

13 January 2026

Run-up in stock limits upside

HCL Technologies (HCLT IN) reported better-than-expected Q3 on revenue and margin fronts. The beat was led by better-than-expected performance in its product business (Q3 is seasonally strong). However, some part of the uptick in the products business was likely from one-time tactical license revenues, which may not sustain, going forward. Strong Q3 led to HCLT increasing its revenue growth guidance for FY26 from 3% to 4% at the lower end, but guidance at the upper end has been trimmed by 50bps to 4.5% from 5% earlier, indicating a 1.2-3% sequential drop in Q4. The EBIT margin guidance has been maintained at 17-18%. HCLT indicated that demand environment has not changed much, but some pockets (BFSI) are seeing improvement. We raise our TP to INR 1,500 on 21x (unchanged) FY27E P/E. However, we revise HCLT to SELL from Reduce given that run-up in the stock price limits upside.

Strong deal momentum: HCLT reported revenue growth of 4.2% QoQ in CC terms while revenue was up 4.8% YoY CC at the company level. IT services (72.3% of the mix) reported 1.5% QoQ and 3.8% YoY growth in CC. ER&D posted a 3.1% QoQ CC rise, and Product (P&P) was up 28.1% QoQ in CC terms. Vertical-wise, YoY in CC, BFSI, Tech, Public services and Telecom reported growth in the range of 7.1-14.4%, Manufacturing was up +1.8% YoY CC, while Lifesciences and Retail CPG reported a decline. Broad-based growth was seen across geographies YoY in CC, with Europe market up 4.6%, and the US market growing 1.5%. HCLT recorded a new deal TCV of ~USD 3bn in Q3FY26, up 17% QoQ and 43.5% YoY. Advanced AI posted revenues of USD 146mn in Q3FY26 (3.8% of revenue), up 19.9% QoQ CC. Interim dividend of INR 12/share was announced in Q3, with a payout ratio of 80%.

Margin expansion led by seasonality in P&P: Q3 operating margin, excluding the one-time impact of the new labor code, was 18.6%, up 111bps QoQ. Excluding restructuring costs, margin was 19.4%. Product business helped margin expansion by 118bps while Services margin declined 7bps QoQ (primarily due to wage hikes (80bps), furlough seasonality (45bps) and Restructuring costs, which hit margins by 26bps in Q3 but partially offset by utilization gains (104bps) and currency benefit (40bps). HCLT reiterated its full-year EBIT margin guidance of 17-18%, which factors in restructuring costs but excludes the impact of labor code.

Revise to SELL; TP raised to INR 1,500: Q3 revenue and margin were in line with typical seasonal patterns in the products business, which lifted performance. However, despite strong Q3, HCLT cut the upper end of its guidance by 50bps, indicating weak Q4. Also, uptick in Q3 for the product business was led by tactical license revenues rather than sticky subscription revenues, which may not be sustainable in our view. Margin pressure may continue due to new AI skills coming at higher costs. So, we reduce our FY27E/FY28E margin estimates by 10bps / 80bps, respectively.

We increased our TP to INR 1,500 (on unchanged 21x FY27E EPS) from INR 1,445 to factor in strong Q3. We revise HCLT to Sell (from Reduce) as the stock has run up ~20% in past 3-4 months and valuations appear full. The stock is trading at 12-13% premium in FY27E to Infosys despite similar earnings growth of 5-6% over FY25-27E, which appears unreasonable in our view.

Key Financials

YE March (INR mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue (INR mn)	1,099,130	1,170,550	1,296,599	1,388,744	1,470,541
YoY (%)	8.3	6.5	10.8	7.1	5.9
EBITDA (INR mn)	242,000	255,050	269,581	287,682	301,429
EBITDA margin (%)	22.0	21.8	20.8	20.7	20.5
Adj PAT (INR mn)	157,100	173,900	157,886	190,115	196,691
YoY (%)	5.8	10.7	(9.2)	20.4	3.5
Fully DEPS (INR)	57.9	64.1	58.3	70.2	72.6
RoE (%)	23.5	25.2	22.4	26.3	26.5
RoCE (%)	29.1	30.5	32.0	33.8	34.0
P/E (x)	28.8	26.0	28.6	23.7	22.9
EV/EBITDA (x)	17.7	16.8	15.9	14.9	14.2

Note: Pricing as on 12 January 2026; Source: Company, Elara Securities Estimate

Rating: Sell

Target Price: INR 1,500

Downside: 10%

CMP: INR 1,668

As on 12 January 2026

Key data

Bloomberg	HCLT IN
Reuters Code	HCLT.NS
Shares outstanding (mn)	2,714
Market cap (INR bn/USD mn)	4,525/50,190
EV (INR bn/USD mn)	4,281/47,481
ADTV 3M (INR mn/USD mn)	3,952/44
52 week high/low	2,005/1,303
Free float (%)	39

Note: as on 12 January 2026; Source: Bloomberg

Price chart



Source: Bloomberg

	Q3 FY25	Q4 FY25	Q1 FY26	Q2 FY26
Shareholding (%)				
Promoter	60.8	60.8	60.8	60.8
% Pledge	0.0	0.0	0.0	0.0
FII	19.4	19.1	18.6	16.6
DII	15.3	15.4	16.2	17.8
Others	4.5	4.7	4.4	4.7

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	2.0	2.5	10.1
HCL Technologies	11.5	1.8	(16.1)
NSE Mid-cap	1.3	1.9	9.1
NSE Small-cap	(5.9)	(8.8)	(4.3)

Source: Bloomberg

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Financials (YE March)

Income Statement (INR mn)	FY24	FY25	FY26E	FY27E	FY28E
Total Revenue	1,099,130	1,170,550	1,296,599	1,388,744	1,470,541
Gross Profit	394,390	408,980	468,857	501,092	537,029
EBITDA	242,000	255,050	269,581	287,682	301,429
EBIT	200,990	214,030	226,491	245,236	252,920
Interest expense	5,530	6,440	8,123	7,789	8,248
Other income	14,950	24,850	16,810	17,741	18,284
PBT	210,410	232,440	225,618	255,188	262,956
Tax	52,570	58,620	58,092	65,073	66,265
Minority interest/Associates income	(80)	(90)	(80)	-	-
Reported PAT	157,100	173,900	167,446	190,115	196,691
Adjusted PAT	157,100	173,900	157,886	190,115	196,691

Balance Sheet (INR mn)	FY24	FY25	FY26E	FY27E	FY28E
Shareholders' Equity	682,630	696,550	713,115	732,126	751,795
Minority Interest	80	180	270	270	270
Trade Payables	58,530	62,250	71,047	76,096	80,578
Provisions & Other Current Liabilities	168,730	218,140	193,141	213,939	229,143
Total Borrowings	23,270	1,740	1,740	1,740	1,740
Other long term liabilities	64,530	76,580	76,580	76,580	76,580
Total liabilities & equity	997,770	1,055,440	1,055,892	1,100,751	1,140,106
Net Fixed Assets	49,990	45,600	40,889	36,313	29,829
Goodwill	201,320	217,560	217,560	217,560	217,560
Intangible assets	71,300	68,990	68,990	68,990	68,990
Business Investments / other NC assets	81,850	102,200	102,200	102,200	102,200
Cash, Bank Balances & treasury investments	201,500	212,890	185,962	210,746	234,703
Inventories	-	-	-	-	-
Sundry Debtors	255,210	258,420	284,186	304,382	322,310
Other Current Assets	136,600	149,780	156,105	160,559	164,513
Total Assets	997,770	1,055,440	1,055,892	1,100,751	1,140,106

Cash Flow Statement (INR mn)	FY24	FY25	FY26E	FY27E	FY28E
Cashflow from Operations	224,480	222,440	162,322	233,758	243,004
Capital expenditure	(10,480)	(11,080)	(38,379)	(37,869)	(42,025)
Acquisitions / divestitures	(20,110)	(19,570)	-	-	-
Other Business cashflow	(36,640)	(18,490)	-	-	-
Free Cash Flow	214,000	211,360	123,943	195,888	200,979
Cashflow from Financing	(154,640)	(185,610)	(150,701)	(171,104)	(177,022)
Net Change in Cash / treasury investments	54,260	11,390	(26,928)	24,785	23,957

Key assumptions & Ratios	FY24	FY25	FY26E	FY27E	FY28E
Assumption 1 Dividend per share	52.0	60.0	55.6	63.2	65.3
Book value per share (INR)	251.4	256.7	263.3	270.3	277.5
RoCE (Pre-tax) (%)	29.1	30.5	32.0	33.8	34.0
ROIC (Pre-tax) (%)	38.9	43.2	44.6	46.6	48.5
ROE (%)	23.5	25.2	22.4	26.3	26.5
Asset Turnover (x)	21.1	24.5	30.0	36.0	44.5
Net Debt to Equity (x)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Net Debt to EBITDA (x)	(0.7)	(0.8)	(0.7)	(0.7)	(0.8)
Interest cover (x) (EBITDA/ int exp)	43.8	39.6	33.2	36.9	36.5
Total Working capital days (WC/rev)	56.5	52.1	50.8	49.1	49.1

Valuation	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	28.8	26.0	28.6	23.7	22.9
P/Sales (x)	4.1	3.9	3.5	3.3	3.1
EV/ EBITDA (x)	17.7	16.8	15.9	14.9	14.2
EV/ OCF (x)	19.1	19.2	26.4	18.3	17.6
FCF Yield	4.7	4.7	2.7	4.3	4.4
Price to BV (x)	6.6	6.5	6.3	6.2	6.0
Dividend yield (%)	3.1	3.6	3.3	3.8	3.9

Note: Pricing as on 12 January 2026; Source: Company, Elara Securities Estimate

Exhibit 1: Quarterly financials

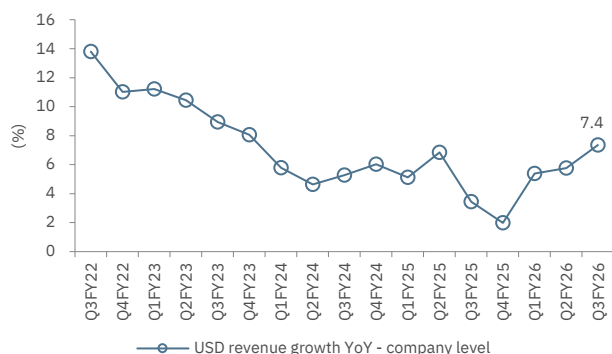
(INR mn)	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)	Q3FY26E	Variance (%)
Revenues (USD mn)	3,793	3,533	7.4	3,644	4.1	3,717	2.0
Revenue	3,38,720	2,98,900	13.3	3,19,420	6.0	3,30,802	2.4
Operating expenditure	2,64,600	2,30,300	14.9	2,53,490	4.4	2,60,795	1.5
Employee costs	1,88,670	1,65,760	13.8	1,83,010	3.1	1,86,903	0.9
Outsourcing costs	47,750	38,740	23.3	44,750	6.7	46,179	3.4
EBITDA	74,120	68,600	8.0	65,930	12.4	70,007	5.9
Depreciation	11,270	10,390		10,430		10,460	7.7
EBIT	62,850	58,210	8.0	55,500	13.2	59,547	5.5
Other income and exceptional items	(7,760)	3,110		2,000		2,417	(421.0)
PBT	55,090	61,320	(10.2)	57,500	(4.2)	61,964	(11.1)
Total tax	14,270	15,380		14,660		15,925	(10.4)
PAT	40,760	45,910	(11.2)	42,830	(4.8)	46,039	(11.5)
Reported EPS (INR)	15.1	16.9	(11.1)	15.6	(3.6)	17.0	(11.3)

Source: Company, Elara Securities Estimate

Conference call highlights

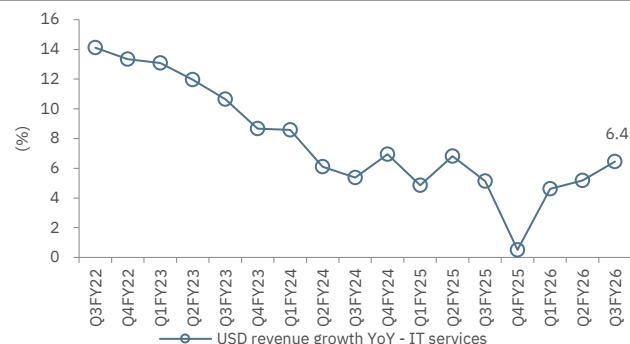
- ▶ **HCLT raised its FY26 company-level revenue growth guidance to 4-4.5%** in YoY CC (up from 3-5% YoY CC), while services-level growth guidance was increased to 4.75-5.25% YoY CC (up from 4-5%). This does not include contributions from three recent acquisitions – Telco Solutions Business from HPE, Jaspersoft, and Wobby.
- ▶ **Macro outlook:** Management highlighted that despite ongoing global macro uncertainty, AI-linked tech spending is resilient, with GenAI, Physical AI, and AI Factory emerging as clear pockets of strength. While traditional discretionary spending is slow and clients remain cautious on legacy transformation budgets, HCLT is seeing strong traction in AI-adjacent spend such as data, infrastructure, and engineering services tied to AI rollouts. HCLT emphasized that instead of waiting for a cyclical recovery in discretionary IT budgets, it is proactively capturing growth in the areas where new spending is actually occurring.
- ▶ **Segment-wise commentary:** Growth was led by Financial Services and Technology verticals, supported by strong demand for data, engineering and AI-led modernization. Manufacturing growth was aided by strength in aerospace & defense, though management highlighted continued softness in traditional industrial manufacturing and noted early signs of stability in auto. Retail & CPG surprised positively driven by ramp-up of prior wins, while Public Services on steady government spending. Healthcare and telecom remained steady, with telecom expected to improve structurally following the HPE Telco Solutions acquisition.
- ▶ **AI moving to monetization:** HCLT noted that AI engagement has matured significantly versus a year ago. Earlier discussions were centered on isolated GenAI pilots and point solutions with clients still assessing ROI and focusing on prerequisite data and cloud foundations. In the past year, this has shifted to holistic, enterprise-wide AI transformation agendas. While this broadening has elongated decision cycles, it has substantially deepened strategic engagement. Near-term adoption remains the strongest in software development and data lifecycle modernization, while spending is increasingly directed toward foundational AI infrastructure.
- ▶ **Strong deal momentum** with four large deals signed in Q3FY26, including a USD 473mn, five-year mega deal, marking the strongest ACV performance in four years. Management noted that all four of the largest deals closed in the quarter were led by AI-driven value propositions.
- ▶ **HCL Software** delivered a strong growth, supported by seasonality and continued traction in the data intelligence portfolio, particularly Actian, which remains one of HCLT's top three product lines. Management highlighted growing demand from clients seeking sovereign, non-public-cloud-based solutions, which contributed to a modest uptick in perpetual license revenue, driven by one large client insisting on a sovereign perpetual model, though the broader strategy remains firmly focused on shifting customers to term and subscription agreements.

Exhibit 2: Revenue growth higher on seasonality



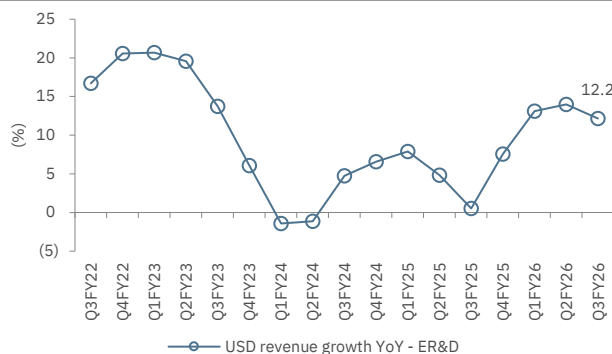
Source: Company, Elara Securities Research

Exhibit 3: Growth in IT Services seeing some uptick



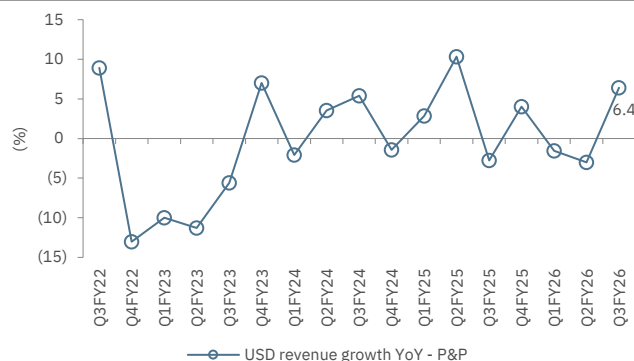
Source: Company, Elara Securities Research

Exhibit 4: ER&D growth slightly subdued from Q2 levels



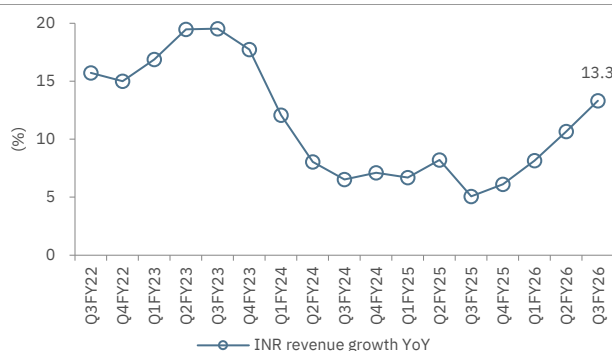
Source: Company, Elara Securities Research

Exhibit 5: Product business supported by seasonality



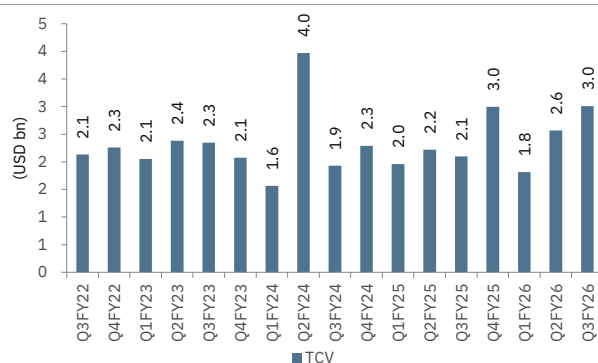
Source: Company, Elara Securities Research

Exhibit 6: INR revenue growth continues trending upwards

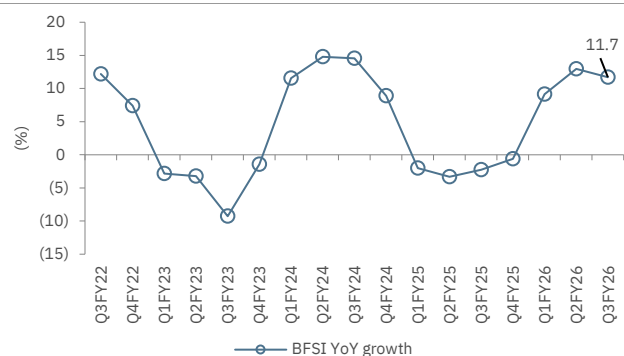


Source: Company, Elara Securities Research

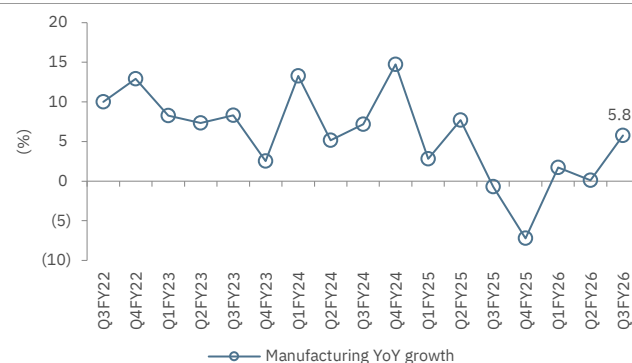
Exhibit 7: TCV growth robust including 1 mega deal



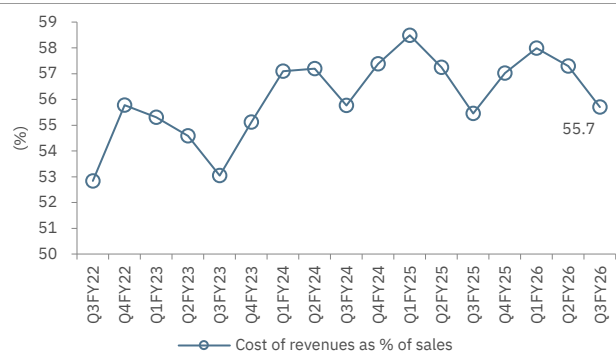
Source: Company, Elara Securities Research

Exhibit 8: BFSI growth steady


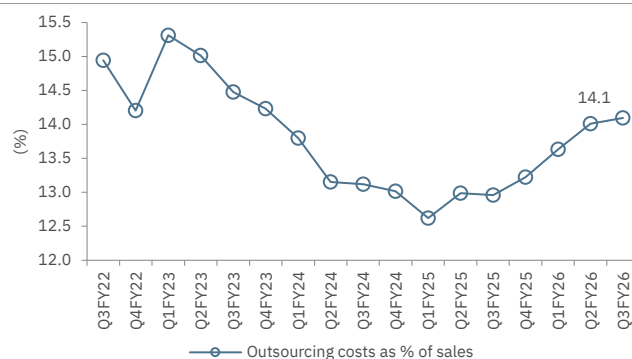
Source: Company, Elara Securities Research

Exhibit 9: Manufacturing seeing signs of recovery


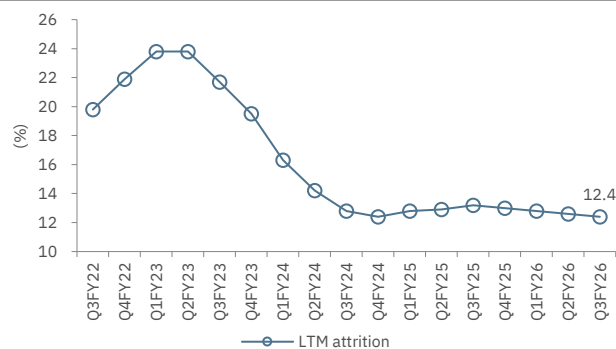
Source: Company, Elara Securities Research

Exhibit 10: Cost of revenue, as a percentage of sales, decreasing


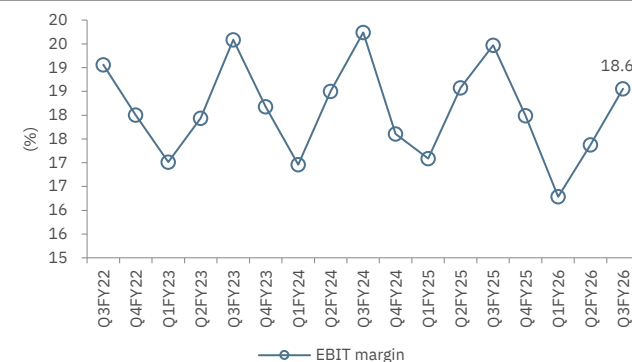
Source: Company, Elara Securities Research

Exhibit 11: Outsourcing, as a percentage of sales, up 10bps QoQ


Source: Company, Elara Securities Research

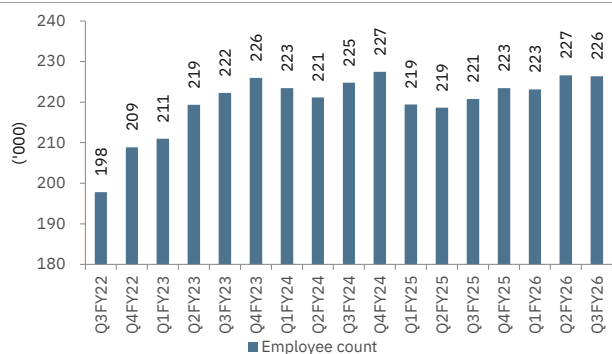
Exhibit 12: LTM attrition down 20bps sequentially


Source: Company, Elara Securities Research

Exhibit 13: EBIT margin expands 111bp sequentially


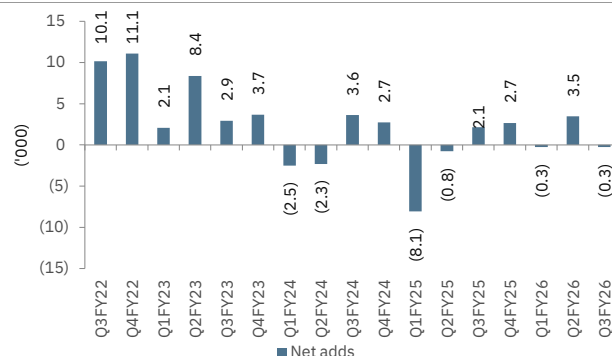
Source: Company, Elara Securities Research

Exhibit 14: Employee count contracts



Source: Company, Elara Securities Research

Exhibit 15: Net drop of 261, despite ~2.8K freshers added in Q3



Source: Company, Elara Securities Research

Exhibit 16: Valuation (FY27E)

(INR)	
TTM EPS (INR)	60.7
CMP	1,668
Target EPS (INR)	70.2
Target multiple (x)	21
TP	1,500
Downside (%)	10

Note: Pricing as on 12 January 2026; Source: Elara Securities Estimate

Exhibit 17: HCLT trading at 23.9x, +1SD above its 10-year mean



Note: Pricing as on 12 January 2026; Source: Elara Securities Estimate

Exhibit 18: Change in estimates

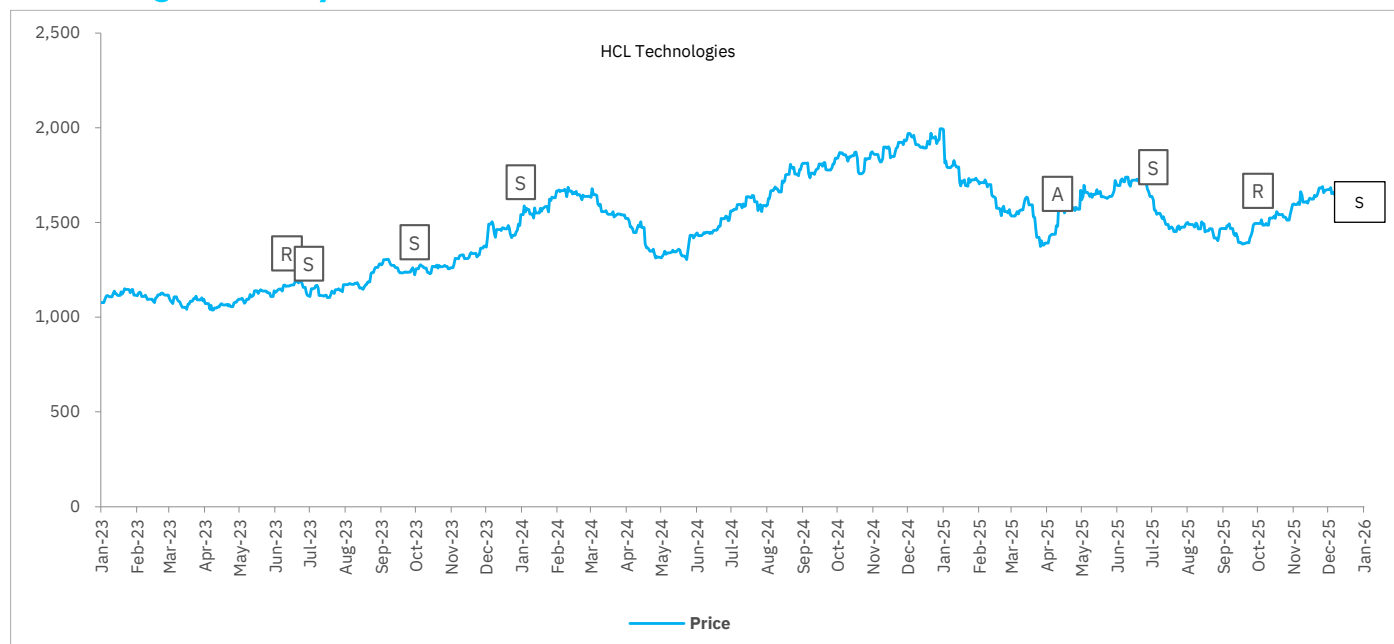
(INR mn)	Earlier			Revised			% change		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue in USD	14,658	15,427	16,282	14,746	15,604	16,523	0.6	1.1	1.5
Revenue in INR	12,65,253	13,26,691	14,00,246	12,96,599	13,88,744	14,70,541	2.5	4.7	5.0
EBIT	2,16,453	2,36,564	2,51,469	2,26,491	2,45,236	2,52,920	4.6	3.7	0.6
EBIT margin (%)	17.1	17.8	18	17.5	17.7	17.2			
PAT	1,67,721	1,83,949	1,95,921	1,67,445	1,90,115	1,96,691	(0.2)	3.4	0.4
EPS (INR)	62	68	72	62	70	73	0.0	3.5	0.6
TP (INR)	1,445			1,500			3.8		
Rating	Reduce			Sell					

Source: Elara Securities Estimate

Key risks to our call

- ▶ Higher-than-expected growth in IT services.
- ▶ Higher-than-expected margins.

Coverage History



Date	Rating	Target Price (INR)	Closing Price (INR)
12-Jan-2023	Reduce	1,020	1,072
23-Jun-2023	Reduce	1,120	1,165
12-Jul-2023	Sell	990	1,111
12-Oct-2023	Sell	1,020	1,224
12-Jan-2024	Sell	1,430	1,541
14-Oct-2024	Sell	1,620	1,856
13-Jan-2025	Sell	1,570	1,989
22-Apr-2025	Accumulate	1,570	1,480
14-Jul-2025	Sell	1,490	1,620
13-Oct-2025	Reduce	1,445	1,495
12-Jan-2026	Sell	1,500	1,668

Guide to Research Rating

BUY (B)	Absolute Return >+20%
ACCUMULATE (A)	Absolute Return +5% to +20%
REDUCE (R)	Absolute Return -5% to +5%
SELL (S)	Absolute Return < -5%

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