

May 02, 2017

HCL Comnet Limited

Summary of rated instruments

| Instrument* | Rated Amount (in Rs. crore) | Rating Action |
|--|--------------------------------|--|
| LT fund based facilities | 97.58 | [ICRA]AA (Stable) reaffirmed |
| ST non-fund based facilities | 248.00 | [ICRA]A1+ reaffirmed |
| LT/ST fund based & non fund based facilities | 75.00 | [ICRA]AA (Stable)/[ICRA]A1+ reaffirmed |
| Total | 420.58 | |

*Instrument details are provided in Annexure-1

Rating action

The ratings assigned to the Rs 420.58 crore¹ bank facilities of HCL Comnet Limited (HCL Comnet) has been reaffirmed at [ICRA]AA/[ICRA]A1+ (pronounced ICRA double A/ICRA A one plus)². The outlook on the long-term rating is 'Stable'.

Rationale

The reaffirmation of the assigned ratings continues to take into account the strong parentage of HCL Comnet, being a wholly owned subsidiary of HCL Technologies Limited (rated [ICRA]AAA (Stable)/[ICRA]A1+) and the company's presence in the communication equipment and network installation services business catering to reputed clients. The above business, although low margin in nature, has synergies with the HCL Group's Remote Infrastructure Management (RIM) Services business where clients' requirements for service delivery are often required to be bundled with hardware support (the latter being provided by HCL Comnet). The ratings, however, remain constrained due to the increased competitive intensity in the business leading to stagnant revenues and pressure on margins and the working capital intensive nature of operations in view of a prolonged receivable cycle. ICRA continues to take comfort from the strong financial risk profile of the parent company HCL Technologies Limited, reflected in healthy cash accruals, robust gearing and coverage indicators as well as cash balances and liquid investments amounting to USD 1,885.4 million as on December 31st, 2016, imparting significant financial flexibility.

HCL Comnet derives its revenues from system integration services for domestic clients. The company imports equipment and sells the same as solutions to its clients. HCL Comnet provides communication equipment (both for VSAT and leased lines), maintenance, software and related technical services. Services revenues have remained fairly stagnant over the last three years, attributable to the average tenure of the service contract spanning over a 3-5 year term. HCL Comnet reported total revenues of Rs 371.8 crore in 2015-16(9 months)³ as against Rs 504.6 crore in 2014-15.

¹ Rs 1 Crore = Rs 100 Lakh = Rs 10 Million

² For complete rating scale and definitions please refer to ICRA's website www.icra.in or other ICRA Rating Publications

³ The Company changed its financial year from July - June to April-March in FY2016

Inherently low margins in the hardware business and fixed cost intensive nature of operations has resulted in low operating margins of the company at 0.5% in 2015-16, a small improvement from -1.0% in 2014-15. The net margins also exhibited a downward trend and reduced from 9.2% in 2014-15 to 0.4% in 2015-16. With the VSAT market expected to grow well going forward, HCL Comnet is likely to maintain moderate revenue growth, although margins are likely to be vulnerable to pressures arising from increasing competitive intensity. In the near term, with no significant debt funded capex plans, the financial profile of the company is expected to remain stable.

Key rating drivers

Credit strengths

- Strong parentage, being a subsidiary of HCL Technologies Limited (HCL Tech; Rated [ICRA]AAA (Stable), [ICRA]A1+)
- Established player in the communication equipment and network installation services business with proven client service track record

Credit weaknesses

- Increased competitive intensity in the business leading to stagnant revenues and pressure on margins
- High working capital intensity in business in view of a prolonged receivable cycle

Description of key rating drivers:

HCL Comnet Limited is a wholly owned subsidiary of HCL Tech (Rated [ICRA]AAA (Stable), [ICRA]A1+). It has an established presence in the communication and network installation services business.

HCL Comnet reported total revenues of Rs 371.8 crore in 2015-16(9 months) as against Rs 504.6 crore in 2014-15. The ratings remain constrained due to the increased competitive intensity in the business leading to stagnant revenues and pressure on margins and the working capital intensive nature of operations in view of a prolonged receivable cycle. However, ICRA continues to take comfort from the strong financial risk profile of the parent company HCL Technologies Limited, reflected in healthy cash accruals, robust gearing and coverage indicators as well as cash balances and liquid investments amounting to USD 1,885.4 million as on December 31st, 2016, imparting significant financial flexibility.

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below:

Corporate Credit Ratings: A Note on Methodology

[Rating Methodology for Issuers in the Information Technology \(Hardware\) Industry](#)

About the company:

HCL Comnet Limited is a wholly-owned subsidiary of HCL Technologies Limited (HCL Tech, rated [ICRA]AAA, Stable, [ICRA]A1+). The company is engaged in offering system integration services including supply and maintenance of related equipment. HCL Tech, the flagship company of the HCL Group offers an integrated portfolio of services including software-led IT solutions and services, remote infrastructure management (RIM) services, engineering and R&D services and Business Process Outsourcing (BPO) services.

Status of non-cooperation with previous CRA: Not applicable



Any other information: Not applicable

**Rating history for last three years:
Table:**

| S. No. | Name of Instrument | Current Rating | | | Chronology of Rating History for the past 3 years | | |
|--------|----------------------------------|-----------------------|---------------------------|-----------------------------|---|-----------------------------|-----------------------------|
| | | Type | Amount Rated (Rs. Crores) | Date & Rating | Date & Rating in FY2016 | Date & Rating in FY2015 | Date & Rating in FY2014 |
| | | | | May 2017 | February 2016 | November 2014 | May 2013 |
| 1 | Fund Based Facilities | Long Term | 97.58 | [ICRA]AA (Stable) | [ICRA]AA (Stable) | [ICRA]AA (Stable) | [ICRA]AA (Stable) |
| 2 | Non-Fund Based Facilities | Short Term | 248.00 | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ |
| 3 | Fund & Non-Fund Based Facilities | Long Term/ Short Term | 75.00 | [ICRA]AA (Stable)/[ICRA]A1+ | [ICRA]AA (Stable)/[ICRA]A1+ | [ICRA]AA (Stable)/[ICRA]A1+ | [ICRA]AA (Stable)/[ICRA]A1+ |

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

| Instrument | Date of Issuance/ Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. Crore) | Current Rating and Outlook |
|----------------------------------|---------------------------------------|--------------------|----------------------|-------------------------------------|-----------------------------------|
| Fund based facilities | - | - | - | 97.58 | [ICRA]AA (Stable) |
| Non-fund based facilities | - | - | - | 248.00 | [ICRA]A1+ |
| Fund & non-fund based facilities | - | - | - | 75.00 | [ICRA]AA (Stable)/[ICRA]A1+ |
| Total | | | | 420.58 | |

Source: HCL Comnet Limited

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About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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