

# HCL Technologies

Estimate change



TP change



Rating change



**CMP: INR1,865**

**TP: INR2,300 (+23%)**

**Buy**

## Leading the bounce-back

### Broad-based growth and outlook reinforce HCLT as our top pick

Bloomberg	HCLT IN
Equity Shares (m)	2714
M.Cap.(INRb)/(USD\$b)	5036.3 / 59.9
52-Week Range (INR)	1866 / 1212
1, 6, 12 Rel. Per (%)	3/10/21
12M Avg Val (INR M)	4807

#### Financials & Valuations (INR b)

Y/E Mar	FY25E	FY26E	FY27E
Sales	1,173	1,291	1,419
EBIT Margin (%)	18.2	18.9	18.9
PAT	174	196	218
EPS (INR)	63.7	71.9	80.3
EPS Gr. (%)	10.1	12.9	11.6
BV/Sh. (INR)	247	245	241

#### Ratios

RoE (%)	25.6	29.3	33.1
RoCE (%)	22.7	26.3	29.3
Payout (%)	90.0	90.0	90.0

#### Valuations

P/E (x)	29.3	25.9	23.2
P/BV (x)	7.5	7.6	7.7
EV/EBITDA (x)	19.6	17.2	15.6
Div Yield (%)	3.1	3.5	3.9

#### Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	60.8	60.8	60.8
DII	15.8	15.0	15.4
FII	18.7	19.9	19.2
Others	4.7	4.3	4.6

FII Includes depository receipts

- HCL Technologies (HCLT) reported a muscular 2QFY25, with revenue of USD3.4b, up 1.6% QoQ (~2.5% organic) and 6.2% YoY in constant currency (CC), above our estimate of flat revenue growth. EBIT margins came in at 18.6%, beating our estimate of 17.4%. New deal TCV stood at USD 2.2b (up 13% QoQ) in 2QFY25. For FY25, HCLT revised the lower end of its growth guidance to 3.5%-5% YoY in CC from 3%-5% earlier. For 1HFY25, revenue/EBIT/PAT grew 7.5%/8.1%/15.3% compared to 1HFY24.
- **Our view:** Growth was broad-based, supported by robust deal wins, underscoring our thesis that the tide around client behavior is turning. The CQGR ask rate for 2HFY25 to achieve the top end of the guidance is now fairly benign at 0-2% cc; we believe a difficult geopolitical backdrop, coupled with client-specific troubles in automotive ER&D, could be informing some of this caution. As highlighted in our Sept'24 thematic report ([Technology: Bounce-back! Charting the path to revival for IT services](#)), we anticipate key sectors such as healthcare, manufacturing, and BFSI to drive growth recovery. Additionally, within service lines, we expect data engineering and ERP modernization (especially SAP S4HANA) to lead the way; areas where HCL has a strong advantage over peers.
- **Guidance:** HCLT revised the lower end of its guidance; it now expects overall revenues and services revenues to grow by 3.5%-5% in constant currency terms (3-5% earlier). It kept the EBIT margin guidance unchanged at 18-19%.
- **Margins:** Better-than-expected growth in its high-margin product business and a recovery in its ER&D business lifted margins to 18.6% in 2Q. We expect 2H to witness some headwinds, such as furloughs and wage hikes; however, a seasonally strong quarter for the product business (3Q) and a more measured wage hike cycle should keep EBIT margins comfortably within the guided range.
- **HCLT tops our Impact Framework for large-caps:** HCLT remains our top pick among large-cap IT companies, based on our IMPACT framework. We see HCLT is best positioned to play the short-term slow, medium-term fast GenAI revolution. HCLT's capabilities are comparable to the best in the industry, especially when it comes to new-age projects.
- **Valuations and changes in estimates:** We expect HCLT to deliver 18.2% EBIT margin in FY25. This should recover to 18.9% in FY26 as growth improves. We expect HCLT to deliver a CAGR of 8.4%/11.5% in USD revenue/INR PAT over FY25-27E. We raise our EPS estimates by 2.4%/2.7%/3.4% for FY25/FY26/FY27 as we factor in the 2Q performance and a recovery in discretionary spending in 2HFY25/FY26E. Reiterate **BUY** with a TP of INR2,300 (based on 30x Sep'26E EPS).