

April 23, 2025

Resilient Performance; FY26 outlook cautious...

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.

Q4FY25 Performance: HCLTech reported revenues of US\$3,498 mn, down 0.8% QoQ/ up 2.9% YoY in CC terms. EBIT margin came at 18%, down ~160 bps QoQ. The IT Services margin stood at 17.1%, down ~38 bps QoQ.

Investment Rationale

- **Strong TCV and a diversified portfolio signals resilience:** HCL Tech recorded its second-highest quarterly TCV of US\$3 bn (up 43% QoQ/31% YoY), driven by a significant ER&D mega-deal & a blend of vendor consolidation and technology modernization contracts. The company also added that despite global macro-headwinds, the company closed 50% of its deal pipeline in March alone. While strong order book supports a positive growth outlook, deal-to-revenue conversion timelines remain a key monitorable for near-term execution.
- **Soft performance; Guidance reflective of economic uncertainty:** The revenue remained soft, primarily dragged by seasonality in its software business, in line with expectations. However, **the management provided an optimistic FY26 outlook, guiding for 2-5% YoY revenue growth (1-4% organic) in CC terms and margins of 18-19%.** The upper end of the revenue guidance assumes timely deal closures and stable discretionary spends, while the lower end bakes in further deterioration of macros and discretionary spend worsening. Moreover, company expects uncertainty seen in retail and manufacturing verticals to spill over to other verticals in case of slow down, albeit with some lag. Factoring in these dynamics with usual seasonality in Q1FY26 **we expect a moderated dollar revenue CAGR of ~5% over FY25-27E. On the margins front, we have baked in EBIT margins of 18.5%/ 19% in FY26E/FY27E.**
- **Strategic AI led capabilities to provide efficiency led benefits:** The company indicated that it has secured incremental business across contract renewals driven by AI-led productivity gains in its bids to clients. Notably, most new deals now incorporate an AI component, reflecting the company's strong positioning in AI led solutions through - AI Force, AI Foundry, AI Labs, AI Engineering. **This strategic AI push is expected to drive efficiency gains and enhance long-term competitiveness.**

Rating and Target Price

- While it has strong TCV and its all-weather portfolio resilience, valuations leave very less room for upsides.
- **We continue to maintain HOLD rating on the stock, valuing it at revised target price of ₹ 1,610; at 22x P/E on FY27E EPS (vs. ₹1,870 earlier).**

Key Financial Summary

Key Financials	FY23	FY24	FY25	5 year CAGR (FY20-25)	FY26E	FY27E	2 year CAGR FY(25-27E)
Net Sales	85,651	1,01,456	1,17,055	10.6	1,23,625	1,33,941	7.0
EBITDA	20,041	22,628	25,505	0.1	27,198	30,003	8.5
Margins (%)	23.4	22.3	21.8		22.0	22.4	
Net Profit	13,516	14,851	17,305	43.5	17,837	19,914	7.3
EPS (₹)	49.8	54.8	63.8		65.7	73.4	
P/E	32.0	29.1	25.0		24.3	21.7	
RoNW (%)	21.8	22.7	24.8		24.4	25.8	
RoCE (%)	24.2	27.1	29.9		29.6	31.6	

Source: Company, ICICI Direct Research



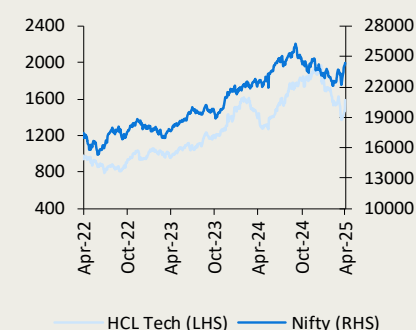
Particulars

Particular	Amount
Market Cap (₹ Crore)	4,32,558
Total Debt (₹ Crore)	70
CC&E (₹ Crore)	28,762
EV (₹ Crore)	4,03,866
52 week H/L	2012 / 1332
Equity capital	543.0
Face value (₹)	2.0

Shareholding pattern

	Jun-24	Sep-24	Dec-24	Mar-25
Promoters	60.8	60.8	60.8	60.8
FII	18.5	18.7	19.4	19.1
DII	15.8	15.8	15.2	15.5
Public	5.0	4.7	4.6	4.6

Price Chart



Key risks

- Lower than expected revenue growth
- Higher than expected TCV to deal conversion

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Performance highlights and outlook

- **Revenue Performance:** HCLTech reported revenue of US\$3,498 mn, down 1% QoQ & up 2% YoY (in CC terms down 0.8% QoQ/ up 2.9% YoY). In rupee terms, the revenue stood at ₹ 30,246 crore, up 1.2% QoQ/ 6.1% YoY. IT services revenue stood at ₹22,186 crore, up 2% QoQ/5% YoY. For FY25, the revenue stood at ₹117,055 crore, up 6.5% YoY.
- **Margin Performance:** EBIT margins at the company level stood at 18%, down ~160 bps QoQ primarily on account of seasonality in the software business (-124 bps). The IT Services margin stood at 17.1%, down ~38 bps QoQ due to second cycle of increments in the quarter (-50 bps) and the balance drop was contributed by investments in the sales and marketing initiatives which was partially offset by forex gains of (+46 bps) and project Ascend benefits. PAT for the quarter stood at ₹4,307 crore, down 6% QoQ/up 8% YoY.
- **Segment performance:** Segment wise on YoY basis in CC terms, growth was led by TMPE (14% of the mix), Tech & Services (13.4% of the mix), Retail & CPG (9.7% of the mix), and Financial Services (21.1% of the mix) which grew by 24.3%, 10.8%, 9.5%, and 0.7% respectively. Whereas, Life Sciences & Healthcare (15% of the mix), Manufacturing (18.6% of the mix) and Public Services (8.6% of the mix) declined by 7.4%, 6.1% and 0.5%.
- **TCV/ Deal Pipeline:** HCLTech during the quarter won a strong TCV of US\$3 bn (up 43% QoQ/ 31% YoY – with 50% bookings closed in March'25) with FY25 TCV reaching US\$ 9.4 bn. This growth was achieved on the back of a strong ER&D pipeline (won a mega deal from a global Hi- Tech client) which grew 75% YoY and a healthy mix of vendor consolidation and modernisation deals. **Notably, the company didn't see any deal cancellations/ ramp down barring shelving of one large deal.** The management flagged subdued discretionary spending and new projects would require strong ROI justification.
- **Guidance for FY26:** The management has revised the revenue guidance is downwards to a **wider 0-3% range (excluding acquisitions) for FY26** (lower than 4.5-5% guidance for FY25) in CC terms. On the margins front, the company has **maintained operating margins guidance band of 20-22% for FY26.**
- **Deal Wins:** For FY26, **HCL Tech has guided for a revenue growth of 2-5% (organic growth of 1-4%) on a YoY basis in CC terms, with a contribution of 1% expected from HPE-CTG acquisition.** The lower end of revenue guidance bakes in further deterioration of macro environment and discretionary spend worsening while upper end assumes deal closures and stable discretionary spend environment. **The margins guidance remained intact at 18-19%.**
- **GenAI/AI:** The company is seeing increased traction in the GenAI space as most of the deals secured by the company has an AI component in them. It has done 500 AI/GenAI engagements across 400 clients and has launched 50 AI agents on Google Marketplace, transforming corporate functions across industries. Additionally, the company is seeing productivity improvement of 20–25% in software development and 20–50% in BPO in the mature state of the project. The management highlighted that despite the AI productivity pass through, the company has gained incremental business in all its renewals and overall has been a net positive for them. It also trained over 1L users on AI/GenAI during FY25.
- **Attrition & Employee addition:** Attrition stood at 13% (down 20 bps QoQ). The company demonstrated non-linearity in revenue vs headcount growth as FY25 revenue grew 4.7% while headcount reduced by 1.8%, aided by AI/automation. The long-term aim is to get to a 50:50 people: Agentic AI ratio.

Quarter Performance

	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ (%)	Comments	FY25	FY24	YoY (%)
Revenue (US\$ mn)	350	343	2.0	353	-1.0	In CC terms, revenue expanded by 3.8% QoQ and grew by 4.1% YoY	1,384	1,327	4.3
Revenue (₹ crore)	30,246	28,499	6.1	29,890	1.2	The services business improved 0.7% QoQ/2.7% YoY in CC terms.ER&D services improved by 5.5% QoQ Whereas, the IT services and Software business declined by 0.3% and 13%	1,17,055	1,09,913	6.5
Cost of sales (including employee expenses)	20,199	18,962	6.5	19,661	2.7		77,815	72,125	7.9
Gross Margin	10,047	9,537	5.3	10,229	-1.8		39,240	37,788	3.8
Gross margin (%)	33.2	33.5	-25 bps	34.2	-100 bps		33.5	34.4	-86 bps
Selling & marketing costs	3,565	3,426	4.1	3,369	5.8		13,735	13,588	1.1
EBITDA	6,482	6,111	6.1	6,860	-5.5		25,505	24,200	5.4
EBITDA Margin (%)	21.4	21.4	-1 bps	23.0	-152 bps		21.8	22.0	-23 bps
Depreciation	1,040	1,093	-4.8	1,039	0.1		4,084	4,173	-2.1
EBIT	5,442	5,018	8.4	5,821	-6.5		21,421	20,027	7.0
EBIT Margin (%)	18.0	17.6	38 bps	19.5	-148 bps	The IT Services margin stood at 17.1%, down ~38 bps QoQ due to second cycle of increments in the quarter (-50 bps) and the balance drop was contributed by investments in the sales and marketing initiatives which was partially offset by forex gains of (+46 bps) and project Ascent benefits	18.3	18.2	0.4
Other income	293	251	16.7	311	-5.8		1,755	940	86.7
PBT	5,735	5,269	8.8	6,132	-6.5		23,176	20,967	10.5
Tax paid	1,426	1,274	11.9	1,538	-7.3		5,862	5,257	11.5
PAT	4,307	3,986	8.1	4,591	-6.2		17,305	15,702	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	1,23,625	1,33,941
Growth (%)	8.3	6.5	5.6	8.3
Direct costs	72,125	77,815	81,963	88,401
S,G&A expenses	13,588	13,735	14,464	15,537
Total Operating Expenditure	85,713	91,550	96,428	1,03,938
EBITDA	24,200	25,505	27,198	30,003
Growth (%)	6.9	5.4	6.6	10.3
Depreciation	4,173	4,084	4,284	4,594
Amortisation	-	-	-	-
Net Other Income	940	1,755	943	1,224
PBT	20,967	23,176	23,857	26,633
Forex adjustments	-	-	-	-
Total Tax	5,257	5,862	6,012	6,712
PAT	15,702	17,305	17,837	19,914
Growth (%)	5.7	10.2	3.1	11.6
EPS (₹)	57.9	63.8	65.7	73.4
EPS (₹)	57.9	63.8	65.7	73.4

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement ₹ crore

Year-end March	FY24	FY25	FY26E	FY27E
PBT	20,967	23,176	23,857	26,633
Depreciation & Amortisation	4,173	4,084	4,284	4,594
(Inc)/dec in Current Assets	472	(267)	(1,872)	(2,939)
Inc/(dec) in CL and Provisions	1,833	1,277	1,682	2,640
Taxes paid	(4,212)	(4,243)	(6,012)	(6,712)
CF from Op. Activities	22,448	22,261	20,987	22,985
(Inc)/dec in Investments	(3,669)	(2,532)	943	1,224
(Inc)/dec in Fixed Assets	(1,016)	(1,083)	(2,473)	(2,679)
CF from Inv activities	(6,723)	(4,914)	(1,529)	(1,454)
Issue/(Buy back) of Equity	-	-	-	-
Inc/(dec) in loan funds	(181)	(81)	(500)	(500)
Dividend paid & dividend tax	(14,073)	(16,250)	(14,269)	(15,931)
Inc/(dec) in debentures	-	-	-	-
Others	(1,212)	(1,504)	-	-
CF from Financing	(15,464)	(18,561)	(14,769)	(16,431)
Net Cash flow	261	(1,214)	4,689	5,099
Exchange difference	130	18	-	-
Opening Cash	9,065	9,456	8,245	12,934
Closing Cash	9,456	8,245	12,934	18,033

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	72,679	76,662
Total Shareholders funds	68,263	69,655	73,222	77,205
Total Debt	2,223	70	(430)	(930)
Other liabilities+Provisions	6,557	7,762	7,870	8,039
Minority Interest / Others	8	18	18	18
Total Liabilities	77,051	77,505	80,680	84,332
Assets				
Net Block+ CWIP	7,909	7,576	6,836	6,069
Intangible assets+ Goodwill	27,262	28,655	27,584	26,436
Investments	94	91	91	91
Liquid investments	7,043	7,473	7,473	7,473
Inventory	185	133	140	152
Debtors	19,483	19,523	20,619	22,339
Loans and Advances	795	976	1,031	1,117
Other Current Assets	11,675	12,715	13,429	14,549
Cash & Bank	20,150	21,289	25,978	31,077
Total Current Assets	59,331	62,109	68,669	76,708
Total Current Liabilities	22,726	28,039	29,613	32,084
Net Current Assets	36,605	34,070	39,057	44,624
Other non current assets	5,181	7,113	7,113	7,113
Application of Funds	77,051	77,505	80,680	84,332

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios

Year-end March	FY24	FY25	FY26E	FY27E
Per share data (₹)				
EPS	57.9	63.8	65.7	73.4
Cash EPS	73.2	78.8	81.5	90.3
BV	251.6	256.7	269.8	284.5
DPS	52.0	60.0	52.6	58.7
Cash Per Share	74.3	78.5	95.7	114.5
Operating Ratios (%)				
EBIT Margin	18.2	18.3	18.5	19.0
PBT Margin	19.1	19.8	19.3	19.9
PAT Margin	14.3	14.8	14.4	14.9
Debtor days	65	61	61	61
Return Ratios (%)				
RoE	23.0	24.8	24.4	25.8
RoCE	27.2	29.9	29.6	31.6
RoIC	40.2	43.9	48.5	55.5
Valuation Ratios (x)				
P/E	27.5	25.0	24.3	21.7
EV / EBITDA	16.8	15.8	14.7	13.1
EV / Net Sales	3.7	3.5	3.2	2.9
Market Cap / Sales	3.9	3.7	3.5	3.2
Price to Book Value	6.3	6.2	5.9	5.6
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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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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