

HCL Technologies

AI-led services momentum & margin expansion strengthen conviction; upgrade to BUY

HCLT delivered a strong Q2FY27, with revenue growing 2.3% q/q cc (1.3% organic), led by Services (92% mix; +3.0% q/q cc; +2.3% organic). Advanced AI revenue scaled to \$219mn (+28.4% q/q; +78% y/y cc; ~6% of revenue). New deal TCV surged to \$3.25bn (+26.8% y/y), with LTM bookings of \$10.6bn (+12% y/y), strengthening FY28 growth visibility. FY27 cc revenue guidance was revised to 2.5-4.0% (earlier: 1-4%) and Services to 3-4% (earlier: 1.5-4.5%), including 87bps/62bps inorganic contributions, leaving the organic guidance midpoint broadly unchanged. EBIT margin expanded 131bps q/q to 18.2%, with FY27 guidance maintained at 17.5-18.5%. We upgrade HCLT to BUY from HOLD, driven by accelerating margin-accretive AI monetisation, its Anthropic Global Premier partnership, robust deal wins and improving operating efficiencies, which strengthen our confidence in medium-term growth and profitability despite near-term macro uncertainty.

Advanced AI Monetisation. Advanced AI revenue annualised run-rate reached \$876mn with Agentic AI crossing \$100mn in qtrly revenue & AI Factory growing 64% q/q. Monetisation is increasingly extending beyond traditional effort-based services towards proprietary IP, platforms and outcome-led engagements. AI Force is now being separately monetised in several large deals, supporting a potentially more scalable revenue model. AI ecosystem partnerships with emerging as deal-origination channels, with two of the largest Advanced AI wins being single-sourced through partners. We believe the combination of IP, ecosystem access and deployment capabilities offers a differentiated route to capturing enterprise AI spending, although the sustainability of superior margins will depend on the evolving services-IP mix.

Software Weakness Masks a More Stable Underlying Business. Software revenue declined 11.2% y/y cc as multi-year licence revenue fell to \$39mn (vs. \$81mn y/y). However, the divergence between 7.8% ARR growth and declining reported revenue largely reflects the timing of multi-year licence recognition and the Jaspersoft acquisition. Organic ARR growth of 2.6% shows that the underlying business growth is modest, & recent margin improvement is partly cost-led. A more convincing recovery requires a sustained acceleration in organic ARR & stronger translation into reported revenue.

Outlook & Valuation: We have revised our FY27/28/29e revenue and EPS estimates by -0.1/+1.2/+1.2% and +2.8/+3.5/+2.0%, respectively with FY27-29e adj. EPS CAGR of 7.2% and arrive at a TP of Rs1,435, implying a ~17% upside from CMP. At CMP, the stock trades at FY28/29e P/E of 15.1x/14.1x.

Risks: Continued discretionary spending pressure at 2 large telecom clients & manufacturing clients; AI-driven productivity deflation outpacing incremental AI monetisation; Slower organic software growth; and continued reinvestment in AI capabilities, IP and talent limiting sustained margin expansion.

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Rating: **BUY**

Target Price (12-mnth): Rs.1,435

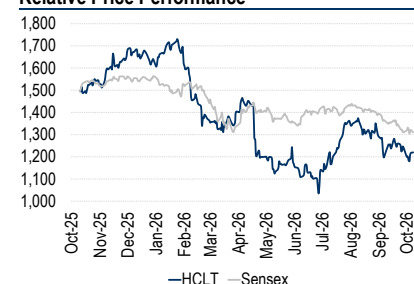
Share Price: Rs.1,223

Key Data	HCLT IN / HCLT.BO
52-week high / low	Rs1770 / 1030
Sensex / Nifty	71925 / 22363
Market cap	Rs3292bn
Shares outstanding	2706m

Shareholding Pattern (%)	Jun'26	Mar'26	Dec'25
Promoters	60.9	60.9	60.8
- of which, Pledged	-	-	-
Free float	39.2	39.2	39.2
- Foreign institutions	14.9	15.5	16.2
- Domestic institutions	19.0	19.0	18.4
- Public	5.2	4.6	4.6

Estimates Revision (%)	FY27e	FY28e	FY29e
Sales (\$)	-0.1	1.2	1.2
Adj. EBIT	2.6	3.5	2.7
Adj. PAT	2.8	3.5	2.0

Relative Price Performance



Source: Bloomberg

Sushovon Nayak
Research Analyst

Apoorva Khandelwal
Research Associate

Quick Glance – Financial and Valuations (Consolidated)

Fig 1 – Income Statement (Rs m)

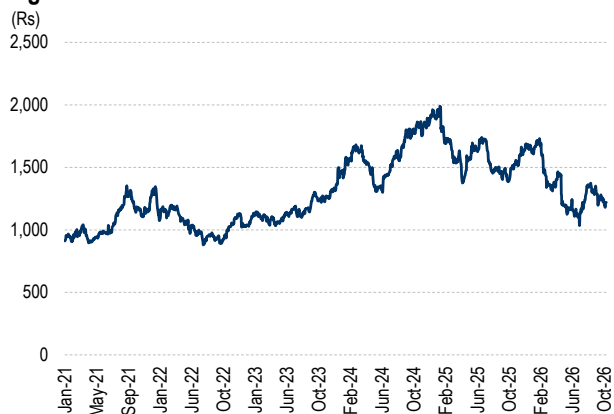
Y/E Mar	FY25	FY26	FY27e	FY28e	FY29e
Revenues (US\$ m)	13,840	14,664	15,046	15,902	16,562
Growth (%)	4.3	6.0	2.6	5.7	4.1
Net revenues (Rs m)	11,70,550	13,01,440	14,41,329	15,55,739	16,52,922
Employee & Direct Costs	9,03,950	9,87,340	11,12,419	11,86,409	12,58,532
Gross Profit	2,66,600	3,14,100	3,28,910	3,69,330	3,94,390
Gross Margin %	22.8	24.1	22.8	23.7	23.9
SG&A	11,560	46,580	25,026	35,328	34,013
EBITDA	2,55,040	2,67,520	3,03,884	3,34,002	3,60,377
EBITDA margins (%)	21.8	20.6	21.1	21.5	21.8
- Depreciation	40,840	43,550	41,981	48,340	56,551
Other income	24,850	15,300	12,534	14,784	16,002
Interest Exp	6,440	8,690	6,660	7,760	7,760
PBT	2,32,610	2,21,020	2,67,778	2,92,686	3,12,068
Effective tax rate (%)	25	25	24	25	25
+ Associates/(Minorities)	-90	-100	-20	-	-
Net Income	1,73,900	1,73,623	2,04,511	2,20,400	2,34,995
WANS	2,712	2,714	2,714	2,714	2,714
FDEPS (Rs/share)	64.1	64.0	75.4	81.2	86.6

Fig 3 – Cashflow Statement (Rs m)

Y/E Mar	FY25	FY26	FY27e	FY28e	FY29e
PBT	2,32,610	2,21,020	2,67,778	2,92,686	3,12,068
+ Non-cash items	22,330	34,710	41,981	48,340	56,551
Operating profit before WC	2,54,940	2,55,730	3,09,758	3,41,026	3,68,619
- Incr./(decr.) in WC	-10,100	15,220	37,551	32,158	28,280
Others including taxes	-42,430	-40,760	-64,517	-73,581	-78,394
Operating cash-flow	2,22,610	1,99,750	2,07,690	2,35,287	2,61,946
- Capex (tang. + Intang.)	11,080	14,220	15,748	16,999	18,060
Free cash-flow	2,11,530	1,85,530	1,91,942	2,18,288	2,43,885
Acquisitions	-19,820	-1,590	-38,318	-	-
- Div. (incl. buyback & taxes)	1,62,500	1,46,180	1,80,078	1,94,069	2,06,921
+ Equity raised	-	-	0	-0	-0
+ Debt raised	-360	-21,320	-370	-	-
- Fin Investments	12,540	-3,773	30,580	36,696	44,035
- Misc. Items (CFI + CFF)	24,120	25,143	-180	-126	-88
Net cash-flow	-7,810	-4,930	-57,224	-12,351	-6,982

Source: Company, Anand Rathi Research

Fig 5 – Price Movement



Source: Bloomberg

Fig 2 – Balance Sheet (Rs m)

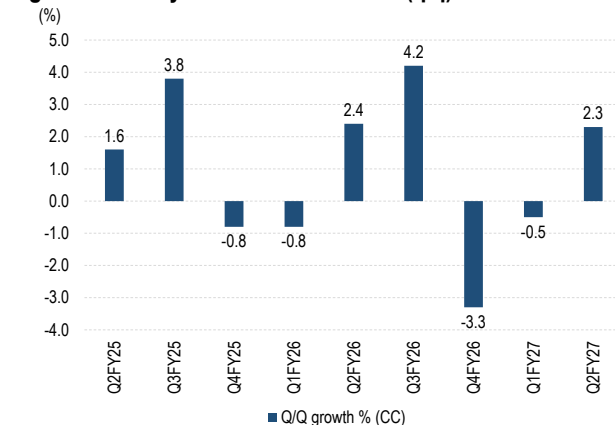
Y/E Mar	FY25	FY26	FY27e	FY28e	FY29e
Share capital	5,430	5,430	5,430	5,430	5,430
Net worth	6,96,550	7,51,650	7,76,083	8,02,414	8,30,489
Total debt (incl. Pref)	22,910	1,590	1,220	1,220	1,220
Minority interest	180	320	340	340	340
DTL/(Asset)	5,510	2,350	1,204	-57	-1,443
Capital employed	7,25,150	7,55,910	7,78,847	8,03,917	8,30,605
Net tangible assets	75,170	81,890	85,644	88,141	89,236
Net Intangible assets	2,86,550	2,91,300	3,00,232	2,66,393	2,26,808
Goodwill					
CWIP (tang. & intang.)	590	600	420	294	206
Oth. Long-term Asset/(Liab.)	-30,530	-33,430	-32,160	-30,865	-29,543
Investments (Financial)	1,31,350	1,52,900	1,83,480	2,20,176	2,64,211
Current Assets (ex Cash)	3,49,550	4,08,080	4,52,062	4,88,692	5,20,012
Cash	1,57,180	1,52,250	95,026	82,675	75,693
Current Liabilities	2,44,710	2,98,280	3,05,857	3,11,589	3,16,016
Working capital	1,04,840	1,09,800	1,46,205	1,77,103	2,03,995
Capital deployed	7,25,150	7,55,910	7,78,847	8,03,917	8,30,605

Fig 4 – Ratio Analysis

Y/E Mar	FY25	FY26	FY27e	FY28e	FY29e
P/E (x)	19.1	19.9	16.2	15.1	14.1
EV/EBITDA (x)	11.9	11.4	10.0	9.1	8.4
EV/sales (x)	2.6	2.3	2.1	1.9	1.8
P/B (x)	4.8	4.4	4.3	4.1	4.0
RoE (%)	25.2	23.0	26.8	27.9	28.8
RoCE (%) - After tax	20.1	20.1	22.8	23.9	24.6
RoIC (%) - After tax	31.1	31.2	34.2	35.2	37.7
DPS (Rs per share)	60.0	54.0	66.4	71.5	76.3
Dividend yield (%)	4.9	4.4	5.4	5.8	6.2
Dividend payout (%) - Inc. DDT	93.6	88.1	88.1	88.1	88.1
Net debt/equity (x)	-0.4	-0.4	-0.4	-0.4	-0.4
Receivables (days)	84	90	92	94	96
Inventory (days)					
Payables (days)	12	13	12	11	10
CFO:PAT%	127.9	120.0	101.5	106.8	111.5

Source: Company, Anand Rathi Research

Fig 6 – Quarterly CC Revenue Growth (q/q)



Source: Company

Our Key Takeaways

Quarterly Highlights

- Q2 revenue at \$3,724mn (+2.3% q/q, +2.6% y/y cc), Services (+3.0% q/q & +4.0% y/y cc, 2.3% q/q organic), Software (-5.8% q/q & -11.2% y/y cc).
- Revenue from multi-year subscription licences declined to \$39mn in Q2FY27 from \$81mn in Q2FY26 due to fewer renewals, while HCLSoftware ARR grew 2.6% YoY excluding Jaspersoft and 7.8% including it, with a significant portion of multi-year renewals expected to return in FY28-FY29.
- HCLT completed the acquisition of HPE's Telco Solutions Group, contributing \$21mn in revenue over two months and adding 62bps to Services' sequential growth, while Jaspersoft contributed \$15mn for the full quarter, taking total inorganic revenue contribution to \$35.6mn and supporting company-level sequential growth by 97bps.
- EBIT margins came in at 18.1% (+130 bps q/q; 84bps incl. restructuring), supported Project Ascent and AI-led efficiencies (+73bps), higher-margin Advanced AI services (+32bps), SG&A operating leverage (+50bps) and favourable forex (+23bps), partially offset by higher restructuring costs (-22bps) and the HPE Telco Solutions acquisition (-25bps).
- TCV came in at \$3,258mn (+26.8% y/y), TTM bookings TCV at \$10,607mn (+12.0% y/y), marking the second-highest bookings quarter in the company's history and its strongest first-half booking performance in any financial year.
- Net headcount was up ~6,450 which was strongest in the last 18 quarters to ~230k. Attrition rose by 10bps q/q to 12.8%. HCLT added 6,136 freshers in Q2.
- HCLT continued to execute well on client mining, adding one \$100mn+ client, six \$50mn+ clients, 10 \$20mn+ clients and 33 \$10mn+ clients over the past year, reflecting deeper wallet share expansion and stronger strategic relationships with existing customers.
- FY27 revenue guidance stands at 2.5% - 4.0% (earlier: 1.0% - 4.0%) y/y in cc & Services revenue growth expected to be between 3.0% - 4.0% (earlier: 1.5% - 4.5%) y/y in cc, and 17.5% - 18.5% EBIT margin which remains unchanged.
- Midpoint of organic growth guidance remains broadly unchanged, with inorganic contributions of 87bps at the company level and 62bps for Services; management expects Services growth to be slightly above the midpoint, while Q3 is expected to benefit from a seasonal step-up in software revenue, with the Mercedes-Benz mega deal contributing from Q1FY28.

Demand Commentary

- Management highlighted healthy demand towards the end of Q2FY27, with the overall pipeline remaining strong and balanced across service lines, verticals and geographies. However, the company remains cautious given the dynamic operating environment, where demand can change quickly.

- Gross margins exceed 70% for AI IP/platform offerings, while Advanced AI services command a 7-10% margin premium relative to traditional services.
- In telecom discretionary spending remained under pressure at two of HCLT's top 20 telecom clients. While the impact was broadly factored into guidance, continued uncertainty around client spending remains a key monitorable.
- In manufacturing one of HCLT's top 20 manufacturing clients saw a sharp revenue rundown due to its own budget cuts, with the decline broadly in line with management's earlier assumptions.
- HCLT announced plans for its first AI data centre in Bhubaneswar in partnership with Sarvam and the Government of Odisha, alongside a global technology centre to deliver AI solutions for global enterprises.

Commentary on GenAI

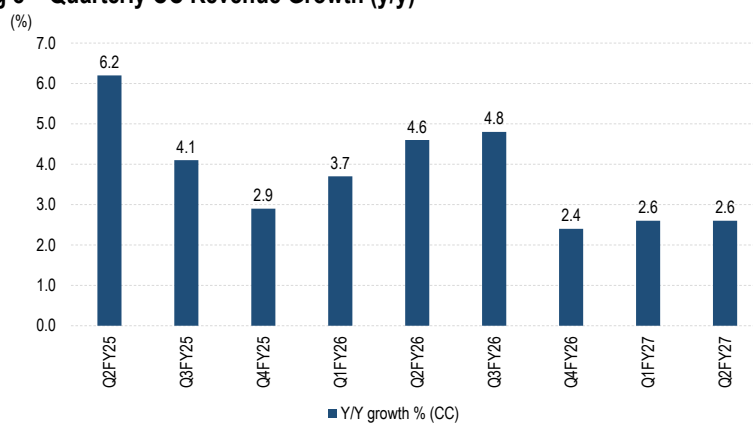
- Advanced AI revenue came in at \$219mn (~6% of revenue), +28.4% q/q & +78.0% y/y in cc, with ARR being at \$876mn.
- Agentic AI offerings crossed \$100mn in quarterly revenue, reflecting increasing enterprise demand for AI implementation and deployment services.
- HCLT launched HCLT Pulse, a dedicated business unit targeting fast-growing enterprises with annual revenue of \$500mn-\$5bn, combining its AI capabilities to accelerate modernisation and value creation.
- AI-led transformation continued to feature prominently in large deal wins, with clients increasingly prioritising efficiency, innovation, business resilience and enterprise-wide operating model transformation.
- HCLT strengthened its AI ecosystem through partnerships with OpenAI, Anthropic, NVIDIA, Google Cloud, ServiceNow and Cohere, focusing on enterprise AI adoption, agentic AI implementation, AI Factory deployment and validation, and AI-led transformation.
- HCLT signed a Global Premier Partnership with Anthropic to accelerate secure, governed Agentic AI adoption across enterprises, establishing a dedicated business unit and Centre of Excellence, integrating Claude and Claude Code into its AI Force platform and embedding Claude capabilities into select HCLSoftware products across cybersecurity, automation and application development.

Quarterly Snapshot

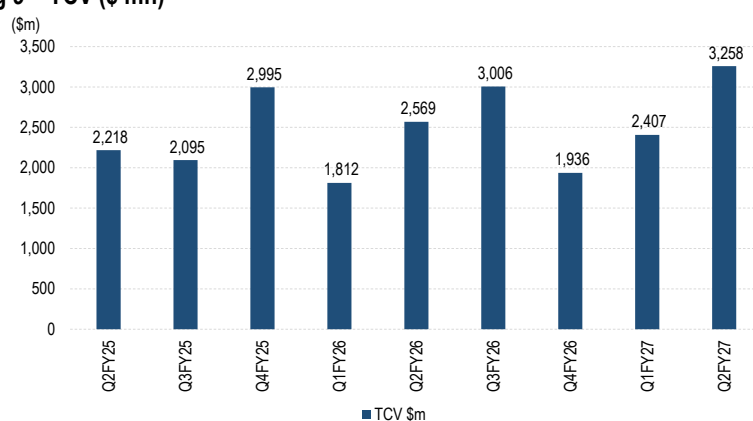
Fig 7 – Quarterly Performance (Rs m)

Y/E Mar	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	Q4FY26	Q1FY27	Q2FY27	Q/Q %	Y/Y %
Revenue (\$ m)	3,533	3,498	3,545	3,644	3,793	3,682	3,650	3,724	2.0%	2.2%
Growth Y/Y %	3%	2%	5%	6%	7%	5%	3%	2%	0 bps	0 bps
Revenue (Rs m)	2,98,900	3,02,460	3,03,490	3,19,420	3,38,720	3,39,810	3,45,790	3,56,200	3.0%	11.5%
Effec. exchange rate	84.6	86.5	85.6	87.7	89.3	92.3	94.7	95.6	1.0%	9.1%
TCV (\$ m)	2,095	2,995	1,812	2,569	3,006	1,936	2,407	3,258	35.4%	26.8%
TCV (LTM)	8,563	9,268	9,120	9,471	10,382	9,323	9,918	10,607	6.9%	12.0%
Y/Y %	9%	31%	-8%	16%	43%	-35%	33%	27%	0.0%	0.0%
Employees (EoP)	2,20,755	2,23,420	2,23,151	2,26,640	2,26,379	2,27,181	2,23,889	2,30,339	2.9%	1.6%
Rev. prod. (\$ '000/employee)	16.1	15.8	15.9	16.2	16.7	16.2	16.2	16.4	1.3%	1.2%
CoR (excl. D&A)	(1,92,620)	(1,97,420)	(2,01,280)	(2,10,440)	(2,21,020)	(2,25,370)	(2,30,220)	(2,33,630)	1.5%	11.0%
As % of revenue	-64%	-65%	-66%	-66%	-65%	-66%	-67%	-66%	99 bps	29 bps
SG&A	(37,680)	(40,220)	(41,860)	(43,050)	(43,580)	(47,320)	(46,870)	(47,800)	2.0%	11.0%
As % of revenue.	-13%	-13%	-14%	-13%	-13%	-14%	-14%	-13%	14 bps	6 bps
EBITDA	68,600	64,820	60,350	65,930	74,120	67,120	68,700	74,770	8.8%	13.4%
EBITDA margins %	23.0%	21.4%	19.9%	20.6%	21.9%	19.8%	19.9%	21.0%	112 bps	35 bps
EBIT	58,210	54,420	49,420	55,500	62,850	56,200	58,310	64,650	10.9%	16.5%
EBIT margins %	19.5%	18.0%	16.3%	17.4%	18.6%	16.5%	16.9%	18.1%	129 bps	77 bps
Other income (excl. forex)	4,700	4,540	4,510	4,680	4,500	4,500	3,990	3,380	-15.3%	-27.8%
Non-recurring / Forex	70	(50)	50	(530)	(650)	(1,280)	(380)	(1,040)	173.7%	96.2%
Interest expenses	(1,660)	(1,560)	(2,090)	(2,150)	(2,050)	(2,400)	(840)	(1,940)	131.0%	-9.8%
PBT	61,320	57,350	51,890	57,020	55,090	57,020	61,080	64,670	5.9%	13.4%
PBT margins %	20.5%	19.0%	17.1%	17.9%	16.3%	16.8%	17.7%	18.2%	49 bps	30 bps
Taxes	(15,380)	(14,260)	(13,450)	(14,660)	(14,270)	(12,120)	(14,820)	(13,350)	-9.9%	-8.9%
ETR %	-25%	-25%	-26%	-26%	-26%	-21%	-24%	-21%	362 bps	507 bps
Minority Interst	(30)	(20)	(10)	(10)	(60)	(20)	(20)	-	-100.0%	-100.0%
Net income	45,910	43,070	38,430	42,350	40,760	44,880	46,240	51,320	11.0%	21.2%
Net margins %	15.4%	14.2%	12.7%	13.3%	12.0%	13.2%	13.4%	14.4%	104 bps	115 bps
EPS (Rs)	16.9	15.9	14.2	15.6	15.1	16.6	17.1	18.9	11.0%	21.3%

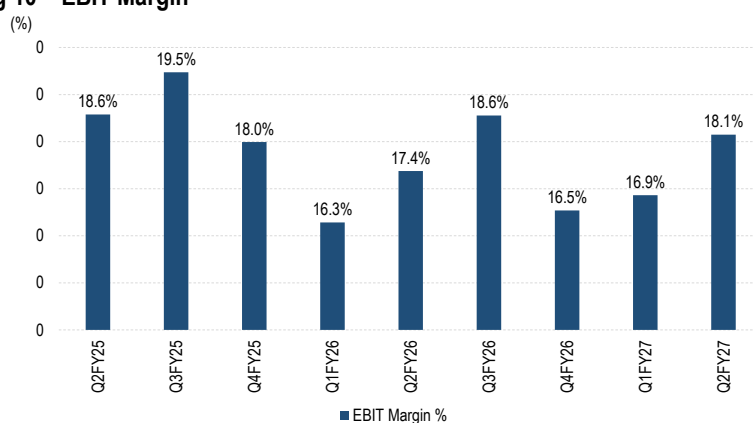
Source: Company

Fig 8 – Quarterly CC Revenue Growth (y/y)

Source: Company, Anand Rathi Research

Fig 9 – TCV (\$ mn)

Source: Company, Anand Rathi Research

Fig 10 – EBIT Margin

Source: Company, Anand Rathi Research

Valuation

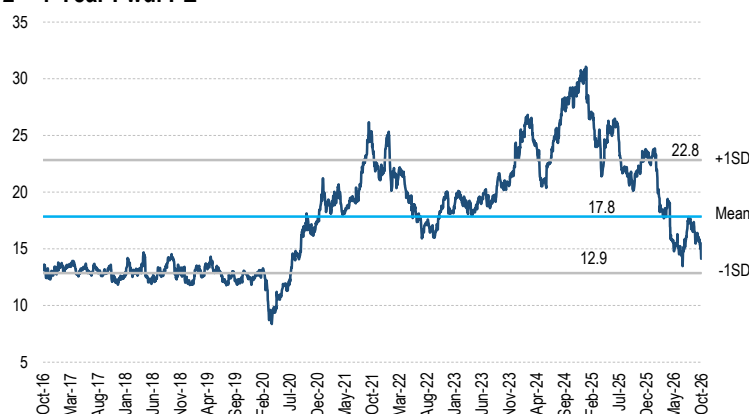
Fig 11 – Change in Estimates

(Rs m)	FY27e			FY28e			FY29e		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue (\$m)	15,046	15,058	(0.1)	15,902	15,709	1.2	16,562	16,358	1.2
Revenue (Rs.m)	14,41,329	14,31,973	0.7	15,55,739	15,22,184	2.2	16,52,922	16,16,970	2.2
EBITDA	3,03,884	2,99,267	1.5	3,34,002	3,27,600	2.0	3,60,377	3,56,301	1.1
EBITDA Margin %	21.1%	20.9%	18 bps	21.5%	21.5%	-5 bps	21.8%	22.0%	-23 bps
EBIT	2,61,904	2,55,146	2.6	2,85,662	2,75,985	3.5	3,03,825	2,95,918	2.7
EBIT Margin %	18.2%	17.8%	35 bps	18.4%	18.1%	23 bps	18.4%	18.3%	8 bps
PBT	2,67,778	2,63,834	1.5	2,92,686	2,82,830	3.5	3,12,068	3,06,162	1.9
Net PAT	2,04,511	1,98,859	2.8	2,20,400	2,12,899	3.5	2,34,995	2,30,468	2.0

Source: Anand Rath Research

- **Outlook & Valuation:** We have revised our FY27/28/29e revenue and EPS estimates by -0.1/+1.2/+1.2% and +2.8/+3.5/+2.0%, respectively with FY27-29e adj. EPS CAGR of 7.2% and arrive at a TP of Rs1,435, implying a ~17% upside from CMP. At CMP, the stock trades at FY28/29e P/E of 15.1x/14.1x.

Fig 12 – 1-Year Fwd. PE



Source: Bloomberg, Anand Rath Research

Risks

- Continued discretionary spending pressure at 2 large telecom clients & manufacturing clients.
- AI-driven productivity deflation outpacing incremental AI monetisation.
- Slower organic software growth.
- Continued reinvestment in AI capabilities, IP and talent limiting sustained margin expansion.

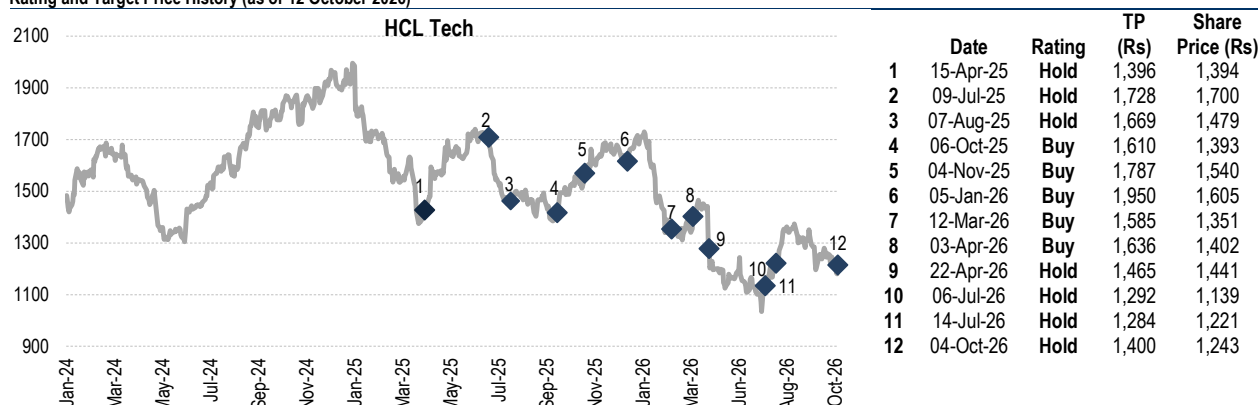
Appendix

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Rating and Target Price History (as of 12 October 2026)



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	Buy	Hold	Sell
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
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Compliance officer: Deepak Kedia, email id: deepakkedia@rathi.com, Contact no. +91 22 6281 7000
Grievance officer: Madhu Jain, email id: grievance@rathi.com, Contact no. +91 22 6281 7191

ARSSBL registered address: Express Zone, A Wing, 10th Floor, Western Express Highway, Diagonally Opposite Oberoi Mall, Malad (E), Mumbai – 400097.
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