Reuters	HCLT IN/ HCLT.BO
Sector	IT Services
Shares o/s (mn)	2,714
Market cap. (Rs mn)	4,016,496
3-m daily avg Trd value (Rs mn)	73.2
52-week high / low	Rs2,011 / 1,235
Sensex / Nifty	79,596 / 24,167

Shareholding Pattern (%)

Promoters	60.8
FII	19.2
DII	14.4
Public	5.6

Financial snapshot

(Rs mn)

Year	FY23	FY24	FY25	FY26E	FY27E
Revenue	10,14,560	10,99,130	11,70,550	12,56,527	13,64,760
Change (yoy, %)	18	8	6	7	9
EBITDA	2,26,280	2,42,000	2,55,030	2,76,603	3,07,071
Change (yoy, %)	10	7	5	8	11
EBITDA Margin (%)	22.3	22.0	21.8	22.0	22.5
Adj. PAT	1,46,810	1,56,870	1,73,900	1,84,922	2,03,828
EPS (Rs)	54	58	64	68	75
Change (yoy, %)	9	7	11	6	10
PE(x)	27	26	23	22	20
Dividend Yield (%)	3	4	4	4	5
EV/EBITDA (x)	17	16	15	14	12
RoE (%)	23	23	25	26	28
RoCE (%)	26	27	28	30	32

Source: IDBI Capital Research;

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Other Key Highlights

- Revenue declined 0.8% QoQ in CC terms, impacted by seasonality in the services business. Tech (+2.5%) and financial services (+1.9%) drove sequential growth. On a YoY basis, strong gains were seen in Telecom, Media & Entertainment (+24.3%), Technology (+10.8%), Retail (+9.5%), and Financial Services (+0.7%), while Public Services (-0.5%), Lifesciences & Healthcare (-7.4%), and Manufacturing (-6.1%) declined.
- EBIT margin declined 150bps QoQ to 17.9%, driven by a 120bps hit from seasonal weakness in the product business and a 38bps dip in services margin due to 50bps wage hikes, partially offset by a 46bps forex gain. The rest came from increased sales & marketing investments.
- HCL secured net new deals worth \$2.99bn in TCV, driven by a mega deal, taking FY25 TCV to \$9.4bn. Growth was broad-based across geographies and verticals, with ER&D deal TCV up 75% YoY. Deals spanned ITBS, ERS, and HCL Software, with AI as a core component. Pipeline remains strong in Europe and the Americas, with new mega deals set to ramp up in the coming quarters. GCC setups in India are also gaining solid traction.
- **Demand environment:** Management expects a subdued demand environment amid macro headwinds, with clients prioritizing ROI-driven projects and cutting discretionary spend. Softness, led by retail and manufacturing (incl. auto), is likely to extend across segments. However, strong traction continues in telecom, media, and technology, with a strategic focus on frontier markets.
- **AI/ Gen AI:** The company is investing significantly in agentic AI through AI Force, AI Foundry, and AI Engineering, and has launched Azure AI to enhance LLM quality. Management expects enterprise AI adoption to boost demand for vendor consolidation and tech transformation deals.
- Headcount stood at 2,23,420 with a net addition of 2,665, including 1,805 freshers. Attrition rose to 13% from 12.4% QoQ. Workforce declined 1.9% YoY, driven by AI-led efficiency gains.
- **FY26 guidance:** Management guided 2–5% CC revenue growth, including 4.1% organic and 50bps inorganic contribution. EBIT margin guidance remains at 18–19%. An additional 1% impact is expected from acquisitions, with Q1 projected to outperform YoY despite typical seasonality.

Exhibit 1: Financial snapshot

(Rs mn)

Year-end: March	Q4FY25	Q3FY25	QoQ (%)	Q4FY24	YoY (%)
Revenues (US\$ mn)	3,498	3,533	(1.0)	3,430	2.0
Revenues	3,02,460	2,98,900	1.2	2,84,990	6.1
COGS	2,01,990	1,96,610	2.7	1,89,620	6.5
Gross profit	1,00,470	1,02,290	(1.8)	95,370	5.3
SG&A	35,650	33,690	5.8	34,260	4.1
EBITDA	64,820	68,600	(5.5)	61,110	6.1
Depreciation & amortization	10,400	10,390	0.1	10,930	(4.8)
EBIT	54,420	58,210	(6.5)	50,180	8.4
Other income	2,930	3,110	(5.8)	2,510	16.7
PBT	57,350	61,320	(6.5)	52,690	8.8
Tax	14,260	15,380	(7.3)	12,740	11.9
Minority interest	20	30	n.m.	90	n.m.
Reported net profit	43,070	45,910	(6.2)	39,860	8.1
Diluted EPS (Rs)	15.9	17.0	(6.2)	14.7	8.1
As % of net revenue					
Gross profit	33.2	34.2		33.5	
SG&A	11.8	11.3		12.0	
EBITDA	21.4	23.0		21.4	
EBIT	18.0	19.5		17.6	
Reported net profit	14.2	15.4		14.0	
Tax rate	24.9	25.1		24.2	

Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. estimates

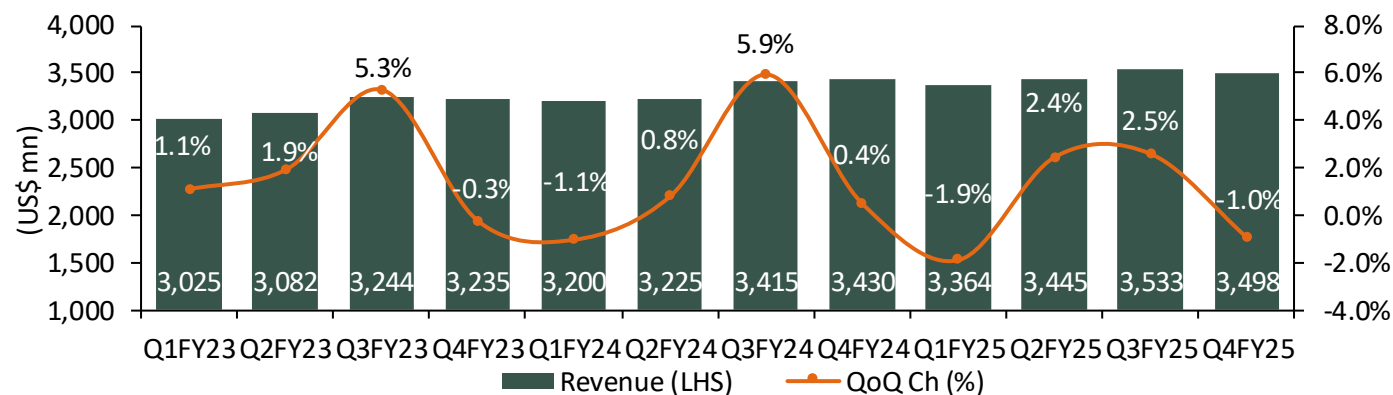
Year to March	Q4FY25	Q4FY25E	Variance (%)
Revenue (US\$ mn)	3,498	3,485	0.4
Revenue (Rs mn)	3,02,460	3,02,122	0.1
EBIT (Rs mn)	54,420	54,747	(0.6)
EBIT margin (%)	18.0%	18.1%	-13 bps
PAT (Rs mn)	43,070	43,585	(1.2)
PAT margin (%)	14.2%	14.4%	-19 bps
EPS (Rs)	15.9	16.1	-1.2

Source: Company; IDBI Capital Research

Exhibit 3: Earnings Revision

Year-end: March	FY26E			FY27E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (US\$ mn)	14,526.3	14031.0	3.5	15,777.6	15254.6	3.4
Revenue (Rs bn)	1,256.5	1189.9	5.6	1,364.8	1296.6	5.3
EBIT (Rs bn)	233.3	224.8	3.8	258.6	243.1	6.4
EBIT margin (%)	18.57	18.89	-32 bps	18.95	18.75	20 bps
EPS (Rs/sh)	68.1	65.8	3.5	75.1	70.9	5.9

Source: Company; IDBI Capital Research

Exhibit 4: Q4FY25 revenue growth was above estimates

Source: Company; IDBI Capital Research

Exhibit 5: Growth in large clients

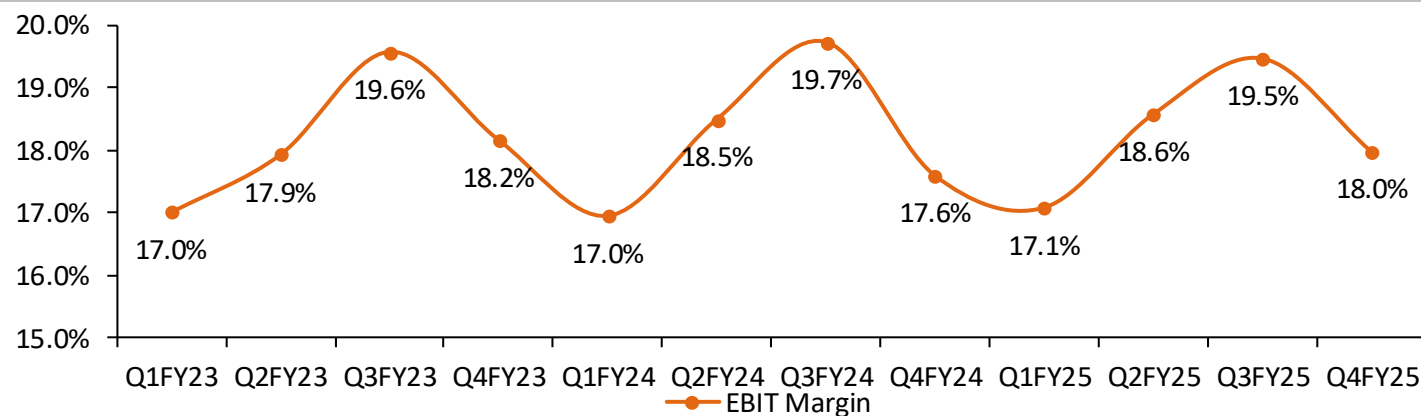
Year-end: March	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
US\$100m +	19	20	20	20	22	22	22	22
US\$50m +	46	48	49	49	46	48	52	53
US\$20m +	131	127	132	132	137	133	137	136
US\$10m +	229	237	243	250	254	256	251	248
US\$5m +	375	390	402	401	395	404	402	398
US\$1m +	939	947	971	958	951	951	952	952

Source: Company; IDBI Capital Research

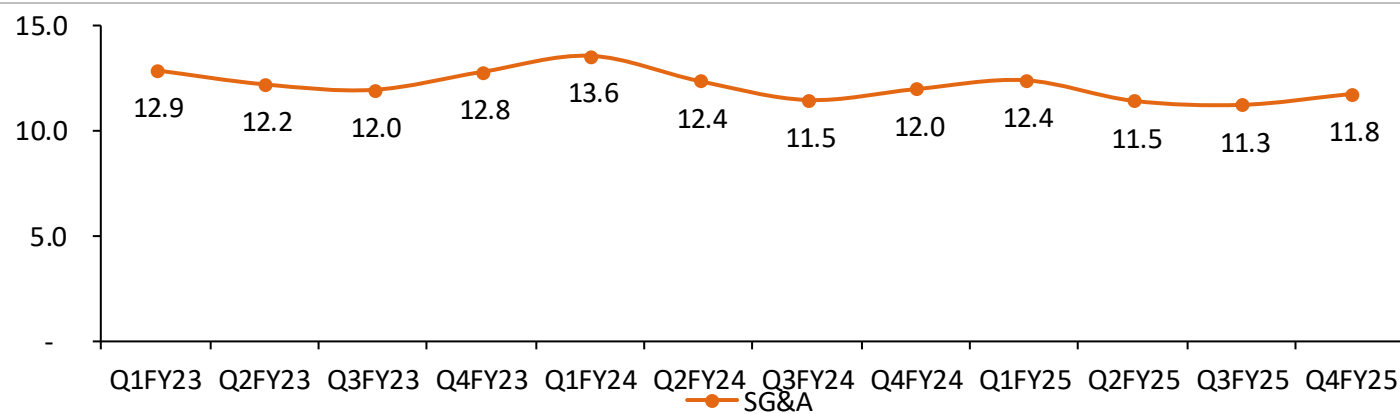
Exhibit 6: Revenue growth across various segments (%)

Parameters	% of revenue	YoY CC growth
Overall revenue growth		2.9
Geography		
US	63.9	0.1
Europe	29.2	4.3
ROW	6.9	23.2
Service-lines		
IT and Business services	73.0	5.8
Engineering and R&D Services	16.0	1.1
Products and Platforms	11.3	(2.1)
Verticals		
Financial Services	21.1	0.7
Manufacturing	18.6	-6.1
Technology & Services	13.4	10.8
Telecom &Media Publishing	13.9	24.3
Retail & CPG	9.7	9.5
Life science & Healthcare	14.7	-7.4
Public Services	8.6	-0.5

Source: Company; IDBI Capital Research

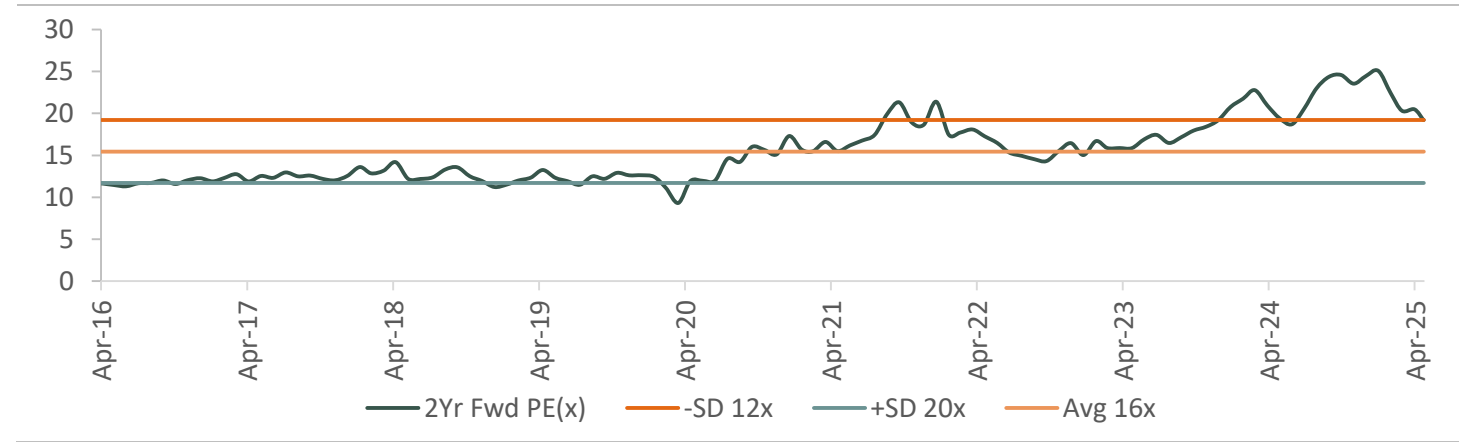
Exhibit 7: Q4FY25 EBIT margin has depleted by 150 bps QoQ

Source: Company; IDBI Capital Research

Exhibit 8: SG&A increased QoQ by 50 bps

Source: Company; IDBI Capital Research

Exhibit 9: One-year forward PER trend



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Net sales	8,56,510	10,14,560	10,99,130	11,70,550	12,56,527	13,64,760
<i>Change (yoy, %)</i>	13.6	18	8	6	7	9
Operating expenses	(6,51,210)	(7,88,280)	(8,57,130)	(9,15,520)	(9,79,924)	(10,57,689)
EBITDA	2,05,300	2,26,280	2,42,000	2,55,030	2,76,603	3,07,071
<i>Change (yoy, %)</i>	-1.2	10	7	5	8	11
<i>Margin (%)</i>	24.0	22.3	22.0	21.8	22.0	22.5
Depreciation	(43,260)	(41,450)	(41,730)	(40,830)	(43,256)	(48,516)
EBIT	1,62,040	1,84,830	2,00,270	2,14,200	2,33,347	2,58,556
Interest paid	-	-	-	-	-	-
Other income	7,470	8,350	9,250	18,410	13,322	13,322
Pre-tax profit	1,69,510	1,93,180	2,09,520	2,32,610	2,46,670	2,71,878
Tax	(34,280)	(46,420)	(52,570)	(58,620)	(61,667)	(67,969)
<i>Effective tax rate (%)</i>	20.2	24.0	25.1	25.2	25.0	25.0
Minority Interest	(240.0)	50.0	(80.0)	(90.0)	(80.0)	(80.0)
Net profit	1,34,990	1,46,810	1,56,870	1,73,900	1,84,922	2,03,828
Exceptional items	-	-	-	-	-	-
Adjusted net profit	1,34,990	1,46,810	1,56,870	1,73,900	1,84,922	2,03,828
<i>Change (yoy, %)</i>	4.3	9	7	11	6	10
EPS	49.7	54.1	57.8	64.1	68.1	75.1
Dividend per sh	44.0	48.0	56.0	60.0	65.0	68.0
<i>Dividend Payout (%)</i>	88.5	88.8	96.9	94	95	91

Balance Sheet

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Shareholders' funds	6,19,140	6,54,050	6,82,630	6,96,550	7,04,997	7,24,205
Share capital	5,430	5,430	5,430	5,430	5,430	5,430
Reserves & surplus	6,13,710	6,48,620	6,77,200	6,91,120	6,99,567	7,18,775
Total Debt	39,230	21,110	22,230	700	700	700
Other liabilities	31,530	32,190	55,260	63,130	67,753	73,446
Curr Liab & prov	1,87,750	2,14,310	2,27,260	2,80,390	2,63,171	2,83,597
Current liabilities	1,64,820	1,81,610	1,90,760	2,37,370	2,20,689	2,38,538
Provisions	22,930	32,700	36,500	43,020	42,482	45,059
Total liabilities	2,58,510	2,67,610	3,04,750	3,44,220	3,31,624	3,57,743
Total equity & liabilities	8,78,570	9,21,590	9,87,460	10,40,950	10,36,881	10,82,289
Net fixed assets	3,29,010	3,23,220	3,22,610	3,32,150	3,20,684	3,12,168
Investments	1,030	1,100	940	910	910	910
Other non-curr assets	68,120	61,500	70,600	90,650	80,710	87,662
Current assets	4,80,410	5,35,770	5,93,310	6,17,240	6,34,577	6,81,548
Inventories	1,610	2,280	1,850	1,330	2,115	2,297
Sundry Debtors	1,54,760	1,95,720	1,94,830	1,95,230	2,22,730	2,41,915
Cash and Bank	1,88,750	2,01,090	2,71,930	2,87,620	2,67,657	2,83,023
Loans and advances	30,080	26,030	7,950	9,760	8,606	9,348
Total assets	8,78,570	9,21,590	9,87,460	10,40,950	10,36,881	10,82,289

Cash Flow Statement

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Pre-tax profit	1,69,510	1,93,180	2,09,520	2,32,610	2,46,670	2,71,878
Depreciation	43,260	41,450	41,730	40,830	43,256	48,516
Tax paid	(34,580)	(46,690)	(44,260)	(54,360)	(61,667)	(67,969)
Chg in working capital	13,450	(11,020)	32,350	51,440	(44,351)	318
Other operating activities	(18,043)	20,530	23,310	(5,174)	(5,565)	(12,585)
Cash flow from operations (a)	1,73,597	1,97,450	2,62,650	2,65,346	1,78,343	2,40,156
Capital expenditure	(21,800)	(35,660)	(41,120)	(50,370)	(31,790)	(40,000)
Chg in investments	(140)	(70)	160	30	-	-
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(21,940)	(35,730)	(40,960)	(50,340)	(31,790)	(40,000)
Equity raised/(repaid)	3	-	-	-	-	-
Debt raised/(repaid)	950	(18,120)	1,120	(21,530)	-	-
Dividend (incl. tax)	(1,19,460)	(1,30,320)	(1,52,040)	(1,62,900)	(1,76,475)	(1,84,620)
Chg in minorities	(1,010)	(940)	70	10	-	-
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	(1,19,517)	(1,49,380)	(1,50,850)	(1,84,420)	(1,76,475)	(1,84,620)
Net chg in cash (a+b+c)	32,140	12,340	70,840	30,586	(29,922)	15,536

Financial Ratios

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Book Value (Rs)	228.0	241	251	257	260	267
Adj EPS (Rs)	49.7	54.1	57.8	64.1	68.1	75.1
Adj EPS growth (%)	4.3	9	7	11	6	10
EBITDA margin (%)	24.0	22.3	22.0	21.8	22.0	22.5
Pre-tax margin (%)	19.8	19.0	19.1	19.9	19.6	19.9
Net Debt/Equity (x)	-0.2	-0.3	-0.4	-0.4	-0.4	-0.4
ROCE (%)	23.7	26	27	28	30	32
ROE (%)	22.2	23	23	25	26	28

DuPont Analysis

Asset turnover (x)	1.0	1.1	1.2	1.2	1.2	1.3
Leverage factor (x)	1.4	1.4	1.4	1.5	1.5	1.5
Net margin (%)	15.8	14.5	14.3	14.9	14.7	14.9

Working Capital & Liquidity ratio

Inventory days	1	1	1	0	1	1
Receivable days	66	70	65	61	65	65
Payable days	13	12	11	12	12	12

Valuations

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
PER (x)	30	27	26	23	22	20
Price/Book value (x)	6.5	6.1	5.9	5.8	5.7	5.5
EV/Net sales (x)	4.5	3.8	3.4	3.2	3.0	2.7
EV/EBITDA (x)	19	17	16	15	14	12
Dividend Yield (%)	3.0	3.2	3.8	4.1	4.4	4.6

Source: Company; IDBI Capital Research

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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