

HCL Comnet Limited

June 25, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Long-term Fund Based Facilities	97.58	0.00	-
Short-term Non-Fund Based Facilities	248.00	95.33	[ICRA]A1+ reaffirmed
Long-term/Short-term Fund based/Non-fund based facilities	75.00	325.00	[ICRA]AA (Stable)/ [ICRA]A1+ reaffirmed
Total	420.58	420.33	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long -term and short-term rating at [ICRA]AA/[ICRA]A1+ (pronounced ICRA double A/ ICRA A one plus) for the Rs. 420.33 borrowing programme of HCL Comnet Limited (HCLCL/HCL Comnet)¹. 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 HCLCL). The ratings, however, remain constrained due to the increased competitive intensity in the business leading to stagnant revenues, 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 ~Rs. 10,688.0 crore as on March 31st, 2018, 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 three- five year term. HCL Comnet reported total revenues of Rs. 462.6 crore in FY2017 as against Rs. 372.0 crore in FY2016².

The company's reported loss of Rs. 46.1 crore in FY2017 was an outcome of bad debt provisioning of Rs. 29 crore and write off of deferred tax assets of Rs. 41.0 crore. In the backdrop of strong parentage and available cash and liquid investments

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² In FY2016 the company changed its reporting period from July-June to April-March, so period under consideration in FY2016 is only 9 months, i.e. July-March.

of Rs. 156.6 crore as of March 31, 2017, ICRA believes this onetime event is unlikely to materially alter the credit profile of HCL Comnet.

Going forward, HCLCL is likely to maintain low revenue growth given high competitive intensity and cautious approach of the company towards new business, as the company is likely to bid for contracts which have good pricing and not low margin contracts.

Outlook: Stable

ICRA believes HCLCL will continue to enjoy financial flexibility on account of its parentage of HCL Tech coupled with extensive experience and established presence in system integration and communication equipment business. The outlook may be revised to Positive if the business mix is strengthened that results in higher than expected growth in revenue and profitability, thereby strengthening the financial risk profile. 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, adversely affecting HCLCL's parent HCL Tech.

Key rating drivers

Credit strengths

Strong parentage- HCLCL is a wholly owned subsidiary of HCL Technologies Limited (HCL Tech; Rated [ICRA]AAA, Stable, [ICRA]A1+). HCLCL has strategic importance for the Infrastructure Solutions business of HCL Tech, which its largest business unit contributing ~38% of HCL Tech's revenues.

Strong presence in the networking solution segment- The company is engaged in wide area/local area networking solutions, hardware supply and also maintenance services of the same. Its client portfolio includes various state governments, public sector entities, banks, etc.

Substantial cash and liquid investments- As on March 31, 2017 the company had a total debt of Rs. 23.5 crore and cash and liquid investment of Rs. 156.6 crore. Thus, the company has a negative net debt position, strengthening the financial risk profile of the company.

Credit challenges

Stagnation in operating revenues- Operating revenues growth has remained flat over the last few years. Going forward, the revenue growth is likely to be muted as the company faces high competitive intensity and price based competition.

Elongated working capital cycle- The company's clients are mainly government organisation which take time in making payments and thus the company has high receivables that has resulted in high working capital intensity.

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 Issuers in Information Technology \(Hardware\) Industry](#)

[Impact of Parent or Group Support on an Issuer's Credit Rating](#)

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 hardware supply, installation & maintenance services and system integration projects. It is into wide area/local area networking solutions through terrestrial and satellite networks, including its security, consultancy, management and support. It caters to large government projects be that of state or central governments, public sector enterprise and other large enterprises segments, public and private banks, stock exchanges, other banking and financial institutions.

Key financial indicators

	FY2016*	FY2017
Operating Income (Rs. crore)	372.0	462.6
PAT (Rs. crore)	-0.8	-46.1
OPBDIT/OI (%)	0.3%	-1.0%
RoCE (%)	3.6%	-2.1%
Total Debt/TNW (times)	0.1	0.1
Total Debt/OPBDIT (times)	22.3	-4.8
Interest coverage (times)	0.2	-1.7

*Only 9 months from July-March

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating June 2018	Date & Rating in FY2018 May 2017	Date & Rating in FY2016 Feb 2016	Date & Rating in FY2015 Nov 2014
1 Fund based facilities	Long-term	0.00	-	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2 Non-fund based facilities	Short-term	95.33	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3 Fund/ Non-fund based facilities	Long-term/ Short-term	325.00	-	[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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Non-fund based facilities	NA	NA	NA	95.33	[ICRA]A1+
NA	Fund/ Non-fund based facilities	NA	9.75%	NA	325.00	[ICRA]AA (Stable)/ [ICRA]A1+

Source: HCL Comnet Limited

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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.

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