

# HCL Technologies (HCLT)

IT Services

**REDUCE**

CMP(₹): **1,620**

Fair Value(₹): **1,500**

Sector View: **Neutral**

NIFTY-50: **25,082**

**July 14, 2025**

## Bites the bullet on margins

HCLT cut its EBIT margin guidance to 17-18% from 18-19%, a good portion of which may not be recouped easily. Margin band cuts are a consequence of industry-wide cost pressures amid operating in a prolonged demand-constrained environment, in our view. Growth was better than feared in services and will accelerate strongly in 2QFY26, driven by large deal ramp-ups in BFSI and hi-tech. We increase FY2026-28E organic revenue by 1%, while reducing EBIT margin estimates by 70-90 bps, leading to a 2-4% cut to EPS estimates. It has executed well on cost take-out deals and is less vulnerable to gen AI disruption—positive characteristics. Yet, the stock is not attractive at 23X FY2027E earnings. Retain REDUCE; Fair Value of Rs1,500.

## Revenue decline on expected lines; slowdown in automotive impacts ERD

HCLT reported revenue growth of 1.3% in reported terms to US\$3,545 mn. Revenue decline of 0.8% in c/c was in line with our estimate. Growth was 3% yoy. Services declined 0.1% qoq, while products declined 7.1% qoq. Within services, IT services was flat, while ERD declined 0.5% qoq.

## Weak services margins of 15.6% due to a drag on IT services margins

EBIT margin of 16.3% was 100 bps lower than our estimate. The EBIT margin declined 170 bps qoq due to headwinds of 80 bps from lower utilization, 30 bps from higher S&M expenses, 30 bps from a client bankruptcy event and 20 bps from lower revenue share of the products business. The services EBIT margin of 15.6% was dragged down by weak IT services margins (15.1%). Net profit declined 10.8% qoq and 9.7% yoy to Rs38.4 bn, missing our estimate by 8.7% due to EBIT miss and lower-than-expected other income.

## Margin guidance cut to 17-18%; marginal revision in growth guidance

The EBIT margin guidance band has been cut to 17-18% from 18-19% earlier. HCLT's revised overall and services growth outlook to 3-5% yoy growth, including a 100 bps contribution from the CTG acquisition. This implies 1.4-2.7% CQGR over 2Q-4QFY26 for the overall business. The services business guide implies 0.7-2.0% CQGR for the services segment.

## We cut FY2026-28E EPS by 2-4%; retain REDUCE

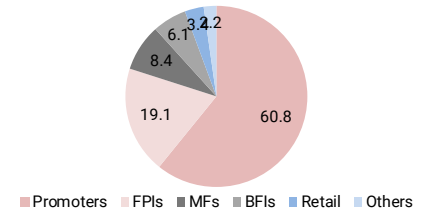
We increase FY2026-28E US\$ revenue estimates by ~3% to account for a ~1% increase in c/c revenue estimates and 180 bps increase in cross-currency tailwinds in FY2026E. We cut FY2026-28E EBIT margin estimates by 70-90 bps to account for margin headwinds and guidance band cut. We believe that some part of the margin decline is due to industry-wide pressure and may not return unless demand returns to normalcy or Rupee depreciates significantly. We also incorporate revised INR/USD estimates by KIE's economist. Together, these lead to a 2-4% cut to FY2026-28E EPS. We value HCLT on 21X (unchanged) multiple on June 2027E EPS, leading to unchanged FV of Rs1,500. Stock trades at full valuations. Retain REDUCE.

### Company data and valuation summary

#### Stock data

CMP(Rs)/FV(Rs)/Rating	1,620/1,500/REDUCE
52-week range (Rs) (high-low)	2,005-1,303
Mcap (bn) (Rs/US\$)	4,396/51.1
ADTV-3M (mn) (Rs/US\$)	4,645/54.0

#### Shareholding pattern (%)



#### Price performance (%)

	1M	3M	12M
Absolute	(4)	16	4
Rel. to Nifty	(6)	7	2
Rel. to MSCI India	(6)	5	4

#### Forecasts/Valuations

	2025	2026E	2027E
EPS (Rs)	63.6	63.3	69.9
EPS growth (%)	9.9	(0.4)	10.4
P/E (X)	25.5	25.6	23.2
P/B (X)	6.4	6.1	5.8
EV/EBITDA (X)	16.2	15.7	14.4
RoE (%)	25.3	24.5	25.8
Div. yield (%)	3.7	3.6	3.7
Sales (Rs bn)	1,171	1,262	1,367
EBITDA (Rs bn)	255	261	282
Net profits (Rs bn)	173	172	190

Source: Bloomberg, Company data, Kotak Institutional Equities estimates

Prices in this report are based on the market close of July 14, 2025

[Full sector coverage on KINSITE](#)

### **Margin guidance cut—margin trade-off for revenues or cost pressures?**

One potential conclusion that the Street may draw is that HCLT is trading off margins for revenue growth. This perception is reinforced by the downward revision of its EBIT margin guidance band—from 19-20% in FY2022 to 17-18% for FY2026, marking the second cut in four years.

However, we view this differently. Over the past two years, growth for IT companies has been largely driven by cost take-out deals, which are often margin-dilutive. In a typical environment, these headwinds are offset by discretionary spending-led growth, which helps absorb the margin impact. Unfortunately, the current environment—marked by constrained tech budgets and a client focus on cost—has limited the availability of traditional margin levers.

While a slowdown lasting a year or two can be managed through internal cost controls, the industry is now facing a third consecutive year of material slowdown. Companies have already pared back discretionary expenses, reduced variable compensation and exited high-cost roles in the past two years. The levers to defend margins have significantly diminished. Levers are Rupee depreciation (not in the company's control) or further cuts to variable compensation, a tactical possibility, though it comes with a trade-off on employee engagement/satisfaction.

At this juncture, companies are faced with a choice—either continue to keep a tight leash on costs or accept margin dilution and invest to maintain competitiveness. HCLT has opted for the latter—a prudent decision in the current macro environment. The margin compression at HCLT should be viewed in this broader industry context. Other players may also face similar pressures, though the timing and extent may vary.

### **Positioned well in three out of four key factors in the current environment**

Revenue growth in the current environment will be a function of four factors—(1) new cost take-out wins, (2) lower exposure to discretionary spending, (3) lower exposure to segments vulnerable to gen AI risk and (4) lower exposure to tariff-impacted industries—manufacturing, retail and logistics. HCLT is well-positioned in the first three and relatively less so in the fourth. Strong execution in cost take-out opportunities will more than offset higher exposure to tariff-impacted verticals in FY2026, leading to another year of industry-leading growth.

### **Stable demand outlook results in an increase in the lower end of the guidance range**

Lower end of the guidance range indicated deterioration in the macro in the June quarter. Macro has largely been stable in March, despite a demand hit in verticals such as manufacturing. As a consequence, HCLT has increased the lower end of its guidance to 3% from 2% earlier. HCLT expects healthy growth in BFSI and hi-tech. Outlook is stable in the telecom and energy verticals. Demand pressure will continue in the manufacturing, life sciences and retail verticals. The outlook for ERD is healthy, despite stress in the automotive segment due to a healthy deal pipeline and expected ramp-up in large ERD deals signed in 4QFY25.

### **Weak TCV due to delay in closure of a few large deals**

HCLT's new deal wins stood at US\$1.8 bn, down 39.5% qoq and 7.6% yoy. On ttm basis, new deal wins were at US\$9.1 bn, down 10.1% yoy. HCLT won a very large vendor consolidation deal in BFSI, which will be reported as part of 2QFY26 TCV. In addition, a couple of large deals expected to close in 1QFY26 will close in 2QFY26. Delay was procedural in nature and unrelated to macro challenges, according to management.

### **Revenue growth led by hi-tech and BFSI verticals; Europe and RoW drive growth from a geo-basis**

From a geo-basis, the US grew 0.5% yoy, while Europe grew 9.6%. RoW grew 15%, aided by the CTG acquisition. Sequentially, the telecom, life sciences and energy verticals were a drag on growth, while revenue grew at a healthy pace in BFSI and hi-tech. Revenue growth in hi-tech was driven by the ramp-up of a large rebadging-led deal. Deal ramp-up will continue into 2QFY26 as well, although majority has already ramped up. HCLT has done well in the BFSI, growing by 6.8% yoy above peers such as TCS. Revenue decline in the manufacturing, life sciences and energy verticals has been absorbed by growth in other verticals. Interestingly, HCLT has managed a yoy revenue growth of 8.2% in the retail vertical—one of the tariff-impacted industries.

**HCLT expects the drop in margin band to be temporary; continues to aspire for 19-20% EBIT margins**

In 1QFY26, the EBIT margin declined 160 bps qoq to 16.3% due to higher personnel costs and 20 bps increase in provisions and write-off expense. Personnel costs (including subcon) increased 130 bps qoq as a percentage of revenue. Personnel costs increased 3.2% qoq on an absolute basis, despite a headcount decline of 269 or 0.1% qoq. The services EBIT margin was at 15.6%, down 150 bps qoq and 100 bps yoy. Services margin is at the lowest level since the metric started being reported from the June 2018 quarter.

HCLT provided the margin bridge for the 1% margin band cut as follows: (1) headwinds of 20 bps due to lower margins in 1QFY26—HCLT likely expected stable margins yoy; margins declined 80 bps yoy in 1QFY26; (2) headwinds of 30 bps from higher sales and marketing expenses; (3) headwinds of 10-20 bps from lower utilization and (4) headwinds of 30-40 bps from restructuring costs.

HCLT expects these costs to be temporary in nature. For example, 20 bps headwinds from lower margins in 1QFY26 were a result of a mismatch of supply and demand, delay in ramp-ups and unexpected ramp-downs, which may not repeat. Investments in sales and marketing and bench can be tightened, if required. Additionally, restructuring will lead to structural cost savings by reducing less utilized onsite locations and onsite headcount.

We believe that while some costs can be temporary, the industry reality is that companies have kept a tight leash on costs in the past 2-3 years due to weak discretionary spending, which is not sustainable. HCLT seems to have loosened some of the tight grip on costs.

**Continues to outperform peers on growth and in a few metrics**

HCLT will once again outperform peers TCS and Infosys on revenue growth. We expect HCLT to grow 3% in FY2026 on organic basis compared with (-)0.1% and 0.6% of TCS ex-BSNL and Infosys, respectively. In addition to revenue growth, HCLT also leads on a few metrics such as (1) lower attrition, (2) lower DSO and (3) healthier conversion to the US\$50 mn and US\$100 mn accounts yoy. Execution on cost take-out deals has been better than peers in recent quarters (we will get a better picture of Infosys' performance after 1QFY26 results). The payout ratio has improved and closer to TCS and Infosys. HCLT now trades at a premium to TCS and Infosys, despite ~10% revenue exposure to the products business, which is valued at a lower multiple than the IT services business.

**Less vulnerable to generative AI-led disruption**

We believe that a good chunk of HCLT's ERD services business and the entire products business to be less impacted by generative AI adoption. Within IT services, HCLT has relatively higher exposure to IMS, which is less impacted. Exposure to custom application development, testing and horizontal BPO is lower than peers. This gives the opportunity to lead with implementing generative AI in these areas to gain share from peers.

**Expect a healthy 2QFY26 both from a revenue growth and deal win perspective**

Revenue growth in 2QFY26 will benefit from (1) residual ramp-up of the large hi-tech deal, (2) ramp-up engineering services large deal and (3) ramp-up of financial services vendor consolidation deal. TCV will also include the financial services large deal and a couple of other large deals, which will likely close in July after a delay in the June quarter.

**Sharp qoq decline in products business**

The products business declined 7.1% qoq and 3% yoy. Software ARR growth was at 1.3% yoy. The yoy revenue decline of 3% is a multi-quarter low. The decline was on account of both license and subscription revenue decline.

**ERD—acquisition aids strong yoy growth**

ERD grew 11.8% yoy and declined 0.5% qoq. Growth numbers are influenced by the CTG acquisition. The decline in automotive ERD services due to weak demand will be more perceptible in the numbers on organic basis. Still, HCLT has a positive outlook on the segment, given healthy pipeline of deals. HCLT will reduce onsite presence in the automotive vertical, given the trend of a demand shift to offshore locations.

### Headcount declines a tad

Net headcount declined by 269 or 0.1% qoq to 223,151. HCLT added 1,984 freshers during the quarter. Attrition declined by 20 bps qoq and was flat yoy at 12.8%.

### Key highlights of earnings call

- ▶ **Fresher hiring.** Will be higher compared with FY2026. 15-20% of the freshers will be hired for the elite category where the salary will be 3X that of normal freshers.
- ▶ **Restructuring.** Locations outside India will be optimized, especially some related to acquisitions. Expect talent ramp-down outside India starting in 2QFY25 and ending in 4QFY26.
- ▶ **Client metrics.** Number of US\$20 mn clients increased by 6 qoq and increased by 11 yoy. The number of US\$50 mn clients increased by 2 qoq and increased by 6 yoy. The number of US\$100 mn clients was flat qoq and yoy.
- ▶ **Dividend.** Board declared a dividend of Rs12/share.

### Revenue declined 0.1% qoq in services business compared with our estimate of a decline of 0.8%

Exhibit 1: HCL Technologies' Jun 2025 quarter financial performance under Ind AS (Rs mn)

	1QFY26	1QFY26E	1QFY25	4QFY25	% chg.			FY2026E	% chg.
					KIE	yoy	qoq		
<b>Revenues (US\$ mn)</b>	<b>3,545</b>	<b>3,546</b>	<b>3,364</b>	<b>3,498</b>	<b>(0.0)</b>	<b>5.4</b>	<b>1.3</b>	<b>14,654</b>	<b>5.9</b>
Revenues	303,490	303,536	280,570	302,460	(0.0)	8.2	0.3	1,261,704	7.8
Cost of Revenues	(201,280)	(205,760)	(187,710)	(197,420)	(2.2)	7.2	2.0	(849,194)	9.1
<b>Gross profit</b>	<b>102,210</b>	<b>97,776</b>	<b>92,860</b>	<b>105,040</b>	<b>4.5</b>	<b>10.1</b>	<b>(2.7)</b>	<b>412,510</b>	<b>5.1</b>
SG&A expenses	(41,860)	(36,583)	(34,920)	(40,220)	14.4	19.9	4.1	(151,331)	10.1
<b>EBITDA</b>	<b>60,350</b>	<b>61,193</b>	<b>57,940</b>	<b>64,820</b>	<b>(1.4)</b>	<b>4.2</b>	<b>(6.9)</b>	<b>261,179</b>	<b>2.5</b>
Depreciation	(10,930)	(8,792)	(9,980)	(10,400)	24.3	9.5	5.1	(43,041)	5.5
<b>EBIT</b>	<b>49,420</b>	<b>52,401</b>	<b>47,960</b>	<b>54,420</b>	<b>(5.7)</b>	<b>3.0</b>	<b>(9.2)</b>	<b>218,138</b>	<b>1.9</b>
Other Income	2,470	4,158	9,120	2,930	(40.6)	(72.9)	(15.7)	13,202	(23.5)
<b>PBT</b>	<b>51,890</b>	<b>56,558</b>	<b>57,080</b>	<b>57,350</b>	<b>(8.3)</b>	<b>(9.1)</b>	<b>(9.5)</b>	<b>231,340</b>	<b>(0.0)</b>
Provision for Tax	(13,450)	(14,422)	(14,480)	(14,260)	(6.7)	(7.1)	(5.7)	(59,182)	1.0
PAT before share of earnings in affiliates	38,440	42,136	42,600	43,090	(8.8)	(9.8)	(10.8)	172,158	(0.4)
Share of income (loss) of equity investees	—	—	—	—	—	—	—	—	—
Minority Interest	(10)	(26)	(20)	(20)	—	—	—	—	—
<b>Net Income (before extraordinary)</b>	<b>38,430</b>	<b>42,110</b>	<b>42,580</b>	<b>43,070</b>	<b>(8.7)</b>	<b>(9.7)</b>	<b>(10.8)</b>	<b>172,158</b>	<b>(0.3)</b>
Extraordinary items	—	—	—	—	—	—	—	—	—
Net income (after extraordinary)	38,430	42,110	42,580	43,070	(8.7)	(9.7)	(10.8)	172,158	(0.3)
<b>Adjusted EPS (Rs/share)</b>	<b>14.2</b>	<b>15.5</b>	<b>15.7</b>	<b>15.9</b>	<b>(8.6)</b>	<b>(9.6)</b>	<b>(10.8)</b>	<b>63.3</b>	<b>(0.4)</b>
<b>Segmental revenues - new (US\$ mn)</b>									
IT and Business Services	2,623	2,594	2,506	2,564	1.1	4.7	2.3	10,743	5.1
Engineering and R&D Services	603	616	535	598	(2.1)	12.7	0.8	2,521	12.5
Products & Platforms	330	336	333	346	(2.0)	(1.0)	(4.8)	1,391	0.9
<b>Margins (%)</b>									
Gross Profit margin	33.7	32.2	33.1	34.7	—	—	—	32.7	—
SG&A as % of revenues	13.8	12.1	12.4	13.3	—	—	—	12.0	—
<b>EBITDA Margin</b>	<b>19.9</b>	<b>20.2</b>	<b>20.7</b>	<b>21.4</b>	—	—	—	<b>20.7</b>	—
EBIT Margin	16.3	17.3	17.1	18.0	—	—	—	17.3	—
Tax rate (as a % of PBT)	25.9	25.5	25.4	24.9	—	—	—	25.6	—
NPM	12.7	13.9	15.2	14.2	—	—	—	13.6	—

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Key changes to estimates, March fiscal year-ends, 2026-28E (Rs mn)

US\$ mn	New			Old			Change (%)		
	2026E	2027E	2028E	2026E	2027E	2028E	2026E	2027E	2028E
Revenues	14,654	15,539	16,569	14,202	15,066	16,105	3.2	3.1	2.9
- IT and Business Services	10,743	11,413	12,187	10,302	10,941	11,761	4.3	4.3	3.6
- ER&D	2,521	2,721	2,963	2,503	2,729	2,947	0.7	(0.3)	0.5
- Products & Platforms	1,391	1,405	1,419	1,397	1,397	1,397	(0.5)	0.5	1.5
Revenue growth yoy (%)	5.9	6.0	6.6	2.6	6.1	6.9			
Revenue growth (c/c %)	4.1	6.0	6.6	3.2	6.1	6.9			
Revenue growth (organic c/c %)	3.0	6.0	6.6	2.1	6.1	6.9			
EBITDA	3,033	3,205	3,408	3,006	3,186	3,415	0.9	0.6	(0.2)
EBIT	2,533	2,730	2,921	2,592	2,763	2,955	(2.3)	(1.2)	(1.2)
Net Income	1,999	2,161	2,316	2,077	2,204	2,367	(3.7)	(1.9)	(2.1)
EBITDA margin (%)	20.7	20.6	20.6	21.2	21.1	21.2			
EBIT	17.3	17.6	17.6	18.2	18.3	18.3			
Re/ US\$ rate	86.1	88.0	90.0	86.6	88.5	90.0			
EPS Rs/ share	63.3	69.9	76.6	66.2	71.7	78.3	(4.3)	(2.5)	(2.1)

Source: Kotak Institutional Equities estimates

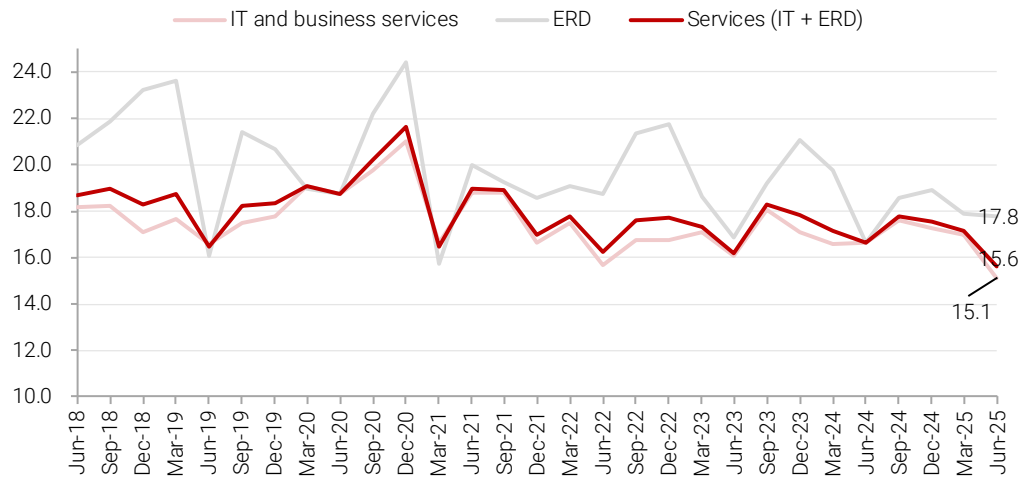
Exhibit 3: Revenue growth across geographies, verticals and service lines (June 2025 quarter)

	Revenues	Growth (%)		Contribution to	C/C growth (%)	
	(US\$ mn)	qoq	yoy	revenues (%)	qoq	yoy
<b>Total revenues</b>	3,545	1.3	5.4	100.0	(0.8)	3.7
<b>Services revenues</b>	3,226	2.0	6.1	91.0	(0.1)	4.5
<b>Geographical split of revenues- (Services)</b>						
USA	1,823	0.4	0.6	56.5		0.5
Europe	913	5.0	15.9	28.3		9.6
India	106	8.6	0.0	3.3		1.3
RoW	384	1.2	14.8	11.9		15.0
<b>Vertical split of revenues- (Services)</b>						
Financial services	697	4.4	9.1	21.6		6.8
Manufacturing	600	2.0	1.7	18.6		(1.0)
Technology&Services	452	6.6	14.2	14.0		13.7
Retail & CPG	313	2.0	9.5	9.7		8.2
Telecom, media, publishing, entertainment	423	(3.9)	13.9	13.1		13.0
Life sciences	468	0.6	(3.3)	14.5		(4.0)
Energy-utilities-public sector	274	0.8	(0.9)	8.5		(2.4)
<b>Service line split of revenues</b>						
IT and Business Services	2,623	2.3	4.7	74.0	-	3.0
Engineering and R&D Services	603	0.8	12.7	17.0	(0.5)	11.8
Products & Platforms	330	(4.8)	(1.0)	9.3	(7.1)	(3.0)
<b>Client concentration (LTM)</b>						
Top 5 clients	1,767	0.5	15.4	12.6		
Top 10 clients	2,832	1.3	7.6	20.2		
Top 20 clients	4,192	(0.4)	3.7	29.9		
Ex top 20	9,829	2.0	4.7	70.1		

Source: Company, Kotak Institutional Equities

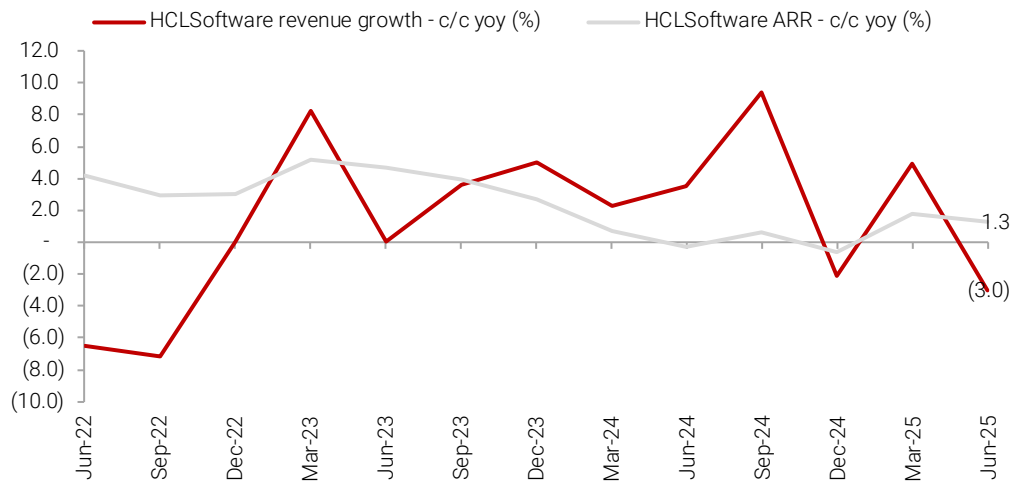
**Services EBIT margin declined by 150 bps qoq and by 100 bps yoy to 15.6%**

**Exhibit 4: Trend in services (IT + ERD) EBIT margin, %, June 2018-June 2025**



Source: Company, Kotak Institutional Equities

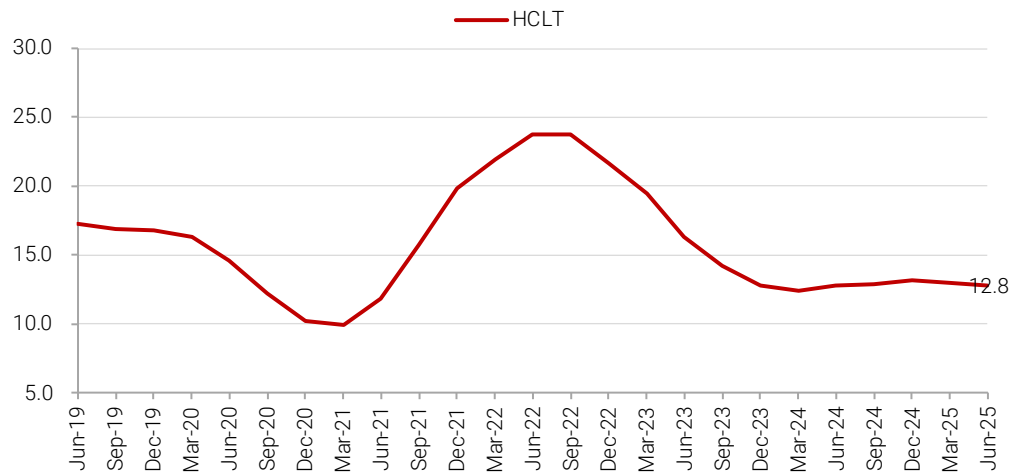
**Exhibit 5: Trend in software revenue growth and ARR growth, %, June 2022-June 2025**



Source: Company, Kotak Institutional Equities

**Voluntary LTM attrition rate declined by 20 bps qoq to 12.8%**

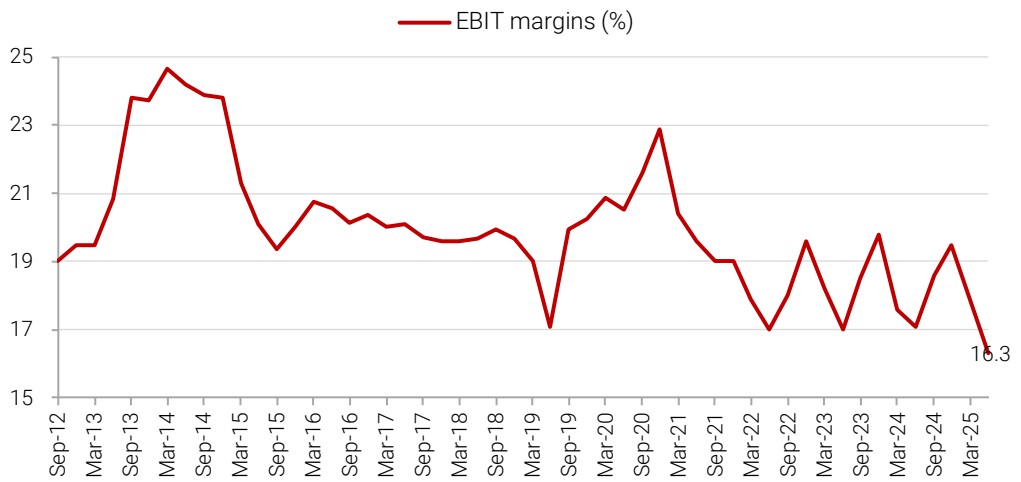
Exhibit 6: Voluntary LTM attrition rate, %, June 2019-June 2025



Source: Company, Kotak Institutional Equities

**Overall EBIT margin declined by 160 bps sequentially and 80 bps yoy to 16.3%**

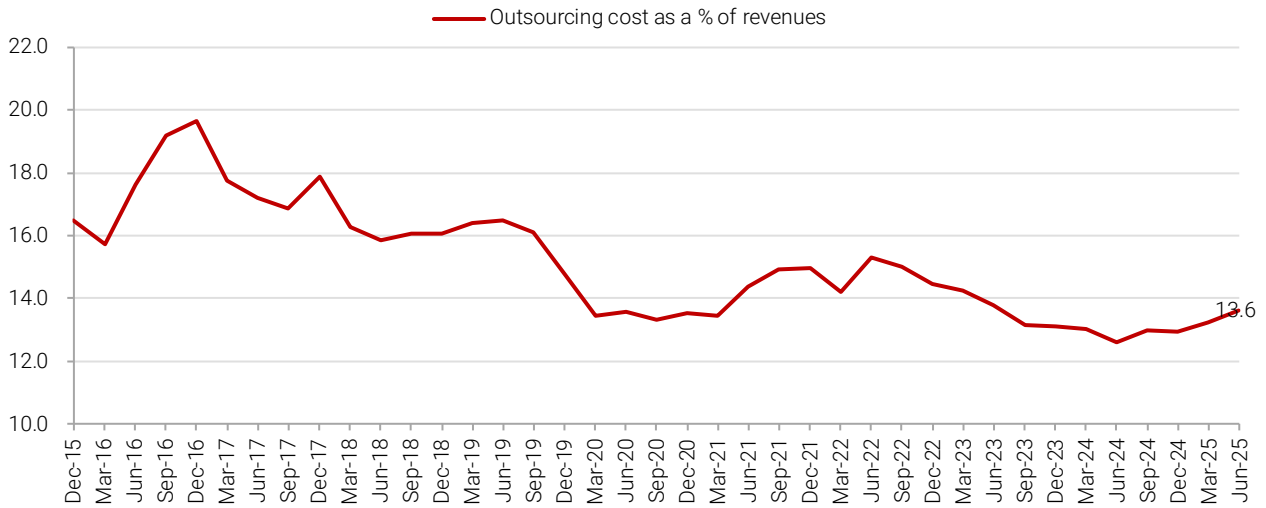
Exhibit 7: EBIT margin, %, September 2012-June 2025



Source: Company, Kotak Institutional Equities

**Outsourcing expenses increase 40 bps qoq to 13.6% of revenue**

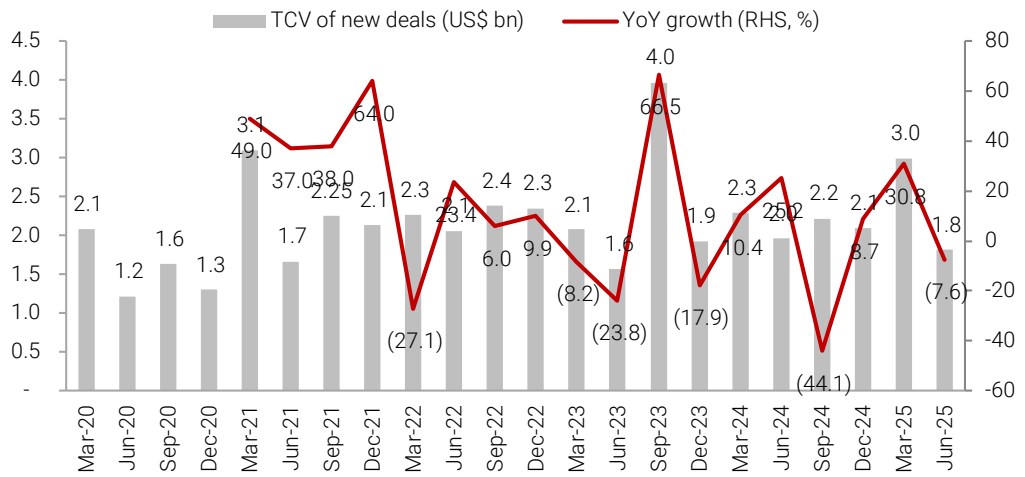
**Exhibit 8: Outsourcing costs (as a % of revenues), December 2015-June 2025**



Source: Company, Kotak Institutional Equities

**New deal TCV declines 39.5% qoq and 7.6% yoy to US\$1.8 bn**

**Exhibit 9: TCV of new deal wins and growth trend (yoy), March 2020-June 2025 (US\$ bn, %)**



Source: Company, Kotak Institutional Equities

**Exhibit 10: Acquisitions and investments announced by HCL Tech in the past 9-10 years**

	Date	Target	Country	Business Description	Consideration (mn)	Sales (mn)
<b>Products</b>						
1	Aug-24	Zeenea	France	Metadata management software providing data catalog and governance solutions	\$26.2	\$2.6
2	May-22	Quest Informatics	US	Aftermarket ERP product provider	\$2.0	\$1.8
3	Jun-20	IP deal	US	IP deal with Temenos for 7 years	\$70.0	NA
4	May-20	Cisco's SON technology	US	Products and services that automate planning, config, optimization etc of radio networks	\$49.5	NA
5	Dec-18	Enterprise software products of IBM	US	7 products from IBM portfolio in areas of security, marketing and commerce. HCLT had strategic IP partnerships with IBM for 5 of the products.	\$1,775.0	\$650.0
6	Jun-18	IP deal	US	IP partnership with Cisco	\$177.0	NA
7	Apr-18	Actian Corporation	US	Hybrid data management, analytics and integration company. HCLT will own 80% of the company with 19.5% with a private equity player	\$330.0	\$107.1
8	Jan-18	3 IP partnerships	US	3 IP partnerships- One with IBM, one with DXC and one with undisclosed global tech firm	\$300.0	\$105.0
9	Oct-17	Strategic IP partnership with IBM (6)	US	Extended IP partnership to include Notes, Domino, Smart Cloud Notes, Verse and Sametime products	\$60.0	\$30.0
10	Sep-17	Datawave	UK	Data management platform	NA	NA
11	Jul-17	Strategic IP partnership with IBM (5)	US	Extended IP partnership to cover marketing automation area	\$140.0	\$30-35
12	Apr-17	Strategic IP partnership with IBM (4)	US	Extended partnership to cover Information management and Database management systems	\$80.0	~\$25
13	Jan-17	Strategic IP partnership with IBM (3)	US	Extended partnership to cover Application security, B2B data transformation, testing automation and Mainframe management tools	\$155.0	\$50.0
14	Oct-16	Strategic IP partnership with IBM (2)	US	Extended IP partnership to cover API/web service enablement of mainframes	\$55.0	\$15.0
15	Jun-16	Strategic IP partnership with IBM (1)	US	To invest in and grow workload automation and DevOps software of a global tech major	\$350.0	\$100.0
<b>Total spend on products</b>					<b>US\$3.6+ bn</b>	<b>US\$1.1+ bn</b>
	Date	Target	Country	Business Description	Consideration (mn)	Sales (mn)
<b>Services</b>						
1	May-24	Select assets of HPE telecom practice	US	Engineering services focused on telecom BSS stack, 1500 employees and 700 contractors largely onsite	\$225.0	~\$200
2	Jul-23	ASAP	Germany	E/E engineering services and software development provider for automotive industry	\$279.7	\$171.9
3	May-22	Confinale	Swiss	Digital banking and wealth management consulting provider based on Avaloq	\$54.1	\$17.9
4	Jan-22	Starschema	Hungary	Data engineering services provider	\$42.5	\$13.6
5	Sep-20	DWS	Australia	IT services	\$118.4	\$122.6
6	Sep-19	Sankalp Semiconductor	India	Advanced technology design services provider in semiconductor space	\$25.7	\$22.0
7	Mar-19	Strong-Bridge Envision	US	Digital consulting firm specialising in customer experience strategy, business transformation and change management.	\$45.0	\$45.0
8	Jun-18	H&D International Group	Germany	Integrated IT and engineering service provider in German automotive industry	\$35.0	\$86.3
9	Apr-18	C3i Solutions (Telere Marketing, Inc.)	US	Multi-channel customer engagement services for the life sciences and CPG verticals	\$65.0	\$199.0
10	Apr-17	Urban Fulfillment Services LLC	US	Mortgage BPO provider with 350 resources in US	\$30.0	\$48.0
11	Oct-16	Butler America Aerospace	US	Provider of engineering and design services to US aerospace and defense customers	\$85.0	\$85.4
12	Apr-16	Geometric (share swap deal)	India	PLM and engineering services	\$195.0	\$135.0
13	Feb-16	Volvo IT AB	Sweden	External IT services arm of Volvo	\$134.9	\$190.0
14	Jan-16	Point to Point (P2P)	UK	Workplace engineering services	\$10.0	\$11.5
15	Nov-15	Arrangement with CSC	US	To operate and expand the existing Core Banking business of CSC	\$53.4	NA
16	Oct-15	Powerteam LLC	US	Professional services for Microsoft Dynamics CRM	\$41.4	\$37.00
17	Oct-15	C2SIS	India	Engineering services firm	\$1.9	NA
18	Aug-15	Trygstad Technical Services Inc	US	Turnkey solutions for a large ISV	\$9.9	NA
<b>Total spend on services</b>					<b>US\$1.4+ bn</b>	<b>US\$1.5+ bn</b>
<b>Total</b>					<b>US\$4.9+ bn</b>	<b>US\$2.5+ bn</b>

**Note:**

- (a) Geometric acquisition is a share-swap deal
- (b) HCLT has paid about US\$330 mn for strategic IP partnership and balance US\$225 mn would be paid over CY2017
- (c) For other acquisitions, the consideration is agreed amount and it includes earnouts

Source: Company, Kotak Institutional Equities

**Exhibit 11: Revenue split across perpetual licenses, subscription and support and professional services in products business**

Revenue (US\$ mn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
Perpetual license upfom & others	46	72	50	36	31	48	32	36	58	49	34	29
Subscription & support	241	304	270	277	267	350	289	282	267	329	295	282
Professional services	17	22	22	19	21	22	21	16	17	21	19	19
<b>Total</b>	<b>304</b>	<b>398</b>	<b>342</b>	<b>333</b>	<b>318</b>	<b>419</b>	<b>342</b>	<b>335</b>	<b>342</b>	<b>400</b>	<b>348</b>	<b>330</b>

Source: Company, Kotak Institutional Equities

**HCLT trades at 23.5X 1-year forward P/E**

**Exhibit 12: HCLT 1-year P/E forward band chart**



Source: Bloomberg consensus estimates

**Exhibit 13: HCLT's quarterly metrics**

	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
Revenues (US\$ mn)	3,235	3,200	3,225	3,415	3,430	3,364	3,445	3,533	3,498	3,545
Services revenues (US\$ mn)	2,908	2,883	2,922	3,009	3,104	3,041	3,114	3,144	3,162	3,226
Revenues (Rs mn)	266,060	262,960	266,720	284,460	284,990	280,570	288,620	298,900	302,460	303,490
Exchange rate	82.3	82.2	82.7	83.3	83.1	83.4	83.8	84.6	86.5	85.6
<b>Geographical mix- (Services)</b>										
Americas	63.8	64.5	64.5	64.5	65.2	66.0	65.1	65.5	63.9	NA
Europe	28.9	28.7	28.5	29.0	28.9	27.9	28.4	28.2	29.2	NA
Asia Pacific	7.3	6.8	7.0	6.4	5.9	6.1	6.5	6.3	6.9	NA
<b>Geographical mix- (Services- new)</b>										
USA						59.6			57.4	56.5
Europe						25.9			27.5	28.3
India						3.5			3.1	3.3
RoW						11.0			12.0	11.9
<b>Revenues by segments (new classification)</b>										
IT and Business Services	73.8	74.7	74.6	71.7	74.4	74.5	74.6	73.0	73.3	74.0
Engineering and R&D Services	16.1	15.4	16.0	16.4	16.1	15.9	15.8	16.0	17.1	17.0
Products & Platforms	10.6	10.4	9.9	12.3	10.0	9.9	9.9	11.3	9.9	9.3
<b>Revenue by vertical- (Services)</b>										
Financial services	21.2	22.6	22.6	21.7	21.6	21.0	20.5	20.3	21.1	21.6
Manufacturing	19.0	19.9	19.3	20.1	20.4	19.4	19.5	19.1	18.6	18.6
Technology & Services	14.4	13.4	13.1	12.8	12.3	13.0	13.1	13.3	13.4	14.0
Retail & CPG	9.0	9.1	9.6	9.6	9.1	9.4	9.6	10.6	9.7	9.7
Telecom, media, publishing, entertainment	8.8	7.6	8.0	9.7	11.5	12.2	12.1	12.3	13.9	13.1
Life sciences	17.5	17.5	17.5	16.4	16.3	15.9	16.0	15.5	14.7	14.5
Energy-utilities-public sector	10.2	10.0	9.9	9.7	8.8	9.1	9.2	8.9	8.6	8.5
<b>Number of million dollar clients (LTM)</b>										
100 Million dollar +	19	20	20	20	22	22	22	22	22	22
50 Million dollar +	46	48	49	49	46	48	52	53	52	54
20 Million dollar +	131	127	132	132	137	133	137	136	138	144
10 Million dollar +	229	237	243	250	254	256	251	248	251	255
5 Million dollar +	375	390	402	401	395	404	402	398	399	402
1 Million dollar +	939	947	971	958	951	951	952	952	948	956
<b>Client contribution to revenue (after select IBM products' acquisition)</b>										
Top 5 clients	10.1	9.8	9.8	9.8	10.4	11.4	12.1	12.6	12.7	12.6
Top 10 clients	17.7	17.2	17.2	17.7	18.8	19.6	20.1	20.3	20.2	20.2
Top 20 clients	27.8	27.2	27.3	28.0	29.0	30.1	30.8	30.9	30.4	29.9
<b>Deal win TCV (US\$ mn)</b>										
Net new deal wins	2,074	1,565	3,969	1,927	2,290	1,960	2,228	2,095	2,995	1,812
<b>Manpower details</b>										
Consolidated manpower	225,944	223,438	221,139	224,756	227,481	219,401	218,621	220,755	223,420	223,151
Total gross addition	NA	NA	NA	NA	NA					
Total net addition	3,674	(2,506)	(2,299)	3,617	2,725	(8,080)	(780)	2,134	2,665	(269)
Technical	211,445	209,066	206,745	210,417	213,059	205,197	204,600	206,517	209,182	208,970
Sales & support	14,499	14,372	14,394	14,339	14,422	14,204	14,021	14,238	14,238	14,181
Freshers added	3,674	1,597	3,630	3,818	3,096	1,078	2,932	2,014	1,805	1,984
Attrition - IT services (%) (a)	19.5	16.3	14.2	12.8	12.4	12.8	12.9	13.2	13.0	12.8

**Note:**

(a) Attrition excludes involuntary and digital process operations

Source: Company, Kotak Institutional Equities

**We expect HCLT to grow revenue at 3% in FY2026E organically**
**Exhibit 14: Key model assumptions, March fiscal year-ends, 2020-2028E**

	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
INR/USD rate	71.1	74.1	74.6	80.6	82.8	84.6	86.1	88.0	90.0
<b>Revenues (US\$ mn)</b>	<b>9,936</b>	<b>10,175</b>	<b>11,481</b>	<b>12,586</b>	<b>13,270</b>	<b>13,840</b>	<b>14,654</b>	<b>15,539</b>	<b>16,569</b>
IT and business services	7,135	7,207	8,276	9,182	9,798	10,221	10,743	11,413	12,187
% growth	10.7	1.0	14.8	10.9	6.7	4.3	5.1	6.2	6.8
Engineering and R&D services	1,661	1,558	1,818	2,085	2,122	2,241	2,521	2,721	2,963
% growth	12.4	(6.2)	16.7	14.7	1.8	5.6	12.5	7.9	8.9
Products and platforms	1,140	1,410	1,387	1,319	1,350	1,378	1,391	1,405	1,419
% growth	60.3	23.7	(1.6)	(4.9)	2.4	2.1	0.9	1.0	1.0
% growth (overall)	15.1	2.4	12.8	9.6	5.4	4.3	5.9	6.0	6.6
<b>C/c revenue growth (%)</b>	<b>16.7</b>	<b>1.1</b>	<b>12.7</b>	<b>13.7</b>	<b>4.9</b>	<b>4.7</b>	<b>4.1</b>	<b>6.0</b>	<b>6.6</b>
C/c revenue growth (organic %)	10.1	0.1	12.6	13.4	3.9	4.1	3.0	6.0	6.6

Source: Company, Kotak Institutional Equities estimates

Exhibit 15: Condensed consolidated US GAAP financials for HCL Technologies, March fiscal year-ends, 2020-28E (Rs mn)

	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
<b>Profit model</b>									
Revenues	706,780	753,786	856,513	1,014,560	1,099,155	1,170,567	1,261,704	1,367,409	1,491,192
<b>EBITDA</b>	<b>166,792</b>	<b>208,075</b>	<b>205,157</b>	<b>226,306</b>	<b>241,959</b>	<b>254,929</b>	<b>261,179</b>	<b>282,005</b>	<b>306,738</b>
Depreciation (incl amortization of intangibles)	(28,399)	(46,153)	(43,270)	(41,596)	(41,680)	(40,803)	(43,041)	(41,727)	(43,870)
<b>EBIT</b>	<b>138,393</b>	<b>161,921</b>	<b>161,888</b>	<b>184,710</b>	<b>200,279</b>	<b>214,126</b>	<b>218,138</b>	<b>240,278</b>	<b>262,868</b>
Other income	1,798	4,149	7,460	10,079	9,397	17,258	13,202	15,030	16,947
<b>Pretax profits</b>	<b>140,190</b>	<b>166,070</b>	<b>169,348</b>	<b>194,788</b>	<b>209,675</b>	<b>231,384</b>	<b>231,340</b>	<b>255,308</b>	<b>279,816</b>
Tax	(29,354)	(36,197)	(34,317)	(46,497)	(52,523)	(58,578)	(59,182)	(65,103)	(71,353)
Minority interest	(316)	(237)	(239)	25	(83)	(101)	-	-	-
<b>Profit after tax</b>	<b>110,521</b>	<b>129,636</b>	<b>134,792</b>	<b>148,316</b>	<b>157,070</b>	<b>172,704</b>	<b>172,158</b>	<b>190,204</b>	<b>208,463</b>
Extraordinary items	-	(18,069)	-	-	-	-	-	-	-
<b>Diluted earnings per share (Rs)</b>	<b>40.8</b>	<b>47.8</b>	<b>49.7</b>	<b>54.7</b>	<b>57.9</b>	<b>63.6</b>	<b>63.3</b>	<b>69.9</b>	<b>76.6</b>
Dividend per share (Rs)	5.0	26.0	44.0	48.0	52.0	60.0	58.0	60.0	60.0
<b>Balance sheet</b>									
Total equity	485,524	607,177	609,503	641,839	677,964	689,146	716,025	758,877	821,287
Deferred taxation liability	824	1,482	1,119	1,612	7,703	15,985	16,272	16,632	17,010
Total borrowings	47,869	39,560	39,241	22,088	23,192	22,667	23,074	23,584	24,120
Minority interest	5,348	1,630	895	(81)	83	169	172	176	180
Other non-current liabilities	41,296	48,079	41,479	42,241	57,567	60,897	62,248	63,624	65,070
Current liabilities	201,477	175,427	184,268	208,868	224,718	255,512	248,705	266,575	287,387
<b>Total liabilities and equity</b>	<b>782,339</b>	<b>873,355</b>	<b>876,506</b>	<b>916,567</b>	<b>991,227</b>	<b>1,044,376</b>	<b>1,066,496</b>	<b>1,129,469</b>	<b>1,215,054</b>
Cash	78,839	139,126	154,054	170,012	210,802	226,078	232,541	268,205	321,231
Other current assets	216,709	239,804	268,047	309,472	317,570	330,448	363,928	394,418	430,122
Goodwill and intangible assets	276,585	294,773	267,450	264,087	270,937	283,507	267,933	257,136	247,230
Tangible fixed assets	83,379	84,750	79,228	76,018	78,606	75,021	81,059	85,651	89,233
Investments	66,422	69,563	62,517	53,930	70,903	74,852	76,196	77,880	79,650
Other non-current assets	60,407	45,338	45,209	43,047	42,409	54,469	44,839	46,179	47,588
<b>Total assets</b>	<b>782,339</b>	<b>873,355</b>	<b>876,506</b>	<b>916,567</b>	<b>991,227</b>	<b>1,044,376</b>	<b>1,066,496</b>	<b>1,129,469</b>	<b>1,215,054</b>
<b>Free cash flow</b>									
Operating cash flow, excl. working capital	114,907	199,555	161,515	182,765	226,830	222,611	173,904	206,481	223,038
Working capital changes	(21,467)	26,003	(9,176)	(6,288)	27,085	10,149	(28,076)	(10,420)	(12,347)
Capital expenditure	(18,369)	(17,557)	(15,592)	(14,430)	(10,188)	(10,826)	(27,074)	(27,807)	(29,756)
Acquisitions	(65,450)	(76,305)	(4,103)	(7,416)	(20,459)	(13,448)	-	-	-
Other income	1,798	5,852	4,849	4,595	7,620	13,194	13,199	15,030	16,947
<b>Free cash flow</b>	<b>11,419</b>	<b>137,548</b>	<b>137,493</b>	<b>159,226</b>	<b>230,889</b>	<b>221,680</b>	<b>131,952</b>	<b>183,283</b>	<b>197,883</b>
<b>Key assumption and ratios (%)</b>									
<b>US\$ revenue growth (b)</b>	<b>15.1</b>	<b>2.4</b>	<b>12.8</b>	<b>9.6</b>	<b>5.4</b>	<b>4.3</b>	<b>5.9</b>	<b>6.0</b>	<b>6.6</b>
EBITDA margin	23.6	27.6	24.0	22.3	22.0	21.8	20.7	20.6	20.6
<b>EBIT margin</b>	<b>19.6</b>	<b>21.5</b>	<b>18.9</b>	<b>18.2</b>	<b>18.2</b>	<b>18.3</b>	<b>17.3</b>	<b>17.6</b>	<b>17.6</b>

Source: Company, Kotak Institutional Equities estimates