

**SELL**

TP: Rs 1,320 | ▼ 11%

**HCL TECHNOLOGIES**

| IT Services

| 23 April 2025

## Revenue guidance seems a tad aggressive

- 4QFY25 was peer beating. FY26 revenue guide assumes flattish CQGR at lower end; does not square up against the cautious commentary
- Gen AI commentary like that of its peers indicates deflation laced with wallet share gains. GCC, just like for its peers, a growth driver -ironic
- Cut estimates for FY26/FY27. Maintain Target PE of 19.2x (10% discount to that of TCS) on FY27EPS. Maintain SELL

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4QFY25 was better than that for its peers with a revenue decline of 0.8% in constant currency where decline was driven entirely by the software products business (-12.9% QoQ). The services business grew QoQ by 0.7% unlike that for its peers TCS, Infosys and Wipro where it declined. HCLT stated that the quarter played out as was expected. Both the total revenue and EBIT margin performance was broadly in line with our estimates.

The revenue guidance for FY26 of 2 to 5% in constant currency terms (better than that of 0-3% of Infosys) includes 100 basis points from inorganic element. However, we think the guidance is not conservative as the assumption at the lower end is that of flat revenues from 4QFY25 levels for the four quarters of FY26. HCLT however talked about the lower end incorporating a deterioration. The lower end of the guidance does not square up with the rather cautious commentary that the company had on demand conditions going forward.

While the company did not see project pauses or ramp downs like what its peers saw in 4QFY25, it talked about macro level weakness impacting demand going forward especially in sectors like Retail CPG and in manufacturing. It also stated that the weakness would spread to other sectors quickly. This possibly hints at the weakness that it is seeing in 1QFY26 in these sectors.

Just as has been the case with its peers, HCLT too talked about Gen AI based productivity gains being passed back to customers (leading to deflation) being offset by gains from vendor consolidation. It talked about customers cutting budgets in the uncertain environment that they are currently in and the postponement of discretionary spending. It stated that the discretionary spend is done only if ROI is visible in the near term.

Both the services and the products businesses are expected to grow at a similar pace in FY26. The EBIT margin guidance for FY26 has been kept at a similar rate as that of FY25 - 18 -19%.

## Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	HCLT IN/Rs 1,480
Market cap	US\$ 47.1bn
Free float	39%
3M ADV	US\$ 55.5mn
52wk high/low	Rs 2,002/Rs 1,235
Promoter/FPI/DII	61%/19%/16%

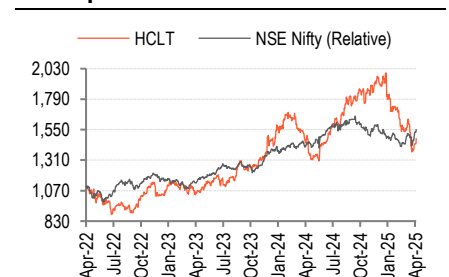
Source: NSE | Price as of 22 Apr 2025

## Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	1,170,550	1,223,758	1,314,711
EBITDA (Rs mn)	255,050	272,319	285,698
Adj. net profit (Rs mn)	173,910	177,370	186,977
Adj. EPS (Rs)	64.1	65.3	68.9
Consensus EPS (Rs)	64.0	70.0	78.2
Adj. ROAE (%)	25.2	25.4	26.7
Adj. P/E (x)	23.1	22.7	21.5
EV/EBITDA (x)	15.4	14.5	13.8
Adj. EPS growth (%)	10.8	1.9	5.4

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



Source: NSE



HCLT indicated that it would hire more freshers in FY26 compared to FY25 when it hired ~7500. It said it would take a call on salary hikes closer to October 2025.

HCLT clocked its second-best order inflow at USD3 billion in 4QFY25. The best was in the September quarter of 2023 but that had the mega deal of Verizon.

The total TCV for FY26 at US\$9.4 billion (all net new) was 5% lower than that of FY24. The engineering and R&D services business saw an order inflow growth of 75% in FY25 which included a large order from a high-tech client.

HCLT also talked about the big GCC opportunity and stated that it is working with 200 GCCs and stated that the GCC opportunity is a meaningful one from a long-term standpoint and that there would be meaningful annuity revenues that would remain with HCL tech despite insourcing by clients in future years. It stated that the GCC margins are similar to corporate margins.

We have cut revenue/ EPS estimates in line with the weak forward commentary of HCLT and assume that Tariffs and DOGE will have an impact on economic growth and customer financial performance in 2025. We think the competitive intensity along with Gen AI pass back will keep EBIT margins in a very tight range around 18% for foreseeable future.

## Key Points from the quarter and the earnings call

### FY25

- Revenue of US\$13.84bn, a 4.7% YoY growth in CC terms
- Operating margin stood at 18.3%, a 7bps increase over FY24
- **YoY CC growth**
  - Services business: 4.8%
  - IT and business services: 4.6%
  - Engineering and R&D services: 5.5%
  - HCL Software: 3.5%
  - America grew 5.3%; RoW grew 4.7%; Europe grew 3.5%
  - Financial Services: -1.6% (includes the impact of a divestiture of the State Street business in 2QFY25); Manufacturing: 0.9%; Lifesciences & Healthcare: -3.8%; Telecom, media, and publishing was the leading vertical in FY25, growing 43.4% largely due to the acquisitions of the Telecom assets of HPE – impact of 4 months; Retail and CPG vertical grew 10.7%; Technology and services vertical increased 6.7%; Public Services: -2.7
- TCV (New deal wins) at US\$9.3bn was down ~5% YoY

## 4QFY25

- Revenue stood at US\$3,498mn, a 0.8% QoQ decline due to seasonality in software business, and 2.9% YoY increase in CC terms
- Operating margin stood at 18%. Company-level margins dropped QoQ due to seasonality in software
  - Services margin declined by 38bps QoQ, driven by 50bps impact from the second cycle of increments, partially offset by 46bps positive Forex impact
  - Remaining margin drop was due to increased investments in sales and marketing
  - Project Ascend continued to support margin goals while enabling investments in sales and Gen-AI capabilities
- Services business CC revenue stood at \$3,163mn growing 0.7% QoQ and 2.7% YoY
- YoY CC growth
  - IT and business services: 1.4%
  - Engineering and R&D services: 8.5%
  - HCL Software: 4.9%
- Financial Services: 0.7%; Manufacturing: -6.1%; Lifesciences & Healthcare: -7.4%; Telecom, media, and publishing: 24.3%; Retail and CPG vertical grew 9.5%; Technology and services vertical; 10.8%; Public Services: -0.5%
- TCV (New deal wins) stood at US\$3bn, second highest quarter in its history.
- Total headcount stood at 223,420 and LTM Attrition at 13%
- Interim dividend declared at INR18/ share

## Business outlook

- Enterprises will accelerate AI adoption to modernize legacy systems and address technical debt
- This transformation will require cloud migration, updated infrastructure frameworks, and strong data foundations
- Client demand for AI-led efficiencies will continue to drive transformation and vendor consolidation
- Discretionary spending will remain subdued, and new projects will require strong ROI justification due to macroeconomic constraints
- Geopolitical risks such as tariffs and de-globalization may impact IT budgets, leading to potential contract renegotiations or delays. Or it may also lead to accelerated decision-making to reduce cost and diversify supply chains

## Guidance for FY26

- Company Revenue growth expected to be between 2.0% - 5.0% YoY in CC. 100bps of inorganic element in this.
- Both services and product revenue growth expected to be between 2.0% - 5.0% YoY in CC
- 1Q seasonal weakness expected to be softer than in FY25
- EBIT margin to be between 18.0% – 19.0%
- Company commentary on guidance: Guidance assumes potential deterioration in the environment, reflected in the lower end of the 2% growth range. Midpoint of guidance is based on the assumption that a few large deals in the pipeline will close in 1Q. Higher end of guidance assumes stable environment and successful closure of expected deals in 1Q

## Other Points:

- AI and Gen-AI are now integral parts of nearly every deal
- Four flagship AI offerings – AI Force, AI Foundry, AI Labs, and AI Engineering – saw substantial adoption and scaling. Significant investments are being made to drive agentic capabilities across AI Force, AI Foundry, and AI Engineering
- Deal deferrals were due to general macroeconomic environment and not specific client issues or tariff-related reasons. No deal cancellations or significant ramp downs observed in 4QFY25
- Outlook for ER&D services in FY26 is optimistic, although macroeconomic conditions could have some impact
- The management stated that 50% of the US\$3bn bookings happened in March, indicating strong deal closures. They said that there is a sense of urgency, and decisions may be made faster, especially on efficiency-led and AI-led opportunities
- Deflation level due to pass-back of AI-led efficiencies vary based on the type of services being delivered
  - In software development, AI adoption can lead to deflation of 20%-25% once fully implemented. For digital operations, deflation could range from 20%-50%, though this is a gradual process requiring client collaboration. Most of the recent renewals included incremental business, offsetting deflationary impacts
- In FY25, services revenue grew by 4.7%, while headcount declined by 2%, demonstrating a non-linear growth model. The execution model is expected to become less location-dependent, with a mix of 50% people and 50% agentic solutions. This shift is a gradual journey, and there are clients already keen to adopt this approach
- Retail, manufacturing, and auto sectors are expected to be impacted by tariffs, but this impact will spill over to all verticals very quickly. The impact will likely start with

retail and manufacturing, including auto, but it is expected to affect other verticals within a quarter

- Clients are adopting a "wait and watch" approach due to uncertainty around how the tariff situation will play out
- The 75% increase in ER&D bookings in FY25 was largely driven by a large deal in 4Q and a significant digital engineering component from Western Union. The current growth is influenced by the full-quarter impact of the CTG integration

**View on the Indian IT Services sector:** We reinitiated coverage on the Indian IT Services with an Underweight stance through a report on 1 January 2025 (**Slow is the (new/old) normal**).and reiterated that view with an update on 12<sup>th</sup> March 2025 (**FY26 unlikely to be better than FY25**),

While both earnings (less so) and PE multiple (more so) have corrected since 1 Jan 2025, we suspect that there are further cuts possible for both FY26 and FY27 earnings under the current macro conditions which we believe could last longer than companies' sanguine commentary.

We believe the industry's structural USD organic revenue growth from here on will be lower than the ~7% CAGR seen during FY15-FY20, possibly ~5% CAGR over FY25-FY30 in constant currency (CC) terms.

### Multiple speed breakers post FY25 drive our Underweight stance

Trump policies raise uncertainty. The tariffs, the conditional tax breaks, the immigration push back, DOGE, etc, all point to uncertainty in the coming days which may delay decision making by customers and lead to lower spending.

**Higher for longer interest rate environment:** One of the reasons for optimism around the Indian IT Services sector in late 2024 has been the view that the US would achieve a soft landing in 2025 (which we define as 0.5-1.5% real GDP growth) and that Fed Funds rate would be gradually lowered from the peak of 5.25-5.5%, driven by lower inflation. This, the market felt, was the apt environment for a broader pick up in discretionary spending beyond that of North American BFSI sector, especially after two muted years when the constant refrain from vendors for the weak growth was of 'macro uncertainty'.

Lately, based on inflation prints and fears of a higher fiscal deficit (due to economic slowdown concerns, not enough gains from DOGE,etc) US 10-year yields rose. There are fears that sustained high interest rates could reduce IT outsourcing demand, particularly in sectors like BFSI and Telecom, and dampen US demand in areas like housing, autos and retail.

Since Trump 2.0 took office and the fact that it is putting into effect a lot of structural repair, the market seems to believe that while growth would slow there would not be a commensurate decline in Inflation. This stagflationary set up and the uncertainty induced by the back and forth on tariff pronouncements, we believe, will lead to slower decision making and spending by US/global corporations on IT. The tariff spat with

China is particularly concerning. Discretionary spending which was beginning to look up may go back into a shell again.

Covid-induced pull forward of demand requires a multi-year unwind. We think there were excesses during the compressed transformation phase which are yet to be fully unwound.

**Gen AI – value compressive in the near term:** Gen AI has significantly boosted revenue in semiconductors, data centres, and hyper scalers, but IT services have seen limited benefits. ROI remains a top concern arising from heavy investments in surrounding services.

**Massive hyper scaler AI capex should accentuate re-alignment in IT spend:** Software players, including hyper scalers, are increasing capex on AI-related data centres. This will drive higher pricing, forcing enterprises to allocate more IT spend to cloud/SaaS.

**Higher competition:** Indian Tier-1 companies now face higher competition from Accenture (especially as it loses business due to DOGE), Tier-2 players, and Cognizant, likely slowing their growth compared to FY15-FY20. This is besides the fact that by FY25, Tier-1 revenue will reach US\$ 85bn, double that in FY15. Due to the higher base now, growth may not be as rapid.

**Weak TCV:** The weaker TCV for most players in 9MFY25 (YoY) and lack of any mega deal announcements in recent quarters points to a brewing growth problem for FY26. Many of the large companies like TCS, INFO and HCLT will also grapple with large contributions to incremental revenue by a limited set of large clients in FY25 or the need to set off large pass-through items.

**How we are valuing companies:** We are using PE methodology and using TCS as our industry benchmark. The target PE used for TCS now is 21.3x, which is the average PE multiple of TCS over the last 10 years less 0.5SD. We have changed this from 24.6x (which is the average PE multiple of TCS over the last five years less 1SD). The changed methodology reflects the changed outlook on growth in FY26. Through our choice of the benchmark Target PE multiple, we seek to capture the probability of downside risks to consensus growth expectations for FY26/FY27, especially due to Trump 2.0 proposals.

## Tier- 2 valuation reflects growth gap with Tier-1

The Tier-2 set have been taking away market share from the Tier-1 set due to better execution and due to their smaller size. And unlike in the past cycles, they have performed better than the Tier-1 largely due to better management teams.

However, the current PE premium to Tier-1s is excessive as we believe that to deliver on the high consensus revenue growth expectations, they may be taking on more cost take-out projects which are likely to impact their margins adversely.

**Fig 1 – Quarterly Results: comparison of actuals with estimates**

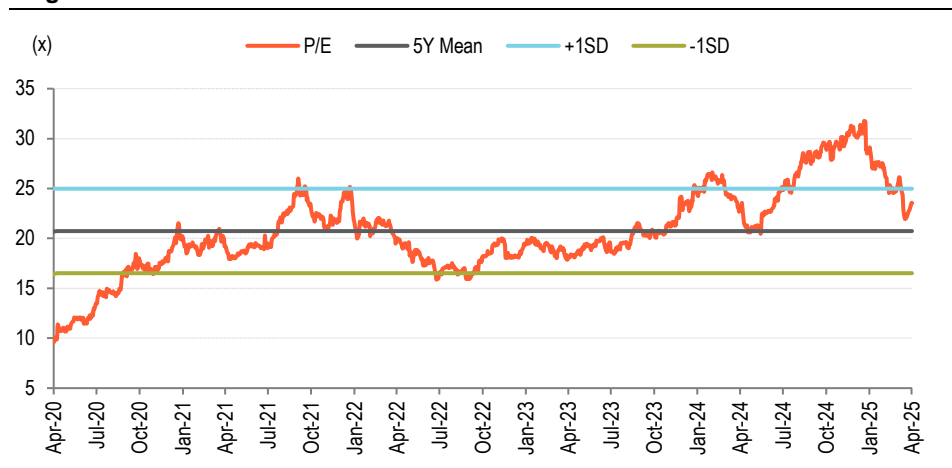
Y/E March (Rs bn)	4QFY24	3QFY25	4QFY25	YoY (%)	QoQ (%)	4QFY25E	Dev(%)
Net Sales (USD mn)	3,430	3,533	3,498	2.0	(1.0)	3,491	0.2
Net Sales	285	299	302	6.1	1.2	302	0.2
Employee Costs	185	193	197	6.6	2.5	198	(0.5)
Gross margin % of Sales	35.0	35.6	34.7			34.3	
SG&A	39	38	40	4.2	6.7	39	3.4
% of Sales	13.5	12.6	13.3			12.9	
Depreciation and Amortisation	11	10	10	(4.8)	0.1	11	(2.7)
% of Sales	3.8	3.5	3.4			3.5	
EBIT	50.2	58.2	54.4	8.4	(6.5)	53.9	0.9
EBIT Margin (%)	17.6	19.5	18.0			17.9	
Other Income	2	3	3	21.6	(2.0)	3	(2.0)
Forex Gain/(Loss)	0	0	(0)			0	
PBT	53	61	57	8.8	(6.5)	57	0.6
Provision for Tax	13	15	14	11.9	(7.3)	14	(0.3)
Effective Tax Rate	24.2	25.1	24.9			25.1	
Minority share in Profit / Loss	0	0	0			0	
One time Bonus and DTL for Goodwill	0	0	0			0	
PAT (Reported)	39.9	45.9	43.1	8.1	(6.2)	42.7	0.9
NPM (%)	14.0	15.4	14.2			14.1	

Source: Company, BOBCAPS Research

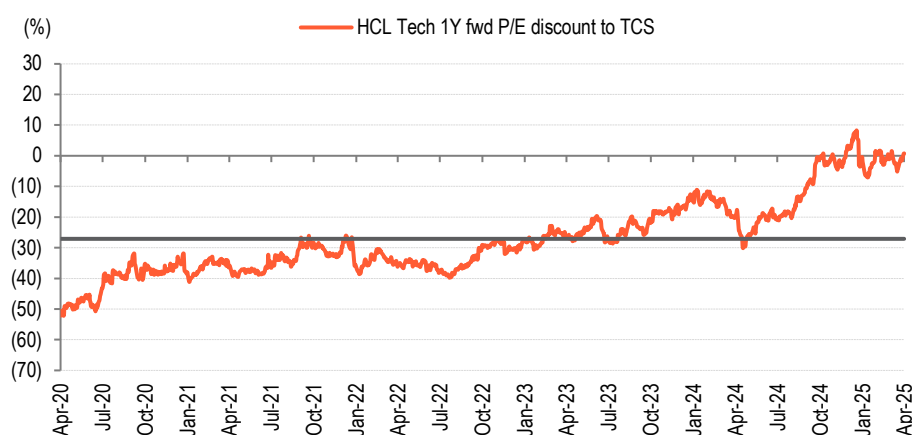
**Fig 2 – Revised Estimates**

HCL TECH	New		Old		Change (%)	
Change in estimates	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
INR/USD	87.3	89.3	87.3	89.3	-	-
USD Revenue (USD mn)	14,025	14,729	14,301	15,466	(1.9)	(4.8)
USD Revenue Growth (%)	1.3	5.0	3.5	8.1		
Revenue (Rsbn)	1,224	1,315	1,248	1,381	(1.9)	(4.8)
EBIT (Rsbn)	224	237	226	256	(0.7)	(7.4)
EBIT Margin (%)	18.3	18.0	18.1	18.5		
PAT (Rsbn)	177	187	178	200	(0.3)	(6.7)
FDEPS (Rs)	65.3	68.9	65.6	73.9	(0.5)	(6.8)

Source: Company, BOBCAPS Research

**Fig 3 – 5 Year PE trend**

Source: Company, BOBCAPS Research

**Fig 4 – Premium/ Discount to TCS**

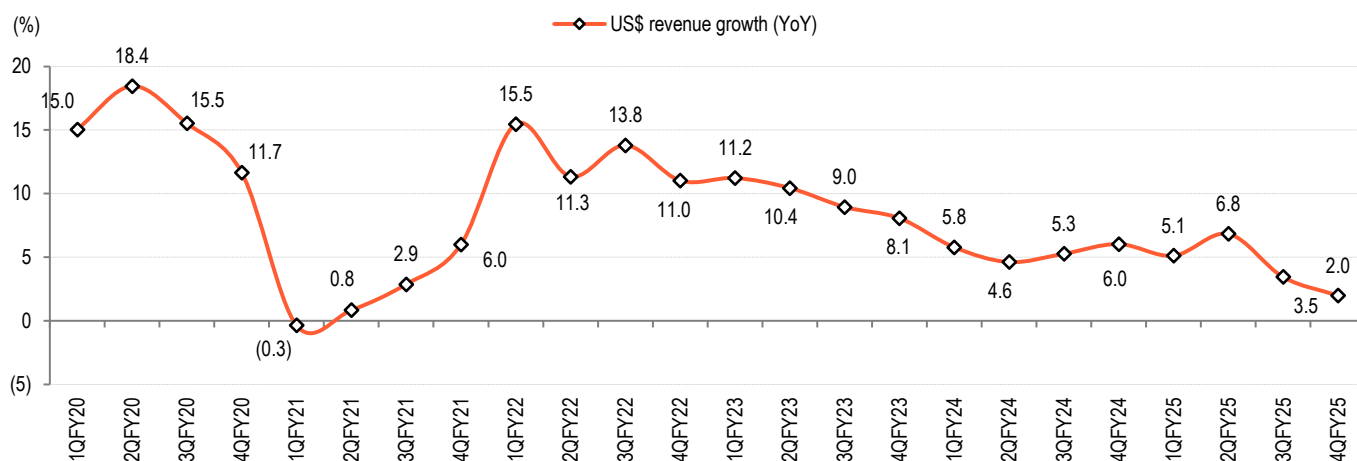
Source: Company, BOBCAPS Research

**Fig 5 – P&L at a glance**

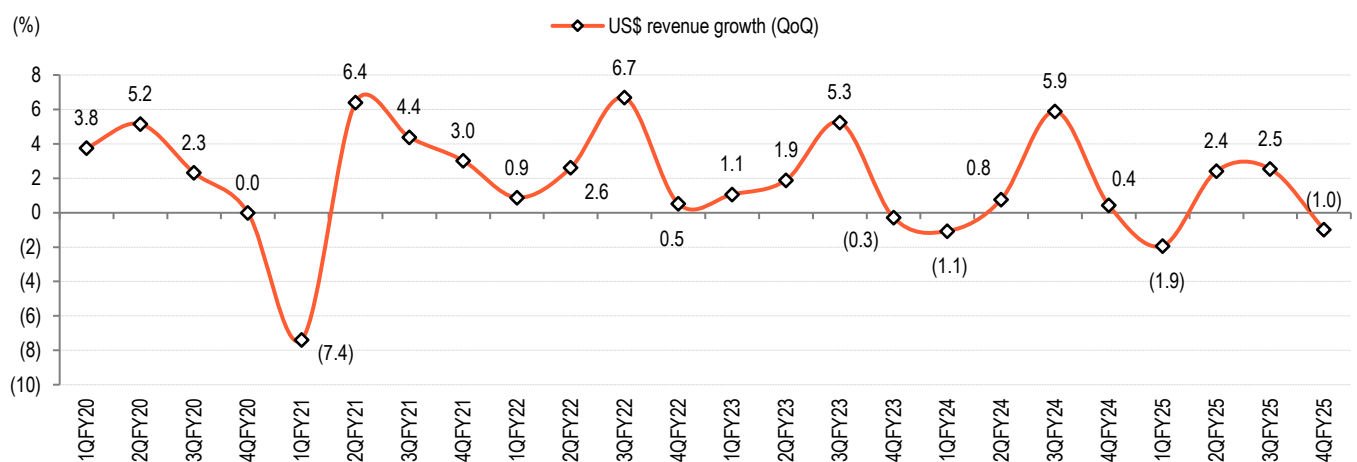
YE March (Rs bn)	FY13	FY14	FY15	FY16*	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Average INR/USD	54.9	61.5	62.4	66.3	67.0	64.5	69.9	72.2	74.2	74.6	80.6	82.8	84.6	87.3	89.3
Net Sales (USD mn)	4,686	5,360	5,952	4,698	6,975	7,838	8,633	9,936	10,175	11,481	12,586	13,270	13,840	14,025	14,729
YoY Growth (%)		14.4	11.1	(21.1)	48.5	12.4	10.1	15.1	2.4	12.8	9.6	5.4	4.3	1.3	5.0
INR Net Sales (Rs bn)	258	329	371	311	467	506	604	707	754	857	1,015	1,099	1,171	1,224	1,315
YoY Growth (%)	22.5	27.7	12.6	(16.0)	50.1	8.2	19.5	17.0	6.6	13.6	18.5	8.3	6.5	4.5	7.4
Cost of Sales & Services	165	202	238	204	309	332	393	443	440	528	645	705	762	801	820
Gross Margin	93	127	133	108	158	173	212	264	314	329	369	394	409	423	495
% of sales	35.9	38.6	35.8	34.6	33.9	34.3	35.0	37.3	41.7	38.4	36.4	35.9	34.9	34.6	37.7
SG&A	35	40	46	40	55	59	72	97	106	124	143	152	154	151	209
% of sales	13.4	12.3	12.3	12.7	11.8	11.7	11.9	13.7	14.1	14.4	14.1	13.9	13.2	12.3	15.9
EBITDA	58	87	87	68	103	114	140	167	208	205	226	242	255	272	286
% of sales	22.5	26.3	23.5	21.9	22.1	22.6	23.1	23.6	27.6	24.0	22.3	22.0	21.8	22.3	21.7
Depreciation and Amortization	7	7	5	4	8	15	21	28	46	43	41	42	41	48	49
% of sales	2.6	2.2	1.2	1.4	1.8	2.9	3.6	4.0	6.1	5.1	4.1	3.8	3.5	3.9	3.7
EBIT	51	79	83	64	95	100	118	139	162	162	185	200	214	224	237
% of sales	19.9	24.1	22.3	20.5	20.3	19.8	19.6	19.6	21.4	18.9	18.2	18.2	18.3	18.3	18.0
Other income (net) (incl forex gain/loss)	2	(0)	9	8	9	11	8	2	4	7	10	9	18	12	12
PBT	53	79	92	72	104	111	126	140	166	170	195	210	233	236	249
Provision for tax	12	15	19	15	20	23	25	29	36	34	46	53	59	59	62
Effective tax rate (%)	23.1	19.5	20.8	20.9	18.8	20.9	19.8	21.0	21.8	20.2	23.8	25.1	25.2	24.9	24.9
Minority Interest	(2)	3	1	0	0	0	0	0	0	0	0	0	0	0	0
Net profit	41	64	73	57	84	88	101	111	129	135	149	157	174	177	187
-Growth (%)	60.7	56.9	13.9	(21.9)	49.0	4.0	15.3	9.3	17.0	4.3	10.0	5.7	10.8	2.0	5.4
-Net profit margin (%)	15.8	19.4	19.6	18.2	18.1	17.4	16.8	15.7	17.2	15.8	14.6	14.3	14.9	14.5	14.2

Source: Company, BOBCAPS Research, \* For FY16 the numbers are for a 9th month period till 31 March, Till FY16, the YE is June and March from FY17 onwards

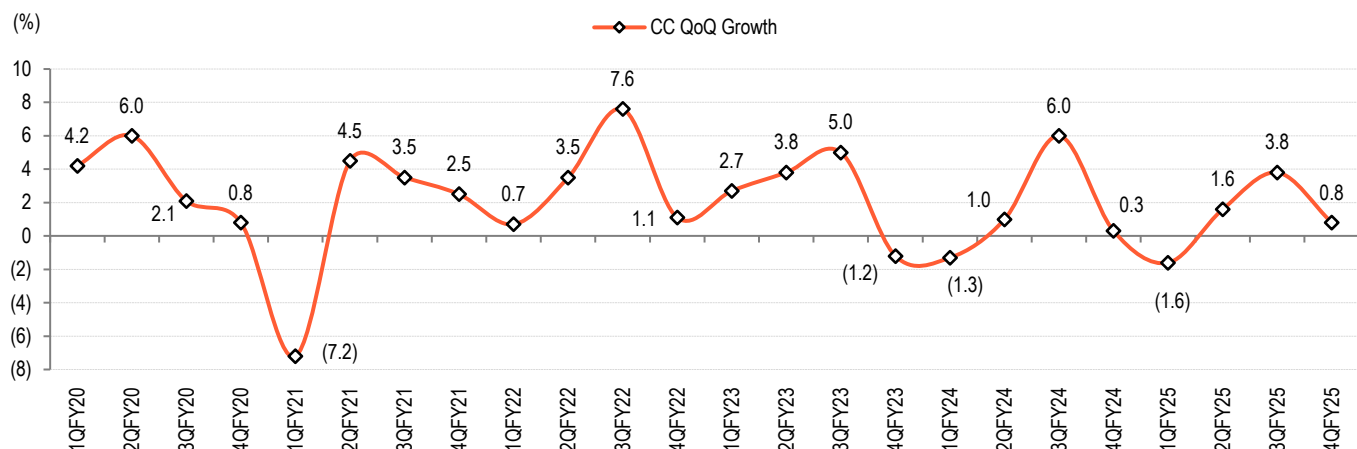


**Fig 6 – US\$ revenue growth (YoY)**

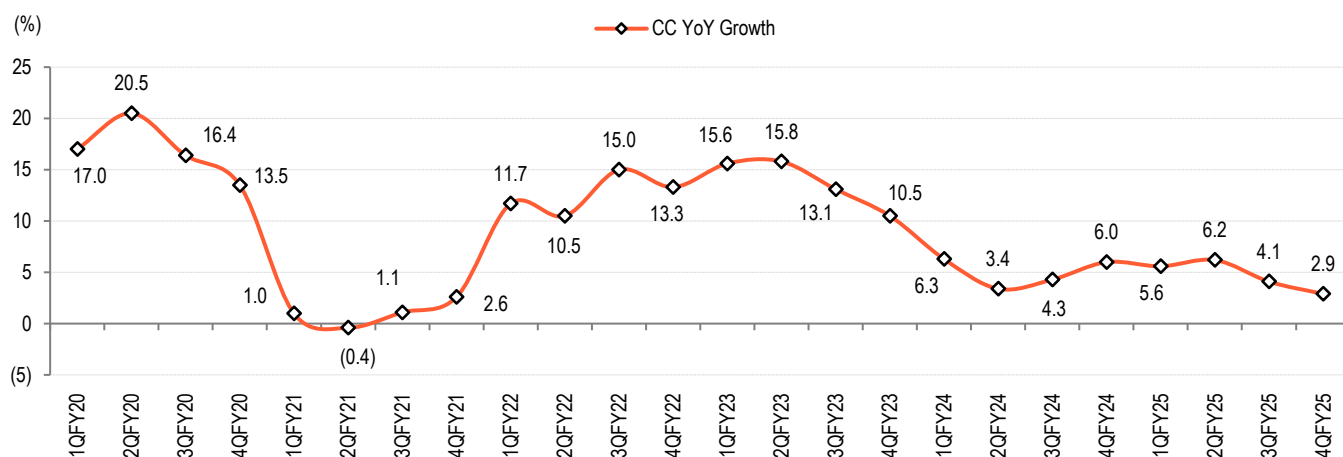
Source: Company, BOBCAPS Research

**Fig 7 – US\$ revenue growth (QoQ)**

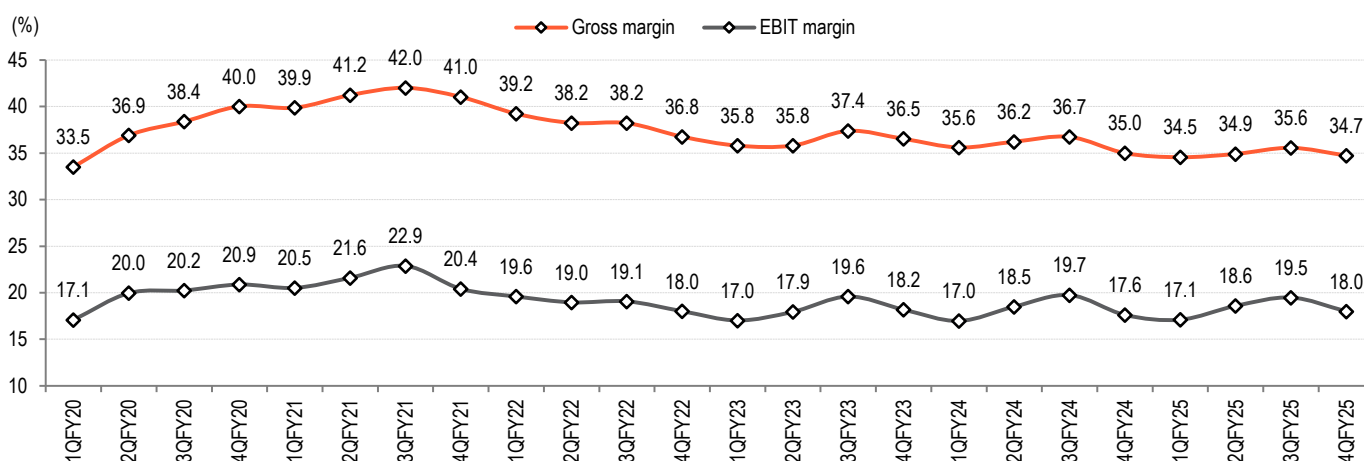
Source: Company, BOBCAPS Research

**Fig 8 – QoQ CC revenue growth**

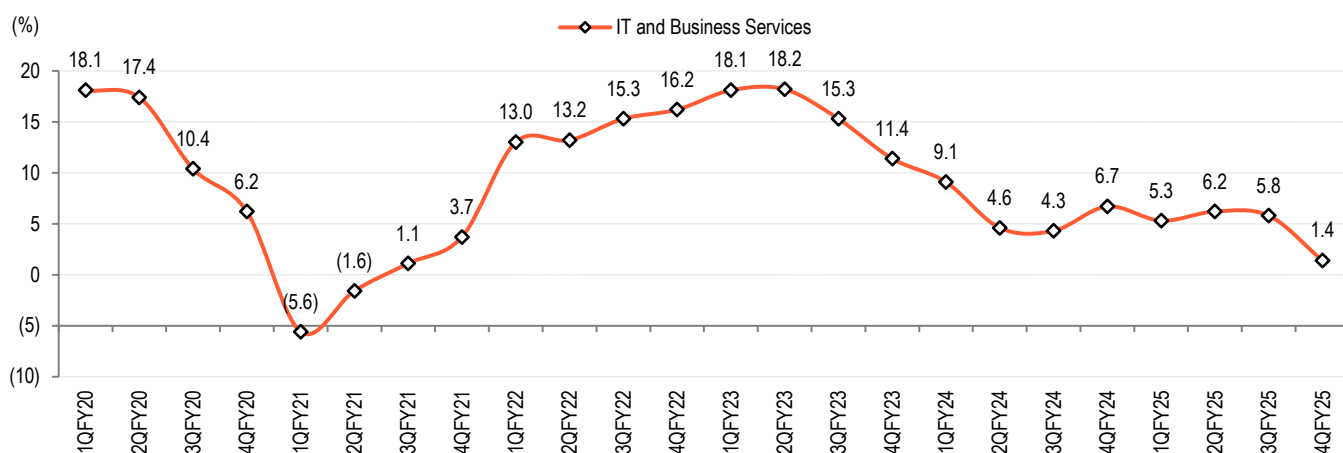
Source: Company, BOBCAPS Research

**Fig 9 – YoY CC Revenue growth**

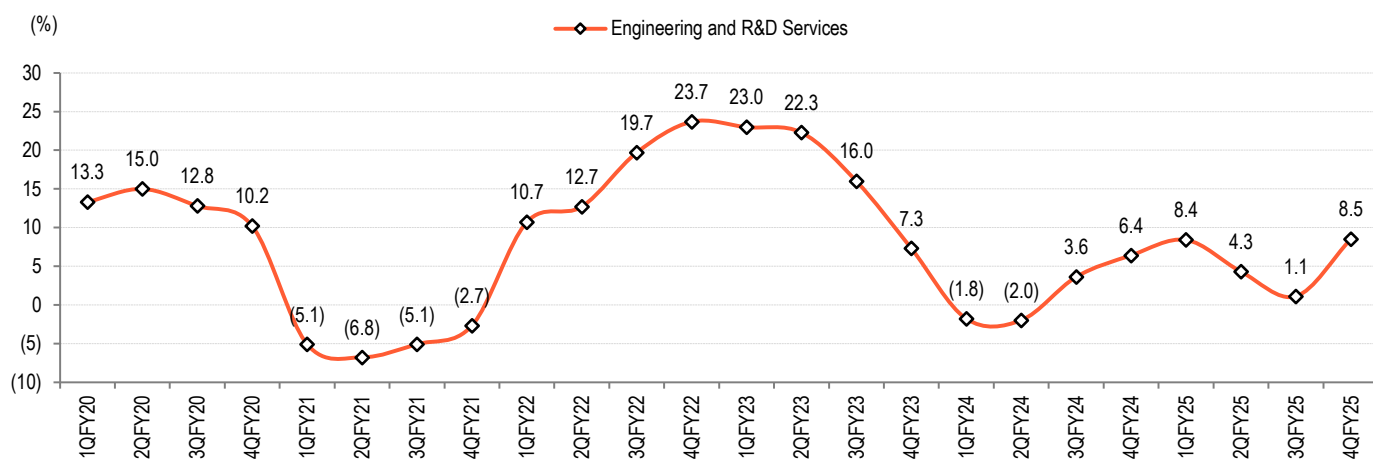
Source: Company, BOBCAPS Research

**Fig 10 – Gross margin and EBIT margin**

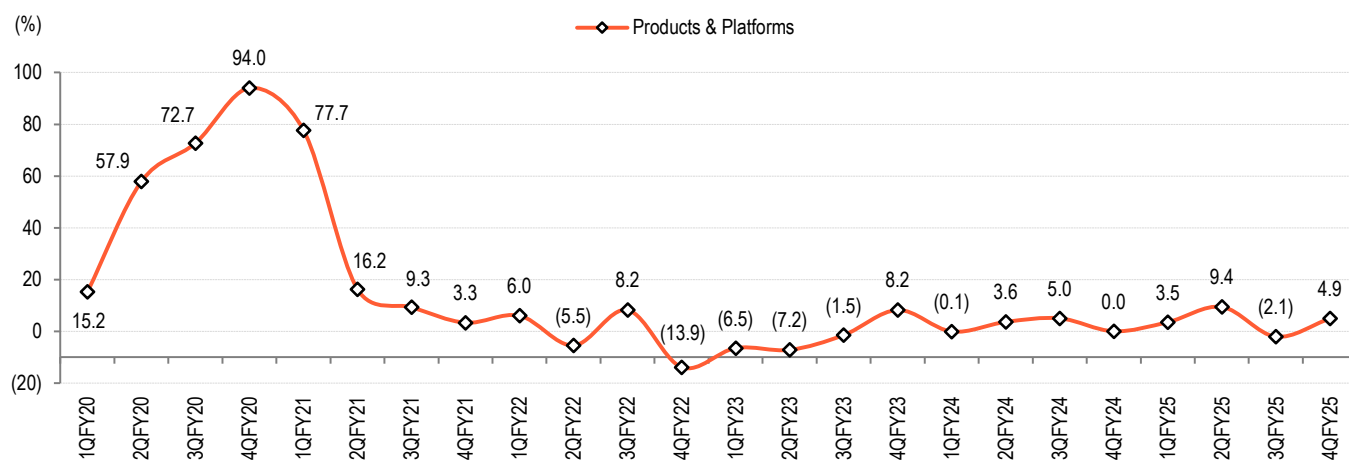
Source: Company, BOBCAPS Research

**Fig 11 – ITBS growth YoY CC**

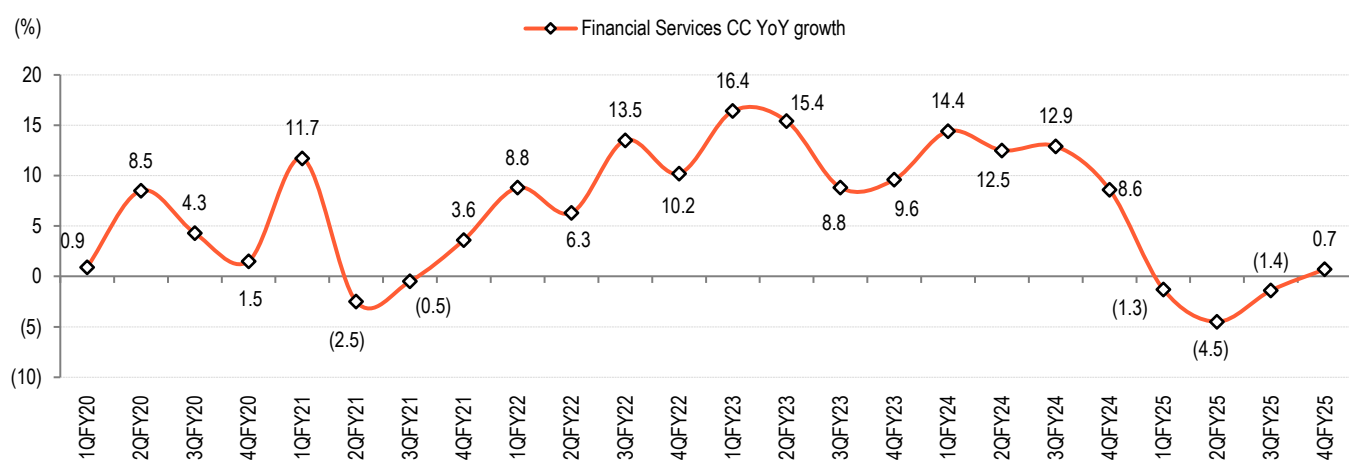
Source: Company, BOBCAPS Research

**Fig 12 – ERDS growth YoY CC**

Source: Company, BOBCAPS Research

**Fig 13 – Products and Platforms growth YoY CC**

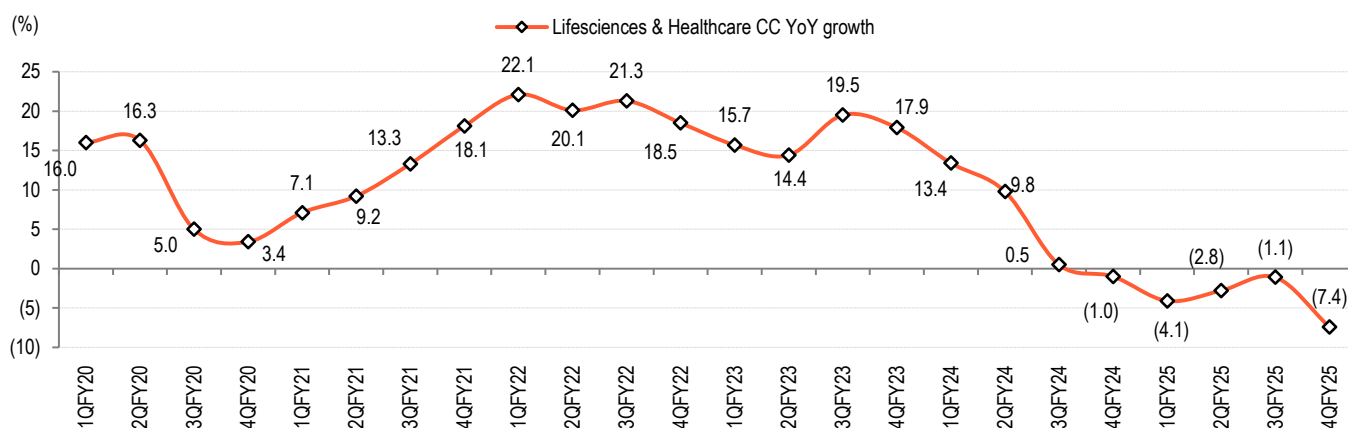
Source: Company, BOBCAPS Research

**Fig 14 – BFSI growth YoY CC**

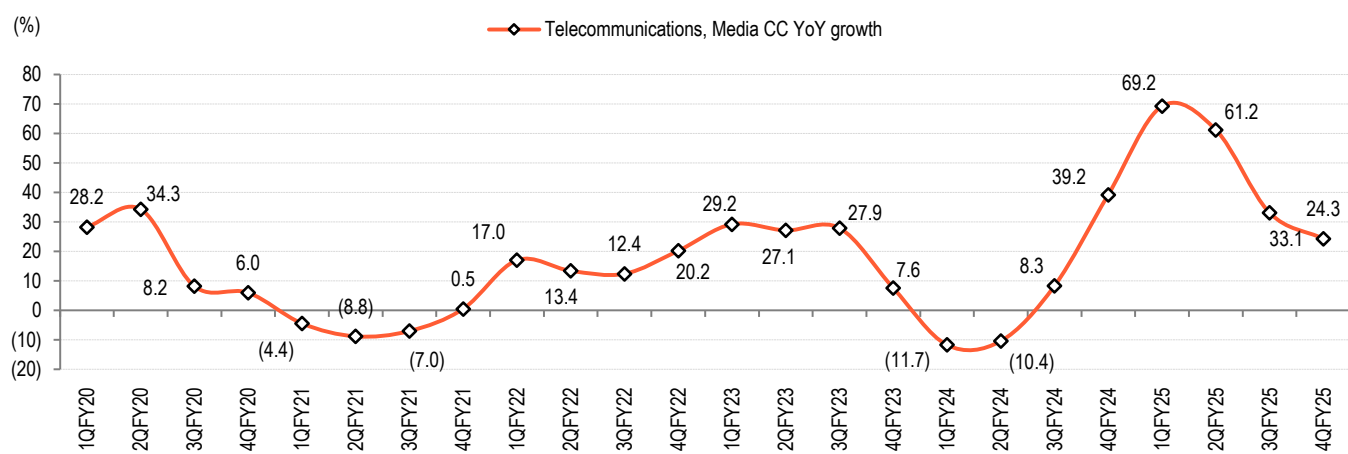
Source: Company, BOBCAPS Research

**Fig 15 – Manufacturing growth YoY CC**

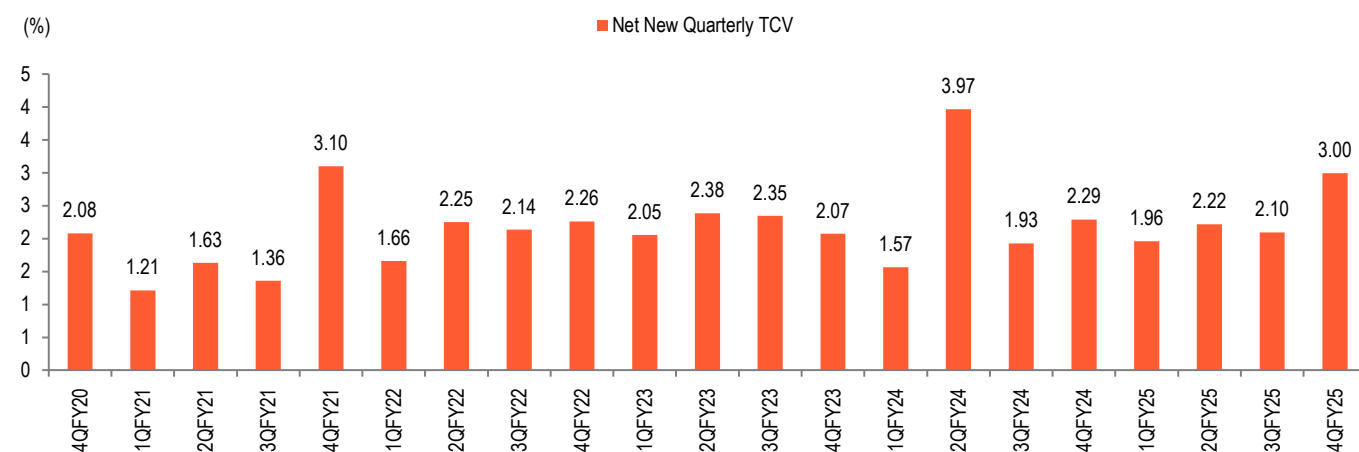
Source: Company, BOBCAPS Research

**Fig 16 – Lifesciences and Healthcare growth YoY CC**

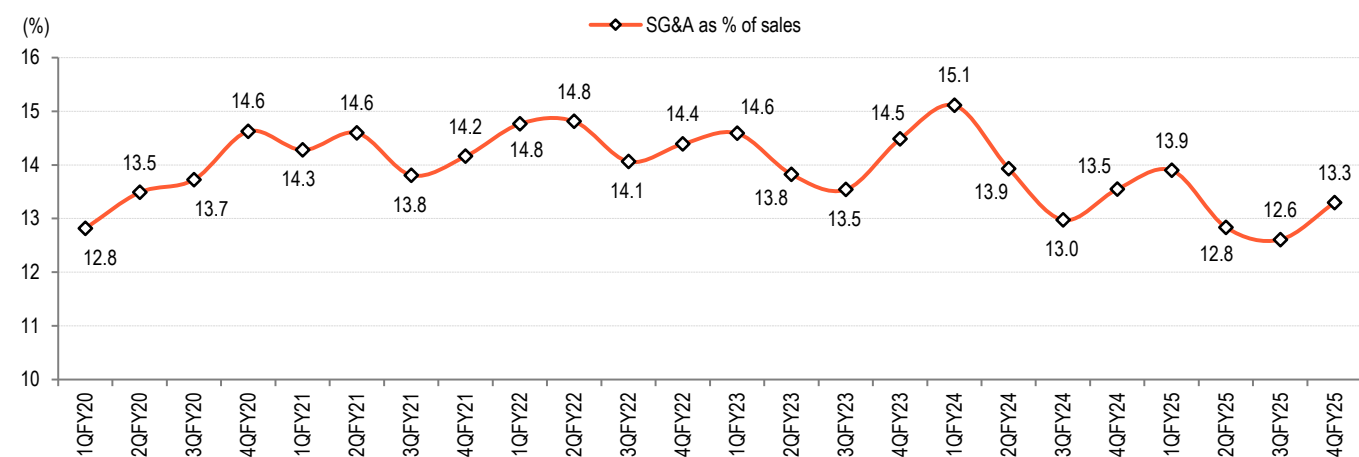
Source: Company, BOBCAPS Research

**Fig 17 – Telecom, Media growth YoY CC**

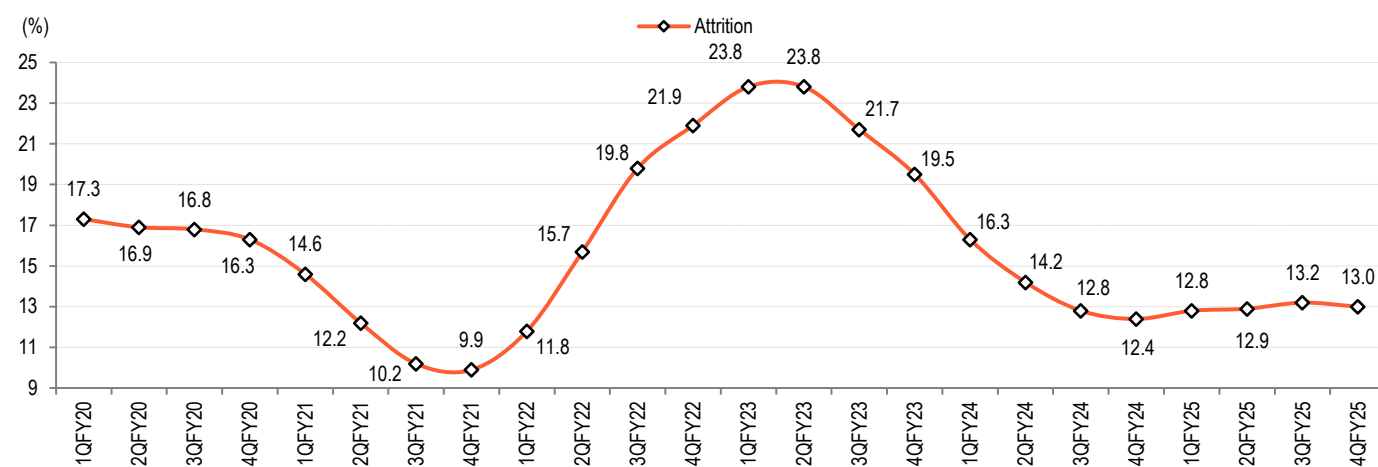
Source: Company, BOBCAPS Research

**Fig 18 – Quarterly net new TCV wins (US\$ bn)**

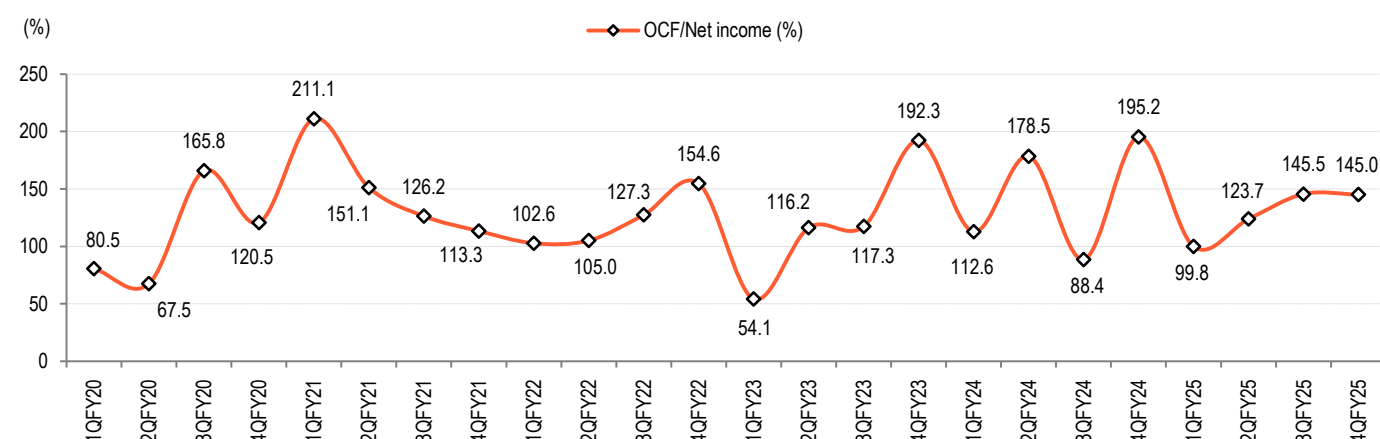
Source: Company, BOBCAPS Research

**Fig 19 – SG&A spending**

Source: Company, BOBCAPS Research

**Fig 20 – Attrition trend**

Source: Company, BOBCAPS Research

**Fig 21 – OCF/ net income trend**

Source: Company, BOBCAPS Research

**Fig 22 – Quarterly Snapshot**

Year to 31 March	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25
<b>(Rs mn)</b>												
INR/USD	77.62	79.98	82.34	82.30	82.17	82.72	83.28	83.10	83.40	83.79	84.66	86.45
USD Revenue (USD mn)	3,025	3,082	3,244	3,235	3,200	3,225	3,415	3,430	3,364	3,445	3,533	3,498
INR Revenue	234,640	246,860	267,000	266,060	262,960	266,720	284,460	284,990	280,570	288,620	298,900	302,460
Gross margin	83,980	88,380	99,800	97,170	93,600	96,590	104,480	99,720	96,930	100,730	106,280	105,040
EBITDA	49,750	54,260	63,650	58,630	53,870	59,440	67,580	61,110	57,940	63,690	68,600	64,820
EBIT	39,920	44,280	52,290	48,360	44,600	49,340	56,150	50,180	47,960	53,620	58,210	54,420
Other income	3,450	1,570	1,440	3,570	2,360	1,940	2,590	2,510	9,120	3,250	3,110	2,930
PBT	43,370	45,850	53,730	51,930	46,960	51,280	58,740	52,690	57,080	56,870	61,320	57,350
Tax	10,560	10,960	12,760	12,120	11,650	12,950	15,230	12,740	14,480	14,500	15,380	14,260
<b>One time bonus</b>												
PAT	32,830	34,900	40,970	39,830	35,340	38,320	43,500	39,860	42,580	42,350	45,910	43,070
EPS	12.1	12.9	15.1	14.7	13.0	14.1	16.0	14.7	15.7	15.6	16.9	15.9
<b>YoY growth (%)</b>												
USD Revenue	11.2	10.4	9.0	8.1	5.8	4.6	5.3	6.0	5.1	6.8	3.5	2.0
INR Revenue	16.9	19.5	19.6	17.7	12.1	8.0	6.5	7.1	6.7	8.2	5.1	6.1
Gross Profit	6.7	11.9	17.0	17.0	11.5	9.3	4.7	2.6	3.6	4.3	1.7	5.3
EBITDA	1.4	12.2	18.0	16.0	8.3	9.5	6.2	4.2	7.6	7.2	1.5	6.1
EBIT	1.6	13.1	22.8	18.8	11.7	11.4	7.4	3.8	7.5	8.7	3.7	8.4
Net Profit	2.1	6.9	19.0	10.9	7.6	9.8	6.2	0.1	20.5	10.5	5.5	8.1
<b>QoQ growth (%)</b>												
USD Revenue	1.1	1.9	5.3	(0.3)	(1.1)	0.8	5.9	0.4	(1.9)	2.4	2.5	(0.98)
INR Revenue	3.8	5.2	8.2	(0.4)	(1.2)	1.4	6.7	0.2	(1.6)	2.9	3.6	1.2
EBITDA	(1.5)	9.1	17.3	(7.9)	(8.1)	10.3	13.7	(9.6)	(5.2)	9.9	7.7	(5.5)
EBIT	(1.9)	10.9	18.1	(7.5)	(7.8)	10.6	13.8	(10.6)	(4.4)	11.8	8.6	(6.5)
Net Profit	(8.6)	6.3	17.4	(2.8)	(11.3)	8.4	13.5	(8.4)	6.8	(0.5)	8.4	(6.2)
<b>Margins (%)</b>												
Gross Margin	35.8	35.8	37.4	36.5	35.6	36.2	36.7	35.0	34.5	34.9	35.6	34.7
EBITDA	21.2	22.0	23.8	22.0	20.5	22.3	23.8	21.4	20.7	22.1	23.0	21.4
EBIT	17.0	17.9	19.6	18.2	17.0	18.5	19.7	17.6	17.1	18.6	19.5	18.0
PAT	14.0	14.1	15.3	15.0	13.4	14.4	15.3	14.0	15.2	14.7	15.4	14.2
SGA	14.6	13.8	13.5	14.5	15.1	13.9	13.0	13.5	13.9	12.8	12.6	13.3

Source: Company, BOBCAPS Research

**Fig 23 – Key Metrics**

P and L (Rs mn)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25
Revenue	234,640	246,860	267,000	266,060	262,960	266,720	284,460	284,990	280,570	288,620	298,900	302,460
EBITDA	49,750	54,260	63,650	58,630	53,870	59,440	67,580	61,110	57,940	63,690	68,600	64,820
PAT	32,830	34,900	40,970	39,830	35,340	38,320	43,500	39,860	42,580	42,350	45,910	43,070
<b>Vertical Mix (%)</b>												
Banking, FS & Insurance (BFSI)	21.1	20.6	19.9	21.2	22.6	22.6	21.7	21.6	21.0	20.5	20.3	21.1
Hi-tech - Manufacturing	18.3	19.2	19.7	19.0	19.9	19.3	20.1	20.4	19.4	19.5	19.1	18.6
Telecom	9.2	9.2	9.4	8.8	7.6	8.0	9.7	11.5	12.2	12.1	12.3	13.9
Retail & CPG	9.4	9.2	8.9	9.0	9.1	9.6	9.6	9.1	9.4	9.6	10.6	9.7
Life Sciences	16.4	16.5	17.1	17.5	17.5	17.5	16.4	16.3	15.9	16.0	15.5	14.7
Energy-Utilities-Public Sector	10.2	10.2	10.2	10.2	10.0	9.9	9.7	8.8	9.1	9.2	8.9	8.6
Technology and Services	15.4	15.1	14.8	14.4	13.4	13.1	12.8	12.3	13.0	13.1	13.3	13.4
<b>Geographical Mix (%)</b>												
US	64.2	64.8	63.5	63.8	64.5	64.5	64.5	65.2	66.0	65.1	64.5	63.9
Europe	27.8	27.5	29.1	28.9	28.7	28.5	29.0	28.9	27.9	28.4	29.2	29.2
Asia pacific	8.0	7.7	7.4	7.3	6.8	7.0	6.4	5.9	6.1	6.5	6.3	6.9
Employees	210,966	219,325	222,270	225,944	223,438	221,139	224,756	227,481	219,401	218,621	220,755	223,420
Net new addition	2,089	8,359	2,945	3,674	(2,506)	(2,299)	3,617	2,725	(8,080)	(780)	2,134	2,665
Attrition (%)	23.8	23.8	21.7	19.5	16.3	14.2	12.8	12.4	12.8	12.9	13.2	13.0
<b>Segmental revenue mix</b>												
IT and Business Services	72.8	73.7	71.6	73.7	74.7	74.6	71.7	74.4	74.5	74.6	73	73.3
Engineering and R&D Services	16.6	17	16.6	16.1	15.4	16	16.4	16.1	15.9	15.8	16	17.1
Products & Platforms	11	9.8	12.3	10.6	10.4	9.9	12.3	10	9.9	9.9	11.3	9.9
Inter Segment	(0.4)	(0.5)	(0.5)	(0.4)	(0.5)	(0.5)	(0.4)	(0.5)	(0.3)	(0.3)	(0.3)	(0.4)
<b>Productivity Metrics</b>												
(USD mn)												
Revenue	3,025	3,082	3,244	3,235	3,200	3,225	3,415	3,430	3,364	3,445	3,533	3,498
EBIT	515	553	635	584	543	597	675	603	575	640	689	627
PAT	423	436	496	481	430	463	523	481	496	506	544	496

Source: Company, BOBCAPS Research

**Fig 24 – QoQ and YoY growth of various parameters**

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25
<b>QoQ Growth (%)</b>												
<b>Geography Wise</b>												
US	3.3	2.8	3.1	0.2	0.0	0.8	5.9	1.5	(0.7)	1.0	1.6	(1.9)
Europe	(0.7)	0.8	11.4	(1.0)	(1.8)	0.1	7.8	0.1	(5.3)	4.3	5.4	(1.0)
Asia pacific	(9.2)	(1.9)	1.2	(1.6)	(7.8)	3.7	(3.2)	(7.4)	1.4	9.1	(0.6)	8.4
Total	1.1	1.9	5.3	(0.3)	(1.1)	0.8	5.8	0.5	(1.9)	2.4	2.5	(1.0)
Non-US	(2.7)	0.2	9.1	(1.1)	(3.0)	0.8	5.6	(1.3)	(4.2)	5.1	4.3	0.7
<b>Vertical Wise</b>												
Banking, FS & Insurance (BFSI)	2.0	(0.5)	1.7	6.2	5.5	0.8	1.7	(0.0)	(4.7)	(0.0)	1.5	2.9
Hi-tech - Manufacturing	2.7	6.9	8.0	(3.8)	3.6	(2.3)	10.3	1.9	(6.7)	2.9	0.4	(3.6)
Telecom	8.1	1.9	7.5	(6.7)	(14.6)	6.1	28.4	19.1	4.0	1.6	4.2	11.9
Retail	1.1	(0.3)	1.8	0.8	0.0	6.3	5.9	(4.8)	1.3	4.6	13.2	(9.4)
Life Sciences	11.2	2.5	9.1	2.0	(1.1)	0.8	(0.8)	(0.2)	(4.3)	3.1	(0.7)	(6.1)
Energy-Utilities-Public Sector	(3.7)	1.9	5.3	(0.3)	(3.0)	(0.2)	3.8	(8.9)	1.4	3.5	(0.8)	(4.3)
Technology & Services	(11.1)	(0.1)	3.2	(3.0)	(7.9)	(1.5)	3.5	(3.5)	3.7	3.2	4.1	(0.2)
<b>Client Concentration</b>												
Top 5 clients	(2.4)	(2.7)	1.3	(2.2)	(4.0)	0.8	5.9	0.4	14.1	8.7	6.8	(0.2)
Top 10 clients	(1.0)	(1.3)	1.9	(3.0)	(3.9)	0.8	9.0	0.4	8.6	5.0	3.6	(1.5)
Top 20 clients	0.4	0.8	3.8	(1.7)	(3.2)	1.1	8.6	0.4	5.4	4.8	2.9	(2.6)
<b>Segment wise</b>												
IT and Business Services	0.2	3.2	2.3	2.6	0.3	0.6	1.8	4.2	(1.8)	2.6	0.3	(0.6)
Engineering and R&D Services	2.5	4.3	2.8	(3.3)	(5.4)	4.7	8.5	(1.4)	(3.1)	1.8	3.8	5.8
Products & Platforms	3.3	(9.2)	32.1	(14.1)	(2.9)	(4.1)	31.6	(18.3)	(2.9)	2.4	17.0	(13.2)
<b>YoY Growth (%)</b>												
<b>Geography Wise</b>												
US	13.2	14.0	9.8	9.8	6.3	4.1	6.9	8.4	7.6	7.8	3.5	(0.0)
Europe	10.8	7.3	12.0	10.4	9.2	8.4	4.9	6.0	2.2	6.5	4.2	3.1
Asia pacific	(1.1)	(4.4)	(7.3)	(11.4)	(10.1)	(4.9)	(9.0)	(14.3)	(5.7)	(0.8)	1.8	19.3
Total	11.2	10.4	9.0	8.1	5.8	4.6	5.2	6.0	5.1	6.8	3.6	2.0
Non-US	7.9	4.5	7.5	5.2	4.9	5.5	2.1	1.9	0.7	5.0	3.7	5.8
<b>Vertical Wise</b>												
Banking, FS & Insurance (BFSI)	6.2	6.8	2.8	9.6	13.3	14.8	14.8	8.0	(2.3)	(3.1)	(3.2)	(0.4)
Hi-tech - Manufacturing	18.3	18.5	22.6	14.1	15.0	5.2	7.4	13.9	2.5	7.9	(1.7)	(7.0)
Telecom	29.5	28.6	26.4	10.6	(12.6)	(9.0)	8.6	38.6	68.7	61.6	31.2	23.3
Retail	4.6	3.7	(4.0)	3.5	2.4	9.2	13.6	7.2	8.6	6.8	14.2	8.7
Life Sciences	24.1	19.1	29.4	26.9	12.9	11.0	1.0	(1.2)	(4.5)	(2.3)	(2.2)	(8.0)
Energy-Utilities-Public Sector	5.0	6.3	6.9	3.0	3.7	1.5	0.1	(8.5)	(4.3)	(0.7)	(5.1)	(0.3)
Technology & Services	(1.0)	(3.0)	(12.4)	(11.1)	(8.0)	(9.2)	(9.0)	(9.4)	2.0	6.8	7.5	11.1
<b>Client Concentration</b>												
Top 5 clients	(4.2)	(7.0)	(8.0)	(5.9)	(7.4)	(4.2)	0.2	2.9	22.3	31.9	33.0	32.2
Top 10 clients	3.7	0.3	(2.3)	(3.4)	(6.2)	(4.3)	2.4	6.0	19.8	24.9	18.6	16.4
Top 20 clients	5.7	5.6	4.5	3.2	(0.4)	(0.1)	4.5	6.8	16.3	20.5	14.2	10.7
<b>Segment wise</b>												
IT and Business Services	13.2	12.1	10.5	8.5	8.5	5.9	5.4	7.0	4.8	6.8	5.3	0.5
Engineering and R&D Services	20.5	19.6	13.8	6.3	(1.9)	(1.5)	4.0	6.0	8.5	5.5	0.9	8.3
Products & Platforms	(9.9)	(11.0)	(4.1)	6.4	0.0	5.7	5.3	0.0	0.1	6.8	(5.0)	1.0

Source: Company, BOBCAPS Research



## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25A	FY26E	FY27E
<b>Total revenue</b>	<b>1,014,560</b>	<b>1,099,130</b>	<b>1,170,550</b>	<b>1,223,758</b>	<b>1,314,711</b>
EBITDA	226,290	242,000	255,050	272,319	285,698
Depreciation	41,450	41,730	40,840	48,307	48,867
EBIT	184,840	200,270	214,210	224,012	236,831
Net interest inc./(exp.)	0	0	0	0	0
Other inc./(exp.)	10,050	9,400	18,410	12,163	12,130
Exceptional items	0	0	0	0	0
EBT	194,890	209,670	232,620	236,175	248,960
Income taxes	46,400	52,570	58,620	58,725	61,904
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(60)	80	90	80	80
<b>Reported net profit</b>	<b>148,520</b>	<b>157,020</b>	<b>173,910</b>	<b>177,370</b>	<b>186,977</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>148,520</b>	<b>157,020</b>	<b>173,910</b>	<b>177,370</b>	<b>186,977</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25A	FY26E	FY27E
Accounts payables	0	0	0	0	0
Other current liabilities	204,200	215,320	244,710	251,431	274,541
Provisions	0	0	0	0	0
Debt funds	22,510	23,270	22,910	22,910	22,910
Other liabilities	53,750	76,550	91,270	92,677	97,516
Equity capital	5,430	5,430	5,430	5,430	5,430
Reserves & surplus	648,620	677,200	691,120	695,127	692,487
Shareholders' fund	654,050	682,630	696,550	700,557	697,917
<b>Total liab. and equities</b>	<b>934,510</b>	<b>997,770</b>	<b>1,055,440</b>	<b>1,067,575</b>	<b>1,092,884</b>
Cash and cash eq.	90,650	94,560	82,450	81,801	67,101
Accounts receivables	195,720	194,830	195,230	200,592	219,029
Inventories	0	0	0	0	0
Other current assets	249,400	303,920	343,410	346,939	359,072
Investments	4,880	3,810	12,970	12,970	12,970
Net fixed assets	323,220	322,610	332,150	334,421	338,281
CWIP	0	0	0	0	0
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	70,240	78,040	89,230	90,852	96,431
<b>Total assets</b>	<b>934,110</b>	<b>997,770</b>	<b>1,055,440</b>	<b>1,067,575</b>	<b>1,092,884</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25A	FY26E	FY27E
<b>Cash flow from operations</b>	<b>166,930</b>	<b>205,170</b>	<b>233,950</b>	<b>223,587</b>	<b>228,463</b>
Capital expenditures	(35,660)	(41,120)	(50,380)	(50,578)	(52,727)
Change in investments	(24,500)	(47,780)	(38,770)	0	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(60,160)</b>	<b>(88,900)</b>	<b>(89,150)</b>	<b>(50,578)</b>	<b>(52,727)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(15,570)	9,700	5,200	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(129,953)	(140,714)	(162,528)	(173,364)	(189,616)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(145,523)</b>	<b>(131,014)</b>	<b>(157,328)</b>	<b>(173,364)</b>	<b>(189,616)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(14,450)</b>	<b>3,910</b>	<b>(12,021)</b>	<b>(780)</b>	<b>(14,996)</b>
<b>Closing cash &amp; cash eq.</b>	<b>90,650</b>	<b>94,560</b>	<b>82,539</b>	<b>81,670</b>	<b>66,805</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25A	FY26E	FY27E
Reported EPS	54.9	58.0	64.2	65.5	69.0
Adjusted EPS	54.9	57.9	64.1	65.3	68.9
Dividend per share	48.0	52.0	60.0	64.0	70.0
Book value per share	241.6	251.2	256.5	258.0	257.0

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25A	FY26E	FY27E
EV/Sales	3.9	3.6	3.4	3.2	3.0
EV/EBITDA	17.5	16.3	15.4	14.5	13.8
Adjusted P/E	27.0	25.6	23.1	22.7	21.5
P/BV	6.1	5.9	5.8	5.7	5.8

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25A	FY26E	FY27E
Tax burden (Net profit/PBT)	76.2	74.9	74.8	75.1	75.1
Interest burden (PBT/EBIT)	105.4	104.7	108.6	105.4	105.1
EBIT margin (EBIT/Revenue)	18.2	18.2	18.3	18.3	18.0
Asset turnover (Rev./Avg TA)	111.2	113.8	114.0	115.3	121.7
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.5	1.5	1.5
<b>Adjusted ROAE</b>	<b>23.3</b>	<b>23.5</b>	<b>25.2</b>	<b>25.4</b>	<b>26.7</b>

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25A	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	18.5	8.3	6.5	4.5	7.4
EBITDA	10.2	6.9	5.4	6.8	4.9
Adjusted EPS	10.1	5.5	10.8	1.9	5.4
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	22.3	22.0	21.8	22.3	21.7
EBIT margin	18.2	18.2	18.3	18.3	18.0
Adjusted profit margin	14.6	14.3	14.9	14.5	14.2
Adjusted ROAE	23.3	23.5	25.2	25.4	26.7
ROCE	19.6	19.8	20.1	20.7	21.8

### Working capital days (days)

Receivables	70	65	61	60	61
Inventory	NA	NA	NA	NA	NA
Payables	NA	NA	NA	NA	NA

### Ratios (x)

Gross asset turnover	3.1	3.4	3.5	3.7	3.9
Current ratio	2.7	2.9	2.7	2.6	2.5
Net interest coverage ratio	NA	NA	NA	NA	NA
<b>Adjusted debt/equity</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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## Disclaimer

Name of the Research Entity: **BOB Capital Markets Limited**

Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**



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### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

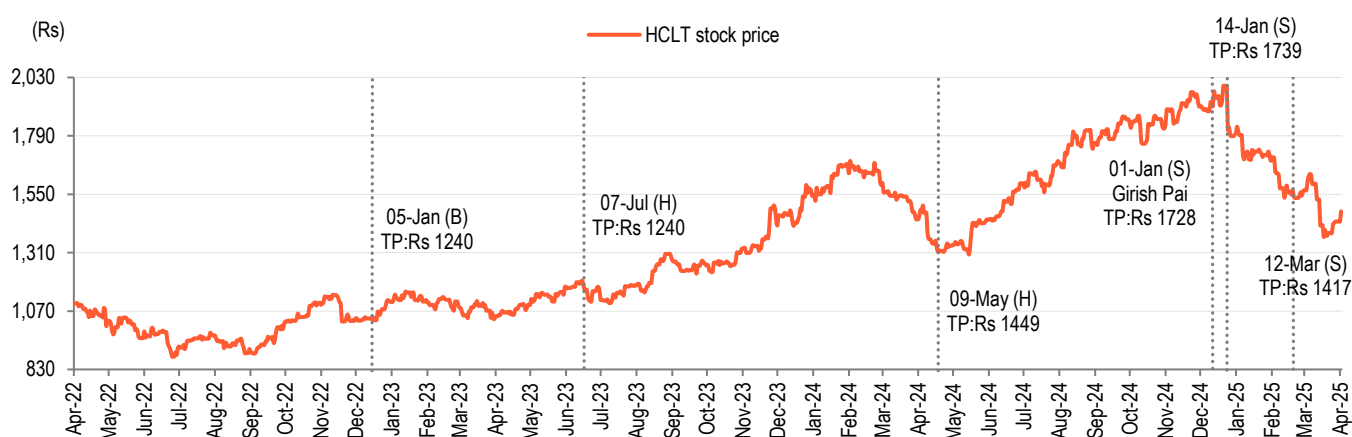
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

### Ratings and Target Price (3-year history): HCL TECHNOLOGIES (HCLT IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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