

July 15, 2025

## Margins miss estimates; margin guidance pruned...

**About the stock:** HCL Technologies (HCLTech) is a global technology company, , delivering industry-leading capabilities centered around digital, engineering, cloud and AI, powered by a broad portfolio of technology services and products.

**Q1FY26 Performance:** HCLTech reported revenue of US\$3,545 mn, up 1.3% QoQ & 5.4% YoY (down 0.8% QoQ CC/ up 3.7% YoY CC). The services business declined 0.1% QoQ CC & improved 4.5% YoY CC. EBIT margin came at 16.3%, down 170 bps QoQ. Services (IT & Business services and ER&D services) margin stood at 15.6%, down ~152 bps QoQ). PAT stood at ₹3,843 crore, down 10.8% QoQ/9.7% YoY.

### Investment Rationale

- **Soft Revenue performance owing to seasonality, on expected lines:** HCLTech reported in-line revenues (-0.8% QoQ CC). Revenue softness stemmed from seasonal weakness in Services and a 7.1% QoQ CC decline in Software. Within the Services, **IT services were flat QoQ while ER&D services de-grew by 0.5% QoQ CC. FY26 revenue guidance was revised to 3–5% YoY CC (2–4% organic) vs. 2–5% earlier, citing Q1 performance an improved outlook for remaining quarters in FY26. We expect US\$ revenue to grow at a CAGR of 5.3% over FY25–27E.**
- **Weak Margin prompts margin guidance cut:** The EBIT margin guidance was lowered to 17–18% (from 18–19%) due to a client bankruptcy in Q1 (with partial carryover into Q2), AI/GTM investments, & one-off restructuring costs. **The company remains confident in achieving revised targets and retains a long-term EBIT margin goal of 19–20% beyond FY26. We bake in EBIT margins at 17.4%/18.5% in FY26E/FY27E.**
- **Weak TCV in Q1, but Pipeline strong; Deal conversions key:** Q1 TCV came in weak at US\$1.8 bn (8-quarter low), impacted by procedural delays (unrelated to macro) in two large deals. However, management expects closures in Q2, along with a vendor consolidation deal won in Financial Services in Q2, setting the stage for a Q2 TCV rebound. **The pipeline remains healthy** as demand environment did not deteriorate, as feared at the start of the quarter and was **supported by AI and engineering-led digital transformation initiatives.** On AI front, **over 127,000 employees have been trained in foundational AI, with >42,000 trained in advanced AI.** Timely conversion of pipeline to TCV and revenue remains a key monitorable, ahead.

### Rating and Target Price

- Near-term margin pressures and muted deal wins is weighing on company's long-term GenAI-led growth potential, currently. TCV growth and revenue conversion remain key monitorable.
- **We continue to maintain HOLD rating on the stock, valuing it at lower target price of ₹1,570; at a multiple of 22x P/E on FY27E EPS. (vs. ₹1,610 earlier).**

### Key Financial Summary

Key Financials	FY23	FY24	FY25	5 year CAGR (FY20–25)	FY26E	FY27E	2 year CAGR FY(25–27E)
Net Sales	1,01,456	1,09,913	1,17,055	10.6	1,24,202	1,33,491	6.8
EBITDA	22,628	24,200	25,505	0.1	26,088	29,635	7.8
Margins (%)	22.3	22.0	21.8		21.0	22.2	
Net Profit	14,851	15,702	17,305	43.5	16,864	19,418	5.9
EPS (₹)	54.8	57.9	63.8		62.1	71.6	
P/E	28.6	27.1	24.6		25.2	21.9	
RoNW (%)	22.7	23.0	24.8		23.1	25.2	
RoCE (%)	27.1	27.2	29.9		28.1	30.9	

Source: Company, ICICI Direct Research



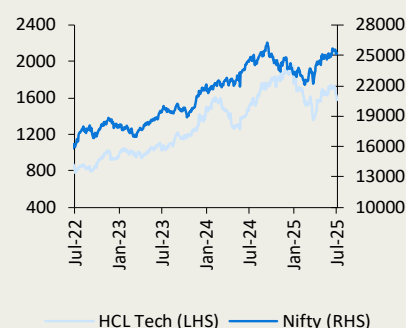
### Particulars

Particular	Amount
Market Cap (₹ Crore)	4,27,131
Total Debt (₹ Crore)	70
CC&E (₹ Crore)	28,762
EV (₹ Crore)	3,98,439
52 week H/L	2012 / 1302
Equity capital	543.0
Face value (₹)	2.0

### Shareholding pattern

	Jun-24	Sep-24	Dec-24	Mar-25
Promoters	60.8	60.8	60.8	60.8
FII	18.5	18.7	19.4	19.1
DII	15.8	15.8	15.2	15.5
Public	5.0	4.7	4.6	4.6

### Price Chart



### Key risks

- Lower than expected TCV and revenue conversion
- Higher than expected margin pressures

### Research Analyst

Bhupendra Tiwary, CFA  
bhupendra.tiwary@icicisecurities.com

CA Anjini Sharma  
anjini.sharma@icicisecurities.com

## Performance highlights and outlook

- **Revenue Performance:** HCLTech reported revenue of US\$3,545 mn, up 1.3% QoQ & 5.4% YoY (in CC terms down 0.8% QoQ/ up 3.7% YoY). In rupee terms, the revenue stood at ₹ 30,349 crore, up 0.3% QoQ/ 8.2% YoY. The services business declined 0.1% QoQ CC and improved 4.5% YoY CC. **IT services was flat while ER&D services and Software de-grew by 0.5% and 7.1% QoQ CC.**
- **Margin Performance:** EBIT margins at the company level stood at 16.3%, down ~170 bps QoQ on account of lower utilization due to delay in a large deal, wherein the company built capacity for specialized skills, saw ramp-down in specific areas like automotive as well as skill/location mismatch (80bps), higher investment in GenAI and SG&A expenses (-30 bps), one time impact from a client bankruptcy (-30 bps) & lower share of software (-20 bps). **Services (IT & Business services and ER&D services) margin stood at 15.6%, down ~152 bps QoQ.** PAT stood at ₹3,843 crore, down 10.8% QoQ/9.7% YoY.
- **Segment performance:** Segment wise on YoY CC basis, growth was led by Tech & Services (14% of the mix), TMPE (13% of the mix), Retail & CPG (9.7% of the mix), and Financial Services (21.6% of the mix) which grew by 13.7%, 13%, 8.2%, and 6.8% respectively. Whereas, Life Sciences & Healthcare (14% of the mix), Public Services (8.5% of the mix) and Manufacturing (18.6% of the mix) declined by 4%, 2.4% and 1%.
  - **Financial services and Tech & Services:** Healthy demand is seen in financial services (incl. a vendor consolidation program won in Q2) and tech & services vertical for discretionary spending, which shall drive growth going ahead.
- **Pipeline/TCV/Software ARR:** Pipeline continues to be healthy and is driven by AI and engineering-led digital transformation. However, **TCV was subdued at US\$1.8 bn (lowest in last 8 quarters - down 39.5% QoQ & 7.6% YoY)** owing to postponement of two large deals to Q2 due to procedural factors unrelated to external factors. Management remains confident about their closure, anticipating an improvement in TCV in Q2. Moreover, **a vendor consolidation program won in Q2 in the financial services segment shall add to the TCV of Q2 as well.** **HCL Software ARR at US\$1.06 bn, up 1.3% YoY in CC terms.**
- **Planned restructuring program:** Management has planned a restructuring program, on both people and non-people side. The restructuring is driven by i) rationalizing facilities and costs from past acquisitions, ii) realigning delivery for the slowing auto vertical via increased offshoring, and iii) workforce optimization as productivity gains and automation reduce the need for some entry-level or low-end roles
- **Guidance for FY26:** Management revised the lower end of FY26 **revenue guidance** (same at the company level and for Services), **upward to 3–5% YoY CC (2–4% organic)** from 2–5% earlier, citing Q1's performance and an improved outlook for the remaining quarters. However, **EBIT margin guidance was disappointing as it was lowered by 100 bps to 17–18%** (vs. 18–19% earlier), impacted by a client bankruptcy in Q1 (with partial carryover into Q2), higher investments in AI and GTM initiatives, and one-time restructuring costs. **Company maintains long-term EBIT margin aspiration of 19–20% beyond FY26.** Management expressed confidence in meeting the revised guidance, supported by expected revenue growth and positive booking expectations.
- **GenAI/AI and Agentic AI:** GenAI is now central to the IT services strategy and Agentic AI is gaining traction, especially in operational efficiency and accelerating application modernization programs. The company deepened its AI led strategy through multiple **partnerships with OpenAI, UiPath, Google Cloud, Nvidia, etc.** **AIForce** is now deployed across 35 clients. **Over 127,000 employees have been trained in foundational AI, with >42,000 trained in advanced AI.**
- **Attrition & Employee addition:** IT services attrition stood at 12.8% (down 20 bps QoQ). The total headcount was largely stable at 2,23,151 ((-0.1% QoQ) with 1,984 freshers onboarded. Fresher hiring is now focused on

specialized skills over volume, with compensation restructured—offering top specialists up to 3–4x base pay to attract high-end talent.

- **Utilisation challenge:** Utilization remains under pressure as specialized hires from March are yet to fully ramp up. This, combined with redeployment challenges stemming from skill/location mismatches and reduced demand in the automotive sector, has impacted optimal workforce allocation.
- **Dividend:** The company declared an interim dividend of ₹12 per share for Q1FY26.

#### Quarter Performance

	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)	Comments
Revenue (US\$ mn)	355	336	5.4	350	1.3	In CC terms, revenue declined by 0.8% QoQ and grew by 3.7% YoY
Revenue (₹ crore)	30,349	28,057	8.2	30,246	0.3	The services business revenue declined by 0.1% QoQ and grew by 4.5% YoY in CC terms. IT services was flat while ER&D services and Software de-grew 0.5% and 7.1% QoQ
Cost of sales (including employee expenses)	20,583	18,771	9.7	20,199	1.9	
Gross Margin	9,766	9,286	5.2	10,047	-2.8	
Gross margin (%)	32.2	33.1	-92 bps	33.2	-104 bps	
Selling & marketing costs	3,731	3,492	6.8	3,565	4.7	
EBITDA	6,035	5,794	4.2	6,482	-6.9	
EBITDA Margin (%)	19.9	20.7	-77 bps	21.4	-155 bps	
Depreciation	1,093	998	9.5	1,040	5.1	
EBIT	4,942	4,796	3.0	5,442	-9.2	
EBIT Margin (%)	16.3	17.1	-81 bps	18.0	-171 bps	EBIT margin was down ~170 bps QoQ primarily due to higher investment in GenAI and SG&A expenses (-30 bps), lower utilisation due to demand supply mismatch between skills and locations (-80 bps), one time impact from a client bankruptcy (-30 bps) & lower share of software (-20 bps).
Other income	247	912	-72.9	293	-15.7	
PBT	5,189	5,708	-9.1	5,735	-9.5	
Tax paid	1,345	1,448	-7.1	1,426	-5.7	
PAT	3,843	4,258	-9.7	4,307	-10.8	

Source: Company, ICICI Direct Research

## Financial Summary

### Exhibit 1: Profit and loss statement ₹ crore

Year-end March	FY24	FY25	FY26E	FY27E
<b>Total operating Income</b>	<b>1,09,913</b>	<b>1,17,055</b>	<b>1,24,202</b>	<b>1,33,491</b>
Growth (%)	8.3	6.5	6.1	7.5
Direct costs	72,125	77,815	82,807	88,104
S,G&A expenses	13,588	13,735	15,306	15,752
Total Operating Expenditure	85,713	91,550	98,114	1,03,856
<b>EBITDA</b>	<b>24,200</b>	<b>25,505</b>	<b>26,088</b>	<b>29,635</b>
Growth (%)	6.9	5.4	2.3	13.6
Depreciation	4,173	4,084	4,494	4,894
Amortisation	-	-	-	-
Net Other Income	940	1,755	1,008	1,224
PBT	20,967	23,176	22,602	25,965
Forex adjustments	-	-	-	-
Total Tax	5,257	5,862	5,734	6,543
<b>PAT</b>	<b>15,702</b>	<b>17,305</b>	<b>16,864</b>	<b>19,418</b>
Growth (%)	5.7	10.2	(2.5)	15.1
EPS (₹)	57.9	63.8	62.1	71.6
EPS (₹)	57.9	63.8	62.1	71.6

Source: Company, ICICI Direct Research

### Exhibit 3: Balance Sheet ₹ crore

Year-end March	FY24	FY25	FY26E	FY27E
<b>Liabilities</b>				
Equity Capital	543	543	543	543
Reserve and Surplus	67,720	69,112	72,485	76,368
Total Shareholders funds	68,263	69,655	73,028	76,911
Total Debt	2,223	70	(430)	(930)
Other liabilities+Provisions	6,557	7,762	7,879	8,032
Minority Interest / Others	8	18	18	18
<b>Total Liabilities</b>	<b>77,051</b>	<b>77,505</b>	<b>80,495</b>	<b>84,031</b>
<b>Assets</b>				
Net Block+ CWIP	7,909	7,576	6,690	5,689
Intangible assets+ Goodwill	27,262	28,655	27,532	26,308
Investments	94	91	91	91
Liquid investments	7,043	7,473	7,473	7,473
Inventory	185	133	141	152
Debtors	19,483	19,523	20,715	22,264
Loans and Advances	795	976	1,036	1,113
Other Current Assets	11,675	12,715	13,491	14,500
Cash & Bank	20,150	21,289	25,965	31,304
Total Current Assets	59,331	62,109	68,821	76,806
Total Current Liabilities	22,726	28,039	29,751	31,976
Net Current Assets	36,605	34,070	39,070	44,830
Other non current assets	5,181	7,113	7,113	7,113
<b>Application of Funds</b>	<b>77,051</b>	<b>77,505</b>	<b>80,495</b>	<b>84,031</b>

Source: Company, ICICI Direct Research

### Exhibit 2: Cash flow statement ₹ crore

Year-end March	FY24	FY25	FY26E	FY27E
PBT	20,967	23,176	22,602	25,965
Depreciation & Amortisation	4,173	4,084	4,494	4,894
(Inc)/dec in Current Assets	472	(267)	(2,036)	(2,646)
Inc/(dec) in CL and Provisions	1,833	1,277	1,829	2,377
Taxes paid	(4,212)	(4,243)	(5,734)	(6,543)
<b>CF from Op. Activities</b>	<b>22,448</b>	<b>22,261</b>	<b>20,143</b>	<b>22,819</b>
(Inc)/dec in Investments	(3,669)	(2,532)	1,008	1,224
(Inc)/dec in Fixed Assets	(1,016)	(1,083)	(2,484)	(2,670)
CF from Inv activities	(6,723)	(4,914)	(1,476)	(1,446)
Issue/(Buy back) of Equity	-	-	-	-
Inc/(dec) in loan funds	(181)	(81)	(500)	(500)
Dividend paid & dividend tax	(14,073)	(16,250)	(13,491)	(15,534)
Inc/(dec) in debentures	-	-	-	-
Others	(1,212)	(1,504)	-	-
<b>CF from Financing</b>	<b>(15,464)</b>	<b>(18,561)</b>	<b>(13,991)</b>	<b>(16,034)</b>
Net Cash flow	261	(1,214)	4,676	5,339
Exchange difference	130	18	-	-
Opening Cash	9,065	9,456	8,245	12,921
<b>Closing Cash</b>	<b>9,456</b>	<b>8,245</b>	<b>12,921</b>	<b>18,260</b>

Source: Company, ICICI Direct Research

### Exhibit 4: Key ratios

Year-end March	FY24	FY25	FY26E	FY27E
<b>Per share data (₹)</b>				
EPS	57.9	63.8	62.1	71.6
Cash EPS	73.2	78.8	78.7	89.6
BV	251.6	256.7	269.1	283.4
DPS	52.0	60.0	49.7	57.2
Cash Per Share	74.3	78.5	95.7	115.4
<b>Operating Ratios (%)</b>				
EBIT Margin	18.2	18.3	17.4	18.5
PBT Margin	19.1	19.8	18.2	19.5
PAT Margin	14.3	14.8	13.6	14.5
Debtor days	65	61	61	61
<b>Return Ratios (%)</b>				
RoE	23.0	24.8	23.1	25.2
RoCE	27.2	29.9	28.1	30.9
RoIC	40.2	43.9	45.9	54.7
<b>Valuation Ratios (x)</b>				
P/E	27.1	24.6	25.2	21.9
EV / EBITDA	16.6	15.6	15.0	13.0
EV / Net Sales	3.6	3.4	3.2	2.9
Market Cap / Sales	3.9	3.6	3.4	3.2
Price to Book Value	6.2	6.1	5.8	5.5
<b>Solvency Ratios</b>				
Debt/EBITDA	0.1	0.0	(0.0)	(0.0)
Debt/EBITDA	0.1	0.0	(0.0)	(0.0)
Current Ratio	1.4	1.2	1.2	1.2
Quick Ratio	1.4	1.2	1.2	1.2

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,  
ICICI Securities Limited,  
Third Floor, Brillanto House,  
Road No 13, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: [complianceofficer@icicisecurities.com](mailto:complianceofficer@icicisecurities.com)

For any queries or grievances: Mr. Bhavesh Soni Email address: [headsservicequality@icicidirect.com](mailto:headsservicequality@icicidirect.com) Contact Number: 18601231122

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