IDBI capital

# HCL Technologies BUY

## AI led growth drives record win and margin momentum

| TP | Rs 1,725 |
|---|---|
| CMP | Rs 1,495 |
| Potential upside/downside | 15% |
| Previous Rating | HOLD |

**Key Stock Data**

| | |
|---|---|
| Bloomberg/Reuters | HCLT IN/ HCLT.BO |
| Sector | IT Services |
| Shares o/s (mn) | 2,714 |
| Market cap. (Rs mn) | 4,056,115 |
| 3-m daily avg Trd value (Rs mn) | 73.2 |
| 52-week high / low | Rs2,011 / 1,304 |
| Sensex / Nifty | 82,327 / 25,227 |

**Price Performance (%)**

| | -1m | -3m | -12m |
|---|---|---|---|
| Absolute | 1.9 | (8.7) | (18.7) |
| Rel to Sensex | 1.4 | (8.5) | (19.9) |

**V/s Consensus**

| EPS (Rs) | FY26E | FY27E |
|---|---|---|
| IDBI Capital | 68 | 75 |
| Consensus | 64 | 72 |
| *% difference* | *6.0* | *4.2* |

**Shareholding Pattern (%)**

| | |
|---|---|
| Promoters | 60.8 |
| FII | 18.6 |
| DII | 15.2 |
| Public | 5.4 |


### Summary

**HCL Technologies delivered a resilient Q2 FY26 performance, registering a 2.4%/4.6% QoQ/YoY revenue expansion in CC term, underpinned by broad-based momentum across IT, Business, and Engineering Services. Operating margin strengthened to 17.5%, reflecting improved utilization, favorable forex movements, and operational discipline despite restructuring costs. The company achieved record net new bookings of USD 2.6bn, its highest ever without a mega deal, driven by diversified traction across verticals and geographies. Advanced AI revenue surpassed USD 100mn (~3% of total), marking a strategic shift from experimentation to scaled monetization. The rollout of AI Force 2.0, along with AI Factory, AI Advisory, and AI Security offerings, reinforced HCL's positioning as an enterprise AI transformation partner, supported by alliances with NVIDIA, Dell, HPE, and MIT Media Lab. With attrition moderating to 12.6%, management reiterated its FY26 EBIT margin band of 17–18% and raised services revenue growth guidance to 4–5%, signaling confidence in sustained AI-led acceleration and non-linear productivity gains. We upgrade the stock from HOLD to BUY following recent price correction, while maintaining the target price of Rs1,725 based on a 23x FY27E EPS multiple.**


### Key Highlights and Investment Rationale

- **Revenue & Margin:** Company posted 4.6% YoY revenue growth with EBIT margin at 17.5%, aided by efficiency gains. Deal wins hit a record USD 2.6bn, achieved without any mega deals, underscoring strong, broad-based demand momentum
- **Gen AI strategy:** HCLTech advanced its AI journey from pilots to monetization, leveraging AI Force 2.0 and partnerships with NVIDIA and MIT to embed GenAI across solutions, boost client productivity, and strengthen its role as a leader in enterprise-scale AI transformation.

**Financial snapshot** (Rs mn)

| Year | FY23 | FY24 | FY25 | FY26E | FY27E |
|---|---|---|---|---|---|
| Revenue | 1,014,560 | 1,099,130 | 1,170,550 | 1,256,527 | 1,364,760 |
| *Change (yoy, %)* | *18* | *8* | *6* | *7* | *9* |
| EBITDA | 226,280 | 242,000 | 255,030 | 276,603 | 307,071 |
| *Change (yoy, %)* | *10* | *7* | *5* | *8* | *11* |
| *EBITDA Margin (%)* | *22.3* | *22.0* | *21.8* | *22.0* | *22.5* |
| Adj. PAT | 146,810 | 156,870 | 173,900 | 184,922 | 203,828 |
| EPS (Rs) | 54 | 58 | 64 | 68 | 75 |
| *Change (yoy, %)* | *9* | *7* | *11* | *6* | *10* |
| PE(x) | 30 | 28 | 25 | 24 | 22 |
| Dividend Yield (%) | 3 | 3 | 4 | 4 | 4 |
| EV/EBITDA (x) | 19 | 17 | 16 | 15 | 13 |
| RoE (%) | 23 | 23 | 25 | 26 | 28 |
| RoCE (%) | 26 | 27 | 28 | 30 | 32 |

*Source: IDBI Capital Research;*


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## Other Key Highlights

- Revenue grew 2.4% QoQ and 4.6% YoY in CC terms driven by balanced growth across IT & Business Services (+2.6% QoQ, +3.8% YoY) and ER&D (+2.2% QoQ, +13.4% YoY). Software revenue grew 0.5% QoQ but declined 3.7% YoY as the company continued shifting from perpetual licenses to subscription and professional services (+8% YoY).
- EBIT margin expanded 110bps QoQ to 17.4%, supported by improved utilization, forex gains, and the absence of Q1 one-offs, partly offset by restructuring costs. Net income stood at USD 486mn (13.3% margin). ROIC improved to 38.6% (+290bps YoY) with strong cash generation OCF/NI at 133% and FCF/NI at 125%.
- Net new TCV stood at USD 2.6bn, marking the first time HCLTech crossed the USD 2.5bn mark without a mega deal. Growth was broad-based across verticals and geographies, with large wins in BFSI, Technology, and Telecom. HCL added 2 clients in the USD 50mn+ bracket, 14 in the USD 20mn+ and 7 in the USD 10mn+ category YoY. Pipeline reached an all-time high.
- **Demand environment:** The overall demand environment remained healthy, with momentum in BFSI, Technology, and Telecom verticals, while Retail/CPG gained traction. Auto within Manufacturing continued to face weakness. Clients are accelerating AI-led modernization and legacy transformation programs, sustaining a robust pipeline.
- **AI/ Gen AI:** Advanced AI revenue crossed USD 100mn (~3% of total). AI Force v2.0 deployed across 47 accounts (target: 100 top clients). New offerings such as AI Factory, AI Advisory and AI Security launched in partnership with Nvidia, Dell, HPE, and OpenAI. Multiple large wins were achieved in AI-led modernization, robotics, and telecom AI labs. HCL trained 820 “black belts” in AI and joined MIT Media Lab for emerging tech research.
- Headcount stood at 2,26,640 with a net addition of 3,489, including 5,196 freshers. Attrition dropped to 12.6% from 12.8% QoQ. The company emphasized “people + IP” model and expects gradual non-linear growth in productivity.
- **FY26 guidance:** Management raised Services revenue growth guidance to 4–5% CC, maintained overall company growth at 3–5% CC due to software softness, and reaffirmed EBIT margin band at 17–18% despite wage hikes and ongoing restructuring.

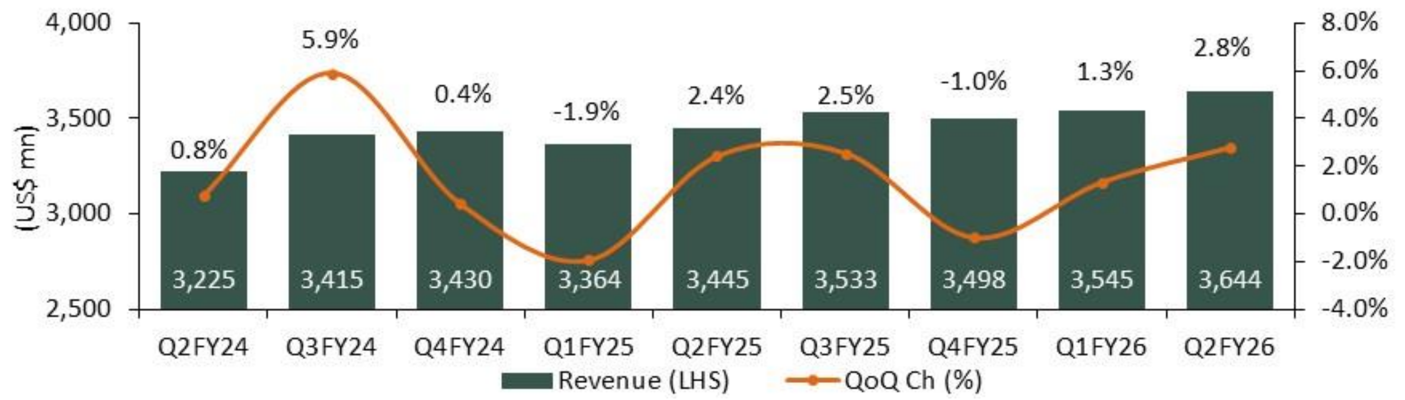
**Exhibit 1: Financial snapshot**

(Rs mn)

| Year-end: March | Q2FY26 | Q1FY26 | QoQ (%) | Q2FY25 | YoY (%) |
|---|---|---|---|---|---|
| **Revenues (USD mn)** | **3,644** | **3,545** | ***2.8*** | **3,445** | ***5.8*** |
| **Revenues** | **3,19,420** | **3,03,490** | ***5.2*** | **2,88,620** | ***10.7*** |
| COGS | 2,15,380 | 2,05,830 | *4.6* | 1,91,840 | *12.3* |
| Gross profit | 1,04,040 | 97,660 | *6.5* | 96,780 | *7.5* |
| SG&A | 38,110 | 37,310 | *2.1* | 33,090 | *15.2* |
| **EBITDA** | **65,930** | **60,350** | ***9.2*** | **63,690** | ***3.5*** |
| Depreciation & amortization | 10,430 | 10,930 | *(4.6)* | 10,070 | *3.6* |
| **EBIT** | **55,500** | **49,420** | ***12.3*** | **53,620** | ***3.5*** |
| Other income | 1,520 | 2,470 | *(38.5)* | 3,250 | *(53.2)* |
| PBT | 57,020 | 51,890 | *9.9* | 56,870 | *0.3* |
| Tax | 14,660 | 13,450 | *9.0* | 14,500 | *1.1* |
| Minority interest | 10 | 10 | *0.0* | 20 | *(50.0)* |
| **Reported net profit** | **42,350** | **38,430** | ***10.2*** | **42,350** | ***(0.0)*** |
| **Diluted EPS (Rs)** | **15.6** | **14.2** | ***10.2*** | **15.6** | ***0.1*** |
| | | | | | |
| **As % of net revenue** | | | | | |
| Gross profit | 32.6 | 32.2 | | 33.5 | |
| SG&A | 11.9 | 12.3 | | 11.5 | |
| EBITDA | 20.6 | 19.9 | | 22.1 | |
| EBIT | 17.4 | 16.3 | | 18.6 | |
| Reported net profit | 13.3 | 12.7 | | 14.7 | |
| Tax rate | 25.7 | 25.9 | | 25.5 | |

*Source: Company; IDBI Capital Research*

**Exhibit 2: Quarterly revenue growth**




*Source: Company; IDBI Capital Research*

**Exhibit 3: Growth in large clients**

| Year-end: March | Q3FY24 | Q4FY24 | Q1FY25 | Q2FY25 | Q3FY25 | Q4FY25 | Q1FY26 | Q2FY26 |
|---|---|---|---|---|---|---|---|---|
| USUSD 100m + | 20 | 22 | 22 | 22 | 22 | 22 | 22 | 22 |
| USUSD 50m + | 49 | 46 | 48 | 52 | 53 | 52 | 54 | 54 |
| USUSD 20m + | 132 | 137 | 133 | 137 | 136 | 138 | 144 | 151 |
| USUSD 10m + | 250 | 254 | 256 | 251 | 248 | 251 | 255 | 258 |
| USUSD 5m + | 401 | 395 | 404 | 402 | 398 | 399 | 402 | 406 |
| USUSD 1m + | 958 | 951 | 951 | 952 | 952 | 948 | 956 | 954 |

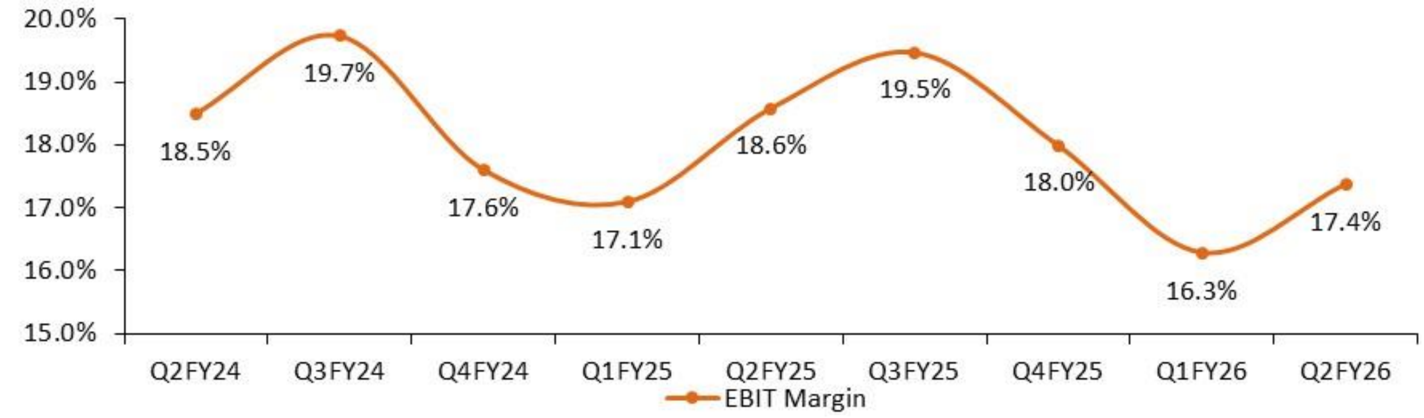
*Source: Company; IDBI Capital Research*

**Exhibit 4: Revenue growth across various segments (%)**

| Parameters | % of revenue | *QoQ USD Growth* | *YoY USD Growth* |
|---|---|---|---|
| Overall revenue growth | | *2.8%* | *5.8%* |
| **Geography** | | | |
| US | 56.2 | *2.2%* | *1.6%* |
| Europe | 28.3 | *2.8%* | *12.1%* |
| India | 3.2 | *-0.3%* | *-3.3%* |
| ROW | 12.4 | *7.1%* | *16.1%* |
| **Service-lines** | | | |
| IT and Business services | 74.2 | *3.1%* | *5.2%* |
| Engineering and R&D Services | 17.0 | *2.8%* | *13.8%* |
| Products and Platforms | 9.1 | *0.6%* | *-2.8%* |
| **Verticals** | | | |
| Financial Services | 21.7 | *3.3%* | *12.0%* |
| Manufacturing | 18.3 | *1.1%* | *-0.7%* |
| Technology & Services | 14.0 | *2.8%* | *13.0%* |
| Telecom &Media Publishing | 12.7 | *-0.3%* | *11.0%* |
| Retail & CPG | 9.6 | *1.7%* | *5.8%* |
| Life science & Healthcare | 14.7 | *4.2%* | *-2.8%* |
| Public Services | 8.9 | *7.6%* | *2.3%* |

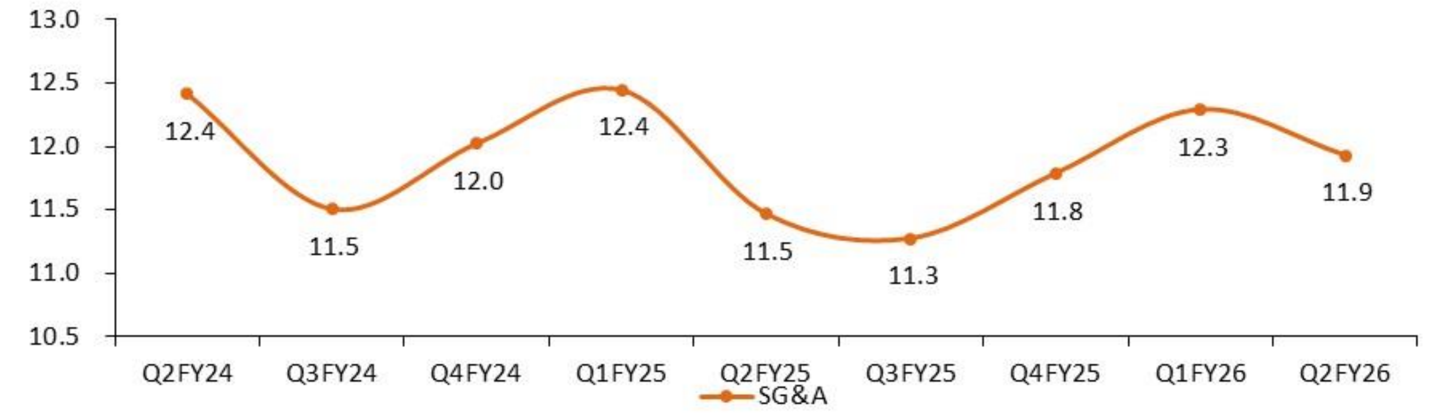
*Source: Company; IDBI Capital Research*

### Exhibit 5: Q2FY26 EBIT margin has expanded by 116 bps QoQ



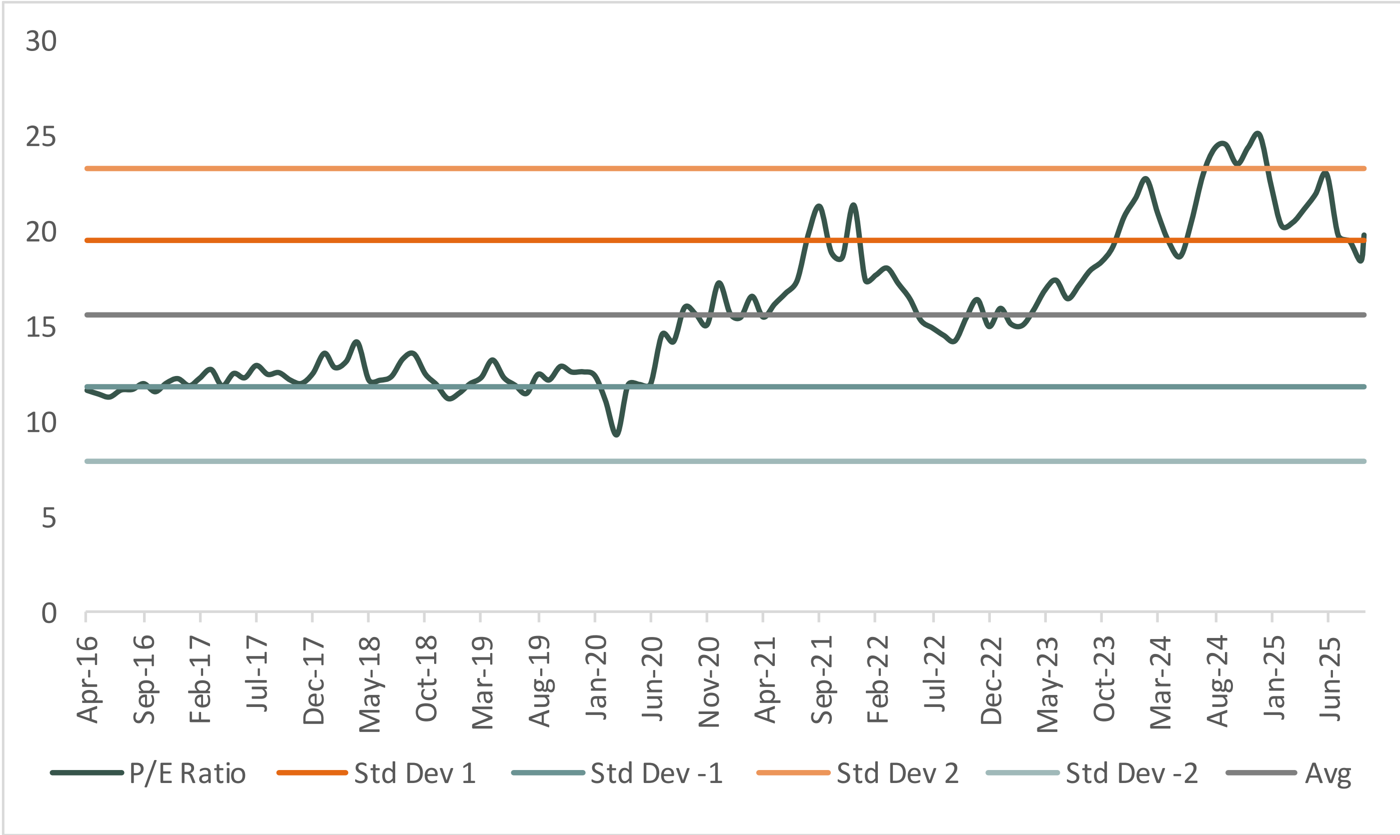

*Source: Company; IDBI Capital Research*

### Exhibit 6: SG&A margin declined QoQ by 36 bps




*Source: Company; IDBI Capital Research*

**Exhibit 7: 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** |
| *Change (yoy, %)* | *13.6* | *18.5* | *8.3* | *6.5* | *7.3* | *8.6* |
| 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** |
| *Change (yoy, %)* | *(1.2)* | *10.2* | *6.9* | *5.4* | *8.5* | *11.0* |
| *Margin (%)* | *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) |
| *Effective tax rate (%)* | *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** |
| *Change (yoy, %)* | *4.3* | *8.8* | *6.9* | *10.9* | *6.3* | *10.2* |
| 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 |
| *Dividend Payout (%)* | *88.5* | *88.8* | *96.9* | *93.7* | *95.4* | *90.6* |

**Balance Sheet** (Rs mn)

| Year-end: March | FY22 | FY23 | FY24 | FY25 | FY26E | FY27E |
|---|---|---|---|---|---|---|
| **Shareholders' funds** | **619,140** | **654,050** | **682,630** | **696,550** | **704,997** | **724,205** |
| Share capital | 5,430 | 5,430 | 5,430 | 5,430 | 5,430 | 5,430 |
| Reserves & surplus | 613,710 | 648,620 | 677,200 | 691,120 | 699,567 | 718,775 |
| **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** | **187,750** | **214,310** | **227,260** | **280,390** | **263,171** | **283,597** |
| Current liabilities | 164,820 | 181,610 | 190,760 | 237,370 | 220,689 | 238,538 |
| Provisions | 22,930 | 32,700 | 36,500 | 43,020 | 42,482 | 45,059 |
| **Total liabilities** | **258,510** | **267,610** | **304,750** | **344,220** | **331,624** | **357,743** |
| **Total equity & liabilities** | **878,570** | **921,590** | **987,460** | **1,040,950** | **1,036,881** | **1,082,289** |
| | | | | | | |
| Net fixed assets | 329,010 | 323,220 | 322,610 | 332,150 | 320,684 | 312,168 |
| 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** | **480,410** | **535,770** | **593,310** | **617,240** | **634,577** | **681,548** |
| Inventories | 1,610 | 2,280 | 1,850 | 1,330 | 2,115 | 2,297 |
| Sundry Debtors | 154,760 | 195,720 | 194,830 | 195,230 | 222,730 | 241,915 |
| Cash and Bank | 188,750 | 201,090 | 271,930 | 287,620 | 267,657 | 283,023 |
| Loans and advances | 30,080 | 26,030 | 7,950 | 9,760 | 8,606 | 9,348 |
| **Total assets** | **878,570** | **921,590** | **987,460** | **1,040,950** | **1,036,881** | **1,082,289** |

## Cash Flow Statement

(Rs mn)

| Year-end: March | FY22 | FY23 | FY24 | FY25 | FY26E | FY27E |
|---|---|---|---|---|---|---|
| Pre-tax profit | 169,510 | 193,180 | 209,520 | 232,610 | 246,670 | 271,878 |
| 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)** | **173,597** | **197,450** | **262,650** | **265,346** | **178,343** | **240,156** |
| | | | | | | |
| 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) | (119,460) | (130,320) | (152,040) | (162,900) | (176,475) | (184,620) |
| Chg in minorities | (1,010) | (940) | 70 | 10 | - | - |
| Other financing activities | - | - | - | - | - | - |
| **Cash flow from financing (c)** | **(119,517)** | **(149,380)** | **(150,850)** | **(184,420)** | **(176,475)** | **(184,620)** |
| | | | | | | |
| **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 | 240.9 | 251.4 | 256.6 | 259.7 | 266.7 |
| *Adj EPS (Rs)* | 49.7 | 54.1 | 57.8 | 64.1 | 68.1 | 75.1 |
| *Adj EPS growth (%)* | *4.3* | *8.8* | *6.9* | *10.9* | *6.3* | *10.2* |
| *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* | *26.4* | *27.3* | *28.2* | *30.2* | *32.4* |
| *ROE (%)* | *22.2* | *23.1* | *23.5* | *25.2* | *26.2* | *28.1* |
| **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) | 30.1 | 27.6 | 25.9 | 23.3 | 21.9 | 19.9 |
| Price/Book value (x) | 6.6 | 6.2 | 5.9 | 5.8 | 5.8 | 5.6 |
| EV/Net sales (x) | 4.6 | 3.8 | 3.5 | 3.2 | 3.0 | 2.8 |
| EV/EBITDA (x) | 19 | 17 | 16 | 15 | 14 | 12 |
| *Dividend Yield (%)* | *2.9* | *3.2* | *3.7* | *4.0* | *4.3* | *4.5* |

*Source: Company; IDBI Capital Research*

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| Dealing | (91-22) 6836 1111 | dealing@idbicapital.com |
|---|---|---|

**Key to Ratings Stocks:**

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

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