ICRA

HCL Technologies Limited

Instrument	Amount Rated	Rating Action
		December 2016
Cash Credit Facilities	Rs 60.00 Crore	[ICRA]AAA (Stable) reaffirmed
Short Term Fund Based Facilities	Rs 300.00 Crore	[ICRA]A1+ reaffirmed
Short Term Non-Fund Based Facilities	Rs 504.35 Crore	[ICRA]A1+ reaffirmed
Short Term Fund Based/Non-Fund Based Facilities	Rs 250.00 Crore	[ICRA]A1+ reaffirmed
Long Term/Short Term Fund Based Facilities	Rs 806.99 Crore	[ICRA]AAA (Stable)/[ICRA]A1+ reaffirmed
Long Term/Short Term Non- Fund Based Facilities	Rs 1,378.66 Crore	[ICRA]AAA (Stable)/[ICRA]A1+ reaffirmed
Total	**Rs 3,300.00 Crore**	
Commercial Paper Programme	Rs 200.00 Crore	[ICRA]A1+ reaffirmed

ICRA has re-affirmed **[ICRA]AAA/[ICRA]A1+** (pronounced ICRA triple A/ ICRA A One plus) ratings for the Rs. 3300.0 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.

The rating re-affirmation continues to reflect the strong business position of HCL Tech as one of the top five 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. The re-affirmation factors in the continued strong financial profile of the company reflected in healthy cash accruals, robust gearing and coverage indicators as well as cash balances and liquid investments amounting to Rs. 11,853 crore as on March 31, 2016, 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 macro-economic concerns in key developed markets of Europe that could result in trimming of IT budgets, pricing pressures from clients and increasing inclination of clients towards cloud technology, wherein domestic IT players lack a competitive advantage. 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.

[†] For complete rating scale and definitions, please refer to ICRA's Website www.icra.in or other ICRA Rating Publications

HCL Tech's (consolidated) operating revenues stood at Rs. 30,790.9 crore in FY2016 (July–March) having secured 25 large deals with a total contract value exceeding US$ 4 billion over the period. On a 12-month y-o-y basis (April–March), HCL Tech (consolidated) registered a growth of 15% in FY2016, driven by healthy growth in the US market. Over the last two years, growth has been driven by next-gen ITO, engineering services outsourcing, digital and modern apps deals, each of which had a component of new technology constructs such as digitalisation and cloud computing. These engagements reflected a broad-based revenue spread across verticals, service lines and geographies. Manufacturing, financial services, and life sciences and healthcare rank as the top three revenue verticals for HCL Tech, contributing nearly 70% to total revenues, with the rest being contributed by retail and consumer goods, media and entertainment, public services and miscellaneous segments.

The company continues to be faced with industry inherent risks in terms of high competitive intensity and an evolving market with aggressive competition from global and domestic players. Additionally, macro-economic concerns in key developed markets of Europe, which could result in trimming of IT budgets, pricing pressures from clients and softening of new business opportunities, remain a concern. However, HCL Tech's established market position coupled with longstanding experience and demonstrated ability to increase market share in the addressable market mitigates the risk to an extent.

Over the medium term, traction in the re-bid market, coupled with a healthy new deal pipeline, augur well for the business growth of the company. Its ability to attract global clients and win large scale, end-to-end client engagements through its large operating base and established position in the IMS, engineering and R&D services segment remains a key credit positive.

With its operating margins at 21.3% in FY2016, HCL Tech (consolidated) reported a decline of nearly 190 bps for a second year in a row, impacted by the nature of business the company has been able to pick up (An increase in large scale, end-to-end engineering services in the outsourcing segment, wherein the trajectory is much like that of infrastructure services segment) coupled with an increase in employee costs.

The ratings draw comfort from the strong financial profile of the company, marked by a robust capital structure and debt protection metrics. Supported by healthy accretion to reserves and capitalisation levels, HCL Tech's (consolidated) gearing remained negligible as on March 31, 2016. While the standalone borrowings of the company remain very low, the long-term debt at the consolidated level increased from Rs. 292.3 crore in June 2015 to Rs. 875.9 crore in March 2016. This was due to fresh debt availed by its subsidiary, HCL Sweden AB, amounting to Rs. 675.2 crore during the year. Notwithstanding the increase in debt levels, the company had outstanding cash balances and liquid investments amounting to nearly Rs. 11,853 crore as on March 31, 2016, and increasing to Rs. 12,778 crore in September 2016, indicating a strong liquidity profile. Pursuing its strategy of inorganic growth in upcoming business segments, the company spent nearly Rs. 1,293 crore on acquisitions during FY2016. While these acquisitions are cash funded, going forward as well, the company is expected to continue to evaluate inorganic growth opportunities; and the same (if any) are expected to be funded in a manner that sustains its credit profile. However, ICRA will evaluate the impact of such acquisitions on a case-to-case basis, and the same will remain a key rating sensitivity.

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 20 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.

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