



TM

SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix

Institutional Equities

HCL Technologies

13 October 2025

Strong Bookings Underpin Revenue Visibility

RESULT UPDATE

Sector: IT & ITES

Rating: HOLD

CMP: Rs 1,495

Target Price: Rs 1,610

Stock Info

| | |
|--------------------|-------------------------|
| Sensex/Nifty | 82,327/25,227 |
| Bloomberg | HCLT IN |
| Equity shares (mn) | 2,715 |
| 52-wk High/Low | 2,012 / 1,303 |
| Face value | Rs 2 |
| M-Cap | Rs 4,058.1bn/USD 46.3bn |
| 3-m Avg turnover | USD 53.98mn |

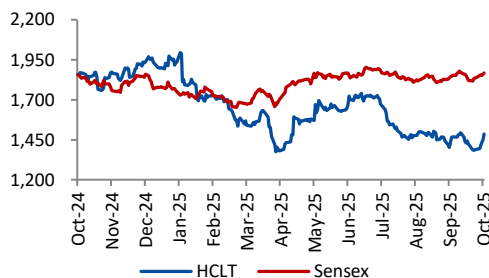
Financial Snapshot (Rs mn)

| Y/E Mar | FY25 | FY26E | FY27E |
|---------------|-----------|-----------|-----------|
| Net sales | 1,170,550 | 1,266,998 | 1,367,107 |
| EBIT | 214,200 | 221,889 | 251,780 |
| EBIT (%) | 18.3% | 17.5% | 18.4% |
| PAT | 173,900 | 171,014 | 194,230 |
| EPS | 64.1 | 63.0 | 71.5 |
| P/E (x) | 23.3 | 23.7 | 20.9 |
| P/B (x) | 5.8 | 5.6 | 5.3 |
| EV/EBITDA (x) | 14.9 | 14.1 | 12.3 |
| RoE (%) | 25.0% | 23.7% | 25.3% |
| RoCE (%) | 29.6% | 29.7% | 32.1% |

Shareholding Pattern (%)

| | Jun'25 | Mar'25 | Dec'24 |
|-----------|--------|--------|--------|
| Promoter | 60.8 | 60.8 | 60.8 |
| - Pledged | - | - | - |
| FII | 18.6 | 19.2 | 19.4 |
| DII | 16.2 | 15.5 | 15.3 |
| Others | 4.4 | 4.6 | 4.6 |

Stock Performance (1-year)



HCL Tech (HCLT IN) delivered a strong 2QFY26 performance, with revenue growing 2.4% QoQ in CC and 2.8% in USD, ahead of expectations. HCLT raised the lower end of its FY26 services revenue growth guidance to 4–5% (from 3–5%), reflecting steady momentum in the services business. However, it maintained overall company-level revenue growth guidance at 3–5%, citing continued softness in the software segment driven by a decline in perpetual license revenues. Bookings came in strong at USD 2.6bn, marking the first quarter above USD 2.5bn without any mega deal, supported by balanced wins across verticals. The pipeline is at an all-time high, driven by advanced AI propositions, with GenAI now embedded in nearly every deal. While manufacturing remains affected by the auto sector weakness, other verticals like financial services, life sciences, and technology continue to perform well. We remain cautiously optimistic about sustaining growth in 2H, supported by a healthy deal pipeline and reasonable visibility on revenue, while monitoring profitability trends. Management retained its FY26 EBIT margin guidance of 17–18%, factoring in wage hikes expected in 2H. We maintain our USD revenue CAGR estimate of 5.9% over FY25–27E. While our FY26E/FY27E margin assumptions remain largely unchanged, we have raised our INR revenue and earnings estimates by 2.6%/2.3% and 2.1%/3.4%, respectively. We reiterate HOLD with a revised target price of Rs 1,610 (Rs 1,592 earlier), valuing the company at a lower multiple of 22.5x FY27E EPS (23x earlier). Key risks: Sudden exits at the leadership level, sustained pressure on client discretionary spending in FY26/FY27, non-encouraging outcomes of cost saving programs, etc.

FY26 Cautious Revenue Guidance

For 2Q, HCLT reported 2.4% QoQ revenue growth in CC, 2.8% growth in USD terms and a 5.2% growth in INR terms, with all geographies except India reporting growth. All sectors grew QoQ, albeit telecom was weak. HCLT recorded a new large deal value (TCV – total contract value) of USD 2.6bn in 2Q. Management has maintained its company level revenue growth guidance at 3%-5% in CC terms for FY26.

Margin grew sequentially

EBIT margin expanded 116bps QoQ to 17.4%, driven by multiple factors — the absence of one-off impacts in 1Q (30bps), higher utilization gains from Project Ascend (50bps), improved contribution from the software segment (35bps), and currency tailwinds (56bps). These positives were partly offset by one-time restructuring costs incurred during 2Q (55bps). Management maintained its margin guidance for FY26 at 17%-18%.

Valuation & Outlook

HCLT currently trades at a 1-year forward multiple of 23.7x, representing a 35%+ premium to its 10-year historical average. We continue to view its revenue growth favorably, as it remains the fastest-growing among the Top 5 peers. While 1QFY26 margins were weak, the earnings outlook has improved following stronger margin performance in 2Q. Applying a slightly lower target multiple of 22.5x FY27E EPS (23x earlier) we arrive at a target price of Rs 1,610 per share, and reiterate HOLD, as the stock does not offer much upside from CMP. **Key risks to our assumptions:** Higher-than-expected margin expansion and earnings growth.

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What do the 2QFY26 result numbers say?

- HCLT's 2QFY26 revenue was a) up 2.4% QoQ and 4.6% YoY in CC terms, b) up 2.8% QoQ and 5.8% YoY at USD 3,644mn in USD terms, and c) up 5.2% QoQ and 10.7% YoY at Rs 3,19,420mn in rupee terms.
- Europe, US and RoW markets grew by 2.8%, 2.2%, and 6.2% QoQ, respectively, in USD revenue terms. These segments make up for ~97% of HCLT's revenue mix, whereas the India markets fell by 0.3% QoQ in USD terms.
- In USD terms, BFSI, manufacturing, healthcare, technology, retail, and public services verticals reported 3.3%, 1.1%, 4.2%, 2.8%, 1.7%, and 8.8% QoQ growth, respectively, while the telecom vertical fell by 0.3% QoQ. Its IT services (~90% of revenue mix) and P&P businesses (~10% of revenue mix) grew at 3% and 0.6% QoQ, respectively.
- EBIT margin expanded 116bps QoQ to 17.4%, driven by multiple factors — the absence of one-off impacts in 1Q (30bps), higher utilization gains from Project Ascend (50bps), improved contribution from the software segment (35bps), and currency tailwinds (56bps). These positives were partly offset by one-time restructuring costs incurred during 2Q (55bps).
- HCLT's new deal TCV of USD 2.57bn was up 42% QoQ.
- During the quarter, attrition fell 20bps QoQ to 12.6% in the last twelve months (LTM). Currently, the company has 2,26,640 employees.
- HCLT declared an interim dividend of Rs 12 per share.

Earnings call highlights

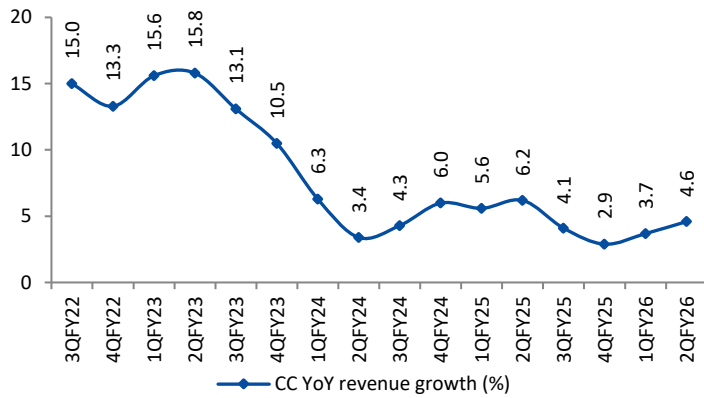
- Macro uncertainty persists with unpredictable external environment, but key indicators like pipeline, bookings, and AI demand remain promising, with AI Gen-AI agentic central to nearly every deal as productivity enhancer and innovation toolkit.
- In terms of verticals, BFSI saw strong growth and meaningful share gains, led by AI-driven modernization deals. Life sciences and healthcare performed well, driven by digital transformation and automation programs. Public services and aerospace grew on key contracts and new AI/robotics engagements. Technology and telecom benefited from the HPE CTG acquisition, expanding global telecom clients. Retail and CPG are recovering with AI-led modernization. Manufacturing is stable, while auto remains weak in Europe with potential outsourcing opportunities.
- FY26 IT services revenue outlook raised to 4-5% growth in constant currency (CC) due to sustained momentum, while total company revenue guidance unchanged at 3-5% due to software perpetual license softness.
- Wage hikes will be implemented in 3Q, with a 70–80bps margin impact in 3Q and another 40–50bps in 4Q. The wage revision is expected to be similar as last year.
- Restructuring exercises will continue through 3Q and partly 4Q, representing a one-time FY26 impact of around 40bps but expected to deliver efficiency benefits from FY27.
- Management reiterated its EBIT margin guidance of 17–18% for FY26, emphasizing that the structural margin band remains unchanged.

- New bookings reached USD 2.6bn, the highest ever without a mega deal, with balanced contribution across verticals and most new contracts embedding AI capabilities.
- Management highlighted key deal wins, including: a) Marriott Vacations Worldwide, which expanded its partnership with HCLT to modernize finance and mortgage operations using AI-driven digital solutions, b) A Europe-based retail major that chose HCLT to modernize its multi-channel applications via the AI Force platform for a digital-first, omni-channel experience, and c) A Europe-based financial services firm that appointed HCLT to consolidate IT services and enhance operational efficiency through domain-led solutions.
- Management highlighted continued growth with top customers, adding two in the USD 50mn category and 14 in the USD 20mn category YoY. The top five clients are expanding their businesses with HCLT.
- The company reduced its DSO (days sales outstanding) from 57 in 2QFY25 to 56 in 2QFY26, which has accelerated its free cash flow; the company recorded operating cash flows at ~133% of net income in 2QFY26.
- US H1-B visa fee hike impact minimal due to reduced reliance on visas, strategic global delivery model, and increased local hiring/training.
- HCLT crossed USD 100mn in advanced AI revenue, roughly 3% of total revenue, marking its entry into the AI monetization phase. The company highlighted progress in GenAI adoption, with AI embedded across service lines and productivity gains visible in delivery; internal AI skilling under the “Blackbelt” standardization program continues to scale.

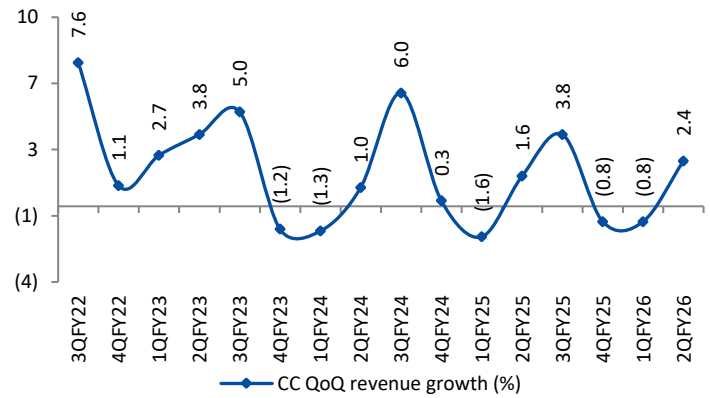
Exhibit 1: HCLT - Quarter results (Consol.)

| (Rs mn) | 2QFY25 | 3QFY25 | 4QFY25 | 1QFY26 | 2QFY26 | YoY (%) | QoQ (%) |
|---------------------------|---------------|---------------|---------------|---------------|---------------|------------------|------------------|
| Revenue USD mn | 3,445 | 3,533 | 3,498 | 3,545 | 3,644 | 5.8 | 2.8 |
| Revenue INR mn | 288,620 | 298,900 | 302,460 | 303,490 | 319,420 | 10.7 | 5.2 |
| Employee costs | 165,230 | 165,760 | 172,460 | 175,980 | 183,010 | 10.8 | 4.0 |
| Subcontractor costs | 37,480 | 38,740 | 39,990 | 41,380 | 44,750 | 19.4 | 8.1 |
| Facility costs | 2,960 | 3,120 | 3,130 | 3,200 | 2,960 | - | (7.5) |
| Travel costs | 3,560 | 3,740 | 4,300 | 3,710 | 3,450 | (3.1) | (7.0) |
| Other expenses | 15,700 | 18,940 | 17,760 | 18,870 | 19,320 | 23.1 | 2.4 |
| EBITDA | 63,690 | 68,600 | 64,820 | 60,350 | 65,930 | 3.5 | 9.2 |
| Depreciation | 10,070 | 10,390 | 10,400 | 10,930 | 10,430 | 3.6 | (4.6) |
| EBIT | 53,620 | 58,210 | 54,420 | 49,420 | 55,500 | 3.5 | 12.3 |
| Finance costs | 1,310 | 1,660 | 1,560 | 2,090 | 2,150 | 64.1 | 2.9 |
| Other income | 4,560 | 4,770 | 4,490 | 4,560 | 3,670 | (19.5) | (19.5) |
| PBT | 56,870 | 61,320 | 57,350 | 51,890 | 57,020 | 0.3 | 9.9 |
| Tax | 14,500 | 15,380 | 14,260 | 13,450 | 14,660 | 1.1 | 9.0 |
| PAT | 42,370 | 45,940 | 43,090 | 38,440 | 42,360 | (0.0) | 10.2 |
| Share of JVs | (20) | (30) | (20) | (10) | (10) | (50.0) | - |
| PAT after JV share | 42,350 | 45,910 | 43,070 | 38,430 | 42,350 | - | 10.2 |
| EPS (Rs) | 15.6 | 16.9 | 15.9 | 14.2 | 15.6 | - | 10.2 |
| As a % of Revenue | | | | | | YoY (bps) | QoQ (bps) |
| Employee costs | 57.2 | 55.5 | 57.0 | 58.0 | 57.3 | 5 | (69) |
| Subcontractor costs | 13.0 | 13.0 | 13.2 | 13.6 | 14.0 | 102 | 38 |
| Facility costs | 1.0 | 1.0 | 1.0 | 1.1 | 0.9 | (10) | (13) |
| Travel costs | 1.2 | 1.3 | 1.4 | 1.2 | 1.1 | (15) | (14) |
| Other expenses | 5.4 | 6.3 | 5.9 | 6.2 | 6.0 | 61 | (17) |
| EBITDA margin | 22.1 | 23.0 | 21.4 | 19.9 | 20.6 | (143) | 76 |
| Depreciation | 3.5 | 3.5 | 3.4 | 3.6 | 3.3 | (22) | (34) |
| EBIT margin | 18.6 | 19.5 | 18.0 | 16.3 | 17.4 | (120) | 116 |
| Finance costs | 0.5 | 0.6 | 0.5 | 0.7 | 0.7 | 22 | (2) |
| Other income | 1.6 | 1.6 | 1.5 | 1.5 | 1.1 | (43) | (35) |
| PBT | 19.7 | 20.5 | 19.0 | 17.1 | 17.9 | (185) | 75 |
| Effective Tax Rate | 25.5 | 25.1 | 24.9 | 25.9 | 25.7 | 21 | (21) |
| PAT | 14.7 | 15.4 | 14.2 | 12.7 | 13.3 | (141) | 60 |

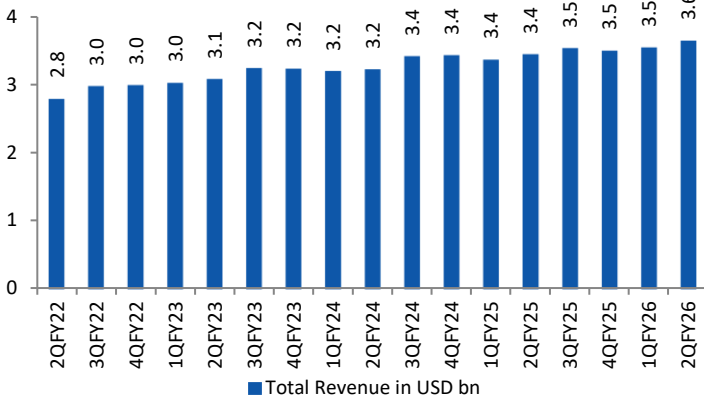
Source: Company, Systematix Institutional Research

Exhibit 2: CC YoY revenue growth (%)

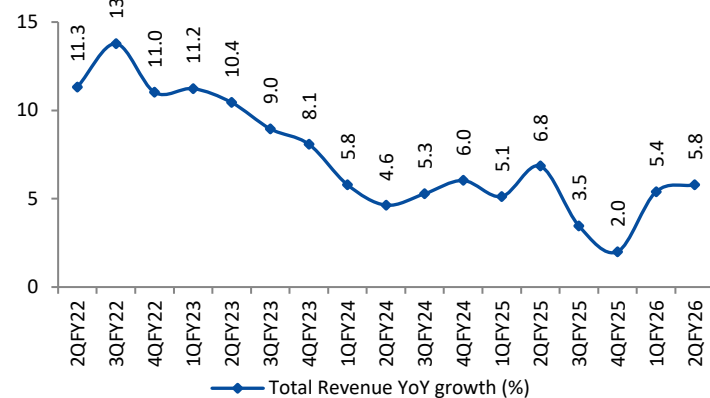
Source: Company, Systematix Institutional Research

Exhibit 3: CC QoQ revenue growth (%)

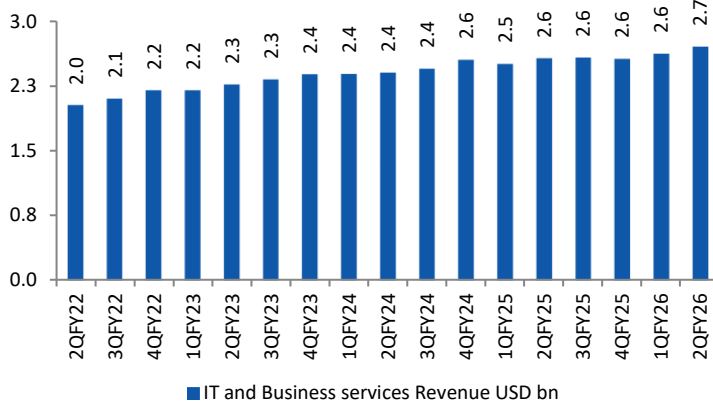
Source: Company, Systematix Institutional Research

Exhibit 4: Total revenue trend

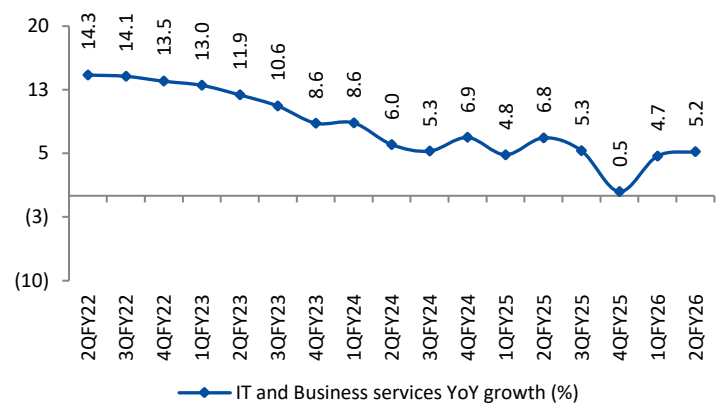
Source: Company, Systematix Institutional Research

Exhibit 5: Total revenue growth YoY

Source: Company, Systematix Institutional Research

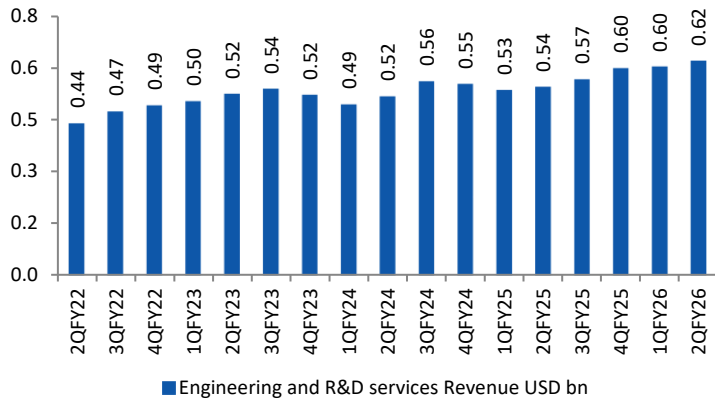
Exhibit 6: IT Services revenue trend

Source: Company, Systematix Institutional Research

Exhibit 7: IT Services revenue growth YoY

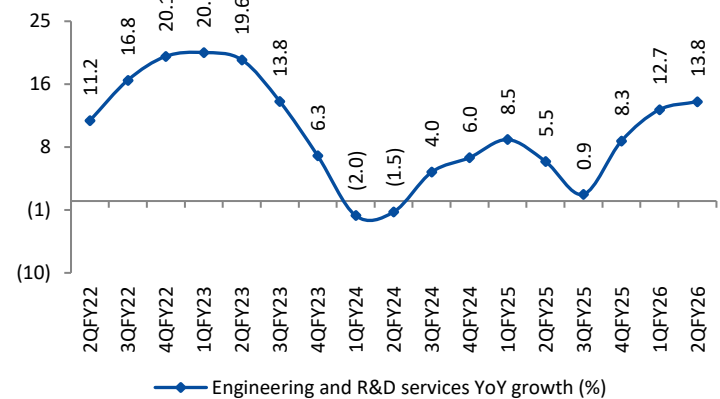
Source: Company, Systematix Institutional Research

Exhibit 8: ER&D Services revenue trend



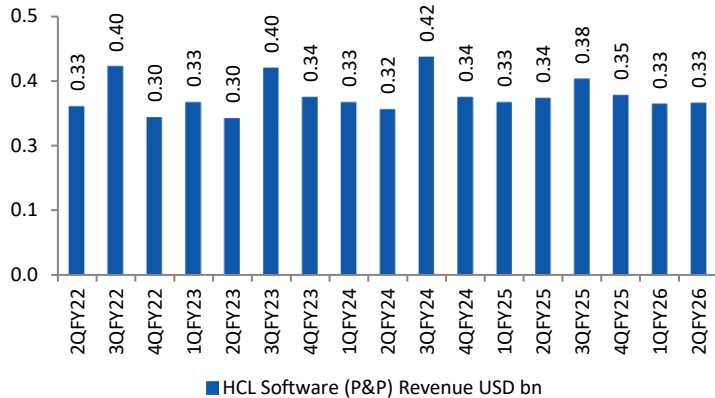
Source: Company, Systematix Institutional Research

Exhibit 9: ER&D Services revenue growth YoY



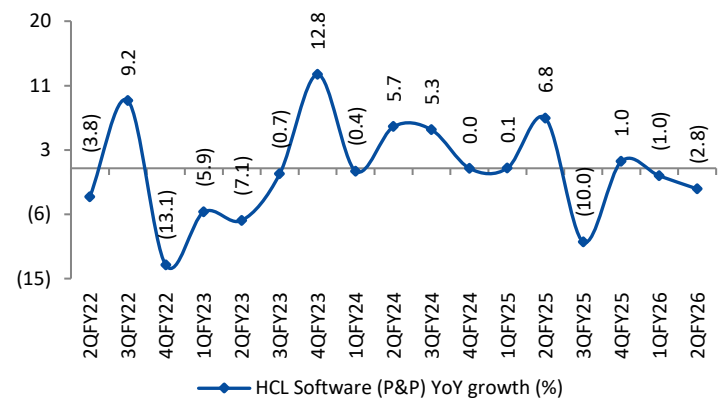
Source: Company, Systematix Institutional Research

Exhibit 10: HCL Software (P&P) revenue trend



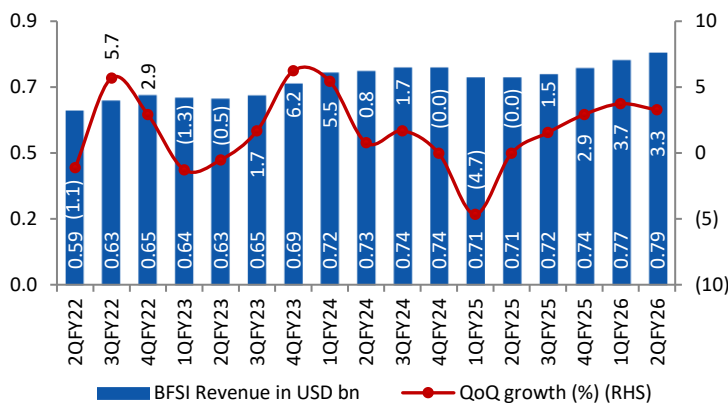
Source: Company, Systematix Institutional Research

Exhibit 11: HCL Software (P&P) revenue growth YoY



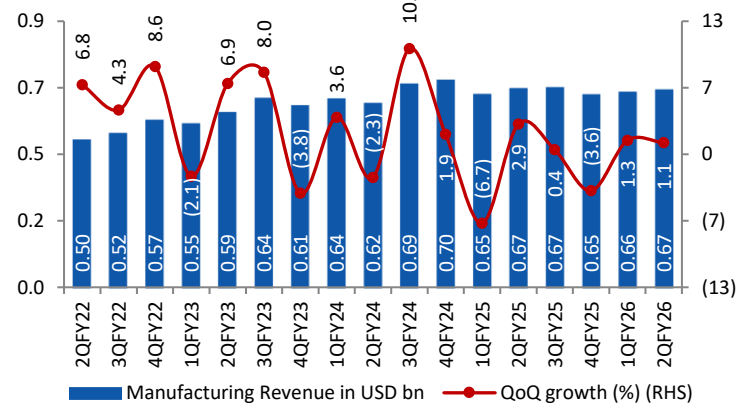
Source: Company, Systematix Institutional Research

Exhibit 12: BFSI revenue trend



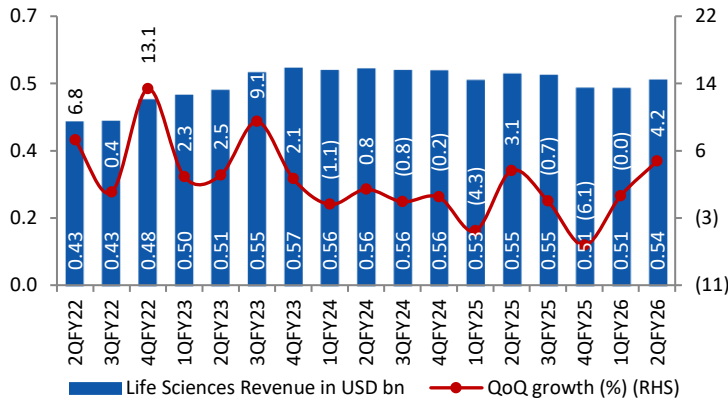
Source: Company, Systematix Institutional Research

Exhibit 13: Manufacturing revenue trend



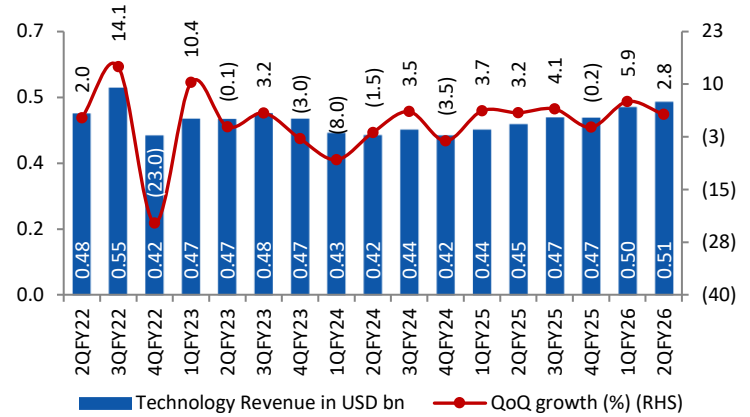
Source: Company, Systematix Institutional Research

Exhibit 14: Life Sciences revenue trend



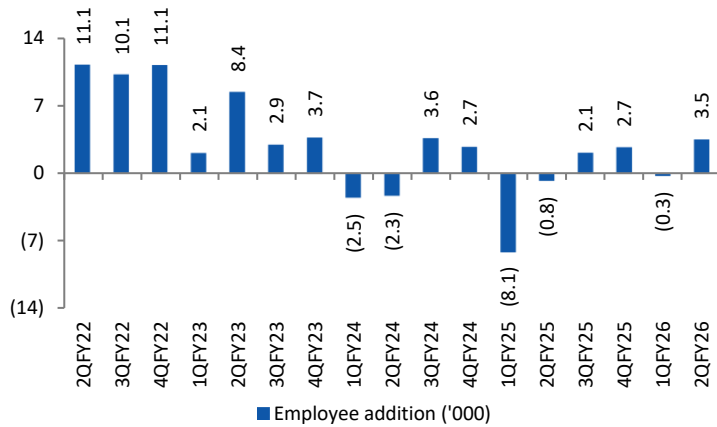
Source: Company, Systematix Institutional Research

Exhibit 15: Technology revenue trend



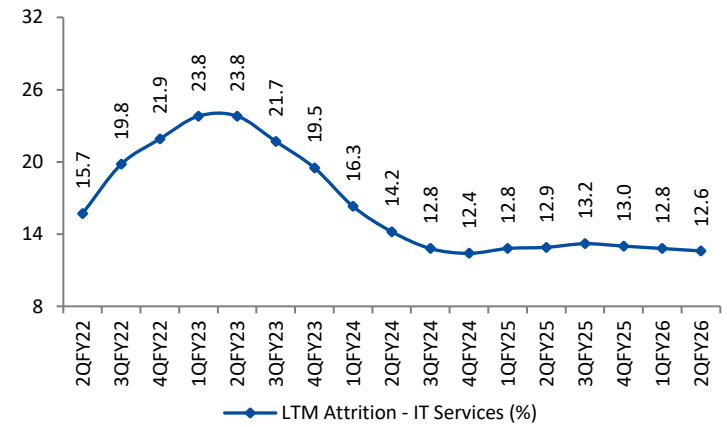
Source: Company, Systematix Institutional Research

Exhibit 16: Employee net addition trend



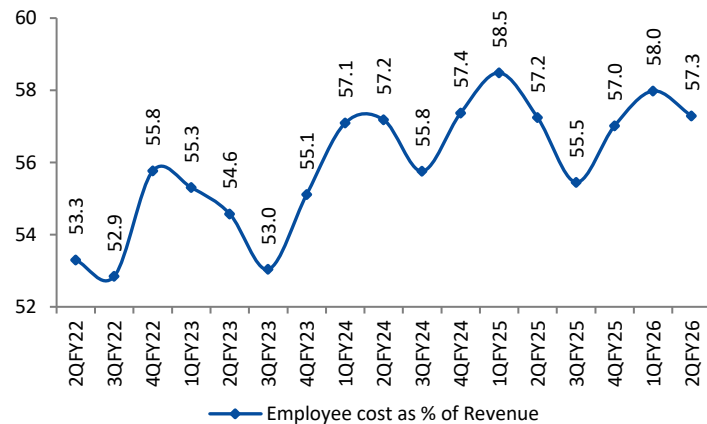
Source: Company, Systematix Institutional Research

Exhibit 17: LTM attrition trend



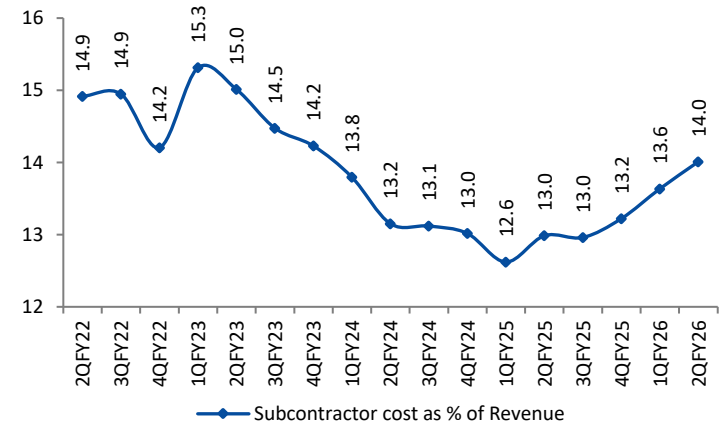
Source: Company, Systematix Institutional Research

Exhibit 18: Employee cost as a percentage of sales

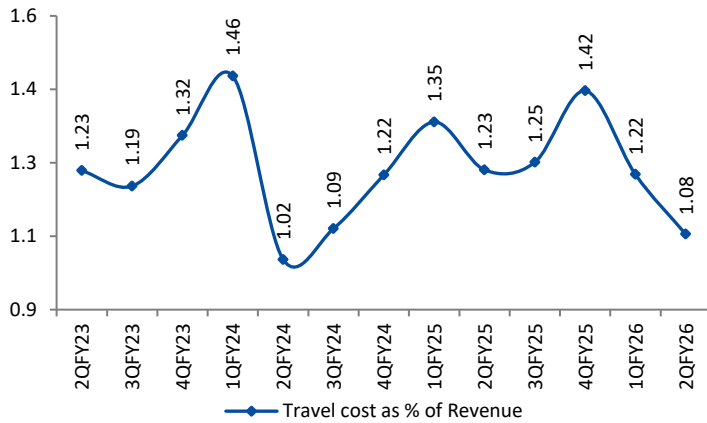


Source: Company, Systematix Institutional Research

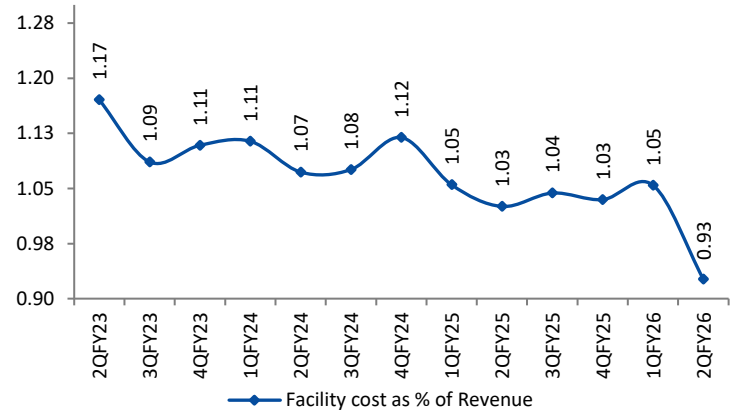
Exhibit 19: Subcontractor cost as a percentage of sales



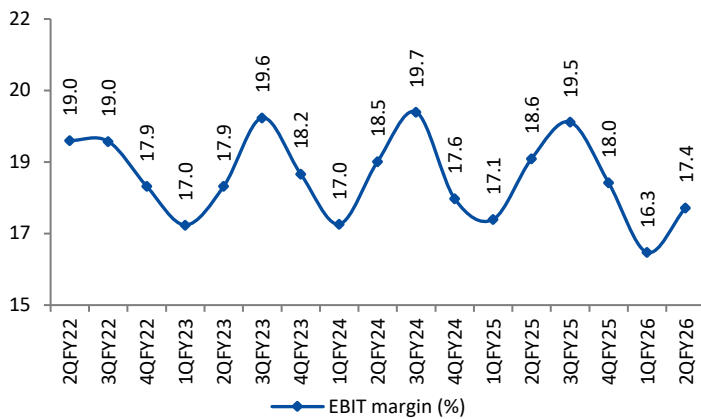
Source: Company, Systematix Institutional Research

Exhibit 20: Travel cost as a percentage of sales

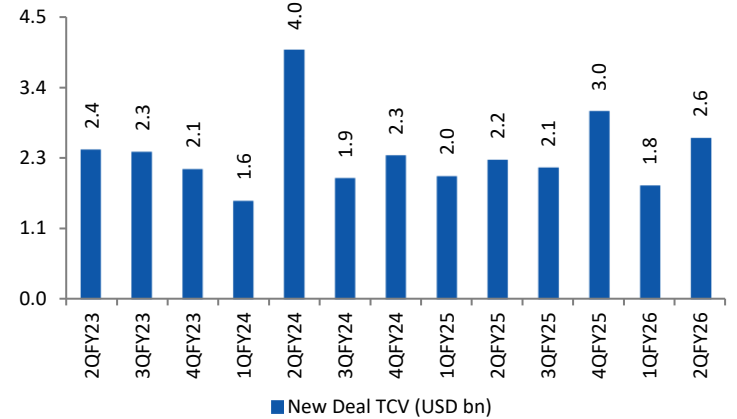
Source: Company, Systematix Institutional Research

Exhibit 21: Facility cost as a percentage of sales

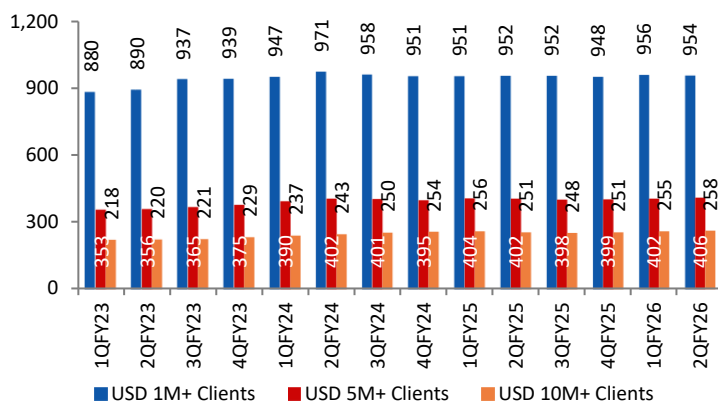
Source: Company, Systematix Institutional Research

Exhibit 22: EBIT margin trend

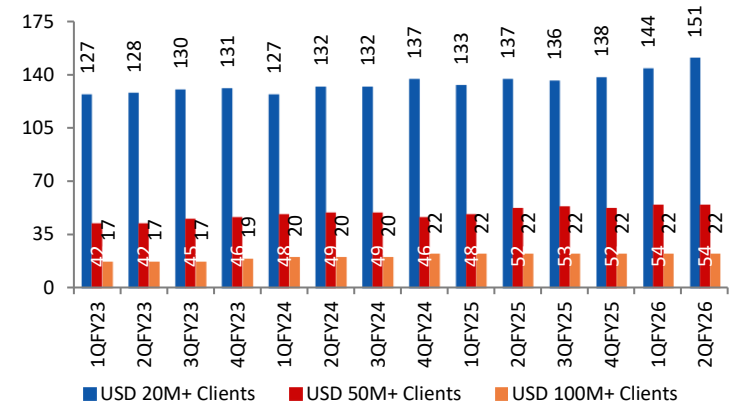
Source: Company, Systematix Institutional Research

Exhibit 23: New deal TCV trend

Source: Company, Systematix Institutional Research

Exhibit 24: Client addition trend

Source: Company, Systematix Institutional Research

Exhibit 25: Client addition trend

Source: Company, Systematix Institutional Research

Valuation

Exhibit 26: 1-year forward P/E

Average P/E

| Particulars | 3-year | 5-year | 10-year |
|-------------|--------|--------|---------|
| Min | 17.5 | 16.0 | 8.4 |
| Max | 31.6 | 31.6 | 31.6 |
| Avg | 23.2 | 21.9 | 17.4 |

Source: Company, Systematix Institutional Research



Source: Company, Systematix Institutional Research

Exhibit 27: Change in Estimates

| (Rs mn) | Old estimates | | New estimates | | % Variance | |
|-----------------|---------------|-----------|---------------|-----------|------------|-------|
| | FY26E | FY27E | FY26E | FY27E | FY26E | FY27E |
| Total Income | 1,234,600 | 1,336,072 | 1,266,998 | 1,367,107 | 2.6 | 2.3 |
| EBIT | 215,916 | 245,788 | 221,889 | 251,780 | 2.8 | 2.4 |
| EBIT margin (%) | 17.5 | 18.4 | 17.5 | 18.4 | 2 bps | 2 bps |
| PAT | 167,491 | 187,928 | 171,014 | 194,230 | 2.1 | 3.4 |
| EPS (Rs) | 61.7 | 69.2 | 63.0 | 71.5 | 2.1 | 3.4 |

Source: Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

| YE: Mar (Rs mn) | FY23 | FY24 | FY25 | FY26E | FY27E |
|--------------------------|------------------|------------------|------------------|------------------|------------------|
| Revenue | 1,014,560 | 1,099,110 | 1,170,550 | 1,266,998 | 1,367,107 |
| Employee expenses | 552,800 | 624,800 | 667,550 | 719,966 | 759,117 |
| Other expenses | 235,480 | 232,330 | 247,960 | 280,917 | 307,677 |
| EBITDA | 226,280 | 241,980 | 255,040 | 266,115 | 300,312 |
| EBITDA margin | 22.3% | 22.0% | 21.8% | 21.0% | 22.0% |
| Depreciation | 41,450 | 41,730 | 40,840 | 44,225 | 48,532 |
| EBIT | 184,830 | 200,250 | 214,200 | 221,889 | 251,780 |
| EBIT margin | 18.2% | 18.2% | 18.3% | 17.5% | 18.4% |
| Interest expense | 3,530 | 5,530 | 6,440 | 8,670 | 10,141 |
| Other income | 13,580 | 14,950 | 24,850 | 17,126 | 19,811 |
| Profit before tax | 194,880 | 209,670 | 232,610 | 230,346 | 261,449 |
| Taxes | 46,430 | 52,570 | 58,620 | 59,331 | 67,219 |
| Tax rate | 23.8% | 25.1% | 25.2% | 25.8% | 25.7% |
| JVs/associates/others | 60 | (80) | (90) | - | - |
| PAT | 148,510 | 157,020 | 173,900 | 171,014 | 194,230 |
| EPS | 54.7 | 57.8 | 64.1 | 63.0 | 71.5 |

Source: Company, Systematix Institutional Research

Balance Sheet

| YE: Mar (Rs mn) | FY23 | FY24 | FY25 | FY26E | FY27E |
|---------------------------|----------------|----------------|------------------|------------------|------------------|
| Share capital | 5,430 | 5,430 | 5,430 | 5,430 | 5,430 |
| Reserves & Surplus | 648,620 | 677,200 | 691,120 | 715,524 | 763,144 |
| Net worth | 654,050 | 682,630 | 696,550 | 720,954 | 768,574 |
| Deferred Tax Liability | 1,610 | 7,710 | 16,150 | 17,560 | 17,560 |
| Minority Interest | (70) | 80 | 180 | 180 | 180 |
| Short term debt | 1,400 | 1,040 | 22,210 | 22,260 | 22,310 |
| Long term debt | 21,110 | 22,230 | 700 | (800) | (2,300) |
| Trade payables | 64,280 | 58,530 | 62,250 | 67,379 | 72,703 |
| Other Provisions | 24,350 | 29,490 | 34,070 | 34,080 | 34,090 |
| Other liabilities | 167,380 | 196,060 | 223,330 | 224,330 | 225,330 |
| Total Liabilities | 934,110 | 997,770 | 1,055,440 | 1,085,943 | 1,138,447 |
| Net block | 160,520 | 149,310 | 144,160 | 119,935 | 91,403 |
| CWIP | 400 | 1,080 | 590 | 600 | 610 |
| Other Non-current asset | 229,510 | 246,890 | 278,470 | 278,670 | 278,870 |
| Investments | 54,950 | 71,370 | 75,640 | 79,140 | 82,640 |
| Cash and Cash Equivalents | 90,650 | 94,560 | 82,450 | 111,234 | 165,482 |
| Debtors | 261,870 | 261,450 | 268,640 | 290,775 | 313,750 |
| Inventories | 2,280 | 1,850 | 1,330 | 1,440 | 1,553 |
| Other current asset | 133,930 | 171,260 | 204,160 | 204,150 | 204,140 |
| Total Assets | 934,110 | 997,770 | 1,055,440 | 1,085,943 | 1,138,447 |

Source: Company, Systematix Institutional Research

Cash Flow

| YE: Mar (Rs mn) | FY23 | FY24 | FY25 | FY26E | FY27E |
|----------------------------|----------------|----------------|----------------|----------------|----------------|
| PBT | 194,880 | 209,670 | 232,610 | 230,346 | 261,449 |
| Depreciation | 41,450 | 41,730 | 40,840 | 44,225 | 48,532 |
| Interest | 2,380 | 2,690 | 2,690 | 8,670 | 10,141 |
| Others | -900 | 2,190 | -5,530 | - | - |
| Other Income | | | | | |
| (incl. interest recvd) | -7,690 | -12,730 | -15,670 | -17,126 | -19,811 |
| Operating Profit | | | | | |
| before WC Changes | 230,120 | 243,550 | 254,940 | 266,115 | 300,312 |
| Incr./((decr.) in WC | 13,050 | -23,050 | -10,100 | 16,315 | 16,965 |
| Others including taxes | 36,980 | 42,120 | 42,430 | 57,901 | 67,199 |
| Operating cash-flow | 180,090 | 224,480 | 222,610 | 191,898 | 216,148 |
| Capex | 16,610 | -10,480 | -11,080 | 20,010 | 20,010 |
| Free cash-flow | 163,480 | 234,960 | 233,690 | 171,888 | 196,138 |
| Dividend | 129,950 | 140,730 | 162,500 | 146,610 | 146,610 |
| Debt raised | -18,480 | -1,810 | -810 | -1,450 | -1,450 |
| Fin Investments | -10,060 | 13,450 | 1,500 | 3,500 | 3,500 |
| Misc. Items (CFI + CFF) | 39,560 | 75,060 | 80,990 | -8,456 | -9,669 |
| Net Δ in cash | -14,450 | 3,910 | -12,110 | 28,784 | 54,247 |

Source: Company, Systematix Institutional Research

Ratios

| YE: Mar | FY23 | FY24 | FY25 | FY26E | FY27E |
|-----------------|-------|-------|-------|-------|-------|
| Revenue growth | 18.5% | 8.3% | 6.5% | 8.2% | 7.9% |
| EBIT (%) | 18.2% | 18.2% | 18.3% | 17.5% | 18.4% |
| RoCE | 27.6% | 28.8% | 29.6% | 29.7% | 32.1% |
| RoNW | 22.7% | 23.0% | 25.0% | 23.7% | 25.3% |
| EPS (Rs) | 54.7 | 57.8 | 64.1 | 63.0 | 71.5 |
| DPS (Rs) | 48.0 | 52.0 | 60.0 | 45.0 | 45.0 |
| BVPS (Rs) | 241 | 251 | 257 | 266 | 283 |
| Debtor days | 94 | 87 | 84 | 84 | 84 |
| Creditor days | 23 | 19 | 19 | 19 | 19 |
| P/E (x) | 27 | 26 | 23 | 24 | 21 |
| P/B (x) | 6 | 6 | 6 | 6 | 5 |
| EV/EBITDA (x) | 17 | 16 | 15 | 14 | 12 |
| Net Debt/Equity | (0) | (0) | (0) | (0) | (0) |

Source: Company, Systematix Institutional Research

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| Disclosure of Interest Statement | Update |
|--|--------|
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