AXIS SECURITIES

Results Update
15th July 2025

HCL technologies Ltd.
IT Services Sector

HOLD
Target Price
1,750

Subdued Performance; Focus on Digital Transformation

Est. Vs. Actual for Q1FY26: Revenue – INLINE ; EBIT Margin – MISS ; PAT – MISS

Recommendation Rationale

- **Weak performance across key verticals:** Management sees some stress in manufacturing (especially automotive), life sciences, retail, and CPG segments, contributing to utilisation challenges and necessitating restructuring.
- **Deal wins/pipeline**: Two large deals anticipated for Q1 were delayed to Q2 due to procedural reasons. The pipeline remains strong, driven by digital business, engineering-led approach, and AI propositions, with healthy demand for efficiency-led deals.
- **AI investments:** Investments in GenAI and Go-to-market (GTM) teams are expected to normalise in FY27 as growth momentum takes place.

Sector Outlook: Cautiously optimistic

Company Outlook & Guidance: HCL Technologies focuses on scaling up the GenAI through partnerships, resulting in digital transformation across clients' applications and data platforms. The management has guided a revenue growth of 3.0% - 5.0% YoY in CC (earlier 2-5% YoY) with an EBIT margin of 17-18% for FY26.

Current Valuation: 25x FY27E P/E

Current TP: 1,750/share

Recommendation: With a strong deal pipeline across business verticals, AI implementation for better performance and improved revenue guidance. We believe HCL will start commencing a better recovery from H2FY26. **Hence, we resume our coverage with a HOLD rating on the stock.**

Financial performance

In Q1FY26, HCL Technologies reported revenue of Rs 30,349 Cr vs Rs 28,057 Cr, up 8.2% YoY and 0.3% QoQ. EBIT stood at Rs 4,942 Cr vs Rs 4,795 Cr, up 3.1% YoY but down 9.2% QoQ, led by lower utilisation and additional Gen AI and GTM investments. Thus, EBIT margin stood at 16.3%. Net Income stood at Rs 3,844 Cr vs Rs 4,259 Cr, down 9.7% YoY and 10.8% QoQ, driven by lower other income and higher interest cost. However, in CC terms, revenue was down 0.8% QoQ and up 3.7% YoY, primarily due to robust performance in the services business. LTM attrition levels were at 12.8% vs 12.8% YoY (unchanged). The board recommended an interim dividend of Rs 12/share.

Valuation & Recommendation

The management remains optimistic about the improvement and scalability of business operations. Moreover, overall deal pipelines remain strong, with a focus on digital business and engineering services. We are constructive on the long-term outlook of the company and expect a quicker recovery from H2FY26 onwards. Therefore, we resume over coverage with a **HOLD rating on the stock** and assign a 25x P/E multiple to its FY27E earnings to arrive at a TP of Rs 1,750/share, implying an upside of 8% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q1FY26	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	30,349	0.3	8.2	30,325	0.1
EBIT	4,942	-9.2	3.1	5,322	(7.1)
EBIT Margin	16.3	-171bps	-81bps	17.5	(7.2)
Net Profit	3,844	(10.8)	(9.7)	4,279	(10.2)
EPS (Rs)	14.2	(10.8)	(9.8)	15.8	(10.2)

Source: Company, Axis Research

(CMP as of 14th July 2025)

CMP (Rs)	1,613
Upside /Downside (%)	8%
High/Low (Rs)	2,012/1,303
Market cap (Cr)	4,54,105
Avg. daily vol. (6m) Shrs.	31,24,660
No. of shares (Cr)	271

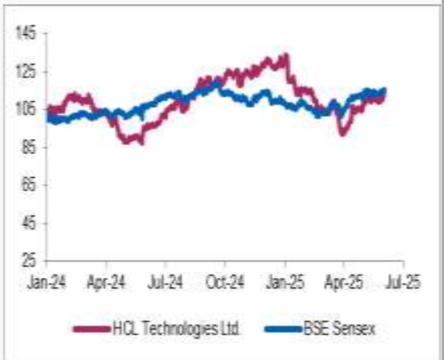
Shareholding (%)

	Sep-24	Dec-24	Mar-25
Promoter	60.8	60.8	60.8
FIIs	18.7	19.4	19.2
MFs/UTI	8.5	8.2	8.4
Banks/FIs	0.0	0.0	0.0
Others	12.0	11.6	11.7

Financial & Valuations

Y/E Mar (Rs Cr)	FY25	FY26E	FY27E
Net Sales	1,17,055	1,24,045	1,31,469
EBIT	21,420	22,448	23,518
Net Profit	17,399	17,824	18,922
EPS (Rs)	64	66	70
PER (x)	26.7	26.0	24.4
P/BV (x)	6.7	5.3	4.4
EV/EBITDA (x)	17.5	16.0	14.2
ROE (%)	25	23	20

Relative Performance



Source: AceEquity, Axis Securities

Kuber Chauhan
Research Analyst
kuber.chauhan@axissecurities.in

Abhishek Bhalotia
Research Associate
abhishek.bhalotia@axissecurities.in

Outlook

We believe HCL Tech is well-positioned for sustained long-term growth, supported by its multiple long-term contracts with leading global brands. Strong revenue visibility enhances our confidence in the company's growth prospects. Additionally, we expect a favourable demand environment to reduce uncertainty around discretionary spending and improve business operations.

Key highlights

- In CC terms, India witnessed a moderate growth of 1.3% YoY, followed by the US, which saw flattish growth of 0.5% YoY, while Europe registered strong growth of 9.6% YoY and the Rest of World (RoW) market expanded by 15% YoY. On the segmental front, Manufacturing, Lifesciences & Healthcare, and Public Services saw a degrowth of 1%, 4%, and 2.4% YoY, respectively. However, verticals like Financial Services, Technology and Services reported growth of 6.8% YoY and 13.7% YoY, while Telecommunications, Media, Publishing & Entertainment, and Retail & CPG grew by 13% YoY and 8.2% YoY, respectively.

- EBIT margin for the quarter stood at 16.3%, down 181 bps QoQ, primarily due to lower utilisation, a one-off impact from client bankruptcy, and continued investments towards AI and GTM capabilities. Forex gains from Euro appreciation were offset by losses from INR depreciation vs. the previous quarter, resulting in no significant margin uplift from currency movements.

- HCL Tech added 6 clients in the \$50 Mn category and 11 in the \$20 Mn category on a YoY basis. Total contract value stood at \$1,812 Mn (-7.6% YoY, -39% QoQ), with two large deals deferred to Q2FY26 due to procedural delays. The overall pipeline remains healthy, with growing traction in digital business and engineering services driven by a strong engineering-led approach and rising client conviction in AI/data capabilities.

- The Hi-tech vertical saw 6% sequential growth, driven by a large deal wherein the full team onboarded in Q4FY25. Full ramp-up of this deal is expected in Q2 and Q3FY26. Looking ahead, Financial Services and Tech verticals are expected to remain robust, while other verticals are likely to perform moderately.

- HCL views data centres as a key opportunity and has launched a cognitive infrastructure proposition, focusing on services in partnership models. Through its OpenAI collaboration, the company plans to support client-facing initiatives and internal productivity enhancements, with a specialised team of 50 trained professionals enabling the execution of these aspirational projects.

- The company is undergoing a restructuring initiative covering both people and non-people aspects, incurring a one-time cost that has already been factored into FY26. Management has guided for FY26 CC revenue growth of 3.0%-5.0% (earlier 2-5%) and EBIT margin of 17-18%.

- For FY27, the company aims to achieve an EBIT margin of 19-20% on the back of operational efficiencies, AI adoption, robust deal wins, and an improving demand environment. For FY27, the company aims to achieve an EBIT margin of 19-20% on the back of operational efficiencies, AI adoption, robust deal wins, and an improving demand environment.

Key Risks to our Estimates and TP

- The demand environment is uncertain because of the potential threat of recession from the world's largest economies.
- The rising subcontracting cost and cross-currency headwinds may impact operating margins negatively.

Results Review **(Rs Cr)**

Y/E March	Q1FY26	Q4FY25	QoQ (%)	Q1FY25	YoY (%)
Net sales	**30,349**	**30,246**	**0.3**	**28,057**	**8.2**
Total Expenditure	24,314	23,764	2.3	22,264	9.2
EBITDA	**6,035**	**6,482**	**(6.9)**	**5,793**	**4.2**
EBITDA margin (%)	*19.9%*	*21.4%*	*-155bps*	*20.6%*	*-76bps*
Depreciation	1,093	1,040	5.1	998	9.5
EBIT	**4,942**	**5,442**	**(9.2)**	**4,795**	**3.1**
EBIT margin (%)	*16.3%*	*18.0%*	*-171bps*	*17.1%*	*-81bps*
Interest cost	209	156	34.0	191	9.4
Other income	456	449	1.6	1,103	(58.7)
Exceptional item	0	0	(7.2)	0	(3.7)
PBT	**5,189**	**5,735**	**(9.5)**	**5,707**	**(9.1)**
Tax	456	449	1.6	1,103	(58.7)
Profit after tax	**3,844**	**4,309**	**(10.8)**	**4,259**	**(9.7)**
Reported EPS	**14.17**	**15.88**	**(10.8)**	**15.69**	**(9.7)**
Adj. PAT	**3,844**	**4,309**	**(10.8)**	**4,259**	**(9.7)**
Adj. EPS	**14.2**	**15.9**	**(10.9)**	**15.7**	**(9.8)**

Source: Company, Axis Securities

Financials (Consolidated)

Profit & Loss (Rs Cr)

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Net sales	**1,01,456**	**1,09,913**	**1,17,055**	**1,24,045**	**1,31,469**
Change (YoY, %)	-	8.3%	6.5%	6.0%	6.0%
Operating expenses	78,828	85,715	91,551	97,168	1,02,622
EBITDA	22,628	24,198	25,504	26,877	28,847
Change (YoY, %)	10.2	6.9	5.4	5.4	7.3
Margin (%)	22.3	22.0	21.8	21.7	21.9
Depreciation	4,145	4,173	4,084	4,429	5,329
EBIT	**18,483**	**20,025**	**21,420**	**22,448**	**23,518**
Interest paid	353	553	644	648	655
Other income	1,358	1,495	2,485	2,019	2,366
Pre-tax profit	**19,488**	**20,967**	**23,261**	**23,819**	**25,229**
Tax	4,643	5,257	5,862	5,994	6,307
Effective tax rate (%)	23.8%	25.1%	25.2%	25.2%	25.0%
Minority Interest	-	-	-	-	-
Net profit	**14,845**	**15,710**	**17,399**	**17,824**	**18,922**
Exceptional items	-	-	-	-	-
Adjusted net profit	**14,845**	**15,710**	**17,399**	**17,824**	**18,922**
Change (YoY, %)	9.8	5.8	10.8	2.4	6.2
Adj.EPS	**55**	**58**	**64**	**66**	**70**
Dividend per sh	48	52	60	48	48
Dividend Payout (%)	87	90	84	84	84

Source: Company, Axis Securities

Balance Sheet **(Rs Cr)**

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Share capital	543	543	543	543	543
Reserves & surplus	64,862	67,720	69,112	86,936	1,05,858
Shareholders funds	65,405	68,263	69,655	87,479	1,06,401
Total Debt	1,804	2,443	4,859	4,300	4,300
Other liabilities	4,918	6,441	5,194	5,803	5,803
Curr Liab & prov	**21,431**	**22,726**	**28,039**	**27,802**	**28,194**
Current liabilities	20,171	21,285	24,331	24,653	25,045
Provisions	1,120	1,337	1,487	1,487	1,487
Total liabilities	**28,013**	**31,506**	**35,871**	**36,243**	**36,635**
Total equity & liabilities	**93,411**	**99,777**	**1,05,544**	**1,23,740**	**1,43,054**
Net fixed assets	5,371	4,891	4,501	4,072	3,244
Investments	1,853	1,894	2,229	2,229	2,229
Other non-curr assets	32,610	33,661	36,705	36,705	36,705
Current assets	**53,577**	**59,331**	**62,109**	**80,717**	**1,01,042**
Inventories	228	185	133	345	365
Sundry Debtors	25,506	25,521	25,842	27,221	28,850
Cash & Liquid	14,724	20,150	21,289	38,307	56,864
Other Curr Assets	13,119	13,475	14,845	14,845	14,845
Total assets	**93,411**	**99,777**	**1,05,544**	**1,23,740**	**1,43,054**

Source: Company, Axis Securities

Cash Flow **(Rs Cr)**

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Pre tax	**14,845**	**15,710**	**17,399**	**17,824**	**18,922**
Depreciation	4,145	4,173	4,084	4,429	5,329
Change in working capital.	(792)	967	3,674	(1,828)	(1,258)
Other operating activities	(1,005)	(942)	(1,841)	(1,370)	(1,711)
Cash flow from operations (a)	**17,193**	**19,908**	**23,316**	**19,055**	**21,282**
Capital expenditure	(985)	(668)	(3,694)	(4,000)	(4,500)
Change in investments	(950)	(1,851)	(1,924)	-	-
Other investing activities	3,225	2,254	1,030	2,019	2,366
Cash flow from investing (b)	**1,290**	**(265)**	**(4,588)**	**(1,981)**	**(2,134)**
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	(1,670)	2,198	(948)	609	-
Dividend (incl. tax)	(12,989)	(14,087)	(14,629)	(13,004)	(13,004)
Change in minorities	(99)	15	10	-	-
Other financing activities	(3,272)	(3,578)	(644)	(648)	(655)
Cash flow from financing (c)	**(16,395)**	**(14,217)**	**(17,589)**	**(40)**	**(655)**
Net change in cash (a+b+c)	2,088	5,426	1,139	17,018	18,557
Opening cash balance	12,636	14,724	20,150	21,289	38,307
Closing cash balance	14,724	20,150	21,289	38,307	56,864

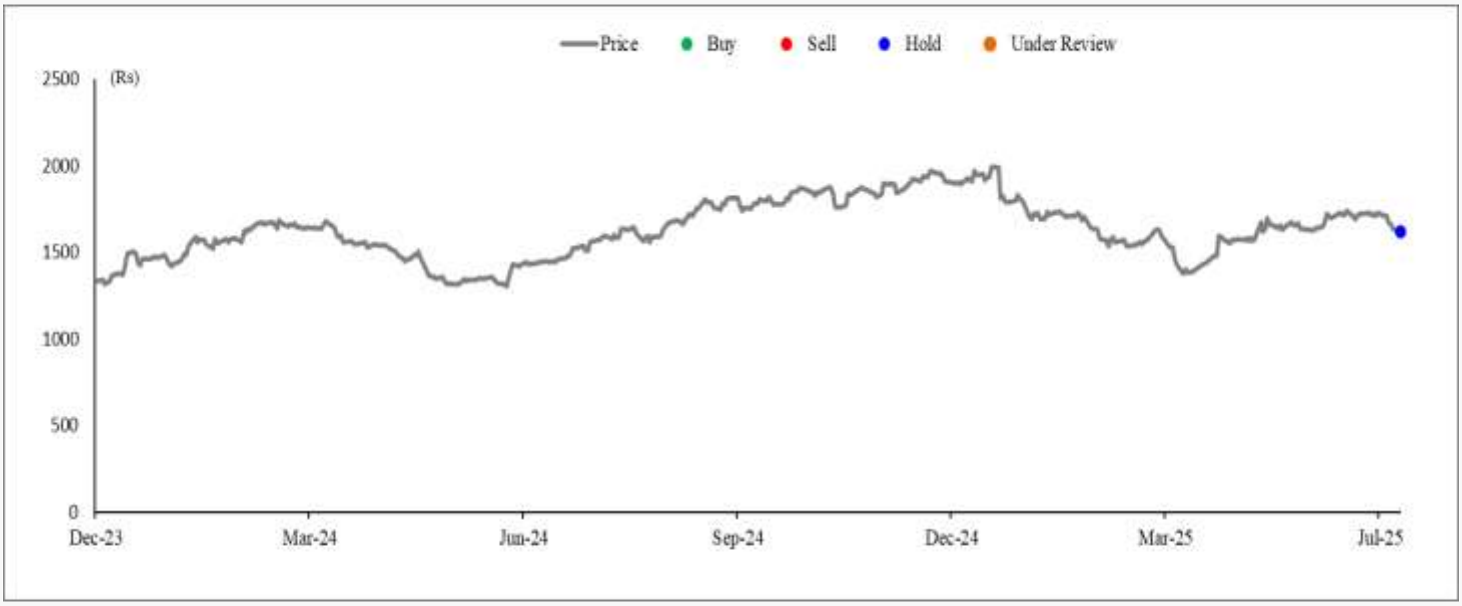
Source: Company, Axis Securities

Ratio Analysis **(%)**

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Book Value (Rs)	242	252	257	323	393
Adj EPS (Rs)	55	58	64	66	70
Adj EPS growth (%)	10	6	11	3	6
EBITDA margin (%)	22	22	22	22	22
Pre-tax margin (%)	19	19	20	19	19
Debt/Equity (x)	0	0	0	0	0
ROCE (%)	21	22	23	21	18
ROE (%)	23	24	25	23	20
Financial leverage ratios					
Debt / Equity (x)	0.0	0.0	0.0	0.0	0.0
Interest Coverage (x)	64	43	40	41	44
Interest / Debt (%)	0.2	0.3	0.3	0.2	0.2
Working Capital & Liquidity ratio					
Inventory days	1	1	0	1	1
Receivable days	91	84	79	79	79
Payable days	23	19	19	19	19
Valuation ratio					
PER (x)	29.5	27.9	26.7	26.0	24.4
Adjusted PER (x)	29.5	27.9	26.7	26.0	24.4
P/BV (x)	6.7	6.4	6.7	5.3	4.4
EV/EBITDA (x)	18.8	17.4	17.5	16.0	14.2
Market Cap. / Sales (x)	4.3	4.0	4.0	3.7	3.5

Source: Company, Axis Securities

HCL Technologies Price Chart and Recommendation History



Date	Reco	TP	Research
15-Jul-25	HOLD	1,750	Result Update

Source: Axis Securities Research

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Compliance Officer Details: Name – Mr. Rajiv Kejriwal, Tel No. – 022-68555574, Email id – compliance.officer@axisdirect.in.;

Registered Office Address – Axis Securities Limited, Unit No.002, Building- A, Agastya Corporate Park, Piramal Realty, Kamani Junction, Kurla (W), Mumbai – 400070.

Administrative office address: Axis Securities Limited, Aurum Q Parć, Q2 Building, Unit No. 1001, 10th Floor, Level – 6, Plot No. 4/1 TTC, Thane – Belapur Road, Ghansoli, Navi Mumbai, Pin Code – 400710.

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Note: Returns stated in the rating scale are our internal benchmark.