HCL Technologies (HCLTEC)

CMP: ₹ 1,175 | Target: ₹ 1,140 (-3%) | Target Period: 12 months | **HOLD**

July 14, 2026

Result Update

ICICI Securities – Retail Equity Research

Muted quarter; Healthy deal wins ...

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.

Q1FY27 Performance: Revenues were at US$3,650 mn, down 0.9% QoQ & up 3% YoY (in CC terms down 0.5% QoQ/ up 2.6% YoY). The services business revenue was down 0.7% QoQ and up 3.5% YoY CCEBIT margin at 16.9%, was up ~40 bps QoQ, Services (IT & Business & ER&D services) margin at 16.7%, up ~60 bps QoQ. PAT at ₹4,624 crore, up 3% QoQ/ 20.3% YoY.

Investment Rationale

- **Record deal wins support growth visibility yet conversion remains gradual:** HCLTech delivered a strong **TCV of US$2.4 bn (+24% QoQ, +33% YoY),** while management highlighted a healthy qualified pipeline and expects another strong booking quarter in Q2. **However, despite robust deal momentum, the company retained its FY27 services revenue growth guidance of 1.5–4.5% CC with overall company guidance at 1–4% YoY CC, as mega deal ramp-ups are expected to be gradual (Q4 end onwards) amid continued macro & discretionary spending headwinds.** Moreover, client-specific issues called out in Q4 are likely to impact revenue in coming quarters as well. **We expect US$ revenue to grow at a CAGR of 4% over FY26–28E.**
- **Margin resilience despite AI-led productivity pass-through:** Revenue declined 0.5% QoQ CC (up 2.6% YoY CC) as seasonal weakness and softer ER&D demand weighed on growth. However, EBIT margin improved 40 bps QoQ to 16.9%, aided by lower restructuring costs and currency tailwinds. However, **management maintained FY27 margin guidance at 17.5–18.5%. Management expects 2–3% AI-led deflation in traditional services, which it believes can be offset through growth in AI-native and AI-amplified opportunities. We believe that sustaining margins could be challenging amid pricing deflation, cost takeout deals and continued investment in AI capabilities. We bake EBIT margins at 17.5%/17.9% in FY27E/FY28E.**
- **AI strategy enhances long-term positioning though near-term monetisation remains limited:** Annualised Advanced AI revenue reached US$171 mn, growing 10.6% QoQ and 62.1% YoY, while management reiterated its ambition to grow this business by ~30% annually. HCLTech also **announced entry in to the AI data centre business with a ₹3,500 crore investment to build AI data centres (scalable to 50MW) and strengthen its full-stack AI capabilities. Combined with investment of US$150mn in sovereign AI through Sarvam, the company is positioning itself for higher-value AI-led opportunities over the medium term.**

Rating and Target Price

- We believe that no revision in the guidance implies that GenAI led deflation /lower discretionary spend pain continues. Thus, we now value HCLTech at **15x FY28E EPS** (vs 17x earlier, cutting the multiple in line with peers) **and maintain HOLD rating on the stock at target price of ₹ ₹1,140 (vs ₹1,300 earlier).**

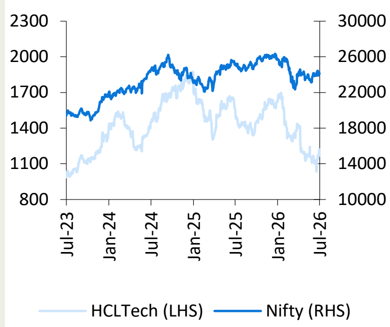
Particulars

Particular	Amount
Market Cap (₹ Crore)	3,18,856
Total Debt (₹ Crore)	37
CC&E (₹ Crore)	30,385
EV (₹ Crore)	2,88,508
52 week H/L	1780 / 1030
Equity capital	543.0
Face value (₹)	2

Shareholding pattern

	Jun-25	Sep-25	Dec-25	Mar-26
Promoters	60.8	60.8	60.8	60.9
FII	18.6	16.6	16.2	15.5
DII	16.2	17.8	18.4	19.0
Public	4.4	4.7	4.6	4.6

Price Chart



Key risks

- Margin pressure owing to higher AI-led investments, large deals and acquisition related amortisation
- Faster than expected normalisation of client specific issues

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Key Financial Summary

Key Financials	FY24	FY25	FY26	5 year CAGR (FY21-26)	FY27E	FY28E	2 year CAGR FY(26-28E)
Net Sales	1,09,913	1,17,055	1,30,144	11.5	1,41,661	1,48,269	6.7
EBITDA	24,200	25,504	26,752	6.5	29,431	31,657	8.8
Margins (%)	22.0	21.8	20.6		20.8	21.4	
Net Profit	15,702	15,702	17,390	9.5	19,480	20,712	9.1
EPS (₹)	54.8	57.9	64.1		71.8	76.3	
P/E	21.5	20.3	18.3		16.4	15.4	
RoNW (%)	23.0	22.5	23.1		23.4	24.9	
RoCE (%)	27.2	28.7	29.0		28.0	29.9	

Source: Company, ICICI Direct Research

Performance highlights and outlook

- **Revenue Performance:** HCLTech reported revenue of US$3,650 mn, down 0.9% QoQ & up 3% YoY (in CC terms down 0.5% QoQ/ up 2.6% YoY). In rupee terms, the revenue stood at ₹ 33,981 crore, up 0.3% QoQ/ 12.3% YoY. The services business revenue was down 0.7% QoQ and up 3.5% YoY CC. IT services was flat, ER&D services de-grew by 3.7% and Software grew 2.2% QoQ CC.
- **Advanced AI revenues:** Annualised Advanced AI Revenue came at US$171 mn, 10.6% QoQ CC/ 62.1% YoY. Annualised Advanced AI Revenue came at US$688 mn (~4.6% of overall revenues).
- **Geography performance:** Geography wise on a YoY basis in CC terms, growth was led by India (3% of mix), ROW (13% of mix), Americas (56% of mix) and Europe (28% of mix) reporting a growth of 16.9%, 10.8%, 2.9% and 0.1%.
- **Segment performance**: Segment wise on YoY basis in CC terms, growth was led by Public Services (9.3% of the mix), Retail & CPG (10.3% of the mix), Tech & Services (14% of the mix), Financial Services (22.1% of the mix), Manufacturing (18.7% of the mix) and Life Sciences & Healthcare (14% of the mix) which grew by 17.8%, 10.7%, 4.3%, 3.5%, 3.3% and 1.6% respectively, while TMPE (11% of the mix) declined by 10.9%.
  - **Telecom:** The management sees continued weakness in discretionary spend in this segment with no material improvement over the last quarter.
  - **Lifesciences and Healthcare:** The segment continued to see industry level pressure leading to some moderation in revenue growth as regulatory work for a medical devices client came to an end with no replacement.
- **Margin Performance**: EBIT margin at 16.9%, was up ~40 bps QoQ, as lower restructuring costs QoQ, coupled with currency tailwind aided despite muted operating leverage. The Services (IT & Business services and ER&D services) margin stood at 16.7%, up ~60 bps QoQ. PAT stood at ₹4,624 crore, up 3% QoQ/ 20.3% YoY.
- **TCV/Software ARR**: HCLTech won a TCV of US$2.407 bn (up 24% QoQ & 33% YoY), **excluding a US$1.14bn mega deal with a European Fortune Global 50 company announced in early Jul'26.** HCL Software ARR came at US$1.063 bn, up 2% YoY in CC terms.
- **AI Data centre investment:** HCLTech has approved an **investment of up to ₹3,500 crore to establish AI data centres in India, marking its entry into the full-stack AI infrastructure market.** The investment, to be executed through newly incorporated wholly owned subsidiaries, will **support up to 50MW of AI data centre capacity in the long term**, strengthening HCLTech's end-to-end AI capabilities spanning infrastructure, cloud, software, and managed services, while capitalizing on rising demand for AI-ready infrastructure and digital sovereignty. T**he management highlighted that the announced investment is just a fraction of the overall requirement (upto ₹ 30,000 crore) with remaining fund infusion to be a function of how initial capacity shapes up coupled with partnerships, and other investment partners.**
- **Guidance for FY27**: **Management maintained FY27 services revenue growth guidance of 1.5–4.5% YoY CC and overall company guidance of 1–4% YoY CC. On the margins front too it maintained its guidance and guided for full-year EBIT margin of 17.5–18.5%. The guidance excludes contributions from the acquisitions (Jaspersoft, CTG) but includes ~40-50bps impact from restructuring costs.**
- **Attrition & Employee addition**: IT services attrition stood at 12.7% (up ~20 bps QoQ). The total headcount stood at 2,23,889, with 1,056 freshers onboarded.
- **Dividend:** The company declared an interim dividend of ₹12 per share.

Exhibit 1: Quarter Performance

	Q1FY27	Q1FY26	YoY (%)	Q4FY26	QoQ (%)	Comments
Revenue (US$ mn)	365	355	3.0	368	-0.9	In CC terms, revenue was down 0.5% QoQ/ up 2.6% YoY
Revenue (₹ crore)	34,579	30,349	13.9	33,981	1.8	The services business revenue was down 0.7% QoQ and up 3.5% YoY CC. IT services was flat, ER&D services de-grew by 3.7% and Software grew 2.2% QoQ CC
Cost of sales (including employee expenses)	23,571	20,583	14.5	23,067	2.2	
Gross Margin	11,008	9,766	12.7	10,914	0.9	
Gross margin (%)	31.8	32.2	-34 bps	32.1	-28 bps	
Selling & marketing costs	4,138	3,731	10.9	4,202	-1.5	
EBITDA	6,870	6,035	13.8	6,712	2.4	
EBITDA Margin (%)	19.9	19.9	-2 bps	19.8	12 bps	
Depreciation	1,039	1,093	-4.9	1,092	-4.9	
EBIT	5,831	4,942	18.0	5,620	3.8	
EBIT Margin (%)	16.9	16.3	58 bps	16.5	32 bps	EBIT margin at 16.9%, was up ~40 bps QoQ, as lower restructuring costs QoQ, coupled with currency tailwind aided despite muted operating leverage. The Services (IT & Business services and ER&D services) margin stood at 16.7%, up ~60 bps QoQ
Other income	277	247	12.1	82	237.8	
PBT	6,108	5,189	17.7	5,702	7.1	
Tax paid	1,482	1,345	10.2	1,212	22.3	
PAT	4,624	3,843	20.3	4,488	3.0	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY27E			FY28E		
(₹ Crore)	Old	New	% Change	Old	New	% Change
Revenue (USD mn)	15,033	15,103	0.5	15,935	15,858	-0.5
Revenue	1,38,304	1,41,661	2.4	1,46,602	1,48,269	1.1
EBIT	24,605	24,860	1.0	26,404	26,576	0.7
EBIT Margin (%)	17.8	17.5	-24 bps	18.0	17.9	-9 bps
PAT	19,023	19,480	2.4	20,589	20,712	0.6
Diluted EPS (₹)	70.1	71.8	2.4	75.9	76.3	0.6

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 1: Profit and loss statement ₹ crore

Year-end March	FY26	FY27E	FY28E
Total operating Income	**1,30,144**	**1,41,661**	**1,48,269**
Growth (%)	11.2	8.8	4.7
Direct costs	87,811	95,028	98,747
S,G&A expenses	15,581	17,202	17,865
Total Operating Expenditure	1,03,392	1,12,230	1,16,612
EBITDA	**26,752**	**29,431**	**31,657**
Growth (%)	4.9	7.6	(100.0)
Depreciation	4,084	4,571	5,081
Amortisation	-	-	-
Net Other Income	1,841	1,117	1,127
PBT	24,509	28,203	(3,954)
Forex adjustments	-	-	-
Total Tax	5,862	6,489	6,981
PAT	**17,390**	**19,480**	**20,712**
Growth (%)	10.8	12.2	6.3
EPS (₹)	64.1	71.8	76.3
EPS (₹)	64.1	71.8	76.3

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement ₹ crore

Year-end March	FY26	FY27E	FY28E
PBT	24,509	25,737	28,203
Depreciation & Amortisation	4,355	4,571	5,081
(Inc)/dec in Current Assets	(2,221)	(3,554)	(2,039)
Inc/(dec) in CL and Provisions	699	2,993	1,718
Taxes paid	(4,076)	(6,489)	(6,981)
CF from Op. Activities	**19,975**	**22,374**	**24,344**
(Inc)/dec in Investments	(290)	744	1,127
(Inc)/dec in Fixed Assets	(1,566)	(2,833)	(2,965)
CF from Inv activities	(1,473)	(3,216)	(1,838)
Issue/(Buy back) of Equity	-	-	-
Inc/(dec) in loan funds	(2,318)	(20)	(10)
Dividend paid & dividend tax	(14,618)	(15,584)	(16,570)
Inc/(dec) in debentures	-	-	-
Others	(2,443)	-	-
CF from Financing	**(19,369)**	**(15,594)**	**(16,580)**
Net Cash flow	(867)	3,564	5,927
Exchange difference	817	70	-
Opening Cash	8,245	8,195	11,829
Closing Cash	**8,195**	**11,829**	**17,755**

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet ₹ crore

Year-end March	FY26	FY27E	FY28E
Liabilities			
Equity Capital	543	543	543
Reserve and Surplus	74,622	82,660	82,660
Total Shareholders funds	75,165	83,203	83,203
Total Debt	37	17	17
Other liabilities+Provisions	9,198	9,477	9,477
Minority Interest / Others	32	32	32
Total Liabilities	**84,432**	**92,729**	**92,729**
Assets			
Net Block+ CWIP	8,309	6,869	6,869
Intangible assets+ Goodwill	29,130	26,717	26,717
Investments	130	1,630	1,630
Liquid investments	6,960	6,960	6,960
Inventory	239	272	272
Debtors	23,585	26,870	26,870
Loans and Advances	1,017	1,159	1,159
Other Current Assets	15,316	17,449	17,449
Cash & Bank	23,425	32,915	32,915
Total Current Assets	70,542	85,625	85,625
Total Current Liabilities	31,826	36,258	36,258
Net Current Assets	38,716	49,366	49,366
Other non current assets	8,147	8,147	8,147
Application of Funds	**84,432**	**92,729**	**92,729**

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios

Year-end March	FY26	FY27E	FY28E
Per share data (₹)			
EPS	64.1	71.8	76.3
Cash EPS	79.1	88.6	95.0
BV	277.0	306.6	306.6
DPS	51.2	57.4	61.1
Cash Per Share	86.3	121.3	121.3
Operating Ratios (%)			
EBIT Margin	17.4	17.5	17.9
PBT Margin	18.8	18.2	19.0
PAT Margin	13.4	13.8	14.0
Debtor days	66	69	66
Return Ratios (%)			
RoE	23.1	23.4	24.9
RoCE	29.0	28.0	29.9
RoIC	41.9	47.0	50.3
Valuation Ratios (x)			
P/E	18.3	16.4	15.4
EV / EBITDA	10.8	9.5	8.8
EV / Net Sales	2.2	2.0	1.9
Market Cap / Sales	2.5	2.3	2.2
Price to Book Value	4.2	3.8	3.8
Solvency Ratios			
Debt/EBITDA	0.0	0.0	0.0
Debt/EBITDA	0.0	0.0	0.0
Current Ratio	1.3	1.3	1.3
Quick Ratio	1.3	1.3	1.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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