Classification: Public

HCL beats Street, AI revenue hits $219 mn

Caution prevails as Sep quarter growth still slowest in three years

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HCL Technologies Ltd beat quarterly estimates as AI revenues rose, even as it clocked its slowest September-quarter growth in three years amid stalling traditional tech offerings. In a challenging demand environment, India's third-largest IT services company ended the quarter with $3.72 billion in revenue, up 2% from the June quarter and 2.2% from the previous year.

According to a Bloomberg poll of 34 analysts, HCL Tech was expected to report $3.68 billion in revenue. More than half of incremental revenue came from telecom and media firms, making up a little more than a tenth of its business.

This comes at a time when the company is betting on new growth frontiers. In July, the Noida-based company said it will invest $365 million to build and operate data centres of up to 50 MW, calling the space a "strategic bottleneck." The previous month, it became India's first IT services firm to bet on an AI firm, acquiring 10% in Sarvam AI for about $150 million. The new bets are expected to offset demand constraints in its traditional IT offerings and tap into new AI-led revenue streams, as the company expects a year of muted growth.

Deal wins brought cheer. HCL Tech reported new orders worth $3.3 billion in the quarter, taking its first-half new order wins to $5.67 billion, which the management said was a record for the first half.

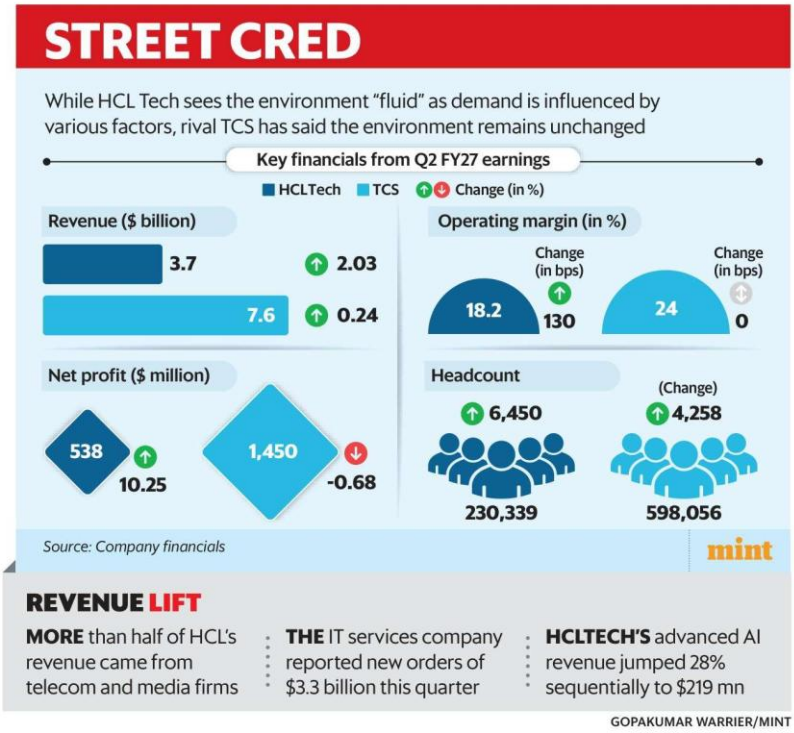
Still, the management was cautious of the demand environment.

"We saw healthy demand towards the end of the quarter. However, the environment remains fluid as the demand is influenced by various factors. As we see today, clients are prioritizing AI, data, and operating model transformation wherever there is a clear case for innovation, efficiency, and business resilience, and we have strong propositions to address these," chief executive C Vijayakumar said at the company's post-earnings press conference.

This was in line with comments from larger rival Tata Consultancy Services Ltd, which stated that the demand environment remains unchanged and non-essential client spending is under scrutiny. It ended last quarter with $7.64 billion in revenue, up 0.2% sequentially.

HCL Tech, which had pencilled in 1-4% revenue growth for FY27 in the June quar-

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REVENUE LIFT

MORE than half of HCL's revenue came from telecom and media firms

THE IT services company reported new orders of $3.3 billion this quarter

HCLTECH'S advanced AI revenue jumped 28% sequentially to $219 mn

GOPAKUMAR WARRIER/MINT

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ter now expects 2.5-4% growth in constant currency terms. Though the lower end of its estimate has been raised, the upper end remains its weakest second-quarter guidance in at least three years. Constant currency does not factor in currency fluctuations.

The management highlighted continuing AI-led revenue deflation.

"There is no one way to define how much deflation is already there and how much is yet to come. I would say we are in the early phases of deflation. It's not that deflation has really played out during the early phases of this," said Vijayakumar in response to a Mint question. This view contrasts with that of Accenture, the world's largest IT services company, which said that deflation is now predictable. HCL Tech's advanced AI revenue jumped 28% sequentially to $219 million, while net profit jumped 10.25% during the same period to $538 million.

"Even though we saw good demand building up towards the end of the past quarter, we have been a little cautious because in the last maybe two years, the environment has been very volatile," Vijayakumar said.



Management highlights continuing AI-led revenue deflation. MINT

With this, HCL Tech has reported $7.37 billion revenue in the first half of the fiscal, up 1.1% from the preceding year's first half. The company needs $3.65 billion on an average in each of the last two quarters to cross last year's revenue.

Profit optimism was driven by data centre announcements and AI solution sales to govts through Sarvam

"Revenue contribution from the top five clients has stabilized after two quarters of decline, suggesting that spending pressures among HCLTech's largest accounts are easing. However, a meaningful acceleration in organic growth will likely require broader-based traction across the rest of the client portfolio, as incremental growth from large accounts appears to be normalizing rather than reaccelerating," said Manav Medewala, research analyst at Mirae Asset Sharekhan.

Like TCS, HCL Tech too expects margins to remain range-bound. It retained its operating margin guidance of 17.5-18.5% issued in April. The company ended last quarter with operating margins of 18.2%, up 130 basis points from the preceding quarter, which the management attributed to its AI offerings and better execution. A basis point is a hundredth of a percentage point. To be sure, the second quarter has always been margin-accretive due to licence renewals in its software business.

The optimism on profitability came on the back of announcements on data centres and selling AI solutions to governments through Sarvam, a Bengaluru-based AI startup that provides AI models in Indian languages.

The management said it expects revenue from its data centre bet to bear fruit in the second half of FY28, adding it "won some meaningful business" and that there is a good synergy emerging between HCLTech and Sarvam.

The company added 6,450 people to end the first half of the fiscal with 230,339 employees.