Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

HCL Technologies Ltd

Poised to deliver growth leadership

IT & ITES	Sharekhan code: HCLTECH

Reco/View: Buy	↔	CMP: Rs. 1,752	Price Target: Rs. 2,000	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↓	

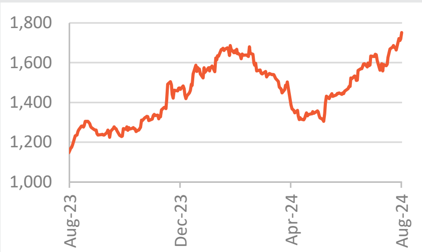
Company details

Market cap:	Rs. 4,75,434 cr
52-week high/low:	Rs. 1,757/1,162
NSE volume: (No of shares)	34.6 lakh
BSE code:	532281
NSE code:	HCLTECH
Free float: (No of shares)	106.33 cr

Shareholding (%)

Promoters	60.8
FII	18.5
DII	15.8
Others	5.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.4	29.6	6.1	51.3
Relative to Sensex	6.4	19.3	(7.4)	25.1

Sharekhan Research, Bloomberg

Summary

- We maintain Buy rating with revised price target (PT) of Rs 2,000 (valued at 27x Sep2026E EPS). At CMP, the stock trades at 27.3/25/22.7x its FY25/26/27E EPS.
- Management has identified several growth vectors and sees an opportunity to deliver double-digit growth in the medium term
- Company is seeing some improvement in demand environment especially in BFSI compared to last couple of quarters.
- Project Ascend launched to drive margin expansion and fund growth.

We attended the HCL Tech's Investor Day to understand the business strategy and growth prospects of the company. The company highlighted several opportunities across Data & AI, SAP cloud platform, Cloud migration, ER&D, Business process services among others with the total addressable market for IT services expected to reach $2 trillion by 2030. The company is witnessing some improvement in demand environment especially in BFSI as compared to last couple of quarters. The company has identified several growth vectors and sees an opportunity to deliver double-digit growth in the medium term. The company unveiled Project Ascend which aims to extract efficiencies to fund growth. We believe the company is well-placed to maintain growth leadership given its diversified offerings across IT services and ER&D coupled with strong execution and supported by improvement in demand. We maintain Buy rating with revised price target (PT) of Rs 2,000 (valued at 27x Sep2026E EPS). At CMP the stock trades at 27.3/25/22.7x its FY25/26/27E EPS.

Opportunities to sustain growth leadership: The company highlighted that the total addressable market for IT services is nearing $ 2 trillion by 2030. The company remains well-placed to capitalise on growing opportunities in Data & AI, SAP cloud platform services which are expected to grow at 19.1%/26% CAGR respectively. BFSI and TMT are expected to continue with strong growth at or above market rates till 2028. The TMT vertical is the fastest growing among peers which it expects to maintain over the next two years. The company has the highest TMT vertical revenue share among its peers at 25.2% and has grown at a CQGR of 1.8% over the last nine quarters. The company remains best positioned to address the growing semiconductor market with over 27 years of experience and 95% first silicon success. Cloud migration and cybersecurity are other great market opportunities as by 2028, 70% of tech workloads will run in a Cloud environment. ER&D and business process services are expected to be ~170 billion and ~300 billion market respectively in next 2-3 years providing significant growth opportunities

Growth vectors: The company highlighted key growth vectors to sustain growth leadership through 1) Full-stack AI solutions enabled by AI Force and AI Foundry 2) being differentiated challenger in SAP, other enterprise applications, data & AI, etc, 3) Consolidating infrastructure leadership via cloud modernisation 4) Vertical digital engineering opportunities 5) cyber security services 6) Market share gains in DPO 7) Continuing growth leadership in BFSI and TMT verticals 8) Growth through G-2000 equivalents and future G2000 9) increasing market participation in Focus and New Frontier markets 10) Larger partner ecosystem beyond OEMs and hyperscalers.

Project Ascend to extract efficiencies: HCL Tech unveiled the Project Ascend program to drive margin expansion by 1) Gen AI delivery transformation 2) Fresher deployment 3) global delivery models 4) Leverage AI-led automation & solution accelerators 5) G&A optimization 6) New vistas in India 7) AI led customized learning programs for reskilling and upskilling.

Our Call

Valuation – Maintain Buy with revised PT of Rs. 2,000: After delivering industry leading growth in FY24, HCL Tech is expected to maintain the growth leadership owing to huge opportunities across Data & AI, SAP Cloud platform, Cloud migration, ER&D, Business process services. We believe the company is well placed to maintain growth leadership given its diversified offerings across IT services and ER&D segment coupled with strong execution and supported by improvement in demand environment. We expect Sales/PAT of 8.2%/10.1% over FY24-27E. We maintain Buy rating with a revised price target (PT) of Rs 2,000 (valued at 27x Sep2026E EPS). At CMP the stock trades at 27.3/25/22.7x its FY25/26/27E EPS.

Key Risks

Rupee appreciation and/or adverse cross-currency movements. The contagion effect of banking crisis, macro headwinds and recession in the US can moderate the pace of technology spending.

Valuation (Consolidated) Rs cr

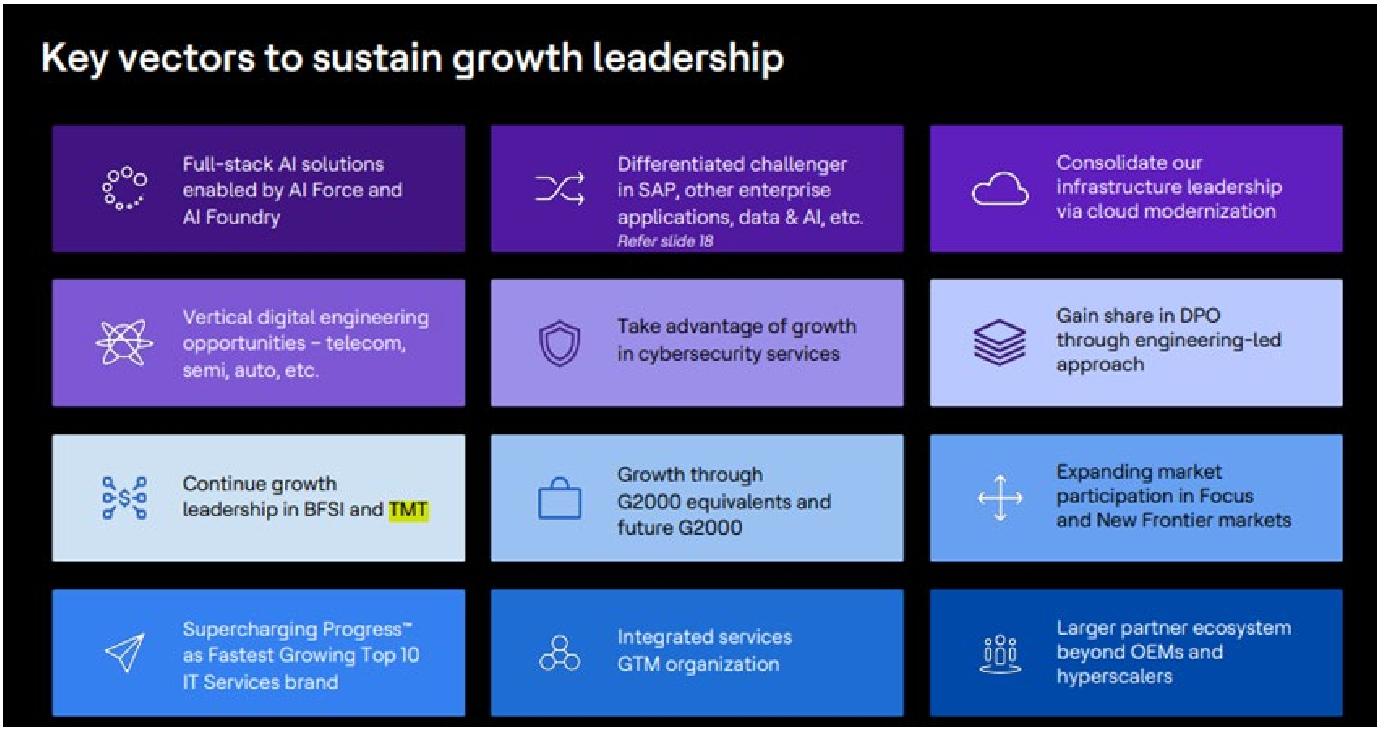
Particulars	FY24	FY25E	FY26E	FY27E
Net sales	1,09,913.0	1,16,723.8	1,27,979.8	1,39,169.5
EBITDA Margin (%)	22.0	22.1	22.4	22.7
Net profit (Rs cr)	15,702.0	17,420.0	19,008.7	20,960.7
% YoY growth	5.7	10.9	9.1	10.3
EPS (Rs)	57.9	64.2	70.1	77.2
PER	30.3	27.3	25.0	22.7
P/B (x)	7.0	6.5	6.1	5.8
EV/EBITDA	19.3	18.0	16.0	14.4
ROE (%)	23.5	24.7	25.3	26.2
ROCE (%)	26.9	28.1	29.1	30.3

Source: Company; Sharekhan Research

Key Investor Day Takeaways

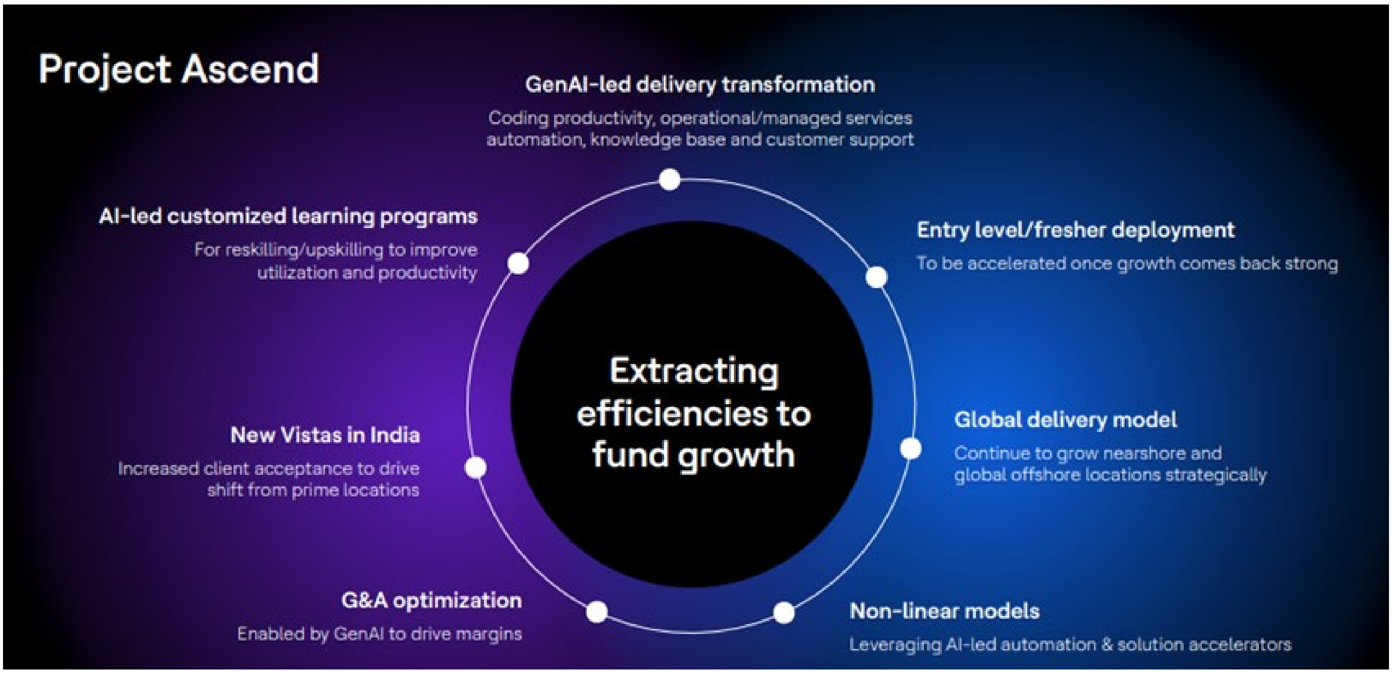
- HCL Technologies has demonstrated consistency in delivering best-in-class Total Shareholder Returns (TSR) over a long period. It has the top position in Annual TSR in five out of the last ten years.
- The company sees a slight improvement in demand environment compared to 3-6 months earlier with discretionary revival in BFSI. The company sees opportunity to deliver double digit growth in the medium term
- Top opportunities for sustained growth leadership -
  - Total addressable market for IT Services nearing $2 trillion by 2030
  - Largest two verticals, BFSI and TMT is 43% of the market- expected to grow strong at or above market rates till 2028
  - Data and AI expected to grow at a 19.1% CAGR- Services market for AI / GenAI - Outsourced AI services, enabling digital & cloud services to be $200 billion by 2029
  - Enterprise business applications to reach $325 billion in 2027, with a CAGR of 14.3% - SAP cloud platform services market is expanding at a CAGR of 26%
  - Cloud migration and cybersecurity great market opportunities-By 2028, 70% of tech workloads will run in a cloud environment, up from just 25% today. Security market likely to grow at high teens plus rate for another decade
  - ER&D market for engineering service providers will be ~$170 billion by 2027- Growing at 8-9% annually, supported by digital engineering opportunities in telecom, semi, auto, etc.
  - Business process services market to be $300 billion by 2028- Digital BPaaS and AI to enable this by growing at 8% CAGR
- HCL Software Future priorities
  - Step-up growth from low single digit to mid-single digit
  - Expansion into India, Africa & Middle East
  - Capability additions like Zeenea
  - Continue to leverage synergy sales
- The company has signed an agreement with SAP for setting up a Migration Factory to simplify and accelerate the RISE with SAP transformations for SAP's end customers.
- Project Ascend- margin program to drive expansion in margins
- The TMT vertical is fastest growing for the company amongst peers with 100% organic growth. 70% of Top 50 TMT companies are its clients
- CSP industry spends is one of highest worldwide $200 billion with TAM growing at a 8% CAGR
- The semiconductor market is expected to reach $1126 billion in 2030 from $591 billion in 2022.
- The company is best positioned to address the growing semiconductor market with 27+ years of experience and 95% first silicon success.
- Capital allocation: The actual payout has been 88% in last three years while the policy stated was for minimum payout of 75% of net income over FY22 to FY26.

Growth Vectors to sustain growth Leadership



Source: Company; Sharekhan Research

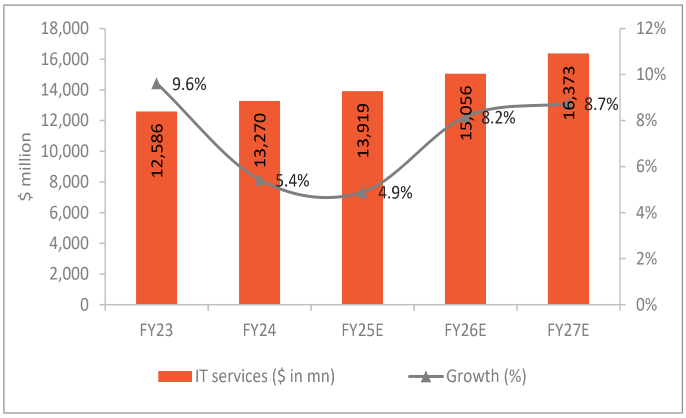
Project Ascend to drive margin expansion



Source: Company; Sharekhan Research

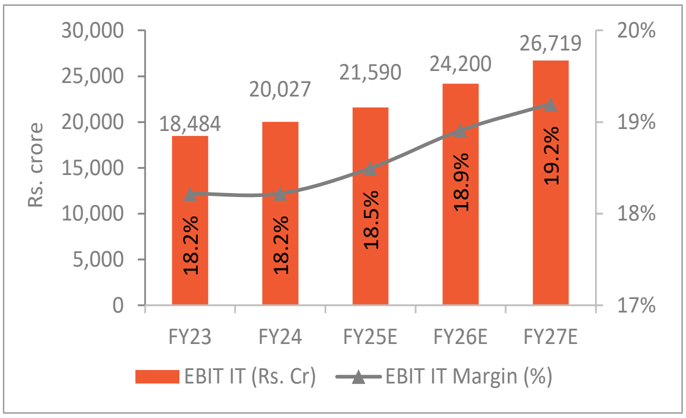
Financials in charts

Revenue (USD mn)



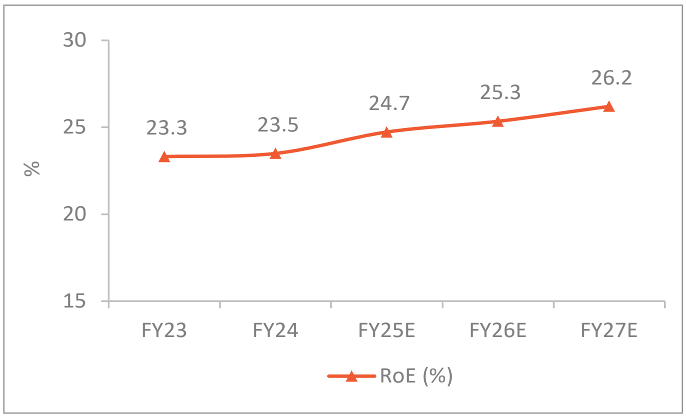
Source: Company, Sharekhan Research

EBIT and EBIT Margin



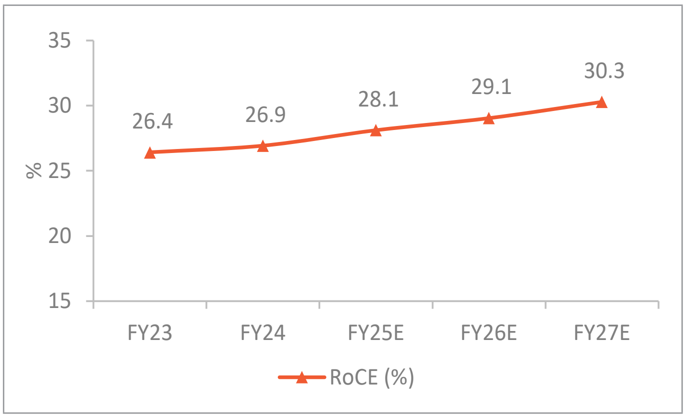
Source: Company, Sharekhan Research

RoE



Source: Company, Sharekhan Research

RoCE



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Macro headwinds bottoming out; earnings visibility better

We anticipate growth momentum to return in FY25 aided by lower base coupled with easing sector headwinds. Though, IT sector has already outperformed Nifty last year, we expect overall outperformance in CY24 as well, driven by receding headwinds and better earnings visibility.

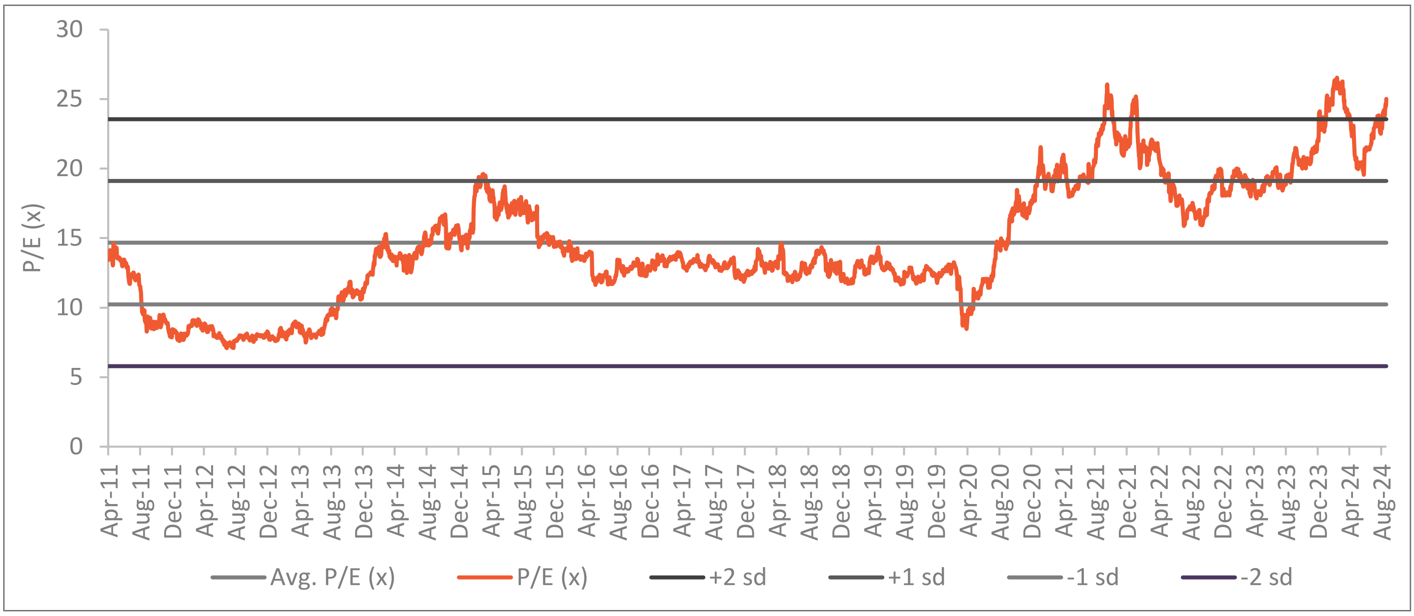
■ Company Outlook – Leveraging on core strengths

HCL Technologies has invested aggressively in the fast-growing Mode-2 (a good proxy for digital offering) capabilities, which would help HCL Tech deliver strong revenue growth in the coming years. Given its differentiated position in Infrastructure Management Services (IMS) and strong capabilities in engineering services, HCL Tech is well positioned to maintain its growth momentum in the IT services business (89% of total revenue) going ahead. HCL Tech's strength in digital foundation and application modernisation make it a strong contender for building digital transformation initiatives for clients.

■ Valuation – Maintain Buy with revised PT of Rs. 2,000

After delivering industry leading growth in FY24, HCL Tech is expected to maintain the growth leadership owing to huge opportunities across Data & AI, SAP Cloud platform, Cloud migration, ER&D, Business process services. We believe the company is well placed to maintain growth leadership given its diversified offerings across IT services and ER&D segment coupled with strong execution and supported by improvement in demand environment. We expect Sales/PAT of 8.2%/10.1% over FY24-27E. We maintain Buy rating with a revised price target (PT) of Rs 2,000 (valued at 27x Sep2026E EPS). At CMP the stock trades at 27.3/25/22.7x its FY25/26/27E EPS.

One-year forward P/E (x) band



Source: Sharekhan Research

About the company

HCL Tech is a leading global technology company providing software-led IT solutions, remote infrastructure management, BPO services, and engineering-related services. Further, the company helps global enterprises re-imagine and transform their businesses through digital technology transformation. HCL Tech leverages its global network of integrated co-innovation labs and global delivery capabilities to provide holistic multi-service delivery in key industry verticals.

Investment theme

HCL Tech's revenue growth momentum is expected to accelerate, led by several large deal wins in the past few quarters and gradual recovery in infrastructure management services. The company focuses on chasing large deals to capture market share from incumbents in consolidation deals. Being the leader in IMS practices and the third-largest engineering services player globally in revenue, the company is well positioned to win large deal wins. Strong deal wins along with acquisition of select IP products will help the company drive growth going ahead.

Key Risks

1)Rupee appreciation and/or adverse cross-currency movements. 2)The contagion effect of banking crisis, macro headwinds and recession in the US can moderate the pace of technology spending.

Additional Data

Key management personnel

Roshni Nadar Malhotra	Chairperson
C Vijay Kumar	Managing Director and CEO
Prateek Aggarwal	Chief Financial Officer
Apparao V V	Chief Human Resources Officer
Kalyan Kumar	Chief Technology Officer and Head, Ecosystems

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	4.65
2	Artisan Partners Ltd	2.21
3	BlackRock Inc	1.78
4	Vanguard Group Inc/The	1.60
5	HDFC Asset Management Co Ltd	1.46
6	SBI Funds Management Ltd	1.46
7	ICICI Prudential Asset Management	1.24
8	FMR LLC	0.77
9	PPFAS Asset Management	0.69
10	UTI Asset Management Co Ltd	0.60

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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