HCL Technologies (HCLTEC)

CMP: ₹ 1,291 | Target ₹ 1,240 (-4%) | Target Period: 12 months | HOLD

October 13, 2026

AI momentum strengthens albeit outlook remains measured...

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.

Q2FY27 performance: Revenues were at US$3,724mn, up 2.0% QoQ and 2.2% YoY (in CC terms up 2.3% QoQ/2.6% YoY). Services revenue grew 3% QoQ and 4% YoY CC. EBIT margin at 18.1%, was up ~130 bps QoQ, Services (IT & Business services and ER&D services) margin stood at 18%, up ~130 bps QoQ. PAT at ₹5,132 crore, up 11% QoQ/ 21.2% YoY.

Investment Rationale:

- Organic services recovery tempered by cautious guidance: HCLTech delivered 3% QoQ growth including 62 bps inorganic contribution, implying 2.3% organic QoQ growth in CC terms, marking a recovery after two consecutive quarters of sequential decline. Services growth was broad-based, with IT & Business Services and ER&D growing 2.7% and 4.1% QoQ, respectively. Advanced AI revenue also accelerated 28.4% QoQ to US$219mn, supporting growth. However, Software revenue declined 5.8% QoQ due to lower multi-year renewals. Despite recording strong bookings, management remains cautious on the fluid demand environment and narrowed FY27 services revenue growth guidance to 3-4% (vs. 1.5–4.5% YoY CC earlier) and overall company guidance to 2.5-4% (vs. 1–4% YoY CC earlier) **limiting near-term upside. We expect US$ revenue to grow at CAGR of 4.1% over FY26–28E.**
- **AI efficiencies drive margins though upside remains limited:** EBIT margin expanded ~130bps QoQ to 18.1%, driven by Project Ascent/AI-led efficiencies (+73bps), higher-margin Advanced AI services (+32bps), SG&A operating leverage (+50bps) and forex gains (+23bps), partly offset by restructuring costs (-22bps) and HPE CTG acquisition (-25bps). Services margin also improved ~130bps QoQ to 18%. While the strong margin performance provides earnings support, **management retained FY27 EBIT margin guidance at 17.5–18.5%, suggesting limited scope for near-term margin upgrades. Moreover, management commentary around AI deflation being in the early stage also hints towards only a gradual improvement in growth trajectory, going ahead. Thus, we bake EBIT margins at 17.7%/18% in FY27E/FY28E.**
- **Strong bookings provide medium-term revenue visibility:** HCLTech reported its quarterly TCV of US$3.258bn, up 35% QoQ and 27% YoY. Management highlighted that AI was a central theme across large wins, with demand spanning AI, cloud, data, cybersecurity and application modernisation. **However, conversion into sustainable organic revenue growth remains the key monitorable amid a fluid demand environment.**

Rating and Target Price: We await sustained organic growth acceleration and further evidence of AI-led monetisation. Thus, we continue to maintain HOLD rating valuing it at 16x FY28E EPS at target price of ₹1,240 (vs ₹1,140 earlier).

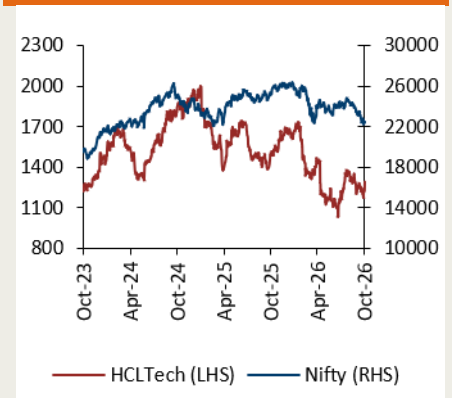
Particulars

Particular	Amount
Market Cap (₹ Crore)	3,50,334
Total Debt (₹ Crore)	37
CC&E (₹ Crore)	30,385
EV (₹ Crore)	3,19,986
52 week H/L	1780/1030
Equity capital	543.0
Face value (₹)	2

Shareholding pattern

	Sep-25	Dec-25	Mar-26	Jun-26
Promoter	60.8	60.8	60.9	60.9
FII	16.6	16.2	15.5	14.9
DII	17.8	18.4	19.0	18.8
Public	4.7	4.6	4.6	5.4

Price Chart



Key risks

- Margin pressure amidst higher AI-led investments, large deals and acquisition related amortisation
- Slower than expected TCV to revenue conversion

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Result Update

ICICI Securities – Retail Equity Research

Key Financial Summary

₹ Crore	FY24	FY25	FY26	5 Year CAGR (FY21-26)	FY27E	FY28E	2 Year CAGR (FY26-28E)
Net Sales	1,09,913	1,17,055	1,30,144	11.5	1,43,692	1,51,077	7.7
EBITDA	24,200	25,504	26,752	6.5	29,927	32,183	9.7
Margins (%)	22.0	21.8	20.6		20.8	21.3	
Net Profit	15,702	15,702	17,390	9.5	19,915	21,049	10.0
EPS (₹)	54.8	57.9	64.1		73.4	77.6	
P/E	23.6	22.3	20.1		17.6	16.6	
RoNW (%)	23.0	22.5	23.1		23.9	25.3	
RoCE (%)	27.2	28.7	29.0		28.1	30.3	

Source: Company, ICICI Direct Research

Performance highlights and outlook

- **Guidance for FY27:** Despite recording its strongest ever H1 and second highest bookings, management remains cautious on the fluid demand environment and **narrowed FY27 services revenue growth guidance to 3-4% (vs. 1.5–4.5% YoY CC earlier) and overall company guidance to 2.5-4% (vs. 1–4% YoY CC earlier)**, with the guidance now including 62bps inorganic contribution for Services and 87bps for the company. **EBIT margin guidance was maintained at 17.5–18.5% after factoring in** wage **hikes impact of ~80 bps in Q3FY27 and ~60 bps in FY27**. Management highlighted a strong but fluid demand environment and remained cautious despite a healthy pipeline and strong AI-led demand.
- **Revenue performance**: HCLTech reported revenue of US$3,724mn, up 2.0% QoQ & 2.2% YoY (in CC terms up 2.3% QoQ/2.6% YoY) including 97 bps inorganic contribution from HPE CTG (2 months) and Jaspersoft (full quarter) integration. In rupee terms, revenue stood at ₹35,620 crore, up 3.0% QoQ/11.5% YoY. Services revenue grew 3.0% QoQ and 4.0% YoY CC, including 62bps inorganic contribution, implying 2.3% organic QoQ growth. IT & Business Services grew 2.7% QoQ, ER&D grew 4.1% QoQ, while Software declined 5.8% QoQ due to lower multi-year renewals.
- **Advanced AI revenue: Quarterly Advanced AI revenue came at US$219mn, up 28.4% QoQ/78% YoY** CC. The strong momentum was supported by increasing traction across agentic AI, AI factories, AI-led modernisation and industry-specific AI solutions. **Agentic AI offerings crossed US$100mn of quarterly revenue, while the AI Factory proposition grew 64% QoQ**, highlighting increasing client adoption across the AI value chain.
- **Geography performance**:

Exhibit 1: Geography wise growth trend

Geography	% of revenue mix	YoY CC growth %
North America	56.1	3.5
Europe	26.9	-0.3
India	3.4	21.8
RoW	13.6	11.4

Source: Company, ICICI Direct Research

- **Segment performance:**

Exhibit 2: Vertical wise growth trend

Vertical	% of revenue mix	YoY CC growth %
Financial services	22.4	7.1
Manufacturing	18.3	3.9
Technology and Services	14.3	5.9
Retail and CPG	10.5	14.0
Telecommunications, media publishing and entertainment (TMPE)	12	-2.1
LifeSciences and Healthcare	13.8	-2.1
Public Services	8.8	1.2

Source: Company, ICICI Direct Research

- **Margin performance**: EBIT margin expanded 130 bps QoQ to 18.1%, aided by Project Ascent/AI-led efficiencies (+73bps), higher-margin Advanced AI services (+32bps), SG&A operating leverage (+50bps) and forex (+23bps), partly offset by higher restructuring costs (-22bps) and HPE CTG acquisition (-25bps). Services margin stood at 18.0%, up 130bps QoQ, while PAT stood at ₹5,132 crore, up 11% QoQ/21.2% YoY.
- TCV/Software ARR: HCLTech won US$3.258bn of new deal bookings, up 35% QoQ and 27% YoY. HCLSoftware ARR stood at US$1.134bn, up 7.6% YoY (2.6% organic excluding Jaspersoft)
- **AI ecosystem and investments**: HCLTech has entered a **Global Premier Partnership with Anthropic** to accelerate enterprise adoption of governed Agentic AI, with a focus on safety, cybersecurity and governance. HCLTech will establish a dedicated Anthropic Business Unit and Centre of Excellence

to develop Claude-powered solutions, while HCLSoftware will embed Claude and Claude Code into select cybersecurity, automation and application development products. HCLTech will also integrate Claude into its AIForce platform for IT support, code remediation and digital employee services. **It also achieved OpenAI Advanced Partner status** and announced plans for its first AI data centre in Bhubaneswar in partnership with Sarvam and the Government of Odisha, alongside a new global technology centre, while launching an advanced semiconductor lab in Bengaluru with an investment of ₹185 crore.

- **Attrition and employee addition:** Total headcount increased by 6,450 QoQ to 230,339, with 6,136 freshers added during the quarter. LTM attrition stood at 12.8%, up ~10bps QoQ, while revenue per employee increased 2.4% YoY to US$65.4k.
- **Dividend:** The company declared an interim dividend of ₹12 per share.

Exhibit 3: Quarter Performance

	Q2FY27	Q2FY26	YoY (%)	Q1FY27	QoQ (%)	Comments
Revenue (US$ mn)	3,724	3,644	2.2	3,650	2.0	In CC terms, revenue was up 2.3% QoQ/ up 2.6% YoY
Revenue (₹ crore)	35,620	31,942	11.5	34,579	3.0	The services business revenue was up 4% QoQ and 3% YoY CC. In CC terms, IT services was up 2.7% QoQ while ER&D services grew by 4.1% and Software de-grew 5.8% QoQ.
Cost of sales (including employee expenses)	24,053	21,538	11.7	23,571	2.0	
Gross Margin	11,567	10,404	11.2	11,008	5.1	
Gross margin (%)	32.5	32.6	-10 bps	31.8	64 bps	
Selling & marketing costs	4,090	3,811	7.3	4,138	-1.2	
EBITDA	7,477	6,593	13.4	6,870	8.8	
EBITDA Margin (%)	21.0	20.6	35 bps	19.9	112 bps	
Depreciation	1,012	1,043	-3.0	1,039	-2.6	
EBIT	6,465	5,550	16.5	5,831	10.9	
EBIT Margin (%)	18.1	17.4	77 bps	16.9	129 bps	EBIT margin at 18.1%, was up ~130 bps QoQ, aided by higher margin Advanced AI services revenues growth (+32 bps). The Services (IT & Business services and ER&D services) margin stood at 18%, up ~130 bps QoQ.
Other income	2	152	-98.7	277	-99.3	
PBT	6,467	5,702	13.4	6,108	5.9	
Tax paid	1,335	1,466	-8.9	1,482	-9.9	
PAT	5,132	4,235	21.2	4,624	11.0	

Source: Company, ICICI Direct Research

Exhibit 4: Change in estimates

	FY27E			FY28E		
(₹ Crore)	Old	New	% Change	Old	New	% Change
Revenue (USD mn)	15,103	15,110	0.0	15,858	15,903	0.3
Revenue	1,41,661	1,43,692	1.4	1,48,269	1,51,077	1.9
EBIT	24,860	25,477	2.5	26,576	27,223	2.4
EBIT Margin (%)	17.5	17.7	18bps	17.9	18.0	9bps
PAT	19,480	19,915	2.2	20,712	21,049	1.6
Diluted EPS (₹)	71.8	73.4	2.2	76.3	77.6	1.6

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement ₹ crore

Year-end March	FY26	FY27E	FY28E
Total operating Income	**1,30,144**	**1,43,692**	**1,51,077**
Growth (%)	11.2	10.4	5.1
Direct costs	87,811	96,570	1,00,617
S,G&A expenses	15,581	17,194	18,277
Total Operating Expenditure	1,03,392	1,13,764	1,18,894
EBITDA	**26,752**	**29,927**	**32,183**
Growth (%)	4.9	7.5	(100.0)
Depreciation	4,084	4,450	4,960
Amortisation	-	-	-
Net Other Income	1,841	679	931
PBT	24,509	28,412	(4,029)
Forex adjustments	-	-	-
Total Tax	5,862	6,240	7,095
PAT	**17,390**	**19,915**	**21,049**
Growth (%)	10.8	14.7	5.7
EPS (₹)	64.1	73.4	77.6

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement ₹ crore

Year-end March	FY26	FY27E	FY28E
PBT	24,509	26,233	28,412
Depreciation & Amortisation	4,355	4,450	4,960
(Inc)/dec in Current Assets	(2,221)	(4,180)	(2,279)
Inc/(dec) in CL and Provisions	699	3,521	1,920
Taxes paid	(4,076)	(6,240)	(7,095)
CF from Op. Activities	**19,975**	**23,027**	**24,719**
(Inc)/dec in Investments	(728)	110	931
(Inc)/dec in Fixed Assets	(1,566)	(2,874)	(3,022)
CF from Inv activities	(1,473)	(3,695)	(2,091)
Issue/(Buy back) of Equity	-	-	-
Inc/(dec) in loan funds	(2,318)	(20)	(10)
Dividend paid & dividend tax	(14,618)	(15,932)	(16,839)
Inc/(dec) in debentures	-	-	-
Others	(2,443)	-	-
CF from Financing	**(19,369)**	**(15,942)**	**(16,849)**
Net Cash flow	(867)	3,390	5,779
Exchange difference	817	70	-
Opening Cash	8,245	8,195	11,655
Closing Cash	**8,195**	**11,655**	**17,434**

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet ₹ crore

Year-end March	FY26	FY27E	FY28E
Liabilities			
Equity Capital	543	543	543
Reserve and Surplus	74,622	82,815	82,815
Total Shareholders funds	75,165	83,358	83,358
Total Debt	37	17	17
Other liabilities+Provisions	9,198	9,520	9,520
Minority Interest / Others	32	32	32
Total Liabilities	**84,432**	**92,927**	**92,927**
Assets			
Net Block+ CWIP	8,309	7,147	7,147
Intangible assets+ Goodwill	29,130	26,778	26,778
Investments	130	1,630	1,630
Liquid investments	6,960	6,960	6,960
Inventory	239	277	277
Debtors	23,585	27,378	27,378
Loans and Advances	1,017	1,181	1,181
Other Current Assets	15,316	17,779	17,779
Cash & Bank	23,425	32,594	32,594
Total Current Assets	70,542	86,170	86,170
Total Current Liabilities	31,826	36,945	36,945
Net Current Assets	38,716	49,225	49,225
Other non current assets	8,147	8,147	8,147
Application of Funds	**84,432**	**92,927**	**92,927**

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios

Year-end March	FY26	FY27E	FY28E
Per share data (₹)			
EPS	64.1	73.4	77.6
Cash EPS	79.1	89.8	95.8
BV	277.0	307.2	307.2
DPS	51.2	58.7	62.1
Cash Per Share	86.3	120.1	120.1
Operating Ratios (%)			
EBIT Margin	17.4	17.7	18.0
PBT Margin	18.8	18.3	18.8
PAT Margin	13.4	13.9	13.9
Debtor days	66	70	66
Return Ratios (%)			
RoE	23.1	23.9	25.3
RoCE	29.0	28.1	30.3
RoIC	41.9	47.7	51.0
Valuation Ratios (x)			
P/E	20.1	17.6	16.6
EV / EBITDA	12.0	10.4	9.7
EV / Net Sales	2.5	2.2	2.1
Market Cap / Sales	2.7	2.4	2.3
Price to Book Value	4.7	4.2	4.2
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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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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