HOLD (Upgrade from REDUCE)

CMP: **INR 1,495** Target Price: **INR 1,430 (INR 1,400)** ▼ -4%

ICICI Securities

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14 October 2025

India | Equity Research | Results Update

HCL Technologies

Technology

Robust Q2 earnings led by broad-based revenue growth

HCLT reported a strong beat on revenue driven by broad-based growth across key verticals. Key highlights of Q2FY26 result include: 1) HCLT has quantified 'Advance AI' revenue of USD 100mn for Q2 (3% of overall revenue on annualised basis), 2) it acknowledged the deflationary impact in renewal deals with a reduction in overall ACV in 5 out of 10 large deals. Management is proactively transforming its business model, investing in AI to retain growth leadership, 3) HCLT is gaining share in financial services, 4) HCLTech's AI strategy is rooted in an asset-light framework centered on IP creation and service transformation, which will preserve its current capital structure. We raise EPS by 2.3%/2.1%/1.6% for FY26/27/28E led by an increase in revenue growth. Upgrade to **HOLD** (from *Reduce*) with a revised TP of INR 1,430, based on 20x one-year forward PE for services business and 18x for product business.

Beat on revenue led by broad-based growth across verticals

HCLT reported strong beat on revenue, with growth of 2.4% /4.6% QoQ/YoY CC (I-Sec: 1.4%, Cons: 1.5% in QoQ CC) led by IT services (2.6% QoQ CC) and ER&D (2.2% QoQ CC). Product business was soft at 0.5% QoQ CC. Growth in services business was broad-based across key verticals – financial services, technology services, CPG & retail and healthcare.

Retained overall revenue guidance; raised services revenue guidance

HCLT retained overall revenue guidance at 3-5% YoY CC for FY26 despite strong beat in Q2FY26 due to softness in products and unpredictable demand environment. Its guidance implies 0.5% to 1% CQGR at company level in H2FY26 vs. 1.5% delivered in H2FY25. HCLT has raised guidance in services business to 4-5% YoY CC (earlier 3-5%) (for FY26) based on healthy revenue momentum in H1, and healthy bookings and pipeline. This implies CQGR of 0.3% to 1.5% in services business in H2FY26 vs. 1.5% delivered in H2FY25.

Healthy deal TCV despite absence of mega deals

Deal TCV was healthy at USD 2.569mn, up +41.8% QoQ (on the back of low base in Q1FY26), +15.8% YoY, in line with quarterly average TCV of USD 2.3bn despite absence of mega deals. HCLT was able to close two large deals in Q2FY26 which got delayed in Q1. Management expects strong correlation between new bookings and revenue growth observed with 1-2 quarter lag.

Financial Summary

Y/E March (INR mn)	FY25A	FY26E	FY27E	FY28E
Net Revenue	11,70,550	12,76,173	13,67,018	14,65,199
EBITDA	2,55,040	2,69,989	3,09,344	3,34,805
EBITDA Margin (%)	21.8	21.2	22.6	22.9
Net Profit	1,61,110	1,58,283	1,86,769	2,02,614
EPS (INR)	64.1	61.6	68.8	74.7
EPS % Chg YoY	10.8	(3.9)	11.7	8.5
P/E (x)	23.3	24.3	21.7	20.0
EV/EBITDA (x)	15.3	13.5	11.8	10.9
RoCE (%)	22.4	22.9	26.1	27.9
RoE (%)	23.3	22.4	26.0	27.9

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Market Data

Market Cap (INR)	4,056bn
Market Cap (USD)	45,739mn
Bloomberg Code	HCLT IN
Reuters Code	HCLT.BO
52-week Range (INR)	2,005 /1,303
Free Float (%)	39.0
ADTV-3M (mn) (USD)	55.5

Price Performance (%)	3m	6m	12m
Absolute	(8.8)	7.5	(18.5)
Relative to Sensex	(8.6)	(2.0)	(19.6)

ESG Score	2023	2024	Change
ESG score	79.6	79.9	0.3
Environment	64.2	69.2	5.0
Social	79.7	76.3	(3.4)
Governance	85.6	88.3	2.7

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY26E	FY27E	FY28E
USD Revenue	0.9	1.5	2.2
EBIT	2.0	2.7	2.2
EPS	2.3	2.1	1.6

Previous Reports

28-09-2025: Q2FY26 Large-Cap Preview

15-07-2025: Q1FY26 results review

Beat on margin despite one-time restructuring headwinds

EBIT margin came in at 17.4%, up 109bps QoQ and down 120bps YoY (I-Sec: 16.5%, Cons: 17.1%). Headwinds of 55bps from restructuring costs were offset by tailwinds of 1) 35bps from increase in software products business margins, 2) 30bps from absence of one-off costs which were present in Q1, 2) 50bps benefit from project Ascend led by higher utilisation, and 3) 56bps from forex movement.

As per company, wage revision will roll out in Q3FY26 leading to headwinds of 70-80bps in Q3 and 40-50bps in Q4. Impact of wage hike is baked in margin guidance of 17-18% for FY26.

Company intends to prioritise growth over margins and invest in AI to be growth leader in this phase of technology change.

AI disclosures ahead of peers

We note HCLT's disclosure with respect to traction in Gen AI has been ahead of peers in terms of disclosing AI and Gen AI deals and acknowledging non-linearity between revenue growth and headcount. From Q2FY26, HCLT has started quantifying 'Advanced AI' revenue of USD 100mn (annualised run-rate of ~3% of overall revenue). Advanced AI includes rapidly evolving AI technologies (Gen AI, Agentic AI, robotics etc.). This excludes classical AI, data and analytics, and services delivered using Gen AI and Agentic AI.

Management also acknowledged the deflationary impact of AI deals on deal renewals with 5 of the 10 large deals that came up for renewals seeing a decline in ACV. HCLT is proactively transforming its business model to maintain growth leadership in this new wave of technology change led by AI.

HCLTech's AI strategy is rooted in an asset-light framework centered on IP creation and service transformation, which will preserve its current capital structure. This contrasts with TCS, whose announcement of a capex-heavy AI data center business, is a notable shift from its typically asset-light, cash-generative model and could dilute its return ratios.

HCLT's AI strategy – 1) proactively transforming services even if it means disrupting existing revenue base, 2) investing in creating differentiated IP that accelerates AI adoption for enterprises at scale, 3) expanding new AI services such as AI engineering, AI factory and AI advisory, 4) strengthening partnerships across the entire stack from GPU providers to AI model builders, and 5) transformation of talent.

HCLT's AI Force platform is now deployed across 47 accounts, up from 35 in Q1, tracking its goal of deploying the platform in its top 100 clients over next 1-2 years.

Legacy modernisation is emerging as a new growth area catalysed by increase in speed of modernisation leveraging Gen AI.

Other highlights

- There is no significant change in demand environment and demand remains unpredictable. Retail & CPG also saw good growth in Q2FY26 despite being impacted by tariff related macro challenges.
- Digital CC revenue was up 15.0% YoY; contributes 42.0% of services.
- Product business growth was soft due to a decline in license revenue (-17% QoQ, -58% YoY). Company is focusing on growing recurring revenue i.e. subscription revenue (+2.84% QoQ, 8.53% YoY) and professional services revenue (flat QoQ, 15.15% YoY).

- HCLT did net employee addition of 3,489 in Q2FY26. Total headcount was up 3.7% YoY and 1.6% QoQ. Headcount growth lagged revenue growth of 4.6% YoY due to AI-led productivity.

Key upside risks: Faster-than-expected recovery in macros, tailwinds in products business led by AI.

Key downside risks: Any adverse regulatory changes in US, geo-political uncertainty impacting discretionary spends.

Exhibit 1: Q2FY26 actuals vs. estimates

(INR bn)	Q2FY26	Q1FY26	QoQ	Q2FY25	YoY	Q2FY26E-ISEC	vs our estimates
QoQ CC	2.4%	-0.8%		1.6%		1.4%	98 bps
Revenues (USD mn)	3,644	3,545	2.8%	3,445	5.8%	3,599	1.2%
USD/INR	87.6	85.6	2.3%	83.8	4.6%	87.9	
Sales	319	303	5.2%	289	10.7%	316	1.0%
EBIT	56	49	12.3%	54	3.5%	52	6.2%
EBIT Margin	17.4%	16.3%	109 bps	18.6%	-120 bps	16.5%	86 bps
Reported PAT	42	38	10.2%	42	0.0%	39	9.3%
EPS	15.6	14.2	10.2%	15.6	0.0%	14.3	9.3%

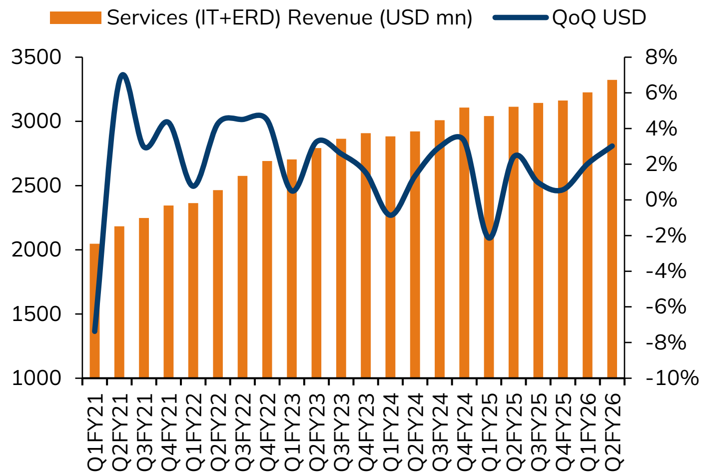
Source: I-Sec research, Company data

Exhibit 2: HCLT – change in estimates

	New			Old			New vs Old		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenues (USD mn)	14,644	15,713	16,841	14,506	15,481	16,483	0.9%	1.5%	2.2%
Revenue growth YoY CC	3.8%	7.2%	7.2%	3.1%	6.7%	6.5%	80bps	50bps	70bps
Revenue growth YoY USD	5.8%	7.3%	7.2%	4.8%	6.7%	6.5%	100bps	60bps	70bps
USD/INR	87.1	87.0	87.0	87.3	86.0	87.0	-0.2%	1.2%	0.0%
INR bn									
Revenues	1,276	1,367	1,465	1,267	1,331	1,434	0.7	2.7	2.2
EBIT	222	253	275	218	247	269	2.0	2.7	2.2
EBIT margin	17.4%	18.5%	18.7%	17.2%	18.5%	18.7%	20bps	0bps	0bps
EPS (INR/share)	61.6	68.8	74.7	60.2	67.4	73.5	2.3%	2.1%	1.6%

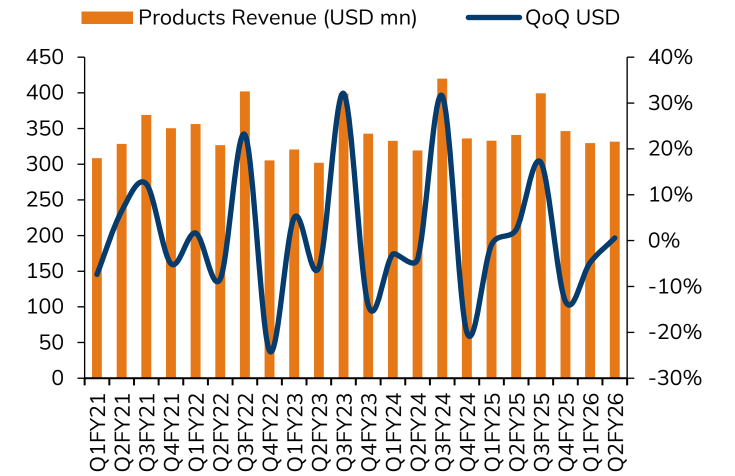
Source: Company data, I-Sec research

Exhibit 3: Recovery in services gathers momentum



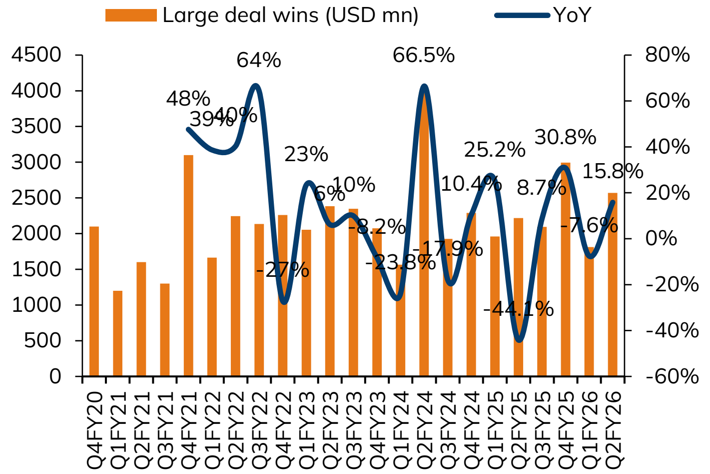
Source: I-Sec research, Company data

Exhibit 4: Soft growth in product business



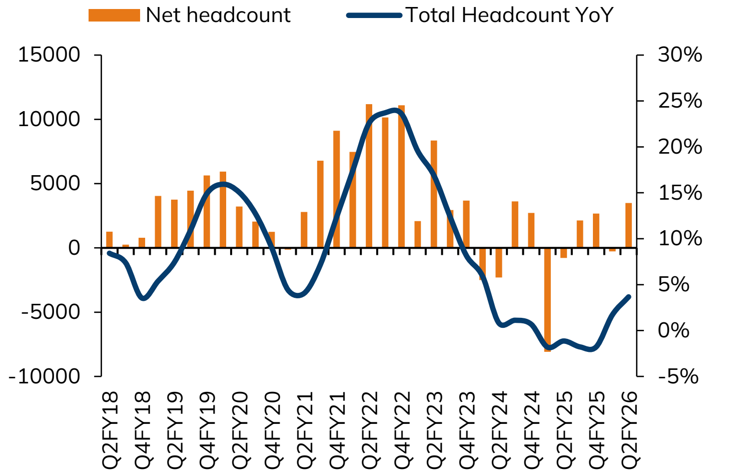
Source: I-Sec research, Company data

Exhibit 5: Deal TCV was healthy at USD 2.569 mn, in line with quarterly average TCV of USD 2.3bn for past four quarters



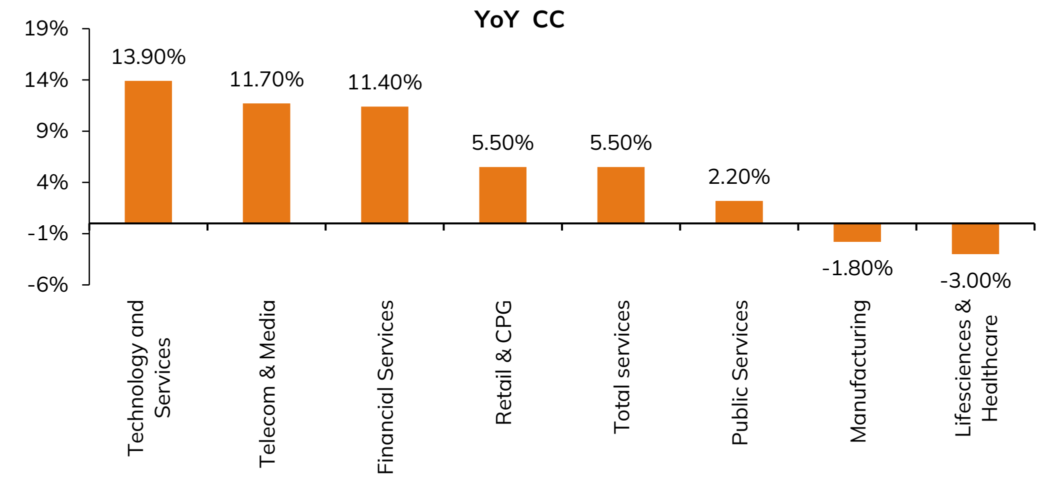
Source: I-Sec research, Company data

Exhibit 6: Upward trend in net headcount addition on YoY basis



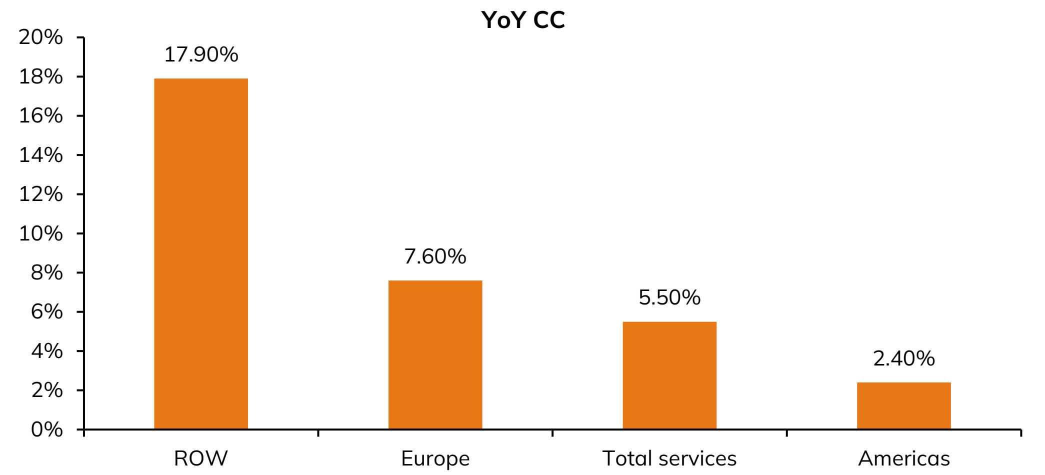
Source: I-Sec research, Company data

Exhibit 7: Broad-based growth across key verticals of financial services, technology and retail



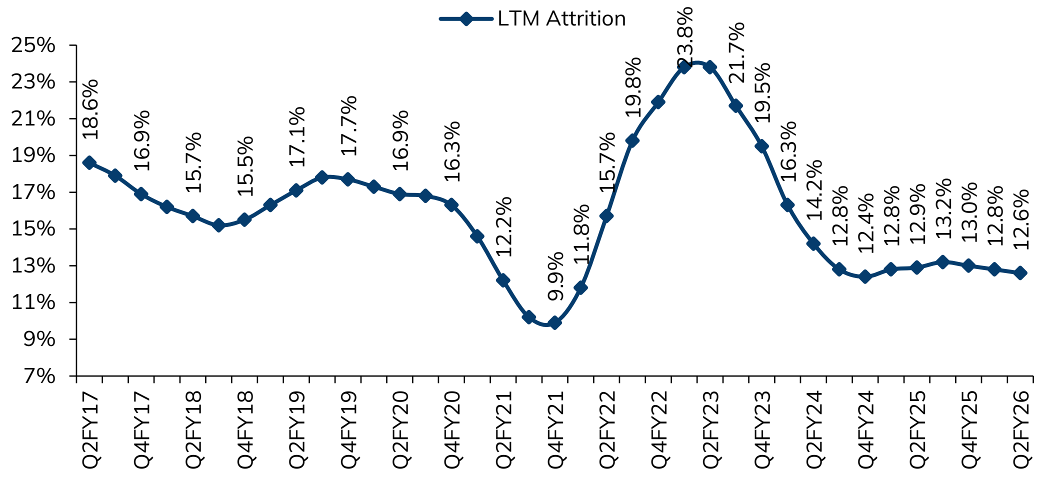
Source: I-Sec research, Company data

Exhibit 8: Revenue growth led by Europe and RoW on YoY basis



Source: I-Sec research, Company data

Exhibit 9: Attrition dipped further by 20bps QoQ to 12.6%



Source: I-Sec research, Company data

Exhibit 10: Softness in products due to weakness in license revenue in Q2FY26

Software products revenue mix (USD mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26
Perpetual license upfront and others	49.7	48	45.7	71.6	49.8	36	30.6	47.6	31.6	36.4	58.2	49.4	34.4	29	24
QoQ		*-3.42%*	*-4.79%*	*56.67%*	*-30.45%*	*-27.71%*	*-15.00%*	*55.56%*	*-33.61%*	*15.19%*	*59.89%*	*-15.12%*	*-30.36%*	*-15.70%*	*-17.24%*
YoY					*0.20%*	*-25.00%*	*-33.04%*	*-33.52%*	*-36.55%*	*1.11%*	*90.20%*	*3.78%*	*8.86%*	*-20.33%*	*-58.76%*
Subscription & support	251.6	269.4	240.8	304.2	270.4	277.1	267.1	349.8	288.5	281.7	267.2	329.4	295	282	290
QoQ		*7.07%*	*-10.62%*	*26.33%*	*-11.11%*	*2.48%*	*-3.61%*	*30.96%*	*-17.52%*	*-2.36%*	*-5.15%*	*23.28%*	*-10.44%*	*-4.41%*	*2.84%*
YoY					*7.47%*	*2.86%*	*10.92%*	*14.99%*	*6.69%*	*1.66%*	*0.04%*	*-5.83%*	*2.25%*	*0.11%*	*8.53%*
Professional Services	19.4	16.4	17.1	21.8	22	19.4	20.5	21.6	21.4	16.4	16.5	21.3	18.5	19	19
QoQ		*-15.46%*	*4.27%*	*27.49%*	*0.92%*	*-11.82%*	*5.67%*	*5.37%*	*-0.93%*	*-23.36%*	*0.61%*	*29.09%*	*-13.15%*	*2.70%*	*0.00%*
YoY					*13.40%*	*18.29%*	*19.88%*	*-0.92%*	*-2.73%*	*-15.46%*	*-19.51%*	*-1.39%*	*-13.55%*	*15.85%*	*15.15%*

Source: I-Sec research, Company data

Exhibit 11: Revenue growth across service lines

Revenue YoY CC	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
IT Services	12.70%	-0.60%	14.50%	15.60%	6.20%	4.68%	3.58%	6.95%
ER&D	12.80%	-4.90%	16.80%	16.80%	1.60%	5.52%	8.81%	8.57%
Products	60.50%	20.50%	-1.30%	1.80%	2.14%	3.84%	-5.48%	3.24%
Overall Revenue	16.7%	1.1%	12.7%	13.7%	5.0%	4.7%	3.8%	7.2%

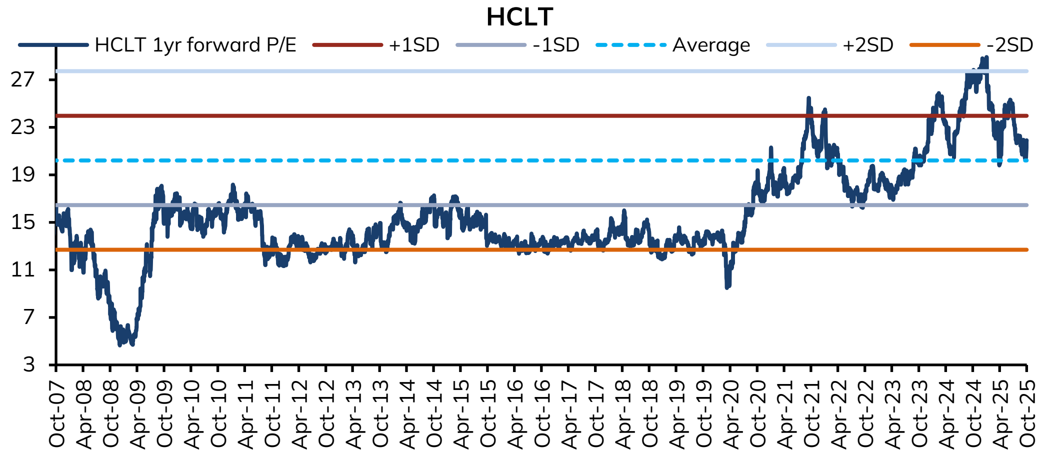
Source: I-Sec research, Company data

Exhibit 12: SoTP-based valuation

Valuation: SOTP	
Services Business	
Q5-Q8 EPS (INR)	62
Target multiple (x)	20
Products Business	
Q5-Q8 EPS (INR)	10
Target multiple (x)	18
Target Price (INR)	**1,430**

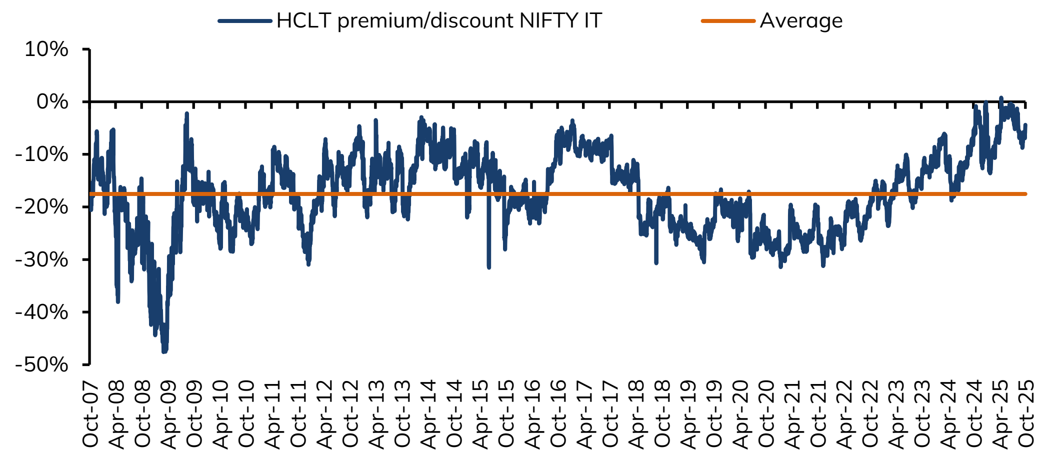
Source: Company data, I-Sec research

Exhibit 13: HCLT is trading at 22x (1-yr forward P/E), above its 5-year avg of 20x



Source: I-Sec research, Company data

Exhibit 14: HCLT is trading at 4% discount to NIFTY IT vs. average discount of 18%



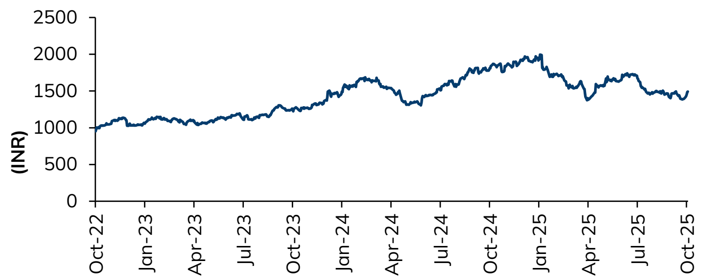
Source: I-Sec research, Company data

Exhibit 15: Shareholding pattern

%	Dec'24	Mar'25	Jun'25
Promoters	60.8	60.8	60.8
Institutional investors	34.7	34.6	33.9
MFs and other	9.3	9.3	8.4
Banks/ FIs	0.0	0.0	0.1
Insurance Cos.	5.9	6.0	6.8
FIIs	19.5	19.3	18.6
Others	4.5	4.6	5.3

Source: Bloomberg, I-Sec research

Exhibit 16: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 17: Profit & Loss

(INR mn, year ending March)

	FY25A	FY26E	FY27E	FY28E
Net Sales (USD mn)	**13,84,00,00,000**	**14,64,37,90,039**	**15,71,28,44,727**	**16,84,13,73,047**
Net Sales (INR. mn)	**11,70,550**	**12,76,173**	**13,67,018**	**14,65,199**
Operating Expense	9,15,510	10,06,184	10,57,674	11,30,395
EBITDA	**2,55,040**	**2,69,989**	**3,09,344**	**3,34,805**
EBITDA Margin (%)	21.8	21.2	22.6	22.9
Depreciation & Amortization	40,840	48,197	56,159	60,192
EBIT	2,14,200	2,21,792	2,53,185	2,74,613
Interest expenditure	6,440	4,482	22	22
Other Non-operating Income	11,970	(546)	(772)	(787)
Recurring PBT	**2,19,730**	**2,16,764**	**2,52,391**	**2,73,803**
Profit / (Loss) from Associates	**-**	**-**	**-**	**-**
Less: Taxes	58,620	58,482	65,622	71,189
PAT	1,61,110	1,58,283	1,86,769	2,02,614
Less: Minority Interest	(90)	(40)	(40)	(40)
Net Income (Reported)	**1,61,110**	**1,58,283**	**1,86,769**	**2,02,614**
Extraordinaries (Net)	-	-	-	-
Recurring Net Income	**1,61,020**	**1,58,243**	**1,86,729**	**2,02,574**

Source Company data, I-Sec research

Exhibit 18: Balance sheet

(INR mn, year ending March)

	FY25A	FY26E	FY27E	FY28E
Total Current Assets	5,46,360	8,67,263	8,70,060	9,09,895
of which cash & cash eqv.	82,450	3,50,957	3,42,899	3,51,165
Total Current Liabilities & Provisions	2,80,390	3,02,767	3,05,996	3,32,193
Net Current Assets	**2,65,970**	**5,64,497**	**5,64,064**	**5,77,702**
Investments	75,640	62,650	62,650	62,650
Net Fixed Assets	45,010	47,320	48,320	52,320
ROU Assets	30,750	31,980	31,980	31,980
Capital Work-in-Progress	-	-	-	-
Goodwill	-	-	-	-
Other assets	60,490	23,580	23,580	23,580
Deferred Tax Assets	10,640	11,120	11,120	11,120
Total Assets	**7,75,050**	**8,02,247**	**8,02,814**	**8,20,452**
Liabilities				
Borrowings	**700**	**560**	**560**	**560**
Deferred Tax Liability	**16,150**	**15,470**	**15,470**	**15,470**
provisions	19,200	21,630	21,630	21,630
other Liabilities	42,270	46,960	46,960	46,960
Minority Interest	180	-	-	-
Equity Share Capital	-	-	-	-
Reserves & Surplus*	-	-	-	-
Total Net Worth	**6,96,550**	**7,17,627**	**7,18,194**	**7,35,832**
Total Liabilities	**7,75,050**	**8,02,247**	**8,02,814**	**8,20,452**

Source Company data, I-Sec research

Exhibit 19: Quarterly trend

(INR mn, year ending March)

	Sep-24	Dec-24	Mar-25	Sep-25
Net Sales	2,98,900	3,02,460	3,03,490	3,19,420
% growth (QoQ)	3.6	1.2	0.3	5.2
EBITDA	58,210	54,420	49,420	55,500
Margin %	19.5	18.0	16.3	17.4
Other Income	3,110	2,930	2,470	1,520
Extraordinaries	45,910	43,070	38,430	42,350
Adjusted Net Profit	2,98,900	3,02,460	3,03,490	3,19,420

Source Company data, I-Sec research

Exhibit 20: Cashflow statement

(INR mn, year ending March)

	FY25A	FY26E	FY27E	FY28E
CFO before WC changes	2,55,900	2,69,949	3,09,304	3,34,765
CFO after WC changes	**2,65,040**	**2,52,929**	**3,01,679**	**3,29,392**
Tax Paid	(42,430)	(58,482)	(65,622)	(71,189)
Cashflow from Operations	2,22,610	1,94,447	2,36,058	2,58,203
Capital Commitments	30,900	(1,73,713)	57,159	64,192
Free Cashflow	**1,91,710**	**3,68,161**	**1,78,899**	**1,94,011**
Other investing cashflow	(18,240)	40,352	(795)	(809)
Cashflow from Investing Activities	**(49,140)**	**2,14,065**	**(57,953)**	**(65,001)**
Dividend and Buyback	-	-	-	-
Inc (Dec) in Borrowings	(810)	(140)	-	-
Others	-	-	-	-
Cash flow from Financing Activities	**(1,85,610)**	**(1,40,006)**	**(1,86,162)**	**(1,84,936)**
Chg. in Cash & Bank balance	**(12,140)**	**2,68,507**	**(8,057)**	**8,266**
Closing cash & balance	82,420	3,50,957	3,42,899	3,51,165

Source Company data, I-Sec research

Exhibit 21: Key ratios

(Year ending March)

	FY25A	FY26E	FY27E	FY28E
Per Share Data (INR)				
Reported EPS	64.1	61.6	68.8	74.7
Diluted EPS	64.1	61.6	68.8	74.7
Cash EPS	74.5	76.2	89.6	97.0
Dividend per share (DPS)	60.0	54.0	64.0	68.0
Book Value per share (BV)	257.0	264.8	265.1	271.6
Dividend Payout (%)	93.6	87.6	93.0	91.1
Growth (%)				
Net Sales	6.5	9.0	7.1	7.2
EBITDA	3.8	5.9	14.6	8.2
EPS	10.8	(3.9)	11.7	8.5
Valuation Ratios (x)				
P/E	23.3	24.3	21.7	20.0
P/CEPS	20.1	19.6	16.7	15.4
P/BV	5.8	5.6	5.6	5.5
EV / EBITDA	15.3	13.5	11.8	10.9
P/S	3.5	3.2	3.0	2.8
Dividend Yield (%)	4.0	3.6	4.3	4.5
Operating Ratios				
EBITDA Margins (%)	21.8	21.2	22.6	22.9
EBIT Margins (%)	18.3	17.4	18.5	18.7
Effective Tax Rate (%)	26.7	27.0	26.0	26.0
Net Profit Margins (%)	13.8	12.4	13.7	13.8
Inventory Turnover Days	-	-	-	-
Fixed Asset Turnover (x)	24.7	27.6	28.6	29.1
Receivables Days	61	58	57	56
Payables Days	-	-	-	-
Working Capital Days	60	57	58	56
Net Debt / EBITDA (x)	(3.8)	(8.6)	(7.2)	(6.9)
Profitability Ratios				
RoCE (%)	22.4	22.9	26.1	27.9
RoIC (%)	30.5	50.3	56.7	59.8
RoNW (%)	23.3	22.4	26.0	27.9

Source Company data, I-Sec research

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