

October 14, 2025

Strong quarter; Guidance reflects ongoing uncertainty

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.

Q2FY26 Performance: HCLTech reported revenue of US\$3,644 mn, up 2.8% QoQ & 5.8% YoY (up 2.4% QoQ/ 4.6% YoY in CC terms). The services business was up by 2.5% QoQ/ 5.5% YoY CC. EBIT margin at 17.4%, was up ~110 bps QoQ. Services (IT & Business services and ER&D services) margin stood at 16.5%, up ~90 bps QoQ. PAT stood at ₹4,235 crore, up 10.2% QoQ/ flat YoY.

Investment Rationale

- **Broad-Based growth and record deal wins:** HCLTech delivered a strong quarter on both revenue & margin front, driven by healthy momentum in Tech & Services (+13.9% YoY CC), Telecom & Media (TMPE) (+11.7% YoY CC) & Financial Services (+11.4% YoY CC), and & improving traction in retail & CPG (2.2% YoY CC). **It reported record deal wins of US\$2.6 bn** (+42% QoQ, +16% YoY) **without any mega deals**, aided by two large deals which got delayed in Q1 and spilled over to Q2. **Management expects strong correlation between new bookings & revenue growth with 1-2 quarter lag. We expect US\$ revenue to grow at a CAGR of 5.6% over FY25–27E.**
- **Healthy margins expansion; Guidance maintained:** EBIT margin expanded ~110 bps QoQ to 17.4%, supported by improved profitability for software business (+35 bps), absence of one-offs vs Q1 in services business (+30 bps), higher utilisation gains under project Ascend (+50 bps) & forex gains from INR depreciation (+56 bps) and includes impact of restructuring cost (-55 bps). Although restructuring costs and wage hikes are expected to pressure margins by 70–80 bps in Q3 and 40–50 bps in Q4, **management maintained FY26 guidance of 3–5% revenue growth and 17–18% EBIT margin. Notably, services revenue growth guidance lower end was raised to 4-5% YoY CC vs 3-5% earlier. We bake EBIT margins at 17.3%/18.7% in FY26E/FY27E.**
- **“Advance AI” disclosure reflects AI monetisation has begun:** HCLTech has transitioned from AI pilots to monetisation, **with the company reporting advanced AI revenue of US\$100 mn (~3% of revenue). The management expects AI-led modernization & legacy upgrades to be key demand catalysts, with discretionary spending reviving in these areas.** Continued investments in differentiated AI-led services, proprietary IP, and ecosystem partnerships such as for AI Factory and AI Advisory strengthen its positioning to capture rising enterprise AI spending.

Rating and Target Price

- HCLTech has delivered a strong performance on most of the fronts, however, relative price outperformance vs its peers, limit major upsides and thus we **maintain HOLD rating on the stock, valuing it at target price of ₹ ₹1,620 (vs ₹1,570 earlier); at an unchanged multiple of 22x P/E on FY27E EPS.**

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	1,27,011	1,36,595	8.0
EBITDA	22,628	24,200	25,504	0.1	26,284	30,188	8.8
Margins (%)	22.3	22.0	21.8		20.7	22.1	
Net Profit	14,851	15,702	17,390	43.7	16,967	19,981	7.2
EPS (₹)	54.8	57.9	64.1		62.5	73.6	
P/E	27.6	26.1	23.6		24.2	20.5	
RoNW (%)	22.7	23.0	25.0		23.2	25.9	
RoCE (%)	27.1	27.2	30.0		28.3	31.7	

Source: Company, ICICI Direct Research



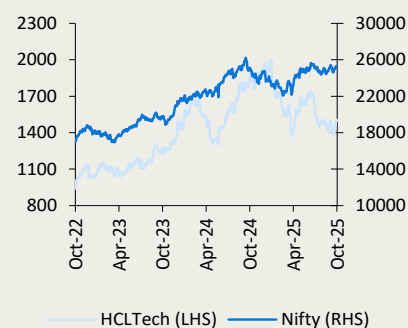
Particulars

Particular	Amount
Market Cap (₹ Crore)	4,09,763
Total Debt (₹ Crore)	70
CC&E (₹ Crore)	28,762
EV (₹ Crore)	3,81,071
52 week H/L	2012 / 1302
Equity capital	543.0
Face value (₹)	2

Shareholding pattern

	Sep-24	Dec-24	Mar-25	Jun-25
Promoters	60.8	60.8	60.8	60.8
FII	18.7	19.4	19.1	18.6
DII	15.8	15.2	15.5	16.2
Public	4.7	4.6	4.6	4.4

Price Chart



Key risks

- Lower than expected TCV and revenue conversion
- Better than expected macro led recovery

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Performance highlights and outlook

- Revenue Performance:** HCLTech reported revenue of US\$3,644 mn, up 2.8% QoQ & 5.8% YoY (in CC terms up 2.4% QoQ/ 4.6% YoY). In rupee terms, the revenue stood at ₹ 31,942 crore, up 5.2% QoQ/ 10.7% YoY. The services business was up by 2.5% QoQ and 5.5% YoY CC. **IT services was up 2.6% while ER&D services and Software grew 2.2% and 0.5% QoQ CC. Software business revenues were dragged due to lower license volumes which was partly offset by steady subscription and professional services growth.**
- Margin Performance:** EBIT margin at the company level stood at 17.4%, was up ~110 bps QoQ, aided by improved profitability for software business (+35 bps), absence of one offs vs Q1 in services business (+30 bps), higher utilisation gains under project Ascend (+50 bps) and forex gains from INR depreciation (+56 bps) and includes impact of restructuring cost (-55 bps). **The Services (IT & Business services and ER&D services) margin stood at 16.5%, up ~90 bps QoQ. PAT stood at ₹4,235 crore, up 10.2% QoQ/ flat YoY.**
- Segment performance:** Segment wise on YoY CC basis, growth was led by Tech & Services (14% of the mix), TMPE (12.7% of the mix), Financial Services (21.7% of the mix), Retail & CPG (9.6% of the mix) and Public Services (8.9% of the mix) which grew by 13.9%, 11.7%, 11.4%, 5.5% and 2.2% respectively. Whereas, Life Sciences & Healthcare (14.7% of the mix), and Manufacturing (18.3% of the mix) declined by 3% and 1.8%.
 - Manufacturing:** While the overall manufacturing vertical remains stable, the auto sub-segment continues to witness moderation due to the auto sector slowdown.
 - Retail & CPG:** The management highlighted that clients are showing interest in their approach to adopting and scaling AI. A couple of areas where they saw this included integration work in M&A and large scale SDLC transformation work supported by GenAI, especially their AI Force platform.
- Pipeline/TCV/Software ARR:** Pipeline continues to be healthy and is currently at record high as per the management. Additionally, it booked strong broad-based TCV of US\$2.6 bn (up 42% QoQ & 16% YoY), with no reliance on mega deals and included two large deals, which were spillovers from Q1. Management aims to sustain a healthy quarterly TCV run rate of US\$2.5 bn and noted that it is seeing strong correlation between new bookings and revenue growth with 1-2 quarter lag. HCL Software ARR at US\$1.06 bn, up 0.6% YoY in CC terms.
- Demand Outlook:** Management anticipates a steady increase in IP and platform-based revenue, viewing it as a key driver of long-term competitiveness and client loyalty. **The company remains asset-light, avoiding colocation or data centre ownership, while focusing on high-value opportunities in managing giga-scale AI data centres for tech clients.**
- Guidance for FY26:** In the near term, restructuring costs (55 bps impact this quarter) may extend into Q3 and partially into Q4 coupled with headwinds of 70–80 bps in Q3 and 40–50 bps in Q4 from the wage hikes rolled out effective October 2025. **The management has maintained FY26 guidance of 3–5% revenue growth (tempered by software softness) and 17–18% EBIT margin. Nonetheless, services revenue growth is expected to be between 4–5% YoY CC vs 3–5% earlier, with lower end revised upwards. Overall, management expressed confidence in achieving FY26 guidance supported by steady deal momentum, AI-led opportunities, and operational discipline.**
- GenAI/AI and Agentic AI:** HCLTech has begun quantifying 'Advanced AI' revenue at US\$ 100mn (annualized ~3% of total revenue) as it moves from pilots to monetization, driven by rising client adoption. AI-led modernization and legacy upgrades are expected to be key demand catalysts, with discretionary spending reviving in these areas. **Their AI Force platform is deployed across 47 accounts vs 35 last quarter, with plans to scale to the top 100 clients in 1–2 years.**

- **AI impact on Top 10 clients:** Management highlighted the deflationary impact from AI led productivity benefits with five of Top 10 clients seeing a decline in ACV during renewals, due to AI-linked productivity. The remaining 5 clients though saw increasing overall ACV, with additional jobs.
- **Advanced AI strategy:** Advanced AI includes rapidly evolving AI technologies (Gen AI, Agentic AI, robotics etc.). The management added that it excludes classical AI, data and analytics, and services delivered using Gen AI and Agentic AI. HCLTech's AI strategy rests on four pillars: (i) embedding GenAI into existing services and internal operations; (ii) developing proprietary IP, accelerators, and domain-specific AI solutions scalable across clients; (iii) expanding AI-led offerings like advisory, model training, and operations management; and (iv) strengthening AI partnerships with hyperscalers, foundation model providers, and start-ups to deploy enterprise-grade solutions. **Advanced AI is seen as a long-term growth engine, supported by continued investments in IP, go-to-market, and talent upskilling (820 AI black belts trained in H1).**
- **H1B Impact:** Management maintained that the impact of recent H-1B related developments is minimal given its low visa dependence and strong local hiring focus.
- **Attrition & Employee addition:** IT services attrition stood at 12.6% (down 20 bps QoQ). The total headcount stood at 2,26,640 (+1.6% QoQ) with 5,196 freshers onboarded.
- **Dividend:** The company declared an interim dividend of ₹12 per share for Q2FY26.

Quarter Performance

	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)	Comments
Revenue (US\$ mn)	364	345	5.8	355	2.8	In CC terms, revenue was up by 2.4% QoQ and grew by 4.6% YoY
Revenue (₹ crore)	31,942	28,862	10.7	30,349	5.2	The services business revenue was up by 2.5% QoQ and 5.5% YoY in CC terms. IT services was up 2.6% while ER&D services and Software grew 2.2% and 0.5% QoQ
Cost of sales (including employee expenses)	21,538	19,184	12.3	20,583	4.6	
Gross Margin	10,404	9,678	7.5	9,766	6.5	
Gross margin (%)	32.6	33.5	-96 bps	32.2	39 bps	
Selling & marketing costs	3,811	3,309	15.2	3,731	2.1	
EBITDA	6,593	6,369	3.5	6,035	9.2	
EBITDA Margin (%)	20.6	22.1	-143 bps	19.9	76 bps	
Depreciation	1,043	1,007	3.6	1,093	-4.6	
EBIT	5,550	5,362	3.5	4,942	12.3	
EBIT Margin (%)	17.4	18.6	-120 bps	16.3	109 bps	EBIT margin was up ~110 bps QoQ, aided by improved profitability for software business (+35 bps), absence of one offs vs Q1 in services business (+30 bps), higher utilisation gains under project Ascend (+50 bps) and forex gains from INR depreciation (+56 bps) and includes impact of restructuring cost (-55 bps).
Other income	152	325	-53.2	247	-38.5	
PBT	5,702	5,687	0.3	5,189	9.9	
Tax paid	1,466	1,450	1.1	1,345	9.0	
PAT	4,235	4,235	0.0	3,843	10.2	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 1: Profit and loss statement ₹ crore

Year-end March	FY24	FY25	FY26E	FY27E
Total operating Income	1,09,913	1,17,055	1,27,011	1,36,595
Growth (%)	8.3	6.5	8.5	7.5
Direct costs	72,125	77,815	85,483	90,289
S,G&A expenses	13,588	13,736	15,244	16,118
Total Operating Expenditure	85,713	91,551	1,00,727	1,06,408
EBITDA	24,200	25,504	26,284	30,188
Growth (%)	6.9	5.4	3.1	14.9
Depreciation	4,173	4,084	4,315	4,675
Amortisation	-	-	-	-
Net Other Income	940	1,841	809	1,206
PBT	20,967	23,261	22,778	26,718
Forex adjustments	-	-	-	-
Total Tax	5,257	5,862	5,806	6,733
PAT	15,702	17,390	16,967	19,981
Growth (%)	5.7	10.8	(2.4)	17.8
EPS (₹)	57.9	64.1	62.5	73.6

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement ₹ crore

Year-end March	FY24	FY25	FY26E	FY27E
PBT	20,967	23,261	22,778	26,718
Depreciation & Amortisation	4,173	4,084	4,315	4,675
(Inc)/dec in Current Assets	472	(267)	(2,836)	(2,730)
Inc/(dec) in CL and Provisions	1,833	1,277	2,548	2,453
Taxes paid	(4,212)	(4,243)	(5,806)	(6,733)
CF from Op. Activities	22,448	22,261	20,185	23,173
(Inc)/dec in Investments	(3,669)	(2,532)	809	1,206
(Inc)/dec in Fixed Assets	(1,016)	(1,083)	(2,540)	(2,732)
CF from Inv activities	(6,723)	(4,914)	(1,731)	(1,526)
Issue/(Buy back) of Equity	-	-	-	-
Inc/(dec) in loan funds	(181)	(81)	(500)	(500)
Dividend paid & dividend tax	(14,073)	(16,250)	(13,574)	(15,985)
Inc/(dec) in debentures	-	-	-	-
Others	(1,212)	(1,504)	-	-
CF from Financing	(15,464)	(18,561)	(14,074)	(16,485)
Net Cash flow	261	(1,214)	4,380	5,162
Exchange difference	130	18	-	-
Opening Cash	9,065	9,456	8,245	12,625
Closing Cash	9,456	8,245	12,625	17,787

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet ₹ crore

Year-end March	FY24	FY25	FY26E	FY27E
Liabilities				
Equity Capital	543	543	543	543
Reserve and Surplus	67,720	69,112	72,505	76,502
Total Shareholders funds	68,263	69,655	73,048	77,045
Total Debt	2,223	70	(430)	(930)
Other liabilities+Provisions	6,557	7,762	7,925	8,083
Minority Interest / Others	8	18	18	18
Total Liabilities	77,051	77,505	80,562	84,215
Assets				
Net Block+ CWIP	7,909	7,576	6,880	6,106
Intangible assets+ Goodwill	27,262	28,655	27,576	26,408
Investments	94	91	91	91
Liquid investments	7,043	7,473	7,473	7,473
Inventory	185	133	144	155
Debtors	19,483	19,523	21,183	22,782
Loans and Advances	795	976	1,059	1,139
Other Current Assets	11,675	12,715	13,796	14,838
Cash & Bank	20,150	21,289	25,669	30,831
Total Current Assets	59,331	62,109	69,325	77,218
Total Current Liabilities	22,726	28,039	30,424	32,720
Net Current Assets	36,605	34,070	38,902	44,498
Other non current assets	5,181	7,113	7,113	7,113
Application of Funds	77,051	77,505	80,562	84,215

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios

Year-end March	FY24	FY25	FY26E	FY27E
Per share data (₹)				
EPS	57.9	64.1	62.5	73.6
Cash EPS	73.2	79.1	78.4	90.9
BV	251.6	256.7	269.2	283.9
DPS	52.0	60.0	50.0	58.9
Cash Per Share	74.3	78.5	94.6	113.6
Operating Ratios (%)				
EBIT Margin	18.2	18.3	17.3	18.7
PBT Margin	19.1	19.9	17.9	19.6
PAT Margin	14.3	14.9	13.4	14.6
Debtor days	65	61	61	61
Return Ratios (%)				
RoE	23.0	25.0	23.2	25.9
RoCE	27.2	30.0	28.3	31.7
RoC	40.2	43.9	46.3	55.6
Valuation Ratios (x)				
P/E	26.1	23.6	24.2	20.5
EV / EBITDA	15.9	14.9	14.3	12.3
EV / Net Sales	3.5	3.3	3.0	2.7
Market Cap / Sales	3.7	3.5	3.2	3.0
Price to Book Value	6.0	5.9	5.6	5.3
Solvency Ratios				
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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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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