

May 24, 2019 ^{Revised}

HCL Comnet Systems And Services Ltd: Rating reaffirmed

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT Non-Fund Based Facilities	20.00	0.00	-
ST Non-Fund Based Facilities	15.00	0.00	-
LT/ST Non-Fund Based Facilities	0.00	23.00	[ICRA]AA (Stable)/ [ICRA]A1+ reaffirmed
Total Bank Facilities to be Rated	35.00	23.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation continues to take into account HCL Comnet Systems And Services Ltd's (HCSSL/ the company) strong parentage as a wholly owned subsidiary of HCL Technologies Limited (HCL Tech, rated [ICRA]AAA (Stable)/[ICRA]A1+) and its proven track record of providing Very Small Aperture Terminals (VSAT-satellite based communication) services to a reputed portfolio of clients over the years. The ratings, however, continue to remain constrained by the stagnant operating revenues and pressure on margins in view of intensifying price-based competition in the industry. Post the demerger of its Remote Infrastructure Management (RIM) services into HCL Technologies Limited in 2016; HCSSL now generates 100% of its revenues from the sale of bandwidth and other services to domestic clients. Over the last three years, its revenues have remained fairly stagnant and the company reported an operating income of Rs 44.2 crore in FY2018 and Rs. 31.2 crore during 9MFY2019 (on provisional basis). Going forward, revenues are likely to remain stagnant and profitability of the business remains to be seen.

Outlook: Stable

ICRA believes HCSSL will continue to enjoy financial flexibility from its parentage (HCL Technologies Limited), which coupled with its extensive experience and established presence in the VSAT business is likely to help the company maintain its credit profile. In the backdrop of limited scale of operations of the entity and management guidance of incremental RIM business to be captured in HCL Tech, it is unlikely that long term rating would have positive outlook. The outlook may be revised to Negative if there are any adverse macro-economic environment changes leading to significant reduction in IT budgets of global companies or unfavourable visa allocation and immigration policies that can restrict outsourcing of technological demands from US or European players, thereby adversely impacting business growth, cost structure and the profitability of its parent company, HCL Tech.

Key rating drivers

Credit strengths

Strong parentage- HCSSL is a wholly owned subsidiary of HCL Technologies Limited. HCSSL has strategic importance for the Infrastructure Solutions business of HCL Tech, which its largest business unit contributing ~37% of HCL Tech's revenues in FY2019.

Established player in VSAT- The company is an established player in the satellite communication-based services market with proven client service track record to a well reputed portfolio of clients over the years.

Credit challenges

Stagnation in operating revenues- Operating revenues growth has remained flat over the last few years, led by the decision of HCL management to demerge its Remote Infrastructure Management (RIM) services into HCL Technologies Limited in 2016. Going forward, the revenue growth is likely to be muted as the company faces high competitive intensity and price-based competition coupled with management’s decision to selectively bid for contracts in India.

Volatility in operating margin- Over the past five years the company’s operating margin has been volatile with the company reporting operating losses in FY2018 led by scheduled payment of licencing fees.

Liquidity Position

The company continues to maintain healthy liquidity position with no major capex plans and repayments going forward. The liquidity profile in case of need would mainly be supported by the parent entity (HCL Tech) which has cash and liquid investments of US \$ 1,669 million as of March 31, 2019. The parent’s liquidity is also supported by un-utilised fund-based working capital limits (in excess of Rs. 1,500 crore). Even after factoring for the acquisition capex and annual maintenance and infrastructure related capex along with dividend payout, the liquidity position of HCL Tech is expected to remain healthy, given the robust cash accruals.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	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
Parent/Group Support	We expect HCSSL’s parent, HCL Tech [rated [ICRA]AAA (Stable)/ [ICRA]A1+], to be willing to extend financial support to HCSSL, should there be a need, given the high strategic importance that HCSSL holds for HCL Tech for meeting its business objectives. Both HCSSL and HCL Tech also share a common brand, which in ICRA’s opinion would persuade HCL Tech to provide financial support to HCSSL.
Consolidation / Standalone	Standalone

About the company

HCSSL is 100% subsidiary of HCL Technologies Limited (‘HCL Tech’ rated [ICRA]AAA (Stable), [ICRA]A1+). The Company is operating a VSAT network under a license provided by the Department of Telecommunications (DOT) with satellite bandwidth contracted through Department of Space (DoS). It is engaged in offering VSAT bandwidth services Prior to FY2013, HCSSL was also engaged in providing Remote Infrastructure Management (RIM) services; however, the business was demerged and transferred to HCL Tech in October 2012.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	43.5	44.2
PAT (Rs. crore)	4.7	-6.8
OPBDIT/OI (%)	12%	-23%
RoCE (%)	20%	-32%
Total Debt/TNW (times)	0.0	0.0
Total Debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	11.2	-61.9

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating May 2019	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1 Non-Fund Based Facilities	Short Term	0.00	-	-	-	[ICRA]A1+	[ICRA]A1+
2 Non-Fund Based Facilities	Long Term	0.00	-	-	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3 Non-Fund Based Facilities	Short Term/ Long Term	23.00	-	[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
-	Non-Fund Based Facilities	-	-	-	23.00	[ICRA]AA (Stable)/ [ICRA]A1+

Source: HCSSL

Annexure-2: List of entities considered for consolidated analysis-Not applicable

Corrigendum

Document dated May 24, 2019 has been corrected with revisions as detailed below:

- a) Revision on page number 2 under the section headings “Analytical Approach”, wherein wordings of the last row of the section has been changed from “Not Applicable” to “Standalone”.

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