

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	✗	↔	✗

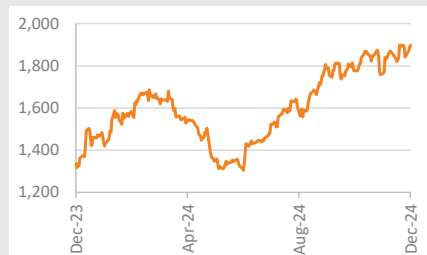
Company details

Market cap:	Rs. 5,14,891cr
52-week high/low:	Rs. 1,921/1,235
NSE volume: (No of shares)	29.8 lakh
BSE code:	532281
NSE code:	HCLTECH
Free float: (No of shares)	106.34 cr

Shareholding (%)

Promoters	60.8
FII	18.7
DII	15.8
Others	4.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.6	6.0	45.4	41.9
Relative to Sensex	4.8	7.9	33.1	24.4

Mirae Asset Sharekhan Research, Bloomberg

HCL Technologies Ltd

On growth leadership path

IT & ITES	Sharekhan code: HCLTECH		
Reco/View: Buy	↔	CMP: Rs. 1,897	Price Target: Rs. 2,180 ↑
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- We maintain BUY with a revised PT of Rs. 2,180 (valued at 28x Dec26E EPS). At CMP, the stock trades at 29.6/26.6/23.6x its FY25/26/27E EPS.
- Acquisition of certain assets of Communications Technology Group (CTG) to strengthen its partnership with HPE and enhance its engineering services capabilities.
- With healthy H1FY25 delivered despite weak seasonality and seasonally strong quarters ahead of it, the company appears well positioned to deliver industry-leading growth among its larger peers.
- Project Ascend to drive margin expansion through AI-driven automation, fresher deployment, and operational efficiencies among others.

HCL Tech has completed the acquisition of certain assets from Hewlett Packard Enterprise's Communications Technology Group (CTG), strengthening its partnership with HPE and enhancing its engineering services capabilities. This acquisition broadens HCL Tech's offerings in areas like business support systems, cloudification, and data intelligence, while integrating CTG's advanced solutions and intellectual property. The company expects strong growth in its TMT and BFSI verticals in the medium to long term and is likely to see its revenue from the TMT vertical bolstered from the acquisition. In H1FY25, the company's constant currency revenue grew 5.6% and 6.2% y-o-y in Q1 and Q2, respectively, outpacing its larger peers. The company raised its full-year revenue guidance in CC to 3.5-5% from 3-5% and anticipates strong performance across most segments, excluding aerospace. Under Project Ascend, HCL Tech aims to expand margins through AI-driven automation, fresher deployment, and operational efficiencies. EBIT margins have improved by 150 bps to 18.6% in Q2FY25, aided by strong operational execution. The company is guiding EBIT margins of 18-19% in FY25, despite expected wage hike impacts in Q3 and Q4. 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 triggered by the rate cut cycle. We maintain BUY rating with a revised price target (PT) of Rs. 2,180 (valued at 28x Dec26E EPS). At CMP the stock trades at 29.6/26.6/23.6x its FY25/26/27E EPS.

- Acquisition of Communications Technology Group Assets from HPE:** The company has acquired certain assets of the Communications Technology Group (CTG) from Hewlett Packard Enterprise (HPE). This acquisition strengthens HCL Tech's long-standing partnership with HPE, extending its leadership in the telecom services markets and strengthening its engineering services capabilities with industry-leading intellectual property (IP), Engineering and R&D talent, and client relationships with top global Communication Service Providers (CSPs). The deal expands HCL Tech's offerings in business support systems, network applications, cloudification, and data intelligence, integrating CTG's advanced solutions and intellectual property. The acquisition will boost the company's partnerships with global CSPs, accelerate growth in digital services, and extend its global footprint. The transaction also establishes direct relationships with 20 of the top 30 global CSPs and integrates over 1,500 product engineering specialists, supporting nearshore delivery in markets like LATAM, India, China, and Japan. TMT vertical along with BFSI are expected to continue with strong growth at or above market rates till 2028. The company has the highest TMT vertical revenue share among its peers at 25.2%. The acquisition of the assets of CTG assets is likely to further augment the revenue share of its TMT vertical.
- Steady H1FY25 performance:** The company's constant currency revenue grew 5.6%/6.2 y-o-y in Q1/Q2FY25 despite weak H1 seasonality. The company expects broad-based performance across segments, barring aerospace, which may see client-specific challenges. With seasonally weak quarters behind them, the company has raised guidance to 3.5-5% from 3-5%. With healthy H1FY25 and seasonally strong quarters ahead of it, the company appears well positioned to deliver industry-leading growth among its large peers.
- Project Ascend to aid margin expansion:** The company, under the Project Ascend program, aims to drive margin expansion through Gen AI transformation, fresher deployment, global delivery models, AI-driven automation, G&A optimisation, new opportunities in India, and AI-led reskilling initiatives. Margins have improved ~150 bps to 18.6% in Q2FY25 mainly aided by strong operational execution. The company has guided for 18-19% EBIT margin for FY25 despite the expected wage hike impact of 65-80 bps in Q3 and an incremental further impact of another 50-60 bps in Q4.

Our Call

Valuation – Maintain BUY with a revised PT of Rs. 2,180: HCL Tech is expected to maintain the growth leadership owing to huge opportunities across Data and AI, SAP cloud platform, cloud migration, ER&D, and business process services. The acquisition of certain assets of CTG assets is likely to further augment the revenue share of its TMT vertical. We expect Sales/PAT of ~9/12% over FY24-27E. With healthy H1FY25 delivered despite weak seasonality and seasonally strong quarters ahead of it, 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 triggered by the rate cut cycle. We maintain BUY rating with a revised price target (PT) of Rs. 2,180 (valued at 28x Dec26E EPS). At the CMP, the stock trades at 29.6/26.6/23.6x 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)

Particulars	FY23	FY25E	FY26E	FY27E
Net sales	1,09,913.0	1,16,964.2	1,29,607.8	1,41,999.3
EBITDA Margin (%)	22.0	22.0	22.5	23.1
Net profit (Rs. crore)	15,702.0	17,422.8	19,347.9	21,843.6
% YoY growth	5.7	11.0	11.0	12.9
EPS (Rs.)	57.9	64.2	71.3	80.5
PER	32.8	29.6	26.6	23.6
P/B (x)	7.5	7.1	6.7	6.2
EV/EBITDA	21.0	19.5	17.1	15.0
ROE (%)	23.5	24.7	25.8	27.2
ROCE (%)	26.9	28.2	29.6	31.5

Source: Company; Mirae Asset Sharekhan estimates

Acquisition of CTG Assets from HPE



Source: Company; Mirae Asset Sharekhan Research

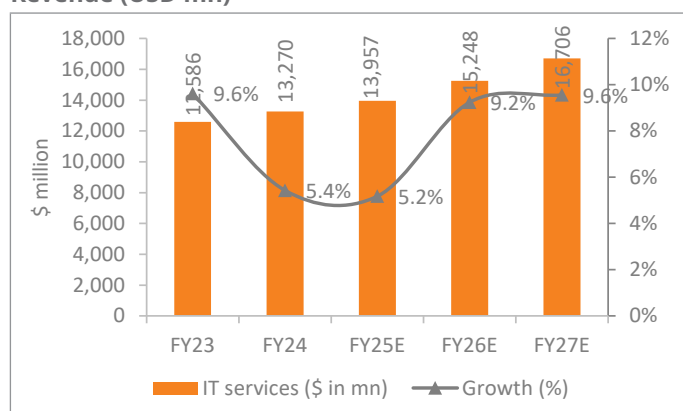
Tier1 -Quarterly CC revenue growth trend on a y-o-y basis (%)

Quarter Ended	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Infosys	2.5	-1.0	0.0	2.50	3.3
TCS	2.8	1.7	2.2	4.4	5.5
Wipro	-4.8	-6.9	-6.6	-4.9	-2.3
HCL Tech	3.4	4.3	6.0	5.6	6.2
Tech M	(5.9)	(5.4)	(6.4)	(1.2)	1.2

Source: Company; Mirae Asset Sharekhan Research

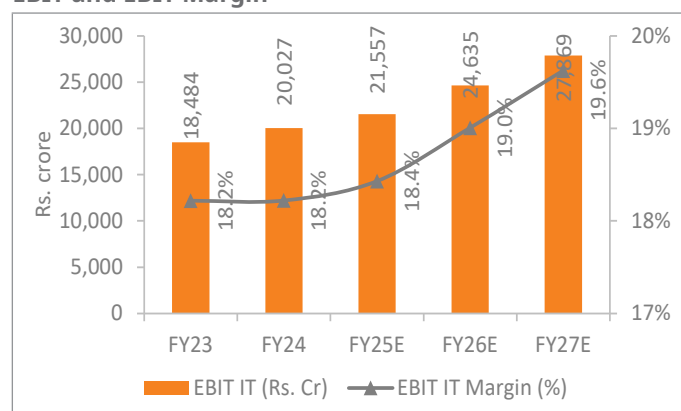
Financials in charts

Revenue (USD mn)



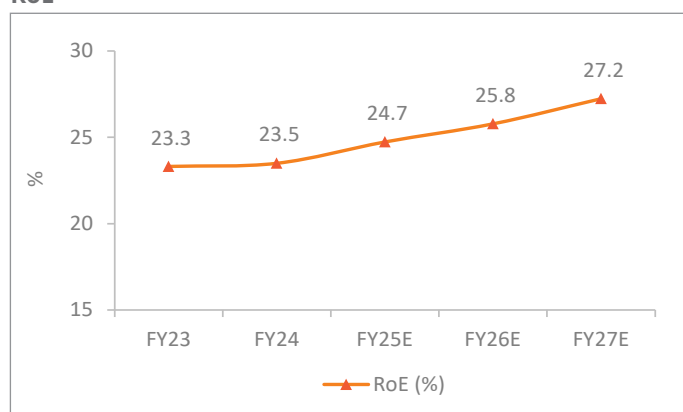
Source: Company; Mirae Asset Sharekhan Research

EBIT and EBIT Margin



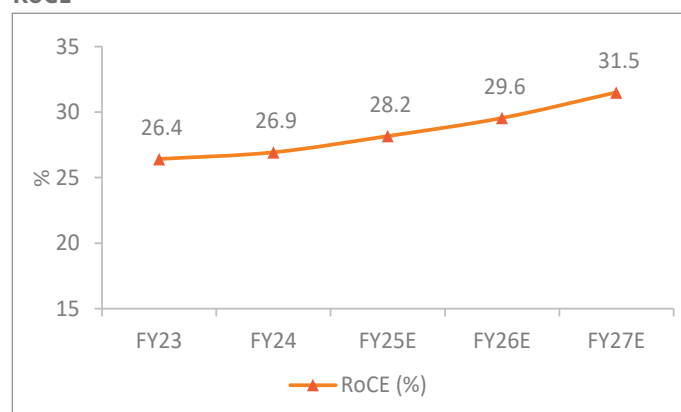
Source: Company; Mirae Asset Sharekhan Research

RoE



Source: Company; Mirae Asset Sharekhan Research

RoCE



Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

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

We anticipate growth momentum to return in FY2025, aided by lower base coupled with easing sector headwinds. Though, the IT sector has already outperformed Nifty last year, we expect overall outperformance in CY2024 as well, driven by receding headwinds and better earnings visibility.

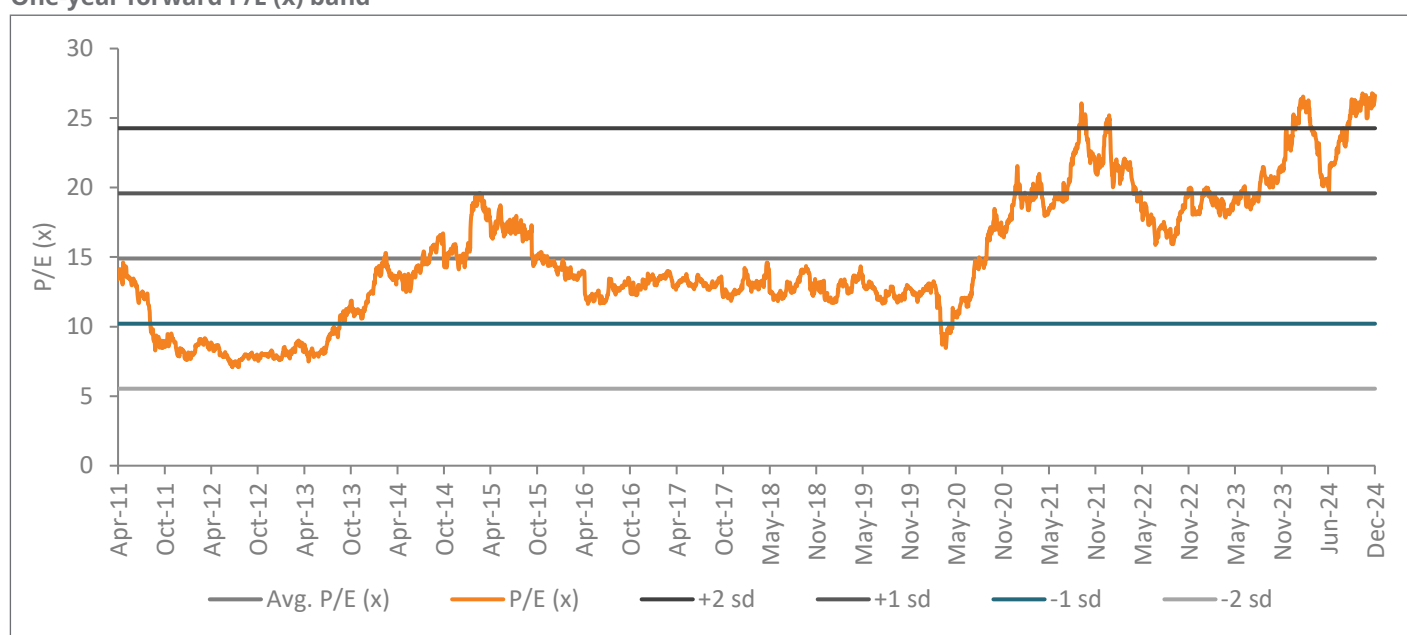
■ Company Outlook – Leveraging on core strengths

HCL Tech 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 services business (~90% 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. 2,180

HCL Tech is expected to maintain the growth leadership owing to huge opportunities across Data and AI, SAP cloud platform, cloud migration, ER&D, and business process services. The acquisition of certain assets of CTG assets is likely to further augment the revenue share of its TMT vertical. We expect Sales/PAT of ~9/12% over FY2024-FY2027E. With healthy H1FY2025 delivered despite weak seasonality and seasonally strong quarters ahead of it, 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 triggered by the rate cut cycle. We maintain BUY rating with a revised PT of Rs. 2,180 (valued at 28x its December FY2026E EPS). At the CMP, the stock trades at 29.6/26.6/23.6x its FY25/FY26/FY27E EPS.

One-year forward P/E (x) band



Source: Company; Mirae Asset 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 is poised to sustain growth leadership, driven by significant opportunities in Data and AI, SAP Cloud, Cloud migration, ER&D, and Business Process Services. The acquisition of CTG assets is expected to enhance the revenue share of its TMT vertical. Sales and PAT are projected to grow by ~9/12%, respectively, over FY2024-FY2027. The company is well positioned to win large deal wins, given diversified capabilities across IT services and ER&D. 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 U.S. can moderate the pace of technology spending.

Additional Data

Key management personnel

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

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	4.83
2	Artisan Partners Ltd	2.15
3	Blackrock Inc	1.68
4	Vanguard Group Inc/The	1.60
5	SBI Funds Management Ltd	1.50
6	HDFC Asset Management Co Ltd	1.27
7	ICICI Prudential Asset Management	1.18
8	PPFAS Asset Management	0.69
9	UTI Asset Management Co Ltd	0.65
10	Nippon Life India Asset Management	0.50

Source: Bloomberg

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Understanding the Mirae Asset 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: Mirae Asset Sharekhan Research

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