

HCL Infosystems Limited

December 07, 2018

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	300.0	300.0	[ICRA]A1; Reaffirmed
Total	300.0	300.0	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation factors in the reduction in losses in H1 FY2019 post divestment or shrinkage of loss-making businesses and decline in leverage. The rating action also takes into account the reduction in net debt to Rs. 662.5 crore as on September 30, 2018 from Rs. 1,044.4 crore as on September 30, 2017, primarily owing to HCLI's rights issue of Rs. 495 crore, which was successfully concluded in FY2018. The rating continues to derive comfort from the significant financial, operational and managerial support provided by HCLI's promoter group. The promoters have infused equity, provided corporate guarantees, and have deputed personnel to HCLI to augment its operational and managerial bandwidth. Further, the promoters have extended a non-disposal undertaking (up to 40% of the shares of the company) for the term and working capital lenders and have also executed an undertaking to retain the HCLI brand till the repayment of the term loan. The rating continues to factor in HCLI's established position in the IT services and solutions business and its extensive nationwide distribution and servicing network.

The rating, however, is constrained by significant losses over the last six financial years due to low accruals from the Distribution segment and substantial losses in Hardware and Learning divisions. The significant losses, coupled with an increase in working capital requirement and impairments taken by the company have led to reduction in net worth and sharp deterioration in debt coverage indicators. Nonetheless, the company reported lower net debt and better profitability in H1 FY2019. The rating factors in the early termination of the agreement with Apple for distributing its products across various geographies which would lead to tapering of revenue growth which was expected during the last rating exercise. The rating is also constrained by the large scheduled debt repayments in H2 FY2019 and FY2020, which could exert pressure on cash flows and make the company reliant on refinancing. The debt reduction is likely to take place only on the back of asset monetisation and recovery of legacy receivables of system integration projects. Timely and adequate support from the promoter group, as and when required, will be a key rating sensitivity. Additionally, the rating continues to take into account the highly competitive nature of the industry which results in thin margins.

Outlook: Not Applicable

Key rating drivers

Credit strengths

Strong and resourceful promoter group: HCLI is part of the HCL Group of Companies, which is promoted by Mr. Shiv Nadar. The business interests of the Group are spread across Information Technology, Education, Healthcare, and Distribution. The rating takes comfort from the financial, operational and managerial support provided by HCLI's promoter group.

Significant reduction in net debt proceeds from rights issue: HCLI's rights issue of Rs. 495 crore was concluded in FY2018 and enabled significant debt reduction. The net debt of the company declined to Rs. 662.5 crore as on September 30, 2018 from Rs. 1,044.4 crore as on September 30, 2017.

Long track record and extensive distribution network: The company has a pan-India network for sales for a wide variety of consumer and enterprises products and a long and established relationship with large and reputed entities across sectors.

Credit challenges

Significant cash losses and muted debt coverage indicators: Large cash losses reported over the last six financial years due to lower accruals from the Distribution segment and losses in Hardware, Learning and Service divisions, however, the profitability has improved in H1 FY2019. The company has reported operating profit in all segments except Hardware in this period. Owing to losses along with write-offs and impairments taken by the company in FY2018, the company's capitalisation and debt coverage indicators have remained muted

Large debt repayments in short-to-medium term: HCLI has large debt repayments due in H2 FY2019 and FY2020, which exposes it to refinancing risks and could put pressure on cash flows in the event the property monetisation takes longer than expected to materialise and large collections from the System Intergration projects are delayed. Timely and adequate support from the parent during this period will be a key rating sensitivity.

Intense competition: Highly competitive nature of computing and telecommunication distribution industry and limited value addition in the nature of business limits profitability margins.

Liquidity position

The liquidity position of the company is likely to be affected on account of significant losses and inadequacy of operational cash flows in meeting the substantial debt obligations that are due in the next 12 months. Nonetheless, the company has unutilised credit lines of Rs. 100.0 crore and unutilised working capital facilities of ~Rs. 220 crore, which provides buffer in case of exigencies, along with ~Rs. 246 crore of cash and bank balance.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Issuers in the Information Technology (Hardware) Industry Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Parent Company: HCL Corporation Private Limited The rating assigned to HCLI factors in the very high likelihood of its parent, HCL Corporation, continuing to extend timely financial support to HCLI as it has done in the past, whenever the need arose. Both HCL Corporation and HCLI share a common name, which in ICRA's opinion would persuade HCL Corporation to provide financial support to HCLI to protect its reputation from the consequences of a Group entity's distress
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of HCLI; As on March 31, 2018, the company had six subsidiaries and seven stepdown subsidiaries, that are enlisted in Annexure-2.

About the company

HCL Infosystems Ltd. is a premier Distribution, IT Solutions and Services Company, enabling organizations attain and sustain competitive advantage by leveraging Information and Communication Technologies. It offers a portfolio of capabilities spanning value-added distribution of technology, mobility and consumer products to IT & System Integration services.

In FY2018, the company reported a net loss of Rs. 813.8 crore on an operating income (OI) of Rs. 3612.1 crore compared with a net loss of Rs. 247.7 crore on an OI of Rs. 3225.3 crore in the previous year. In H1 FY2019, HCL reported a net loss of Rs 61.6 crore on an OI of Rs 2262.2 crore.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	3,225.3	3,612.1
PAT (Rs. crore)	-247.7	-813.8
OPBDIT/ OI (%)	-2.3%	-3.4%
RoCE (%)	-4.7%	-39.9%
Total Debt/ TNW (times)	2.4	5.0
Total Debt/ OPBDIT (times)	-18.2	-9.6
Interest Coverage (times)	-0.4	-0.8

Source: HCL, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating December 2018	Date & Rating in	Date & Rating in	Date & Rating in
					FY2018	FY2017	FY2016
1 Commercial Paper	Short Term	300.0	-	[ICRA]A1	Nov-17 [ICRA]A1	Jan-17 [ICRA]A1	Dec-15 [ICRA]A1

Source: HCL, ICRA research

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	Not Placed	NA	NA	300.0	[ICRA]A1

Source: HCL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Digilife Distribution and Marketing Services Limited	100%	Full Consolidation
Pimpri Chinchwad eServices Limited	85%	Full Consolidation
Qdigi Services Limited (earlier known as HCL Computing and Products Limited)	100%	Full Consolidation
HCL Infotech Limited	100%	Full Consolidation
HCL Learning Limited	100%	Full Consolidation
HCL Services Limited	100%	Full Consolidation
Step-down Subsidiary of HCL Learning Limited		
HCL InsysPte. Limited.	100%	Full Consolidation
Step-down Subsidiary of HCL Services Limited		
HCL Touch Inc.*	100%	Full Consolidation
Step-down Subsidiary of HCL Infotech Limited		
HCL Investment Pte. Limited.	100%	Full Consolidation
Step-down Subsidiary of HCL Insys Pte. Limited		
HCL Infosystems MEA FZE	100%	Full Consolidation
Step-down Subsidiary of HCL Infosystems MEA FZE		
HCL Infosystems LLC, Dubai#	49%	Full Consolidation
HCL Infosystems MEA LLC, Abu Dhabi #	49%	Full Consolidation
HCL Infosystems Qatar, WLL #	49%	Full Consolidation

Due to control over composition of the Board of Directors.

* The Company was dissolved with effect from 04.04.2018.

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