

HCL TECHNOLOGIES LIMITED

Healthy services & AI drive margins; software weakness persists

HCL Technologies Ltd (HCL) reported a mixed set of Q2FY27 results, with healthy services growth and a better-than-expected margin performance offset by softer-than-anticipated revenue growth and continued weakness in the software business. Revenue grew 2.3%/2.6%, QoQ/YoY in constant currency (CC) terms to USD 3.72bn, with services revenue increasing 3.0%/4.0% QoQ/YoY CC, while HCL Software declined 5.8%/11.2% QoQ/YoY CC, due to the timing of multi-year licence renewals. EBIT margin expanded sharply by 130bps QoQ to 18.2%, comfortably ahead of our estimates, driven by Project Ascend efficiencies, operating leverage and higher-margin advanced AI offerings. Deal bookings remained healthy at USD 3.3bn, while management retained its FY27 revenue growth guidance of 2.5–4.0% in CC terms and EBIT margin guidance of 17.5–18.5%. However, low-single-digit organic growth, macroeconomic uncertainty and the nascent risk of AI-led deflation constrain earnings visibility and valuation upside. Accordingly, we downgrade HCLT from BUY to HOLD, with an unchanged target price of ₹1,360, valuing the company at 17x FY28E EPS.

Margin performance and AI monetization provide support

EBIT margin expanded to approximately 18.2%, ahead of our estimate of 16.9%, with Project Ascend contributing 73bps, higher-margin advanced AI offerings 32bps, operating leverage 50bps and favourable foreign exchange 23bps. These benefits were partly offset by restructuring expenses and the acquisition-related drag from HPE's Telco Solutions Group. Advanced AI revenue reached USD 219mn, increasing 28.4% QoQ and approximately 78% YoY in CC terms, highlighting the growing contribution of AI-led services and solutions.

Key Financials

(₹ bn)	FY25	FY26	FY27E	FY28E
Sales	1,171	1,301	1,424	1,534
EBIT Margin (%)	18.3	17.2	17.8	18.0
PAT	215	217	243	265
EPS (₹)	64.1	67.6	73.8	79.8
EPS Gr.(%)	10.8	5.4	9.2	8.2
BV/Sh.(₹)	257	278	283	288
RoE (%)	25.2	24.0	26.4	28.0
RoCE (%)	25.1	24.9	26.3	27.5
Payout (%)	93.5	75.0	80.0	80.0
P/E (x)	20.4	19.4	17.8	16.4
P/BV (x)	5.1	4.7	4.6	4.6
EV/EBITDA (x)	12.0	11.4	10.4	9.5
Div. Yield (%)	4.6	3.7	4.5	4.9

HOLD

Current Market Price (₹)	:	1,326
12M Price Target (₹)	:	1,360
Potential Return (%)	:	3

Stock Data

Sector	:	IT - Software
Face Value (₹)	:	2
Total MCap (₹ bn)	:	3,598
Free Float MCap (₹ bn)	:	1,393
52-Week High / Low (₹)	:	1,780/1,030
BSE Code / NSE Symbol	:	532281/HCLTECH
Bloomberg	:	HCLT IN
Sensex / Nifty	:	73,034 / 22,722

Shareholding Pattern

(%)	Jun-26	Mar-26	Dec-25
Promoter	60.88	60.86	60.81
FPIs	14.90	15.51	16.22
MFs	9.04	9.22	9.07
Insurance	8.32	8.38	8.04
Others	6.86	6.03	5.86

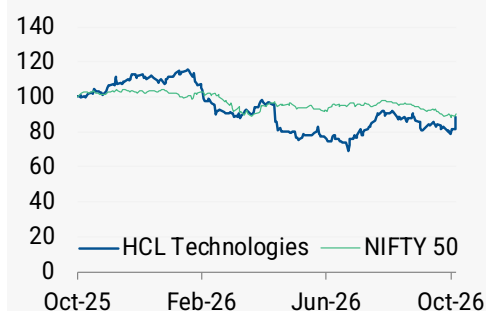
Source: BSE

Price Performance

(%)	1M	3M	6M	12M
HCLTECH	-3.2	8.6	-7.2	-11.3
Nifty 50	-6.9	-6.2	-4.7	-9.9

* To date / current date : October 13, 2026

HCLTECH vs Nifty 50



The IP and platform component of Advanced AI offerings has already realised gross margins of over 70%, while AI services have delivered margins 7–10 percentage points higher than traditional services, highlighting the immediate profitability benefits of the segment. Partnerships with OpenAI, Anthropic and NVIDIA strengthen HCLT's positioning in enterprise AI adoption. However, management's commentary that AI-led deflation remains in its early stages underscores the risk that productivity gains could eventually translate into pricing pressure and lower effort-based revenue. Although AI monetization and operational efficiencies are supporting margins in the near term, the sustainability of these benefits will depend on the pace of enterprise adoption and HCL's ability to capture incremental value rather than pass productivity gains entirely to clients.

Services growth remains healthy, while software recovery is gradual

HCL's services business continued to drive performance, with IT and Business Services (ITBS) growing 2.7%/4.4%, QoQ/YoY in CC terms, while Engineering and R&D Services (ERS) grew 4.1%/2.1% QoQ/YoY. However, inorganic contributions from HPE's Telco Solutions Group and Jaspersoft added approximately 97bps to sequential revenue growth, indicating that acquisitions supported reported growth. The Mercedes-Benz mega deal provides incremental revenue visibility, although execution is expected to commence in FY28E and could initially dilute margins. On the software front, revenue declined due to fewer multi-year licence renewals, with upfront licence revenue falling to USD 39mn from USD 81mn in the year-ago quarter. While software ARR grew 7.6% YoY to USD 1.13bn, including inorganic contributions, organic ARR growth remained modest at approximately 2.6%. Management expects renewal activity to improve in FY28–FY29 as multi-year contracts mature; however, subdued organic growth and limited near-term revenue visibility remain key concerns. Overall, healthy services demand and deal bookings provide support, but a sustained acceleration in organic growth and a recovery in software performance are necessary to drive a meaningful valuation rerating.

Quarterly Financial Snapshot

₹ bn	Q2FY27	Q1FY27	% ch QoQ	Q2FY26	% ch YoY
QoQ CC	2.3%	-0.5%	+ 280 bps	2.4%	-10 bps
Revenue (USD M)	3,724	3,650	2.0%	3,644	2.2%
USD/INR	95.72	94.73	1.0%	87.63	9.2%
Sales	356	346	3.0%	319	11.5%
EBITDA	75	69	8.8%	66	13.4%
EBITDA margin (%)	21.0%	19.9%	+110 bps	20.6%	+ 40 bps
EBIT	65	58	10.9%	56	16.5%
EBIT margin (%)	18.2%	16.9%	+130 bps	17.4%	+80 bps
APAT	51	46	10.9%	42	21.1%
EPS (₹)	18.9	17.1	10.9%	15.6	21.2%

Source: Company, LKP Research

Revenue segment wise

Revenue (%)	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	Q4FY26	Q1FY27	Q2FY27
IT and Business Services	74.6	73.0	73.3	74.0	74.2	72.3	75.0	75.3	75.6
Engineering and R&D Services	15.8	16.0	17.1	17.0	17.0	16.8	17.0	16.5	16.8
Software	9.9	11.3	9.9	9.3	9.1	11.2	8.3	8.6	7.9

Source: Company, LKP Research

Revenue geography wise

Revenue (%)	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	Q4FY26	Q1FY27	Q2FY27
USA	58.5	65.5	57.4	56.5	56.2	56.3	56.3	56.0	56.1
Europe	26.7	28.2	27.5	28.3	28.3	27.7	27.1	27.6	26.9
India	3.5	0.0	3.1	3.3	3.2	3.3	2.9	3.3	3.4
ROW	11.3	6.3	12.0	11.9	12.3	12.8	13.7	13.1	13.6

Source: Company, LKP Research

Revenue vertical wise

Clients	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	Q4FY26	Q1FY27	Q2FY27
Financial Services	20.5	20.3	21.1	21.6	21.7	21.1	21.4	22.1	22.4
Retail	9.6	10.6	9.7	9.7	9.6	9.9	9.7	10.3	10.5
Communications	12.1	12.3	13.9	13.1	12.7	12.5	12.1	11.2	12.0
Energy, Utilities, Resources & Services	9.2	8.9	8.6	8.5	8.9	9.1	9.2	9.3	8.8
Manufacturing	19.5	19.1	18.6	18.6	18.3	18.8	18.6	18.7	18.3
Hi Tech	13.1	13.3	13.4	14.0	14.0	14.2	14.8	14.4	14.3
Life Sciences	16.0	15.5	14.7	14.5	14.7	14.4	14.0	14.0	13.8

Source: Company, LKP Research

Client (% of revenues)

Clients	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	Q4FY26	Q1FY27	Q2FY27
Top client	12.1	12.6	12.7	12.6	12.4	12.2	11.9	11.6	11.4
Top 5 client	20.1	20.3	20.2	20.2	19.9	19.7	19.1	18.7	18.4
Top 10 client	30.8	30.9	30.4	29.9	29.5	29.1	28.5	28.0	27.4

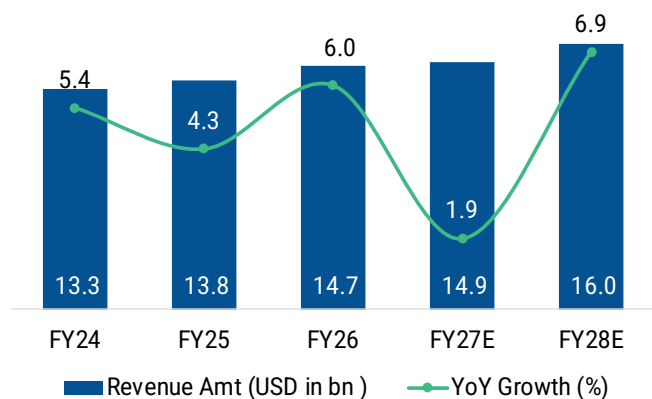
Source: Company, LKP Research

Revenue buckets

Clients	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	Q4FY26	Q1FY27	Q2FY27
Million clients	952	952	948	956	954	968	976	987	981
5 Million clients	402	398	399	402	406	421	429	431	433
10 Million clients	251	248	251	255	258	268	277	286	291
20 Million clients	137	136	138	144	151	151	149	155	161
50 Million clients	52	53	52	54	54	56	60	60	62
100 Million clients	22	22	22	22	22	23	23	23	23

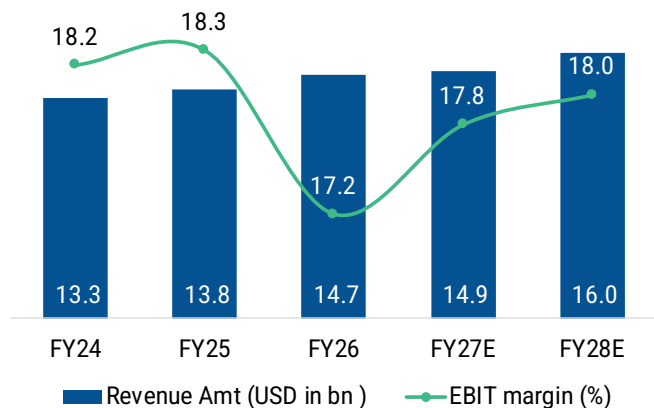
Source: Company, LKP Research

Revenue & Growth



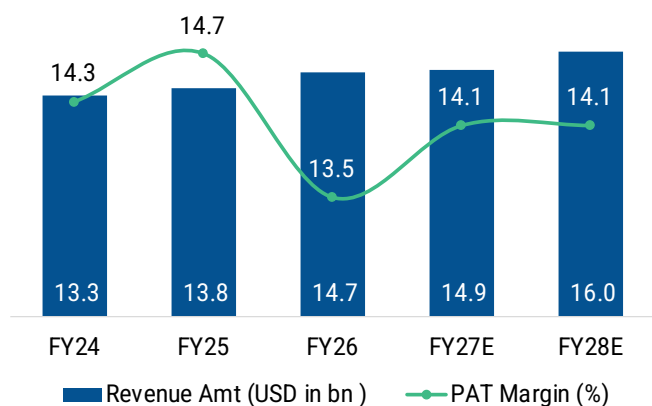
Source: Company, LKP Research

Revenue Vs EBIT margin



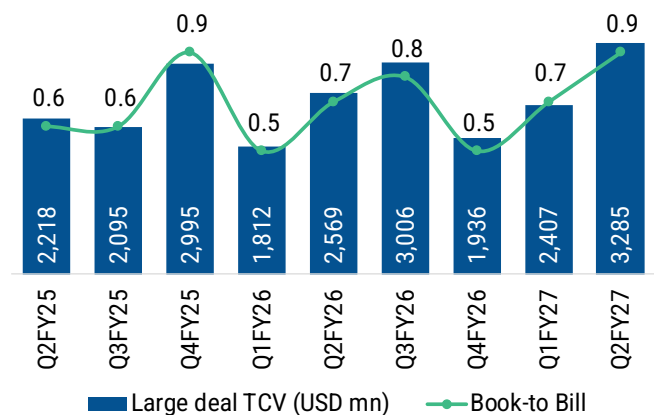
Source: Company, LKP Research

Revenue Vs PAT margin



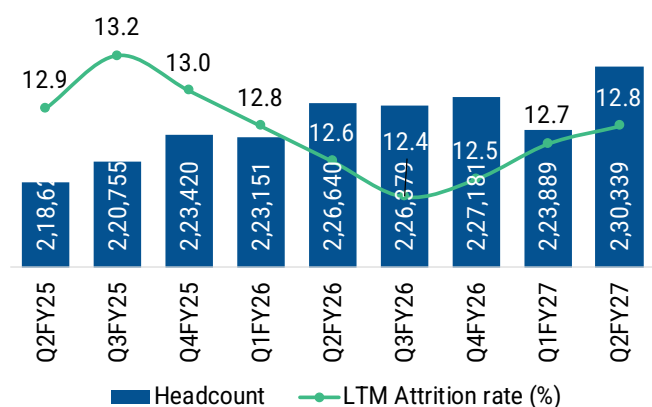
Source: Company, LKP Research

Deal momentum going strong



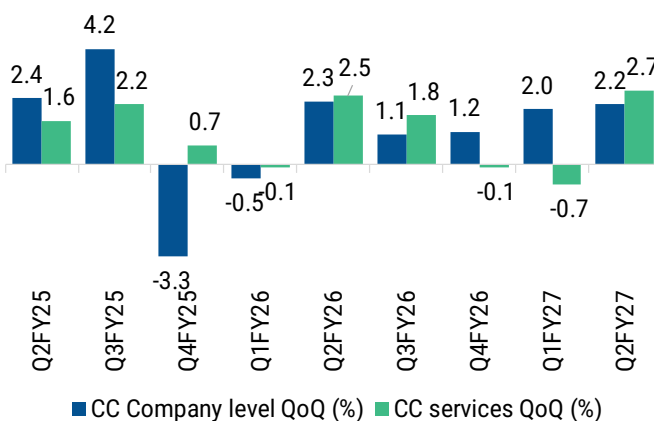
Source: Company, LKP Research

Headcount increases post restructuring



Source: Company, LKP Research

CC revenue growth



Source: Company, LKP Research

Outlook and valuation

We estimate HCL to deliver a USD revenue CAGR of 4.4% over FY27E–FY28E, with INR EPS CAGR of 11.8%, supported by inorganic contributions, operating efficiencies and a relatively favourable currency environment. We broadly retain our EBIT margin assumptions in the 17.8–18.0% range. While healthy bookings, improving AI demand and a strong services franchise provide medium-term support, low-single-digit organic growth, uncertain discretionary spending, software revenue volatility and emerging AI-led deflation risks limit confidence in a sustained acceleration in earnings. Further, intensifying competition, including the possibility of more aggressive pricing by peers could force HCLT to compromise margins to defend or gain market share. We therefore maintain our target P/E multiple at 17x FY28E EPS, arriving at a TP of ₹1,360. Given the limited organic growth visibility and the balance between margin resilience and demand-side risks, we downgrade our rating from BUY to HOLD.

Key highlights from Earnings Call Q2FY27

- Revenue growth guidance remains at 2.5-4% for the consolidated business and 3-4% for Services in constant currency, including inorganic contributions. Management expects Services growth to be slightly above the midpoint, while EBIT margin guidance remains unchanged at 17.5-18.5%. The broader outlook remains cautious amid macroeconomic uncertainty.
- Acquisitions contributed USD 35.6mn, adding 97 bps to overall QoQ growth. HPE Telco Solutions contributed ~USD 21mn over two months, while Jaspersoft added ~USD 15mn. Inorganic contribution to Services growth stood at 62 bps.
- Software revenue declined 5.8% QoQ and ~15% YoY organically, as revenue from multi-year subscription licences fell to USD 39mn from USD 81mn a year ago. Organic ARR grew 2.6% YoY, with management expecting renewals to improve in FY28–29.
- Retail & CPG led industry growth at 14% CC YoY, followed by Financial Services at 7.1%, Technology & Services at 5.9% and Manufacturing at 3.9%. In contrast, Life Sciences & Healthcare and Telecom, Media, Publishing & Entertainment both declined 2.1% CC YoY. Overall, five of the seven verticals recorded positive growth, indicating broad-based performance despite continued weakness in select discretionary-spending segments.
- India recorded the strongest growth at 21.8% CC YoY, followed by Rest of World at 11.4% and the US at 3.5%. Europe declined 3.0% CC YoY, reflecting a relatively subdued demand environment. The strong performance in India and emerging markets partly offset slower growth in developed markets.
- New bookings reached USD 3.3bn, up 35% QoQ and 27% YoY, marking the second-highest quarterly order book in the company's history. AI featured prominently in large wins, alongside enterprise transformation and managed-services engagements.
- Reported engagements included AI infrastructure and AI Factory programmes for US-based technology companies, an AI-powered visual-inspection deployment for a European manufacturer, digital workplace and enterprise network transformation for a European Fortune Global 50 company, IT operations transformation for a European FMCG major, and SAP S/4HANA managed services for a global aerospace and defence company. Two of HCL's largest Advanced AI deals were single-sourced through partners.
- Advanced AI revenue reached USD 219mn, growing 28.4% QoQ, while agentic AI revenue crossed USD 100mn during the quarter. AI Force now offers over 900 agents, strengthening HCLTech's enterprise AI capabilities.

- HCL expanded its relationships with OpenAI, NVIDIA, Google Cloud, ServiceNow and Cohere, and announced a global premier partnership with Anthropic to accelerate enterprise adoption of agentic AI.
- Management expects free cash flow-to-PAT conversion to recover towards 100% or higher as one-off tax and gratuity-related cash outflows roll off. Ramp-downs across three large clients have largely played out, although telecom discretionary spending remains a monitorable.
- HCL declared an interim dividend of ₹12 per share, taking its trailing 12-month dividend payout to ₹60 per share, with an LTM payout ratio of 88.6% of net income.

Income Statement

(₹ bn)	FY25	FY26	FY27E	FY28E
Sales	1,171	1,301	1,424	1,534
Change (%)	6.5	11.2	9.4	7.8
EBITDA	296	311	340	373
% of Net Sales	25.3	23.9	23.9	24.3
Depreciation	41	44	43	48
EBIT	214	224	254	277
% of Net Sales	18.3	17.2	17.8	18.0
Other Income	18	7	10	15
PBT	273	274	307	340
Tax	59	57	64	76
Rate (%)	21.4	20.8	20.9	22.2
Minority Interest	0	0	0	0
Adjusted PAT	215	217	243	265
Extraordinary Items	0	-10	0	0
Reported PAT	215	227	243	265
Change (%)	8.0	5.6	7.1	9.0

Source: Company, LKP Research

Key Ratios

YE Mar	FY25	FY26	FY27E	FY28E
Basic (₹)				
EPS	64.1	67.6	73.8	79.8
Cash EPS	94.2	99.7	105.4	115.4
Book Value	256.9	277.6	282.6	287.8
DPS	60.0	48.0	59.0	63.9
Payout %	93.5	75.0	80.0	80.0
Valuation (x)				
P/E	20.4	19.4	17.8	16.4
Cash P/E	13.9	13.1	12.4	11.3
EV/EBITDA	12.0	11.4	10.4	9.5
EV/Sales	3.0	2.7	2.5	2.3
Price/Book Value	5.1	4.7	4.6	4.6
Dividend Yield (%)	4.6	3.7	4.5	4.9
Profitability Ratios (%)				
RoE	25.2	24.0	26.4	28.0
RoCE	25.1	24.9	26.3	27.5
Turnover Ratios				
Debtors (Days)	81	88	88	88
Fixed Asset Turnover (x)	3.2	3.5	4.0	4.7

Source: Company, LKP Research

Balance Sheet

(₹ bn)	FY25	FY26	FY27E	FY28E
Share Capital	5	5	5	5
Reserves	691	746	759	774
Net Worth	697	752	765	779
Capital Employed	774	844	866	888
Net Block	362	374	353	328
Investments & Other Assets	72	83	90	96
Curr. Assets	621	705	764	856
Debtors	258	315	343	370
Cash & Bank Balance	82	83	137	248
Investments	215	70	70	70
Other Current Assets	65	238	214	169
Current Liab. & Prov	281	319	341	392
Net Current Assets	340	387	423	464
Application of Funds	774	844	866	888

Source: Company, LKP Research

Cash Flow

(₹ bn)	FY25	FY26	FY27E	FY28E
CF from Operations	255	256	243	265
Cash for Working Capital	-32	-56	21	39
Net Operating CF	223	200	264	304
Net Purchase of FA	-11	-14	-21	-23
Free Cash Flow	212	186	243	281
Net Purchase of Invest.	-38	-1	0	0
Net Cash from Invest.	-49	-15	-21	-23
Proceeds from Equity	0	0	0	0
Others	-23	-48	-1	32
Dividend Payments	-163	-146	-187	-202
Buyback of shares	0	0	0	0
Cash Flow from Fin.	-186	-194	-188	-170
Net Cash Flow	-12	-9	55	111
Effect of forex on cash flow	0	9	0	0
Opening Cash Bal.	94	82	83	137
Add: Net Cash	-12	0	55	111
Closing Cash Bal.	82	83	137	248

Source: Company, LKP Research

DISCLAIMERS AND DISCLOSURES

LKP Securities Limited (CIN-L67120MH1994PLC080039, www.lkpsec.com) herein after referred as “LKP” and its affiliates are a full-fledged, brokerage and financing group. LKP was established in 1994 and is a brokerage and distribution house. LKP is a registered Research Analyst (SEBI Regn.: INH000001758), corporate trading member (SEBI Regn.: INZ000216033) of BSE Limited (BSE), National Stock Exchange of India Limited (NSE), Metropolitan Stock Exchange of India Limited (MSEI) and Depository Participant (SEBI Regn.: IN-DP-705-2022) of CDSL and SEBI Registered Portfolio Management Services (SEBI Regn.: INH000001758). LKP along with its subsidiaries offers the most comprehensive avenues for investments and is engaged in the businesses including stock broking (Institutional and retail), merchant banking (SEBI Regn.: INM000002483), commodity broking, depository participant, insurance broking (IRDA Regn.: IRDA-CA0365) and services rendered in connection with distribution of primary market issues and financial products like mutual funds(ARN: 31751) etc. LKP hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years. However, SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on LKP for certain operational deviations in ordinary/routine course of business. LKP has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

LKP offers research services to clients. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. Other disclosures by LKP and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report: LKP or its associates or Research Officials employed by LKP or relatives of research officials may have financial interest in the subject company. LKP or its associates and Research Analyst or his/her relative's may have actual/beneficial ownership of 1% or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of public appearance. LKP or its associates and Research officials or his/her relative's does not have any material conflict of interest in the subject company.

LKP or its associates may have received any compensation including for investment banking or merchant banking or brokerage services from the subject company in the past 12(twelve) months. LKP or its associates may have co-managed public offering of securities for the subject company in the past 12(twelve) months. LKP or its associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12(twelve) months. LKP or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12(twelve) months. LKP or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. LKP or its associates may have received any compensation from the subject company in the past twelve months. Subject Company may have been client of LKP or its associates during twelve months preceding the date of distribution of the research report for the services provided by LKP or its associates. Research Officials has served as officer, director or employee of the subject company: (NO). The research Analyst or research entity (LKP) has not been engaged in market making activity for the subject company. LKP and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject LKP or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of LKP or its Group Companies.

The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read “Risk Disclosure Document for Capital Market and Derivatives Segments” as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. All material presented in this report, unless specifically indicated otherwise, is under copyright to LKP. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of LKP.

Ashwin Patil
Assistant Vice President - Research
ashwin_patil@lkpsec.com

Ashwin
Tulsidas Patil
Digitally signed by: Ashwin
Tulsidas Patil
DN: CN = Ashwin Tulsidas Patil C
= IN O = Personal
Date: 2026.10.13 21:22:18 +
05'30'