HCL TECHNOLOGIES LIMITED

Muted Q4 performance; conservative FY27 outlook amid demand weakness

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HCL Technologies Ltd (HCL) reported a soft FY26 performance alongside a muted quarterly print, highlighting persistent demand-side pressures and margin volatility owing to restructuring costs. Q4 FY26 revenue stood at USD 3.68bn, declining 3.3% QoQ while growing 2.4% YoY in constant currency (CC) terms, impacted by continued weakness in discretionary spending across key verticals, cautious client behavior, and slower deal ramp-ups. EBIT margins contracted 200bps QoQ to 16.5%, below expectations, driven by an unfavorable revenue mix, restructuring costs and ongoing investments in capabilities. Deal momentum remained weak, with new TCV at USD 1.9bn, sharply lower by ~36%/35% QoQ/YoY, reflecting a subdued demand environment. On the strategic front, HCL continues to scale its AI capabilities (USD 620mn ARR); however, management indicated a 2–3% deflationary impact from GenAI on traditional services due to pricing compression. Reflecting these headwinds, FY27 guidance remains conservative at 1–4% CC revenue growth (Services: 1.5–4.5%) with EBIT margins of 17.5–18.5%, suggesting no improvement in demand near future and a gradual recovery trajectory. Factoring in the combined impact of AI-led disruption, sustained weakness in discretionary spending, deflationary pressures from GenAI, and heightened geopolitical uncertainties, we moderate our growth and margin assumptions, leading to a valuation cut with a revised TP of ₹1,560, based on 20x FY28E EPS, while maintaining our BUY rating on HCL.

Vertical Trends: Technology Outperforms While Telecom Remains a Key Drag

Vertical performance remained mixed in Q4FY26, with most segments registering YoY growth in CC terms. Growth was led by Technology & Services (+17.8% YoY) and Public Services (+10% YoY), followed by Financial Services (+4.3% YoY), Retail & CPG (+3.5% YoY), and Manufacturing (+3.3% YoY), while Lifesciences & Healthcare declined 1.6% YoY and Telecom, Media & Entertainment fell 8.6% YoY. Telecom remained the key drag due to discretionary spend cuts by two large US clients, impacting growth by ~1%, with weakness likely to persist. Additionally, client-specific issues in Manufacturing and Retail, along with SAP program ramp-downs, are expected to create an estimated ~50bps headwind in FY27E. Software segment declined sharply (down 28% QoQ and 14.1% YoY) due to seasonality and delayed deal closures, keeping overall growth visibility subdued.

Key Financials (₹ bn)	FY24	FY25	FY26	FY27E	FY28E
Sales	1,099	1,171	1,301	1,408	1,504
EBIT Margin (%)	18.2	18.3	17.2	17.7	17.7
PAT	199	215	217	238	255
EPS (INR)	57.9	64.1	67.6	71.6	76.5
EPS Gr.(%)	5.6	10.8	5.4	6.0	6.8
BV/Sh.(INR)	252	257	278	282	287
RoE (%)	23.5	25.2	24.0	25.6	26.9
RoCE (%)	25.1	25.1	24.9	25.4	26.5
Payout (%)	89.7	93.5	75.0	80.0	80.0
P/E (x)	22.2	20.0	19.0	17.9	16.8
P/BV (x)	5.1	5.0	4.6	4.6	4.5
EV/EBITDA (x)	12.3	11.8	11.2	10.3	9.7
Div. Yield (%)	4.0	4.7	3.7	4.5	4.8

BUY

Current Market Price (₹)	1,285
12M Price Target (₹)	1,560
Potential Return (%)	21

Stock Data		
Sector	:	Information Technology
Face Value (₹)	:	2
Total MCap (₹ bn)	:	3,491
Free Float MCap (₹ bn)	:	1,354
52-Week High / Low (₹)	:	1,780 / 1,281
BSE Code / NSE Symbol	:	532281 / HCLTECH
Bloomberg	:	HCLT IN
Sensex / Nifty	:	24,378 / 78,516

Shareholding Pattern

(%)	Mar-26	Dec-25	Sep-25	Jun-25
Promoter	60.86	60.81	60.81	60.81
FPIs	15.51	16.22	16.64	18.56
MFs	9.22	9.07	9.20	8.44
Insurance	8.38	8.04	7.52	6.75
Others	6.03	5.86	5.83	5.44

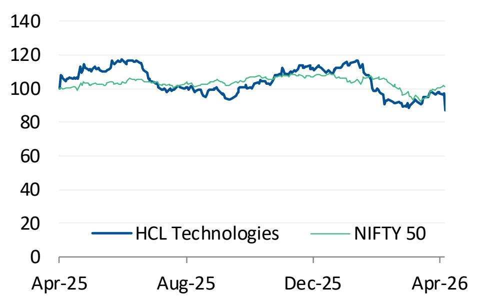
Source: BSE

Price Performance

(%)	1M	3M	6M	12M
HCLTECH	-5.4	-24.5	-13.5	-13.2
Nifty 50	8.3	-3.6	-5.8	0.9

** To date / current date : April 22, 2026*

HCLTECH vs Nifty 50



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Modest Growth for FY26 with a weak Deal Momentum

For FY26, HCL Technologies reported 3.9% CC YoY revenue growth with EBIT margins at 17.2% (down 110bps YoY). Services grew 4.8% YoY, led by strong ER&D performance (+9.8% YoY), partially offset by a 4.1% CC YoY decline in the Software segment. Software revenue stood at USD 1.4bn, with ARR at USD 1.05bn, as the segment continues to transition from perpetual licensing to a more stable subscription-led model. Deal momentum remained subdued, with FY26 TCV at USD 9.3bn (vs. USD 9.26bn in FY25) and a weak Q4 print of USD 1.9bn. Headcount increased marginally to 227,181, while attrition improved to 12.5% (vs. 13.0% in FY25), indicating better workforce stability.

Outlook and Valuation: Gradual Recovery; Maintain BUY

We expect HCL to see a gradual recovery over FY27E–FY28E, led by AI-led deal traction and improving discretionary spend, though near-term growth remains constrained by telecom weakness, client-specific headwinds, and GenAI-driven pricing pressure. We have factored in a weak demand environment and estimate revenue to grow at a CAGR of 4.7% over FY26–28E, with EBIT margins in the range of 17.5–18% and INR EPS CAGR of 9.4% over the same period. We value the stock at 20x FY28E EPS, with a revised TP of ₹1,560, while maintaining our BUY rating.

Quarterly Financial Snapshot

YE Mar (₹ bn)	4QFY26	3QFY26	% ch qoq	4QFY25	% ch yoy
QoQ CC	-3.3%	4.2%	-	-0.8%	-
Revenue (USD M)	3,682	3,793	*-2.9%*	3,498	*5.3%*
USD/INR	92.28	89.34	*3.3%*	86.45	*6.7%*
Sales	340	339	*0.3%*	302	*12.3%*
EBITDA	67	74	*-9.7%*	65	*3.3%*
EBITDA margin (%)	*19.7%*	*21.9%*	*-220 bps*	*21.4%*	*-170 bps*
EBIT	56	63	*-10.8%*	54	*3.0%*
EBIT margin (%)	*16.5%*	*18.6%*	*-210 bps*	*18.0%*	*-150 bps*
APAT	45	48	*-6.7%*	43	*3.9%*
EPS (₹)	16.5	17.7	*-6.8%*	15.9	*3.9%*

Source: Company, LKP Research

Q4 FY26 Earnings Call Highlights

- **Q4 revenue decline driven by specific factors:** Revenue came in at ~USD 3.7bn, down ~3.3% QoQ, largely due to seasonal weakness in the software business, ramp-down of two SAP programs, and lower discretionary spends from two large US telecom clients.
- **FY26 performance resilient amid macro:** Full-year revenue grew ~3.9% CC to USD 14.7bn, with EBIT margin at ~17.2% (17.9% excluding restructuring), reflecting stable execution despite a weak demand environment.
- F**Y27 guidance remains conservative:** Management guided for 1–4% CC growth, with services expected at 1.5–4.5% and EBIT margin in the 17.5–18.5% band, indicating cautious near-term outlook.
- **Client-specific headwinds to persist:** Two North American clients (manufacturing and retail) expected to create ~50 bps growth drag in FY27 due to company-specific issues rather than broad-based demand weakness.
- **AI-first strategy gaining prominence:** HCL is pivoting toward a five-pillar AI strategy—transforming existing services, building proprietary platforms (AI Force), expanding into new areas like "physical AI," strengthening partnerships, and scaling AI talent.
- **Clear segmentation of AI opportunity:** Management classified market into AI-disrupted (declining legacy services), AI-amplified (cloud, cyber growing ~10%+), and AI-native segments (AI factories, advanced engineering growing ~30%), with focus on leading in AI-native.
- **Strong AI deal wins and pipeline:** Secured a USD 100mn+ AI factory deal (AI data center design & operations) and AI engineering deals in semiconductor space, highlighting traction in next-gen services.
- **AI-led efficiency impacting deal value:** "AI deflation" visible—same outcomes now require lower contract values, implying ~20–30% higher effort needed to convert pipeline into comparable TCV.
- **Platform-led delivery scaling up:** AI Force deployed across ~75 accounts, improving productivity, automation, and delivery agility across client engagements.
- **Internal transformation underway:** Initiatives like "Lumi" (enterprise AI assistant) and Talent Navigator are driving a shift toward an autonomous, zero-friction enterprise model.
- **Workforce upskilling at scale:** ~135k employees trained in GenAI, including ~11k AI builders and ~700 specialists ("black belts"), positioning the firm for AI-led demand.
- **Targeted acquisitions to build capabilities:** Acquisitions like Finergic (wealth consulting) and WBI (data intelligence) aimed at strengthening BFSI and software/data capabilities.

Revenue segment wise

Revenue (%)	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	4QFY26
IT and Business Services	74.4%	74.5%	74.6%	73.0%	73.3%	74.0%	74.2%	72.3%	**75.0%**
Engineering and R&D Services	16.2%	15.9%	15.8%	16.0%	17.1%	17.0%	17.0%	16.8%	**17.0%**
Software	9.8%	9.9%	9.9%	11.3%	9.9%	9.3%	9.1%	11.2%	**8.3%**

Source: Company, LKP Research

Revenue geography wise

Revenue (%)	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	4QFY26
USA	65.2%	59.6%	58.5%	65.5%	57.4%	56.5%	56.2%	56.3%	**56.3%**
Europe	28.9%	25.9%	26.7%	28.2%	27.5%	28.3%	28.3%	27.7%	**27.1%**
India	0.0%	3.5%	3.5%	0.0%	3.1%	3.3%	3.2%	3.3%	**2.9%**
ROW	5.9%	11.0%	11.3%	6.3%	12.0%	11.9%	12.3%	12.8%	**13.7%**

Source: Company, LKP Research

Revenue vertical wise

Revenue (%)	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	4QFY26
Financial Services	21.6%	21.0%	20.5%	20.3%	21.1%	21.6%	21.7%	21.1%	**21.4%**
Retail	9.1%	9.4%	9.6%	10.6%	9.7%	9.7%	9.6%	9.9%	**9.7%**
Communications	11.5%	12.2%	12.1%	12.3%	13.9%	13.1%	12.7%	12.5%	**12.1%**
Energy, Utilities, Resources and Services	8.8%	9.1%	9.2%	8.9%	8.6%	8.5%	8.9%	9.1%	**9.2%**
Manufacturing	20.4%	19.4%	19.5%	19.1%	18.6%	18.6%	18.3%	18.8%	**18.6%**
Hi Tech	12.3%	13.0%	13.1%	13.3%	13.4%	14.0%	14.0%	14.2%	**14.8%**
Life Sciences	16.3%	15.9%	16.0%	15.5%	14.7%	14.5%	14.7%	14.4%	14.2%

Source: Company, LKP Research

Client (% of revenues)

Client	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	4QFY26
Top client	10.4%	11.4%	12.1%	12.6%	12.7%	12.6%	12.4%	12.2%	**11.9%**
Top 5 client	18.8%	19.6%	20.1%	20.3%	20.2%	20.2%	19.9%	19.7%	**19.1%**
Top 10 client	29.0%	30.1%	30.8%	30.9%	30.4%	29.9%	29.5%	29.1%	**28.5%**

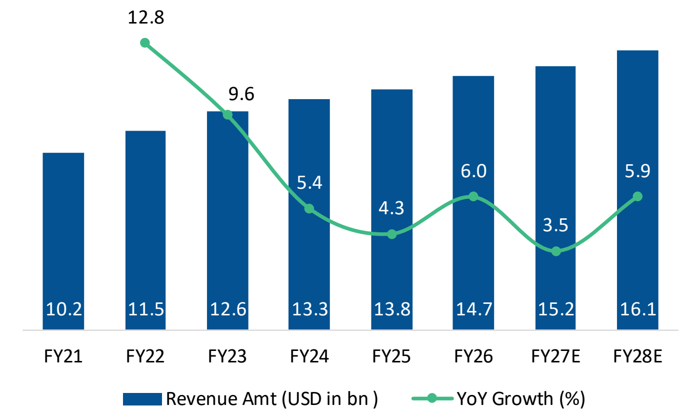
Source: Company, LKP Research

Revenue buckets

Clients	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	4QFY26
Million $ clients	951	951	952	952	948	956	954	968	**976**
5 Million $ clients	395	404	402	398	399	402	406	421	**429**
10 Million $ clients	254	256	251	248	251	255	258	268	**277**
20 Million $ clients	137	133	137	136	138	144	151	151	**149**
50 Million $ clients	46	48	52	53	52	54	54	56	**60**
100 Million $ clients	22	22	22	22	22	22	22	23	**23**

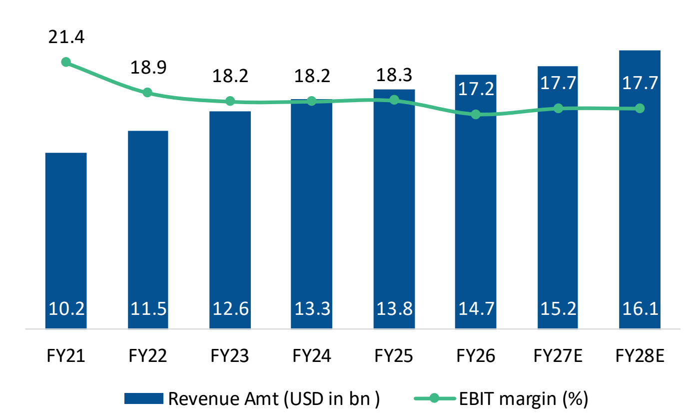
Source: Company, LKP Research

Revenue & Growth



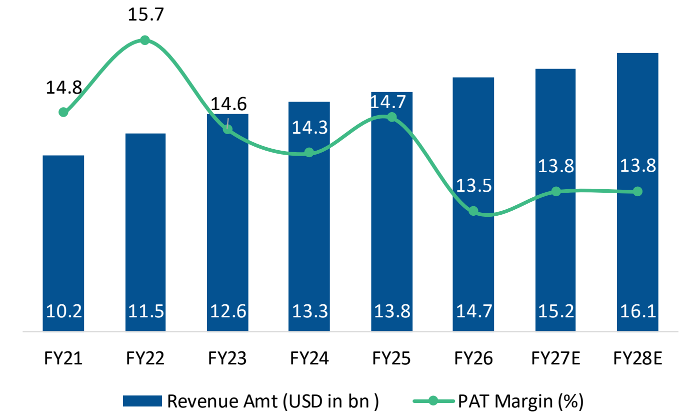
Source: Company, LKP Research

Revenue Vs EBIT margin



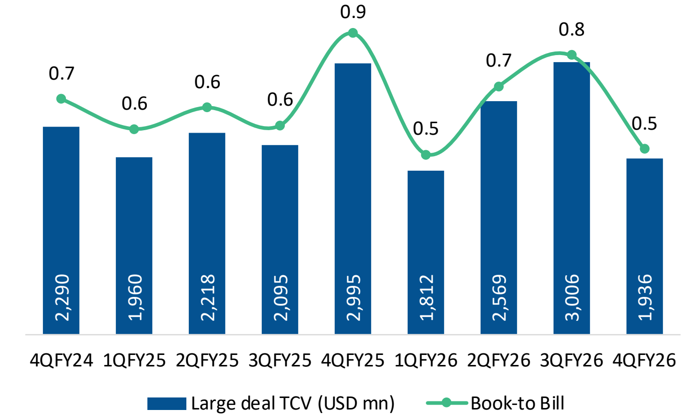
Source: Company, LKP Research

Revenue Vs PAT margin



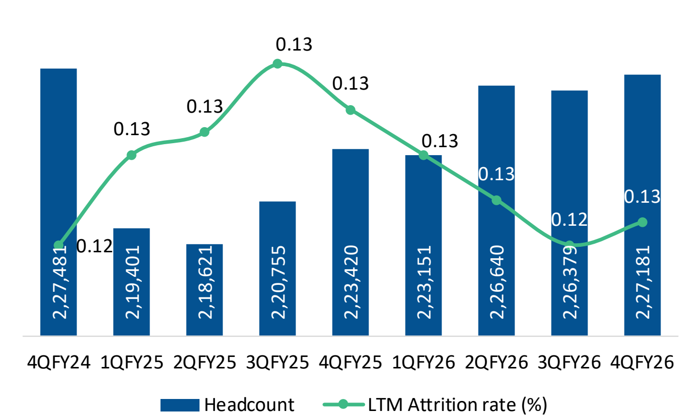
Source: Company, LKP Research

Deal momentum weak



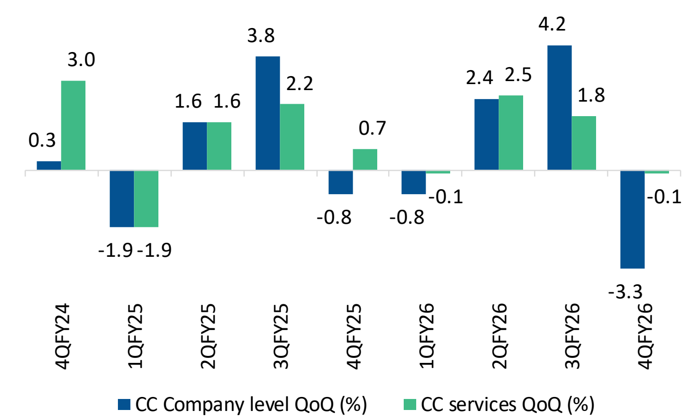
Source: Company, LKP Research

LTM decreasing with steady headcount



Source: Company, LKP Research

CC revenue growth



Source: Company, LKP Research

Income Statement

(₹ bn)	FY24	FY25	FY26	FY27E	FY28E
Sales	**1,099**	**1,171**	**1,301**	**1,408**	**1,504**
Change (%)	*8.3*	*6.5*	*11.2*	*8.2*	*6.8*
EBITDA	**284**	**296**	**311**	**337**	**360**
% of Net Sales	*25.8*	*25.3*	*23.9*	*23.9*	*24.0*
Depreciation	42	41	44	44	47
EBIT	**200**	**214**	**224**	**249**	**266**
% of Net Sales	*18.2*	*18.3*	*17.2*	*17.7*	*17.7*
Other Income	9	18	7	14	15
PBT	**251**	**273**	**274**	**307**	**328**
Tax	53	59	57	68	73
Rate (%)	*20.9*	*21.4*	*20.8*	*22.2*	*22.2*
Minority Interest	0	0	0	0	0
Adjusted PAT	**199**	**215**	**217**	**238**	**255**
Extraordinary Items	0	0	-10	0	0
Reported PAT	**199**	**215**	**227**	**238**	**255**
Change (%)	*4.6*	*8.0*	*5.6*	*5.1*	*7.0*

Source: Company, LKP Research

Balance Sheet

(₹ bn)	FY24	FY25	FY26	FY27E	FY28E
Share Capital	5	5	5	5	5
Reserves	677	691	746	759	773
Net Worth	**683**	**697**	**752**	**764**	**778**
Capital Employed	**748**	**774**	**844**	**864**	**885**
Net Block	**352**	**362**	**374**	**352**	**327**
Investments	53	72	83	89	94
Curr. Assets	**593**	**621**	**705**	**761**	**848**
Debtors	255	258	315	340	363
Cash & Bank Balance	94	82	83	140	251
Investments	185	215	70	70	70
Other Current Assets	58	65	238	211	165
Current Liab. & Prov	**249**	**281**	**319**	**337**	**384**
Net Current Assets	**344**	**340**	**387**	**424**	**464**
Application of Funds	**748**	**774**	**844**	**864**	**885**

Source: Company, LKP Research

Key Ratios

YE Mar	FY24	FY25	FY26	FY27E	FY28E
Basic (INR)					
EPS	57.9	64.1	67.6	71.6	76.5
Cash EPS	88.6	94.2	99.7	104.1	111.4
Book Value	252.1	256.9	277.6	282.3	287.3
DPS	52.0	60.0	48.0	57.3	61.2
Payout %	89.7	93.5	75.0	80.0	80.0
Valuation (x)					
P/E	22.2	20.0	19.0	17.9	16.8
Cash P/E	14.5	13.6	12.9	12.3	11.5
EV/EBITDA	12.3	11.8	11.2	10.3	9.7
EV/Sales	3.2	3.0	2.7	2.5	2.3
Price/Book Value	5.1	5.0	4.6	4.6	4.5
Dividend Yield (%)	4.0	4.7	3.7	4.5	4.8
Profitability Ratios (%)					
RoE	23.5	25.2	24.0	25.6	26.9
RoCE	25.1	25.1	24.9	25.4	26.5
Turnover Ratios					
Debtors (Days)	85	81	88	88	88
Fixed Asset Turnover (x)	3.1	3.2	3.5	4.0	4.6

Source: Company, LKP Research

Cash Flow

(₹ bn)	FY24	FY25	FY26	FY27E	FY28E
CF from Operations	244	255	256	238	255
Cash for Working Capital	-19	-32	-56	24	40
Net Operating CF	**224**	**223**	**200**	**262**	**295**
Net Purchase of FA	-10	-11	-14	-21	-23
Free Cash Flow	**214**	**212**	**186**	**241**	**273**
Net Purchase of Invest.	-57	-38	-1	0	0
Net Cash from Invest.	**-67**	**-49**	**-15**	**-21**	**-23**
Proceeds from Equity	0	0	0	0	0
Others	-14	-23	-48	-1	31
Dividend Payments	-141	-163	-146	-182	-194
Buyback of shares	0	0	0	0	0
Cash Flow from Fin.	**-155**	**-186**	**-194**	**-183**	**-163**
Net Cash Flow	**3**	**-12**	**-9**	**58**	**110**
Effect of forex on cash flow	1	0	9	0	0
Opening Cash Bal.	**91**	**94**	**82**	**83**	**140**
Add: Net Cash	4	-12	0	58	110
Closing Cash Bal.	**94**	**82**	**83**	**140**	**251**

Source: Company, LKP Research

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