Stock Update

Result Update

MIRAE ASSET Sharekhan

HCL Technologies Ltd

Soft Q1, treading steady growth path amid margin challenges

IT & ITES	Sharekhan code: HCLTECH
Reco/View: Buy ↔	CMP: **Rs. 1,620** / Price Target: **Rs. 1,850** ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS	Positive	↔	Positive
RQ	Positive	↔	Positive
RV	Neutral	↔	Neutral

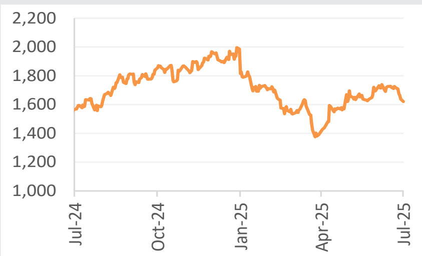
Company details

Market cap:	Rs. 4,39,600 cr
52-week high/low:	Rs. 2,011/1,304
NSE volume: (No of shares)	30.0 lakh
BSE code:	532281
NSE code:	HCLTECH
Free float: (No of shares)	106.3 cr

Shareholding (%)

Promoters	60.8
FII	19.2
DII	15.4
Others	4.6

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	-4.4	16.5	-10.7	3.8
Relative to Sensex	-5.8	7.1	-18.2	1.7

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- Reported revenue stood at $3,545 million, up 1.3 % q-o-q/5.4% y-oy, in line with our estimate of $3,543 million.
- EBIT margin fell by ~160 bps q-o-q to 16.3%, missing our estimate of 17.3%. New deal win TCVs stood at $1,812 million, down 8% y-o-y was balanced across service lines, geographies and verticals.
- Company raised lower end of revenue growth guidance for FY26 to 3-5% from 2-5% in CC terms but lowered EBIT margin guidance to 17-18% from 18-19%.
- We maintain a Buy rating with a revised PT of Rs. 1,850 (valued at 25x FY27E EPS). At CMP, the stock trades at 25.1/21.8x FY26/27E EPS.

HCL Tech reported revenues of $3,545 million, up 1.3% q-o-q/5.4% y-o-y in line with our estimate of $3,543 million. In CC terms, revenue growth in Q1FY26 was down 0.8% q-o-q/up 3.7% y-o-y. Services revenue was flat while Engineering and R&D services declined 0.5% q-o-q in CC terms and HCL software was down 7.1% sequentially in CC terms. Rupee revenues stood at Rs. 30,349 crores, up 0.3 % q-o-q/8.2% y-o-y. EBIT margin fell by ~160 bps q-o-q to 16.3%, missing our estimates of 17.3% impacted by lower utilization, demand supply mismatch between skill and location, and one-time impact from a client bankruptcy. Net profit stood at Rs. 3,843 crore, down 10.8% q-o-q/9.7% y-o-y missing our estimates of Rs 4,269 crore. Management has raised lower end of revenue growth guidance for FY26 to 3-5% from 2-5% in CC terms but revised down the EBIT margin guidance to 17-18% from 18-19% for FY26, due to Q1 impacts that could continue into Q2, investments in sales/marketing/AI capabilities, and planned restructuring. New deal win TCVs stood at $1,812 million, down 8% y-o-y was balanced across service lines, geographies, and verticals. Net headcount addition declined by 269 q-o-q, taking total headcount to 223,151 while Attrition (LTM) fell 20 bps q-o-q to 12.8%. Steady bookings, AI/GenAI adoption, a robust pipeline and management commentary on non-deterioration of demand environment positions it well for another year of industry leading growth among Tier-1. While near-term uncertainties may affect discretionary spending, HCL Tech's diversified portfolio and AI-driven solutions ensure medium to long-term growth potential. We maintain Buy rating with a revised PT of Rs. 1,850 (valued at 25x FY27E EPS). At CMP, the stock trades at 25.1/21.8x FY26/27E EPS.

Key positives

- Lower end of revenue growth guidance for FY26 revised to 3-5% from 2-5% in CC terms.
- LTIM attrition fell 20 bps q-o-q to 12.8%

Key negatives

- EBIT margin contracted by 161 bps q-o-q to 16.3%.
- EBIT margin guidance for FY26 revised to 17-18% from 18-19%.

Management Commentary

- Management has raised the lower end of revenue growth guidance for FY26 to 3-5% from 2-5% in CC terms.
- EBIT margin guidance revised down to 17-18% for FY26 due to Q1 impacts that could continue into Q2, investments in sales/marketing/AI capabilities, and planned restructuring.
- Demand environment remained stable overall in Q1, though with variations across verticals, and did not deteriorate as much as initially feared.
- The company expects to close two large deals in Q2 which got pushed due to procedural reasons.
- Varying levels of discretionary spending across sectors was noted, with financial services and technology showing promise, while manufacturing, automotive, life sciences, retail & CPG segments are seeing some stress
- Company was successful in renewing contracts while increasing wallet share despite competitive pressures

Revision in earnings estimates – We have revised our estimates to factor in Q1FY26 performance and revised FY26 guidance.

Our Call

Valuation – Maintain Buy with revised PT of Rs. 1,850: The soft Q1 performance was largely in-line with estimates. The company is comfortable with the revised revenue guidance and expects quick ramp-up, especially in financial services to support some of the growth, however the miss on EBIT margin along with lowering margin guidance was slightly disappointing. Steady bookings, AI/GenAI adoption, robust pipeline and management commentary on non-deterioration of demand environment positions it well for another year of industry leading growth among Tier-1. While near-term uncertainties may impact discretionary spending, HCL Tech's diversified portfolio and AI-driven solutions ensure medium to long-term growth potential. We expect sales/PAT CAGR of ~6%/8% over FY25-FY27E. We maintain a Buy rating with a revised PT of Rs. 1,850 (valued at 25x FY27E EPS). At CMP, the stock trades at 25.1/21.8x FY26/27E EPS.

Key Risks

Rupee appreciation and/or adverse cross-currency movements. Macro headwinds, and recession in the US can moderate the pace of technology spending.

Valuation (Consolidated) Rs cr

Particulars	FY24	FY25	FY26E	FY27E
Net sales	1,09,913.0	1,17,055.0	1,24,960.7	1,32,471.9
EBITDA Margin (%)	22.0	21.8	21.0	22.0
Net profit (Rs. crore)	15,702.0	17,391.0	17,497.6	20,137.3
YoY growth (%)	5.7	10.8	0.6	15.1
EPS (Rs.)	57.9	64.1	64.5	74.2
PER	28.0	25.3	25.1	21.8
P/B (x)	6.4	6.3	5.9	5.6
EV/EBITDA	17.9	17.0	16.5	14.8
ROE (%)	23.5	25.2	24.3	26.3
ROCE (%)	26.9	28.3	27.2	29.6

Source: Company; Mirae Asset Sharekhan estimates

Key Earnings Highlights

- **Revenues:** Constant currency (CC) revenues declined 0.8% q-o-q, in line with our estimate in a seasonally weak quarter. Revenue stood at $3,545 million, up 1.3 % q-o-q/5.4% y-o-y. Services revenue was flat while Engineering and R&D services declined 0.5% q-o-q in CC and HCL software was down 7.1% sequentially in CC terms.
- **EBIT margins:** EBIT margin fell by ~160 bps q-o-q to 16.3%, missing our estimates of 17.3%. Margin decline was owing to lower utilization (-80 bps), client bankruptcy (-30 bps), higher sales/marketing costs (-30 bps), lower software revenue share (-20 bps) while there was no forex benefit. EBIT margin guidance revised down to 17-18% for FY26 due to Q1 impacts that could continue into Q2, investments in sales/marketing/AI capabilities, and planned restructuring costs.
- **Booking performance:** New deal win TCVs stood at $1,812 million, down 8% y-o-y/39% q-o-q. The company expects to close two large deals in Q2FY26 which got pushed due to procedural reasons.
- **Vertical-wise performance:** Technology and services, telecommunications, retail and CPG, and financial Services grew 13.7%, 13%,8.2% and 6.8% y-o-y respectively, in CC, while Lifesciences & Healthcare, Manufacturing and Public Services declined 4%, 1%, and 2.4% y-o-y, respectively, in CC terms.
- **Geography-wise performance:** Europe, India, RoW and US grew 9.6%/1.3%/15% and 0.5% y-o-y respectively in CC.
- **Client metrics:** Company added two clients in the over $50 million category, six in the $20 million+ category, four in the $10 million+, three in the $5 million+ and eight in the $1 million+ category on q-o-q basis. Revenue from the Top-5 andTop-10 clients rose by 0.5%, 1.3% q-o-q, respectively while revenue from Top-20 clients declined 0.3% q-o-q.
- **Headcount and attrition:** Net headcount additions declined by 269 q-o-q, taking the total to 223,151, while Attrition (LTM) fell 20 bps q-o-q to 12.8%
- **Cash flows:** On an LTM basis, OCF and FCF stood at $2,571 million and $2,421 million, respectively, with FCF/NI at 121%. Net cash balance stood at $3,187 million, down 4.9% q-o-q.
- **Restructuring Program:** The company initiated a restructuring program which involves optimizing underutilised overseas facilities and addressing workforce challenges, particularly in automotive, where a ramp-down and skill-location mismatches have led to lower utilisation. The program includes one-time costs, expected to impact margins by 30–40 bps in Q2-Q3FY26.

Results (Consolidated) Rs cr

Particulars	Q1FY26	Q1FY25	Q4FY25	YoY (%)	QoQ (%)
Revenues ($ mn)	**3,545**	**3,364**	**3,498**	**5.4**	**1.3**
Net sales	**30,349**	**28,057**	**30,246**	**8.2**	**0.3**
Direct Costs	20,128	18,364	19,742	9.6	2.0
Gross Profit	**10,221**	**9,693**	**10,504**	**5.4**	**-2.7**
Research & development	455	407	457	11.8	-0.4
SG&A	3,731	3,492	3,565	6.8	4.7
EBITDA	**6,035**	**5,794**	**6,482**	**4.2**	**-6.9**
Depreciation & amortization	1,093	998	1,040	9.5	5.1
EBIT	**4,942**	**4,796**	**5,442**	**3.0**	**-9.2**
Forex gain/(loss)	5	81	-5	-93.8	-200.0
Other Income	242	831	298	-70.9	-18.8
PBT	**5,189**	**5,708**	**5,735**	**-9.1**	**-9.5**
Tax Provision	1,345	1,448	1,426	-7.1	-5.7
Net profit	**3,843**	**4,258**	**4,307**	**-9.7**	**-10.8**
Reported net profit	**3,843**	**4,258**	**4,307**	**-9.7**	**-10.8**
EPS (Rs)	14.2	15.7	15.9	-9.7	-10.8
Margin (%)					
EBITDA	19.9	20.7	21.4	-77	-155
EBIT	16.3	17.1	18.0	-81	-171
NPM	12.7	15.2	14.2	-251	-158
Tax rate	25.9	25.4	24.9	55	106

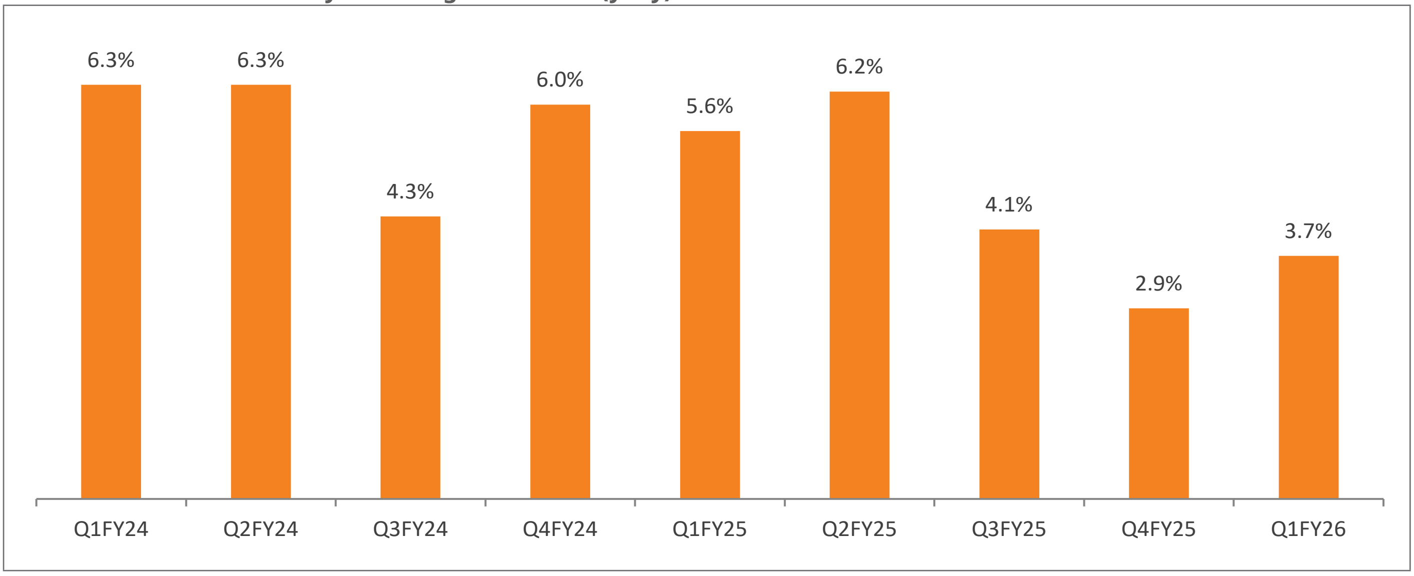
Source: Company; Mirae Asset Sharekhan Research

Revenue mix: Geographies, industry verticals, and other operating metrics

Particulars	Revenues	Contribution	$ Growth (%)		CC growth (%)	
	($ mn)	(%)	Q-o-Q (%)	Y-o-Y (%)	Q-o-Q (%)	Y-o-Y (%)
Revenues ($ mn)	3,545	100	1.3	5.4	-0.8	3.7
Geographic mix						
Americas	2,003	56.5	-0.2	-0.1		0.5
Europe	1,003	28.3	4.3	15.2		9.6
RoW	422	11.9	0.5	14.0		15.0
India	117	3.3	7.9	-0.6		1.3
Industry verticals						
Financial services	766	21.6	3.7	8.4		6.8
Manufacturing	659	18.6	1.3	1.0		-1.0
Technology & services	496	14.0	5.9	13.5		13.7
Retail & CPG	344	9.7	1.3	8.8		8.2
Telecommunications, media, publishing & entertainment	464	13.1	-4.5	13.2		13.0
Lifesciences & healthcare	514	14.5	0.0	-3.9		-4.0
Public services	301	8.5	0.2	-1.6		-2.4
Service line						
IT and business services	2,623	74.0	2.3	4.7	0.0	3.0
Engineering and R&D Services	603	17.0	0.8	12.7	-0.5	11.8
Products & platforms	330	9.3	-4.8	-1.0	-7.1	3.0
Clients Contribution						
Top 5	447	12.6	0.5	16.5		
Top 10	716	20.2	1.3	8.6		
Top 20	1,060	29.9	-0.3	4.7		

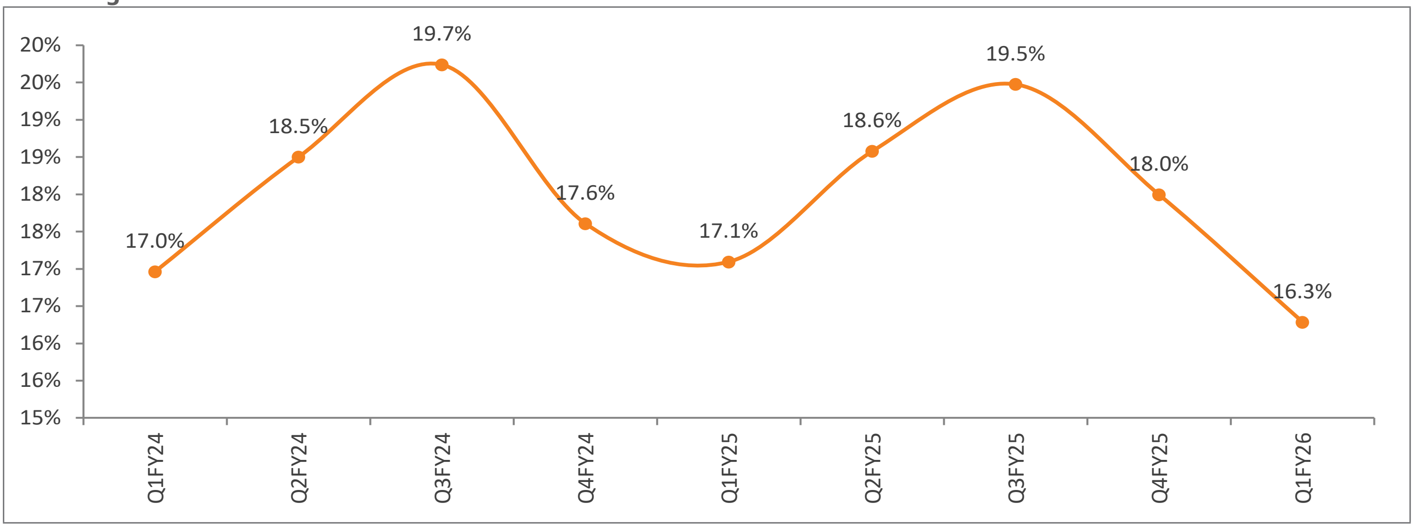
Source: Company; Mirae Asset Sharekhan Research

HCL Tech's constant-currency revenue growth trend (y-o-y)



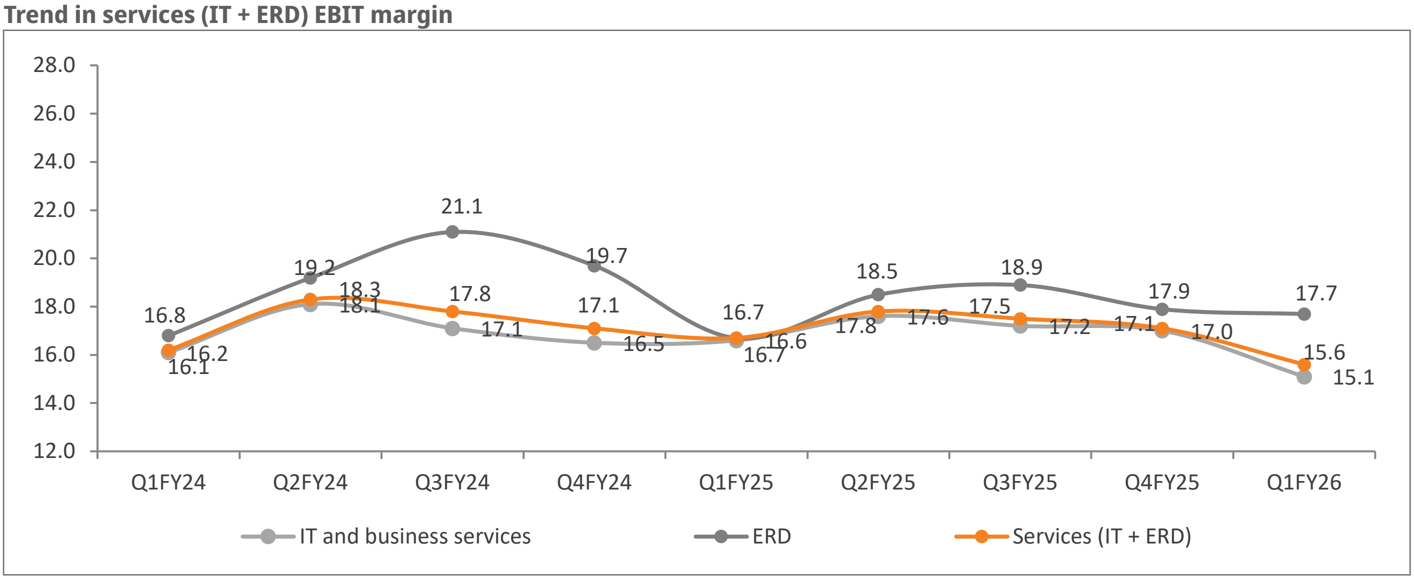
Source: Company; Mirae Asset Sharekhan Research

EBIT margin trend



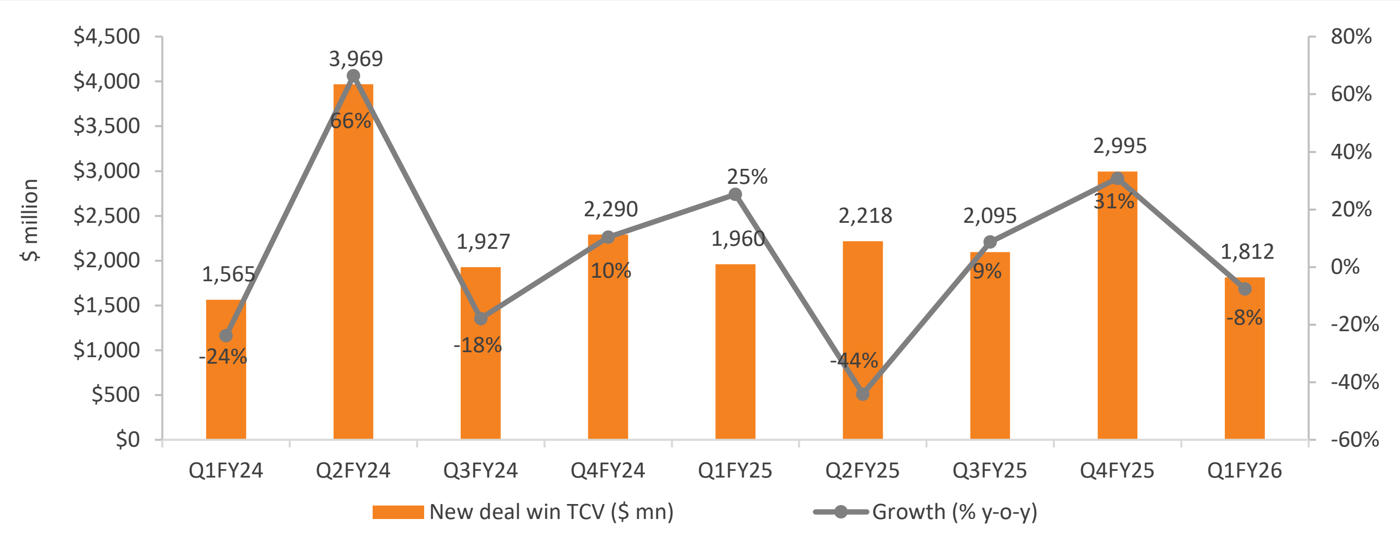
Source: Company; Mirae Asset Sharekhan Research

Trend in services (IT + ERD) EBIT margin



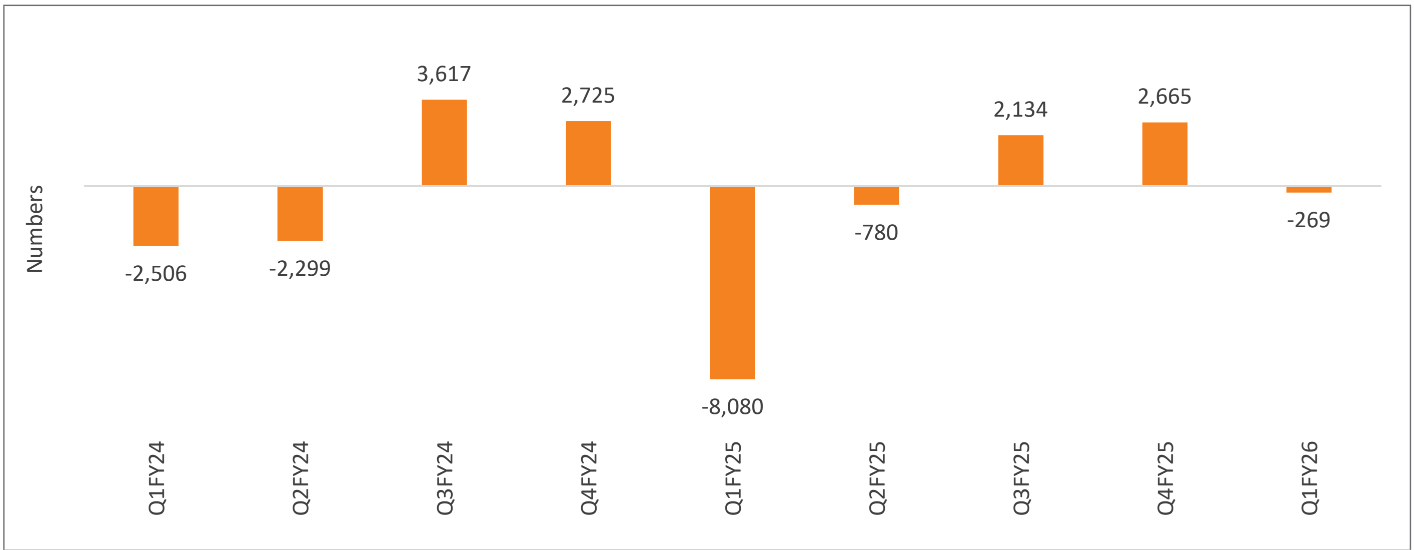
Source: Company; Mirae Asset Sharekhan Research

New deal wins TCVs trend



Source: Company; Mirae Asset Sharekhan Research

Net headcount addition trend



Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Robust deal pipeline, cost optimisation, and technology modernisation opportunities to aid growth

The Indian IT sector is poised for modest growth in FY2026, driven by stabilisation in key markets like the US and Europe, alongside increasing demand for AI, cloud, and digital transformation services. Despite near-term challenges such as macroeconomic uncertainty, discretionary spending delays, and geopolitical volatility, the sector is expected to benefit from a robust deal pipeline and a shift toward cost optimisation and technology modernisation initiatives.

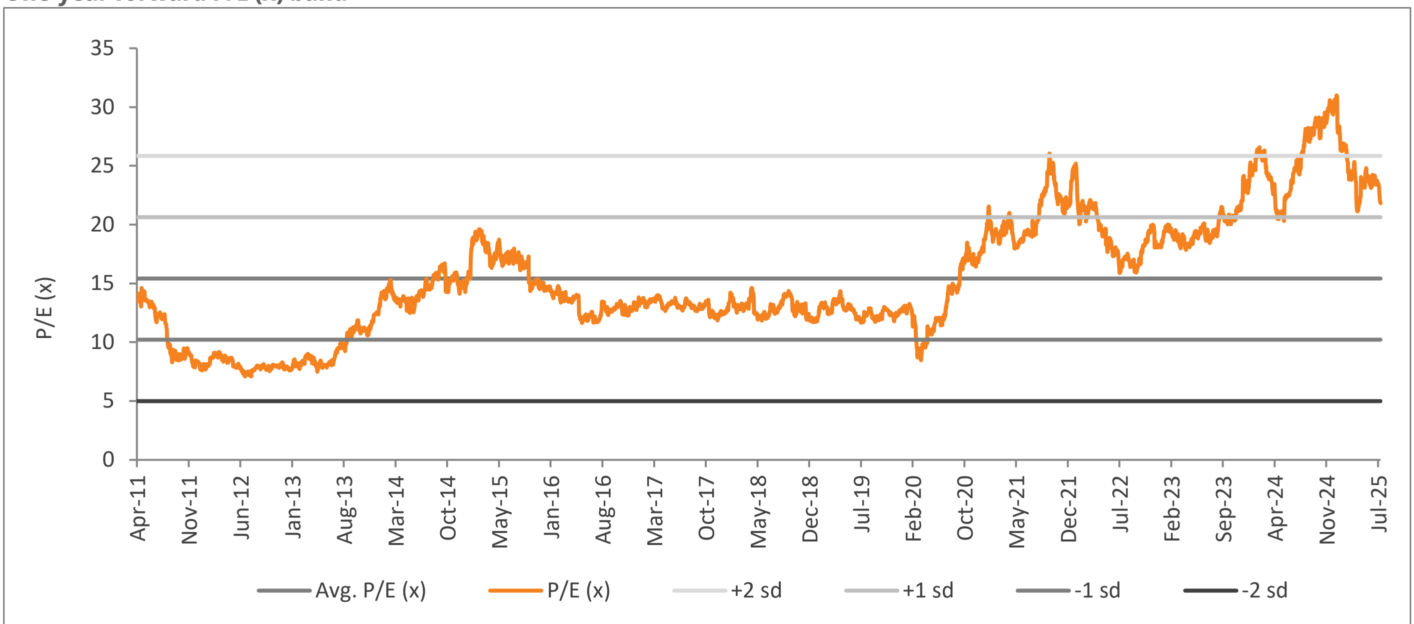
■ Company Outlook – Positioned for Industry leading growth among Tier 1 IT companies

The company has raised the lower end of revenue growth guidance for FY26 to 3-5% from 2-5% in CC terms reflecting comfort amid global economic uncertainties, particularly US tariff concerns and subdued discretionary spending. Despite these headwinds, the company remains confident in its ability to outperform peers, driven by its strong positioning in AI and generative AI solutions, such as HCLTech AI Force and AI Foundry, which are gaining traction in telecom, media, and digital engineering. A robust deal pipeline, with a record $3 billion TCV in Q4FY25 and $9.3 billion for the full year, underscores HCLTech's competitive edge in securing large, multi-year contracts. The company's focus on operational efficiency, cost optimization, and innovation ensures resilience, with steady EBIT margins expected to remain within the 17–18% range. HCLTech's all-weather portfolio, strategic investments in AI, cloud, and industry-specific solutions, combined with its diversified geographic presence, position it to navigate challenges and capitalize on emerging opportunities in a dynamic IT services landscape.

■ Valuation – Maintain Buy with revised PT of Rs. 1,850

The soft Q1 performance was largely in-line with estimates. The company is comfortable with the revised revenue guidance and expects quick ramp-up, especially in financial services to support some of the growth, however the miss on EBIT margin along with lowering margin guidance was slightly disappointing. Steady bookings, AI/GenAI adoption, robust pipeline and management commentary on non-deterioration of demand environment positions it well for another year of industry leading growth among Tier-1. While near-term uncertainties may impact discretionary spending, HCL Tech's diversified portfolio and AI-driven solutions ensure medium to long-term growth potential. We expect sales/PAT CAGR of ~6%/8% over FY25-FY27E. We maintain a Buy rating with a revised PT of Rs. 1,850 (valued at 25x FY27E EPS). At CMP, the stock trades at 25.1/21.8x FY26/27E EPS.

One-year forward P/E (x) band



Source: Company; Mirae Asset Sharekhan Research

About company

HCLTech is a global IT services and consulting company offering digital, engineering, cloud, and AI solutions. It serves industries like financial services, healthcare, telecom, and manufacturing, with a strong focus on innovation through its AI Force and AI Foundry platforms. The company reported FY25 revenue of US$13.8 billion, employs over 220,000 professionals across 60 countries, and maintains a robust deal pipeline with new deal win TCV of US$9.3 billion.

Investment theme

HCLTech is a global IT services and consulting company capitalizing on the growing demand for generative AI, cloud migration, and digital transformation across industries like telecom, healthcare, and financial services. Its robust deal pipeline, with a record $9.3 billion TCV in FY25, ensures revenue visibility and resilience despite macroeconomic uncertainties. HCLTech's all-weather portfolio, robust deal pipeline, strategic investments in AI platforms like AI Force and AI Foundry positions it to outperform peers in a competitive IT services landscape.

Key Risks

1) Rupee appreciation and/or adverse cross-currency movements. 2) Macro headwinds and recession in the US can moderate the pace of technology spending.

Additional Data

Key management personnel

Name	Designation
Roshni Nadar Malhotra	Chairperson
C Vijay Kumar	Managing Director and CEO
Shiv Walia	Chief Financial Officer
Ramachandran Sundararajan	Chief people officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	4.83
2	Artisan Partners Ltd	2.16
3	Blackrock Inc	1.72
4	Vanguard Group Inc	1.65
5	SBI Funds Management Ltd	1.65
6	HDFC Asset Management Co Ltd	1.52
7	ICICI Prudential Asset Management	1.01
8	UTI Asset Management Co Ltd	0.7
9	PPFAS Asset Management	0.69
10	Nippon Life India Asset Management	0.62

Source: Bloomberg

Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

DISCLAIMER

Registered Office: 1st Floor, Tower No. 3, Equinox Business Park, LBS Marg, Off BKC, Kurla (West), Mumbai 400 070, Maharashtra, India. Tel: 022-67502000.

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SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD) / MCX - Commodity: INZ000171337; BSE – 748, NSE – 10733, MCX – 56125, DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669 (date of initial registration: 03/07/2004, and valid till 02/07/2026); IRDAI Registered Corporate Agent (Composite) License No. CA0950, valid till June 13, 2027.

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For any complaints/ grievances, email us at igc@sharekhan.com, or you may even call the Customer Service desk on 022-41523200/ 022-61151111.