

November 17, 2022

HCL Technologies Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	55.00	90.00	[ICRA]AAA (Stable); reaffirmed
Long-term/ Short -term – Non fund Based Working Capital	930.00	1684.00	[ICRA]AAA (Stable)/[ICRA]A1+; reaffirmed
Long-term/ Short -term – Fund Based/ Non-fund Based Working Capital	1608.00	642.00	[ICRA]AAA (Stable)/[ICRA]A1+; reaffirmed
Long-term Fund-based – Term Loan	-	177.00	[ICRA]AAA (Stable); reaffirmed
Total	2,593.00	2,593.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation factors in HCL Technologies Limited's (HCL) established position among Indian players in the global information technology (IT) and IT enabled services (ITeS) outsourcing segment, its healthy operational profile across key global markets and verticals, its established relationships with a strong customer base, and its healthy financial profile with robust debt coverage metrics and superior liquidity position.

HCL posted ~13.6% YoY¹ growth in revenues in FY2022 and growth of 18.2% YoY in H1 FY2023, supported by accelerated demand for digital transformation and technology programmes such as hybrid cloud adoption, cost optimisation initiatives, and tail vendor consolidation programmes. The company's order pipeline remains strong with TCV² of deal wins worth \$8.3 billion in FY2022 and \$4.4 billion in H1 FY2023. The strong order book coupled with a steady demand outlook provides healthy revenue visibility. However, the impact of inflationary headwinds and global macro-economic uncertainties in key global markets on industry participants, including HCL, remain a key monitorable. The company reported healthy operating margin (OPM)³ of 21.6% in H1 FY2023 versus 24.0% in FY2022. The margins moderated in H1 FY2023 owing to wage cost inflation from high attrition across IT industry, and normalisation of operational overheads in the post-pandemic era. However, attrition levels are expected to start tapering from the end of the current fiscal, as record net employee addition at the industry level in the last few quarters is likely to address the demand–supply gaps to a large extent. Coupled with better realisations and operational efficiencies, this is likely to support the profit margins over the medium term.

The ratings also continue to favourably factor in HCL's continued strong financial profile as characterised by healthy cash accruals, negative net debt position and robust liquidity profile (Net cash⁴ of Rs. 14,370 crore as on September 30, 2022. Over the years, HCL's management has adopted a prudent approach; as a result, despite its acquisitions over the past few years, the dependence on external borrowings has remained limited.

¹ Revenue growth in FY2022 and H1 FY2023 is mentioned in reported terms

² TCV: Total Contract Value

³ Operating profit refers to profit before interest, tax, depreciation and amortisation

⁴ Net cash refers to Cash and Investment less borrowings

ICRA notes the competition faced by the company from other prominent players in the global IT services industry, which limits pricing flexibility to an extent. Moreover, the industry continues to face challenges in the form of foreign currency fluctuations, talent acquisition and retention. The demand for IT services remains exposed to macro-economic uncertainties in HCL's key operating markets of USA and Europe.

The Stable outlook on the rating reflects ICRA's opinion that HCL will continue to benefit from its established business profile, diversified business presence across verticals and geographies, healthy order book position and favourable demand outlook for the industry.

Key rating drivers and their description

Credit strengths

Leading player in domestic IT services industry; diversified service offerings across verticals and geographies – HCL is one of the leading IT services companies in India with revenues of ~Rs. 85,651 crore in FY2022 and Rs. 48,150 crore in H1 FY2023. The company crossed the revenue milestone of \$10 billion in CY2020 and is the third largest IT services company by revenues from India. The company provides an array of services including IT infrastructure services, application services, business process outsourcing services, engineering and R&D services. The company has recorded broad-based growth across verticals, service lines and geographies over the years, aided by its strong client relationships and technological capabilities. HCL operates in all the key markets of the world through a network of global offices. It caters to clients across various sectors, such as manufacturing, financial services, media, telecommunication, healthcare, technology and public services, among others.

Strong financial profile with healthy liquidity position and robust debt coverage metrics – HCL (consolidated) recorded a revenue growth of 13.6 % YoY in FY2022 (in reported terms) and growth of 18.2% in H1 FY2023 supported by accelerated demand for digital transformation and technology programmes. The company also recorded net new bookings of \$8.3 billion in FY2022 and \$4.4 billion in H1 FY2023. HCL's financial profile is characterised by robust debt coverage metrics with a gearing of 0.1x, TD/OPBITDA of 0.3x and interest coverage of 72.7x as on September 30, 2022. HCL's financial profile is further supported by its healthy accruals, and significant net cash of Rs. 14,370 crore as on September 30, 2021. Going forward, the credit metrics are expected to be in line with past trends and remain healthy, backed by strong cash accrual generation and a superior liquidity position.

Strategic relationships with diversified customer base supported by high repeat business – HCL's client base remains well diversified with its top five clients contributing only 11.6% to its total revenues in FY2022. The company's client base comprises several marquee clients (Fortune 500) with opportunities to cross-sell and up-sell product offerings. Clients, who generated more than \$100 million in revenues for the company, increased to 17 as on September 30, 2022, from 15 as on September 30, 2021. The company is witnessing healthy renewal of deals and adding new deals from existing clients in the field of digitisation. Going forward, HCL is expected to maintain a diversified revenue stream across customers from various end-user sectors.

Credit challenges

Industry specific challenges like forex fluctuations, high employee attrition and exposure to policies in key operating markets – With more than 90% of HCL's revenues being generated from exports, it is exposed to foreign currency fluctuations. To hedge against these exposures, HCL enters various derivative contracts (forwards/options). The company is also impacted by industry-specific factors such as wage inflation and challenges of retention and reskilling of its talent pool. HCL LTM⁵ attrition rate of 23.8% as on September 30, 2022, increased from 15.7% as on September 30, 2021, as the industry continues to grapple with high attrition levels. Attrition levels are likely to start tapering from the end of the current fiscal, as record net employee addition at the industry level in FY2022 is likely to address the demand–supply gap to a large extent. HCL is also exposed to macro-economic uncertainties and any adverse regulatory/ legislative changes in its key operating markets of the US, Europe

⁵ LTM: Last 12-month

and India. Europe and North America contributed ~92% of company's revenue in H1 FY2023 and FY2022, in line with global industry trends.

Exposure to intense competition in global IT industry – The global IT services industry is dominated by several large players, leading to intense pressure on margins. HCL is the third largest Indian company in the global IT services industry and faces tough competition from domestic players such as Tata Consultancy Services (TCS), Infosys Limited (Infosys) and Wipro Limited (Wipro), as well as from international players like IBM, Accenture, Cognizant and Capgemini, among others. There are various smaller niche technology players, which leads to intense competition while bidding for new contracts in the industry.

Environment and Social Risk

Environmental concerns: Given its service-oriented business, HCL's direct exposure to environmental risks as well as those emanating from regulations or policy changes is not material.

Social concerns: Like other Indian IT service companies, HCL faces the risk of data breaches and cyber-attacks that could affect the large volumes of customer data that it manages. Any material lapses on this front could result in substantive liabilities, fines, or penalties and reputational impact. Also, HCL remains exposed to the risk of changes in immigration laws in the key developed markets where it provides its services. While such changes would be motivated by those economies' own social and political considerations, they could have the effect of heightening the competition among IT players for skilled workforce leading to higher attritions and may have an adverse impact on profitability. Managing various facets of human capital, including skills, compensation, and training, is in any case a key differentiating factor among IT companies. HCL's track record on this count has been in line with other established IT services companies as it has adequate insurance cover in place to mitigate the risk of data breach or cyber-attack to an extent. HCL provides regular wage hikes, and training to its employees and continues to work towards optimising its employee pyramid, which mitigates the human capital-induced social risks to an extent.

Liquidity position: Superior

HCL's liquidity is **superior**, supported by consistent generation of strong cash flow from operations and low working capital intensity of the business. Additionally, the liquidity profile is strengthened by sizeable cash/bank balances and investments of Rs. 18,636 crore as on September 30, 2022. HCL is expected to make dividend pay-outs/ buybacks and incur capex for supporting its operations and acquisitions, going forward, which will impact its cash reserves to some extent. However, the company is expected to continue to generate strong cash accruals. Moreover, ICRA expects the company to meet its near-term commitments (debt-servicing obligations and capex requirements) through internal sources and yet be left with strong surplus liquidity.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The rating may be revised downwards if the company is not able to sustain its operating profitability metrics, leading to a significant deterioration in its return indicators. Pressure on the rating could arise in case of a material deterioration in the company's credit profile because of a sharp decline in its operating performance and/or disproportionate dividend pay-outs and/or a large debt-funded acquisition.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Information Technology (IT) Services Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of HCL. The details of the entities consolidated are shared in Annexure 2.

About the company

HCL is a leading global IT services company that ranks among the top four Indian IT services companies in terms of revenues. Since its inception into the global landscape after its IPO in 1999, HCL has focused on 'transformational outsourcing', and offers an integrated portfolio of services, including software-led IT solutions, remote infrastructure management, engineering and R&D services, and BPO services. HCL leverages its extensive global offshore infrastructure and network of offices in 50 countries to provide multi-service delivery in key industry verticals, including manufacturing, financial services, media, telecommunication, healthcare, technology and public services, among others.

Key financial indicators (audited)

Consolidated	FY2021	FY2022	H1 FY2023*
Operating income	75,379	85,651	48,150
PAT	11,169	13,524	6,768
OPBDIT/OI	26.6%	24.0%	21.6%
PAT/OI	14.8%	15.8%	14.1%
Total outside liabilities/Tangible net worth (times)	0.4	0.4	0.4
Total debt/OPBDIT (times)	0.3	0.3	0.3
Interest coverage (times)	39.2	64.4	72.7

Source: Company, ICRA Research, All ratios as per ICRA calculations

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

*Limited Review Report

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding As on March 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Nov 17, 2022	Sep 16, 2021	Jun 25, 2020	-
1 Cash Credit	Long Term	90.00	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-
2 Non-Fund Based Facilities	Long Term/Short Term	1684.00	-	[ICRA]AAA (Stable)/[ICRA]A1+	[ICRA]AAA (Stable)/[ICRA]A1+	[ICRA]AAA (Stable)/[ICRA]A1+	-

3	Fund-Based & Non-Fund Based Facilities	Long Term/Short Term	642.00	-	[ICRA]AAA (Stable)/[ICRA]A1+	[ICRA]AAA (Stable)/[ICRA]A1+	[ICRA]AAA (Stable)/[ICRA]A1+	-
4	Term Loan	Long Term	177.00	176.2	[ICRA]AAA (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Long-term/ Short -term – Non fund Based Working Capital	Very Simple
Long-term/ Short -term – Fund Based/ Non-fund Based Working Capital	Simple
Long-term Fund-based – Term Loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	90.00	[ICRA]AAA (Stable)
NA	Non-Fund Based Facilities	NA	NA	NA	1684.00	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Fund-Based & Non-Fund Based Facilities	NA	NA	NA	642.00	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Term Loan	FY2019	7.0%	FY2025	177.00	[ICRA]AAA (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
HCL Comnet Systems and Services Limited	100%	Full Consolidation
HCL Software Products Limited	100%	Full Consolidation
HCL Bermuda Limited	100%	Full Consolidation
HCL Great Britain Limited	100%	Full Consolidation
HCL Australia Services Pty. Limited	100%	Full Consolidation
HCL (New Zealand) Limited	100%	Full Consolidation
HCL Hong Kong SAR Limited	100%	Full Consolidation
HCL Japan Limited	100%	Full Consolidation
HCL America Inc.	100%	Full Consolidation
HCL Technologies Austria GmbH	100%	Full Consolidation
HCL Singapore Pte. Ltd.	100%	Full Consolidation
HCL Poland sp. z o.o	100%	Full Consolidation
HCL Technologies (Shanghai) Limited	100%	Full Consolidation
HCL EAS Limited	100%	Full Consolidation
Axon Group Limited	100%	Full Consolidation
HCL Canada Inc.	100%	Full Consolidation
HCL Technologies Solutions GmbH	100%	Full Consolidation
Axon Solutions Limited	100%	Full Consolidation
HCL Technologies Malaysia Sdn. Bhd.	100%	Full Consolidation
HCL Axon Solutions (Shanghai) Co. Ltd.	100%	Full Consolidation
HCL Technologies (Proprietary) Ltd.	48.16%	Full Consolidation
HCL Insurance BPO Services Limited	100%	Full Consolidation
HCL Argentina s.a.	100%	Full Consolidation
HCL Technologies Mexico S. de R.L.	100%	Full Consolidation
HCL Technologies Romania s.r.l.	100%	Full Consolidation
HCL Technologies Starschema Kft (Formerly known as HCL Hungary kft)	100%	Full Consolidation
HCL Latin America Holding LLC	100%	Full Consolidation

Company Name	Ownership	Consolidation Approach
HCL (Brazil) Tecnologia da informacao Ltda. (Formerly known as HCL (Brazil) Tecnologia da informacao EIRELI)	100%	Full Consolidation
HCL Technologies Denmark Aps	100%	Full Consolidation
HCL Technologies Norway AS	100%	Full Consolidation
PT HCL Technologies Indonesia	100%	Full Consolidation
HCL Technologies South Africa (Proprietary) Limited	36%	Full Consolidation
HCL Arabia LLC	100%	Full Consolidation
HCL Technologies Philippines, Inc	100%	Full Consolidation
HCL Technologies France SAS	100%	Full Consolidation
Filial Espanola De HCL Technologies S.L.	100%	Full Consolidation
Anzospan Investments Pty. Ltd	70%	Full Consolidation
HCL Investments (UK) Ltd.	100%	Full Consolidation
HCL America Solutions Inc.	100%	Full Consolidation
HCL Technologies Chile SPA	100%	Full Consolidation
HCL Technologies UK Ltd.	100%	Full Consolidation
HCL Technologies B.V.	100%	Full Consolidation
HCL Technologies Germany GmbH	100%	Full Consolidation
HCL (Ireland) Information Systems Ltd.	100%	Full Consolidation
HCL Technologies Finland Oy	100%	Full Consolidation
HCL Technologies Belgium BV (Formerly known as HCL Technologies Belgium BVBA)	100%	Full Consolidation
HCL Technologies Sweden AB	100%	Full Consolidation
HCL Technologies Italy S.P.A.	100%	Full Consolidation
HCL Technologies Columbia S.A.S.	100%	Full Consolidation
HCL Technologies Middle East FZ-LLC	100%	Full Consolidation
HCL Technologies Greece Single Member P.C.	100%	Full Consolidation
HCL Istanbul Bilisim Teknolojileri Limited Sirketi	100%	Full Consolidation
HCL Technologies Egypt Ltd	100%	Full Consolidation
HCL Technologies S.A.	100%	Full Consolidation
HCL Technologies Luxembourg SARL	100%	Full Consolidation
HCL Technologies Beijing Co. Ltd.	100%	Full Consolidation
HCL Technologies (Thailand) Limited	100%	Full Consolidation
HCL Technologies Estonia OU	100%	Full Consolidation
HCL Technologies Czech Republic S.R.O.	100%	Full Consolidation
HCL Training & Staffing Services Private Limited	100%	Full Consolidation
HCL Muscat Technologies LLC	100%	Full Consolidation
HCL Technologies Lithuania UAB	100%	Full Consolidation
HCL Technologies (Taiwan) Ltd.	100%	Full Consolidation
Geometric Americas Inc.	100%	Full Consolidation
Butler America Aerospace LLC	100%	Full Consolidation
HCL Asia Pacific Pte. Ltd	100%	Full Consolidation

Company Name	Ownership	Consolidation Approach
Geometric Europe GmbH	100%	Full Consolidation
Geometric China Inc.	100%	Full Consolidation
HCL Technologies Corporate Services Limited	100%	Full Consolidation
HCL Lending Solutions, LLC (Formerly known as Urban Fulfillment Service LLC)	100%	Full Consolidation
Datawave (An HCL Technologies Company) Limited	100%	Full Consolidation
Telerox Marketing Inc.	100%	Full Consolidation
C3i Europe Eood	100%	Full Consolidation
C3i Services & Technologies (Dalian) Co., Ltd	100%	Full Consolidation
C3i Japan GK	100%	Full Consolidation
C3i Support Services Private Limited.	100%	Full Consolidation
HCL Technologies Vietnam Company Limited	100%	Full Consolidation
Action Corporation.	100%	Full Consolidation
Action Netherlands B.V.	100%	Full Consolidation
Action International, Inc.	100%	Full Consolidation
Action Technology Private Limited	100%	Full Consolidation
Action Australia Pty. Limited	100%	Full Consolidation
Action Europe Limited	100%	Full Consolidation
Action Germany GmbH	100%	Full Consolidation
Action France	100%	Full Consolidation
Versant GmbH	100%	Full Consolidation
Versant India Private Limited	100%	Full Consolidation
HCL Guatemala, Sociedad Anónima	100%	Full Consolidation
Statestreet HCL Holding UK Limited	100%	Full Consolidation
Statestreet HCL Services (Philippines) Inc.	100%	Full Consolidation
Statestreet HCL Services (India) Private Limited	100%	Full Consolidation
HCL Technologies Trinidad and Tobago Limited	100%	Full Consolidation
HCL Technologies Azerbaijan Limited Liability Company	100%	Full Consolidation
Sankalp Semiconductor Private Limited	100%	Full Consolidation
Sankguj Semiconductor Private Limited	100%	Full Consolidation
Sankalp Semiconductor SDN.BHD.	100%	Full Consolidation
Sankalp USA Inc.	100%	Full Consolidation
Sankalp Semiconductor Inc.	100%	Full Consolidation
Sankalp Semiconductor GmbH.	100%	Full Consolidation
HCL Technologies Bulgaria EOOD	100%	Full Consolidation
H C L Technologies Lanka (Private) Limited	100%	Full Consolidation
HCL Vietnam Company Limited (Formerly known as HCL Technologies (Vietnam) Company Limited)	100%	Full Consolidation
HCL Technologies Angola (SU), LDA	100%	Full Consolidation
HCL Technologies SAC	100%	Full Consolidation
DWS Pty Limited (Formerly known as DWS Limited)	100%	Full Consolidation

Company Name	Ownership	Consolidation Approach
DWS (New Zealand) Ltd	100%	Full Consolidation
Phoenix IT & T Consulting Pty Ltd	100%	Full Consolidation
Wallis Nominees (Computing) Pty Ltd	100%	Full Consolidation
DWS (NSW) Pty Ltd	100%	Full Consolidation
Symplicit Pty Ltd	100%	Full Consolidation
Projects Assured Pty Ltd	100%	Full Consolidation
DWS Product Solutions Pty Ltd	100%	Full Consolidation
Graeme V Jones & Associates Pty Ltd	100%	Full Consolidation
Strategic Data Management Pty Ltd	100%	Full Consolidation
SDM Sales Pty Ltd	100%	Full Consolidation
HCL Technologies Costa Rica S.R.L.	100%	Full Consolidation
HCL TECHNOLOGIES BAHRAIN W.L.L	100%	Full Consolidation
HCL Technologies Slovakia s. r. o.	100%	Full Consolidation
HCL Technologies Morocco Limited	100%	Full Consolidation
HCL Technologies gbs GmbH (Formerly known as gbs-Gesellschaft für Banksysteme GmbH)	51%	Full Consolidation
Starschema Kft	100%	Full Consolidation
Starschema Inc.	100%	Full Consolidation
Brilliant Data LLC	100%	Full Consolidation
Manzina Tech GmbH	100%	Full Consolidation
Confinale AG	100%	Full Consolidation
Confinale (Deutschland) GmbH	100%	Full Consolidation
Confinale (UK) Limited	100%	Full Consolidation
HCL Technologies Jigani Limited	100%	Full Consolidation
Quest Informatics Private Limited	100%	Full Consolidation
Sankalp Stock Trust*	100%	Full Consolidation
HCL Technologies Stock Options Trust*	100%	Full Consolidation
Austin GIS Inc.	14%	Equity Method

Source: H1 FY2023 Results and annual report FY2022; Controlled Trusts

Note: ICRA has taken a consolidated view of the parent, its subsidiaries and associates while assigning the ratings.

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