HCL Technologies Limited Revised

January 29, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit Facilities	60.00	60.00	[ICRA]AAA(Stable); reaffirmed
LT/ST Fund Based Facilities	806.99	0.00	
LT/ST Non-Fund Based Facilities	1,378.66	1167.00	[ICRA]AAA(Stable)/[ICRA]A1+; reaffirmed
ST Fund Based Facilities	300.00	0.00	
ST Non-Fund Based Facilities	504.35	0.00	
ST Fund Based/Non-Fund Based Facilities	250.00	0.00	
LT/ST Fund Based & Non-Fund Based Facilities	0.00	1744.00	[ICRA]AAA(Stable)/[ICRA]A1+; reaffirmed
Total Bank Facilities	**3,300.00**	**2971.00**	
Commercial Paper Programme	**200.00**	**200.00**	[ICRA]A1+; reaffirmed

Rating action

ICRA has re-affirmed [ICRA]AAA/[ICRA]A1+ (pronounced ICRA triple A/ ICRA A one plus) ratings for the Rs. 2971.00 Crore bank facilities of HCL Technologies Limited (HCL Tech) †. The outlook on the long-term rating is “Stable”. ICRA has also reaffirmed [ICRA]A1+ rating for the Rs. 200.0 Crore Commercial Paper Programme of HCL Tech.

Rationale

The rating re-affirmation continues to reflect the strong business position of HCL Tech as one of the top four players in the domestic IT services industry in terms of revenues. ICRA notes an experienced management team, established client relationships and diversified service offerings across verticals and geographies, which help mitigate business concentration risks, lending stability to cash flows. Coupled with the ability of the company to cross-sell services as clients move towards vendor consolidation, a healthy new transaction pipeline augurs well for steady business growth over the near to medium term. Further, the company is actively forming IP partnerships to leverage new age digital technology, Artificial Intelligence (AI) and various state of the art technologies to remain ahead of the curve and offer new services and products based on these technologies to its clients thus mitigating technological obsolescence risk. The re-affirmation factors in the continued strong financial profile of the company (consolidated basis) reflected in healthy cash accruals, robust gearing and coverage indicators as well as cash balances and liquid investments amounting to Rs. 10,899.1 crore as on March 31, 2017, imparting significant financial flexibility.

The rating strengths, however, are partially off-set due to industry inherent risks in terms of high competitive intensity and evolving market with aggressive competition from global and domestic players. ICRA notes the concerns in key developed markets of US that could result in decreasing on-shore presence, pricing pressures from clients and increasing inclination of clients towards cloud technology and digital technology, wherein domestic IT players are still in investment phase. Nonetheless, these risks are partially mitigated by the longstanding experience and demonstrated ability of HCL Tech to increase its market share in the addressable global IT services market. The ratings are further constrained by the vulnerability of operating margins to wage inflation, increase in visa charges, pricing pressures and forex related risks.

HCL Tech has reported strong order booking (dominated by large scale, end-to-end service deals) over the last few years; however, revenue growth during the period has not reflected the full traction from these deals. ICRA takes note of such increased complexity of ongoing projects, which has caused such lumpiness in revenues. However, healthy traction in the re-bid market and healthy demand from first time outsources help mitigate the above risk to an extent. Going forward, while HCL Tech remains open to inorganic growth opportunities that would likely plug in competency gaps, ICRA expects the same (if any) to be funded in a manner that sustains the company's credit profile. ICRA will evaluate the impact of such acquisitions on a case-to-case basis, and the same remains a key rating sensitivity.

Outlook: Stable

ICRA believes HCL Technologies Limited will continue to benefit from its extensive relationships with its existing clients and its vast experience in the IT industry which helps it to forge new client relationships ensuring good revenue visibility in the near to medium term. experience of its partners. The outlook may be revised to 'Negative' if there is any significant downturn in the IT industry or adverse effects due to various issues relating to visas and outsourcing of technological demands in the US or European markets.

Key rating drivers

Credit strengths

Amongst the top four players in the domestic Information Technology (IT) Services industry in terms of revenues- HCL Tech at number four among the IT companies in India has revenues (consolidated) of Rs. 47,567.5 crore during FY2017. Overall, in terms of the CAGR for revenues during the period FY2013-17, HCL with 18% growth, leads the pecking order followed by TCS (CAGR of 17%), Infosys (CAGR of 14%) and Wipro (CAGR of 10%) during the same period.

Diversified service offerings spread across verticals and geographies- The company's industry concentration risk remains low, with its offerings spread across six verticals and no vertical accounting for more than 40% of the total revenue. HCL Tech's 37.1% of revenues comes from European and Rest of the World market, as of last twelve months ended December 31, 2017. The company is trying to further diversify its business geographically and reduce its dependence on the US market, results of which remain to be seen.

Continuing movement towards vendor consolidation, ability to cross-sell services to existing clients and healthy new deal pipeline- HCL Tech's Mode 1-2-3 strategy enables them to sell bundled services to the clients thus giving HCL Tech larger share of the client's wallet. With 42 transformational deals in FY2017 and 48 in 9MFY2018, the new deal pipeline is healthy indicating stable revenue generation in the medium term. Further, improving economic growth outlook for the developed markets, it is expected that in the near to medium term the revenue visibility is expected to remain good, given HCL Tech's ability to bag new deals.

Healthy revenue and earnings growth as well as robust profitability and credit metrics- HCL Tech's revenue grew by 14.2% during the last twelve months ended March 31, 2017. Further, during 9MFY2018, the company reported revenues of Rs. 37,391.0 crore, a YoY growth of 7.8%. Profitability remains strong with operating margin of 21.8% during FY2017 and 22.0% during 9MFY2018. Further, with total cash and liquid investments of USD 1,341 million (Rs. ~8,553.2 crore) as of December 31, 2017, the net debt position of the company is negative, providing robust financial flexibility to the company.

Credit challenges

Slowing revenue growth from traditional outsourcing business, ability to adapt and win fresh digital business would be critical for future growth- The IT services industry is facing headwinds in the form of slowing demand for traditional services such as application development and maintenance. Companies are spending on digital technologies to drive business outcomes. However, HCL's Mode 1-2-3 strategy tries to reinvent client business using the latest technologies giving them edge over traditional IT services players.

High competitive intensity and evolving market with aggressive global and domestic competitors- The IT services industry is a highly competitive market with tough competition from domestic players like TCS, Infosys, Wipro, etc. and from International players like IBM, Accenture, Cognizant, Capgemini, etc. Besides this there are various smaller niche technology players which pose serious competitions while looking for new contracts.

Vulnerability of profit margins due to wage inflation, changes in visa policy, forex movements – In the past two years there have been uncertainties regarding US Government's visa policies towards it non-immigrant and temporary visa programs such as the H1-B and L1 visas. Any adverse changes in the visa policy could prove detrimental for the current business model of the company leading to pressure on revenues and margins. ICRA nevertheless notes the company's endeavor towards hiring local talent across countries particularly in US to mitigate the above risk. Further with majority of the revenues in foreign currency and almost all the expenditure being incurred in rupees, there is risk of adverse forex movements. However, the company shields this by hedging majority of its foreign currency exposure.

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

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for Information Technology (Services) Industry

About the company:

HCL Technologies Limited (HCL Tech) is a leading global IT services company, ranked among the top five Indian IT services companies in terms of revenues. Since its inception into the global landscape after its IPO in 1999, HCL Tech 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 Tech leverages its extensive global offshore infrastructure and network of offices in 32 countries to provide multi-service delivery in key industry verticals including financial services, manufacturing, aerospace and defense, telecommunication, retail and consumer packaged goods, life sciences and healthcare, media and entertainment, travel, transportation and logistics, automotive, Government projects, energy and utilities.

Key financial indicators (audited)

	FY 2016* (Consolidated)	FY 2017(Consolidated)
Operating Income (Rs. crore)	30790.9	47567.5
PAT (Rs. crore)	5582.5	8551.6
OPBDIT/ OI (%)	21.3%	21.8%
RoCE (%)	35.8%	34.6%
Total Debt/ TNW (times)	0.0	0.0
Total Debt/ OPBDIT (times)	0.2	0.0
Interest coverage (times)	88.7	116.6
NWC/ OI (%)	18.5%	11.3%

*Source: Company Annual Reports. * consist of 9 months from Jul-Mar.*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Current Rating (FY2018) Date & Rating Jan 2018	Chronology of Rating History for the past 3 years: Date & Rating in FY2017 Dec 2016	Date & Rating in FY2016 Jan 2016	Date & Rating in FY2015 Sep 2014
1	Cash Credit Facilities		60.00	60.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	Revised to [ICRA]AAA (Stable) from [ICRA]AA+ (Positive)
2	Short Term Fund Based Facilities		0.00	0.00	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA]A1+ reaffirmed
3	Short Term Non-Fund Based Facilities		0.00	0.00	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	ICRA] A1+ reaffirmed
4	Short Term Fund Based/Non-Fund Based Facilities		0.00	0.00	[ICRA] A1+	[ICRA]A1+	[ICRA] A1+	[ICRA] A1+ reaffirmed
5	Long Term/Short Term Fund Based Facilities		0.00	0.00	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	Revised to [ICRA]AAA (Stable)/ [ICRA]A1+ from [ICRA]AA+ (Positive)/ [ICRA]A1+
6	Long Term/Short Term Non- Fund Based Facilities		1167.00	1167.00	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	Revised to [ICRA]AAA (Stable)/ [ICRA]A1+ from [ICRA]AA+ (Positive)/ [ICRA]A1+
7	LT/ST Fund Based & Non-Fund Based Facilities		1744.00	1744.00	[ICRA]AAA (Stable)/ [ICRA]A1+			
8	Commercial Paper Programme		200.00	200.00	[ICRA]A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+ reaffirmed

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper	NA	NA	7-365 days	200.00	[ICRA]A1+
NA	Working Capital Limits	NA	0.34-14.50% p.a.	NA	2971.00	[ICRA]AAA(Stable)/[ICRA]A1+

Source: HCL Technologies Limited

ANALYST CONTACTS

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Anupama Arora
+91 124 4545 303
anupama@icraindia.com

Bishwarup Pakrasi
+91 124 4545 346
bishwarup.pakrasi@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 6606 9999

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents