

HCL Technologies Limited

December 18, 2018

Summary of Rated Instrument:

Instrument	Rated Amount (Rs. crore)	Rating Outstanding
LT Cash Credit Facilities	60.00	[ICRA]AAA(Stable)
LT/ST Non-Fund Based Facilities	1167.00	[ICRA]AAA(Stable) /[ICRA]A1+
LT/ST Fund Based/Non-Fund Based	1744.00	[ICRA]AAA(Stable) /[ICRA]A1+
Total Bank Facilities to be Rated	2971.00	
Commercial Paper Programme	200.00	[ICRA]A1+

/: placed on rating watch with developing implications

Material event- Acquisition of select products of International Business Machines Corporation

As per the disclosure by HCL Technologies Limited (HCL Tech/ the company) on the stock exchanges on December 7, 2018, the company acquired select products of International Business Machines Corporation (IBM) for a consideration of USD 1,775 million (~Rs. 12,570 crore¹).

Impact of the Material Event

The ratings remain unchanged at [ICRA]AAA (Stable)/[ICRA]A1+ following the company's announcement of acquiring seven products from IBM for USD 1,775 million. The transaction is proposed to be funded through internal accruals and debt of USD 300 million (~Rs. 2,125 crore). It is likely to be closed by mid of CY2019 with 48% of the payout at the close of the transaction and remaining 52% after one year from the close of the transaction i.e. mid of CY2020. ICRA believes the acquisition will be revenue and profit accretive for HCL Tech with incremental revenues in the range 9-10% of current revenues in the near term. The acquisition is in line with medium to long term strategy of HCL Tech to augment its product offerings coupled with scaling up revenues. The extent of synergies and seamless integration of the acquired products remains to be seen. This is the largest and fourth acquisition announcement in FY2019, taking the cumulative transaction announcement value to ~Rs. 15,352 crore during the current fiscal. Going forward, the company's liquid surplus is likely to moderate in the near term, but the company is likely continue to maintain a negative net debt position supported by healthy annual cash accruals. ICRA also takes comfort from the company's strong cash accruals and management guidance to maintain healthy cash and liquid investments, going forward.

The previous detailed rating rationale is available on the following link: [Click here](#)

¹ *1USD = Rs. 70.8

Key rating drivers

Credit strengths

Amongst the top four players in the domestic Information Technology (IT) Services industry in terms of revenues- HCL Tech has revenues (consolidated) of Rs. 50,569.0 crore during FY2018 and figures among the faster growing IT Services company with revenue growth CAGR of 14.6% during FY2013-18.

Diversified service offerings spread across verticals - The company's revenues remain diversified with six verticals and the largest vertical, Financial Services, accounting for 23.0% of revenues followed by Technology & Services and Manufacturing at 18.2% and 18%, respectively, as of September 30, 2018.

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 the company larger share of the client's wallet. With 63 deals in FY2018 and 44 in H1 FY2019, the new deal pipeline is healthy indicating stable revenue generation in the medium term.

Healthy revenue and earnings growth as well as robust profitability and credit metrics- HCL Tech had posted broad based revenue growth of 6.3% in FY2018 and continued the momentum in H1FY2019 with a revenue growth of 16.9% in INR terms, supported by depreciation of rupee. Profitability indicators such as operating margin and RoCE remained strong at ~22% and ~32% respectively in FY2018. In H1 FY2019, operating margin further expanded to ~23% Benefitting from favourable currency movement. The credit profile of HCL Tech remains robust with cash and liquid investments of ~Rs. 11,550 crore and negative net debt position of the company as on September 30, 2018.

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. Globally, key customers of IT services companies have higher budgetary allocations towards digital technologies to drive business outcomes. In line with the customer preference for new technologies, HCL Tech's Mode 1-2-3 strategy focuses on such technologies to be able to win new businesses.

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, among others. Besides these, 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- 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.

Liquidity Position

HCL Tech's liquidity position remains robust with healthy cash and liquid investments of ~Rs. 11,550 crore as of September 30, 2018 coupled with unutilized fund based working capital limits (in excess of Rs. 1,500 crores). Notwithstanding the cash outflows for share buyback (completed in October 2018) of ~Rs. 4,000 crore, payouts pertaining to acquisitions aggregating to ~Rs. 15,352 crore (over the next 1.5 years), annual capex of ~Rs. 1,800 crore and dividend payouts, the strong accruals expected supports sound liquidity profile of the company.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Information Technology (Services) Industry
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on the consolidated financial profile of the company.

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 2017(Consolidated)	FY 2018(Consolidated)
Operating Income (Rs. crore)	47,567.5	50,569.0
PAT (Rs. crore)	8,551.6	8,709.0
OPBDIT/ OI (%)	21.8%	22.2%
RoCE (%)	34.6%	31.9%
Total Debt/ TNW (times)	0.0	0.0
Total Debt/ OPBDIT (times)	0.0	0.0
Interest coverage (times)	116.6	162.9
NWC/ OI (%)	11.3%	10.0%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

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

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
HCL Comnet Systems & Services Limited	100%	Full Consolidation
HCL Comnet Limited	100%	Full Consolidation
Statestreet HCL Services (India) Private Limited	100%	Full Consolidation
HCL Eagle Limited	100%	Full Consolidation
HCL Global Processing Services Limited	100%	Full Consolidation
HCL Technologies Solutions Limited	100%	Full Consolidation
Concept2Silicon Systems Private Limited	100%	Full Consolidation
HCL Training & Staffing Services Private Limited	100%	Full Consolidation
HCL Bermuda Limited	100%	Full Consolidation
HCL Technologies (Shanghai) Limited	100%	Full Consolidation
HCL Singapore Pte. Limited	100%	Full Consolidation
HCL Great Britain Limited	100%	Full Consolidation
HCL (Netherlands) BV N	100%	Full Consolidation
HCL Belgium NV	100%	Full Consolidation
HCL Sweden AB	100%	Full Consolidation
HCL GmbH	100%	Full Consolidation
HCL Italy SRL	100%	Full Consolidation
HCL Australia Services Pty. Limited	100%	Full Consolidation
HCL (New Zealand) Limited	100%	Full Consolidation
HCL Hong Kong SAR Limited	100%	Full Consolidation
HCL Japan Limited	100%	Full Consolidation
HCL America Inc.	100%	Full Consolidation
HCL Technologies Austria GmbH	100%	Full Consolidation
HCL BPO Services (NI) Limited	100%	Full Consolidation
HCL Poland Sp.z.o.o	100%	Full Consolidation
HCL EAS Limited	100%	Full Consolidation
HCL Insurance BPO Services Limited	100%	Full Consolidation
HCL Expense Management Services Inc	100%	Full Consolidation
Axon Group Limited	100%	Full Consolidation
HCL Axon Technologies Inc.	100%	Full Consolidation
HCL Technologies Solutions GmbH	100%	Full Consolidation
Axon Solutions Pty. Limited	100%	Full Consolidation
Axon Solutions Limited	100%	Full Consolidation
HCL Axon Malaysia Sdn. Bhd.	100%	Full Consolidation
Axon Solutions Singapore Pte. Limited	100%	Full Consolidation
Axon Solutions (Shanghai) Co. Limited	100%	Full Consolidation
HCL Axon (Proprietary) Limited	100%	Full Consolidation
HCL Argentina s.a.	100%	Full Consolidation

Company Name	Ownership	Consolidation Approach
HCL Mexico S. de R. L	100%	Full Consolidation
HCL Technologies Romania s.r.l.	100%	Full Consolidation
HCL Hungary Kft	100%	Full Consolidation
HCL Latin America Holding LLC	100%	Full Consolidation
HCL (Brazil) Tecnologia da informacao Ltda.	100%	Full Consolidation
HCL Technologies Denmark Aps	100%	Full Consolidation
HCL Technologies Norway AS	100%	Full Consolidation
PT. HCL Technologies Indonesia Limited	100%	Full Consolidation
HCL Technologies Philippines Inc.	100%	Full Consolidation
HCL Technologies South Africa (Proprietary) Limited	100%	Full Consolidation
HCL Arabia LLC	100%	Full Consolidation
HCL Technologies France	100%	Full Consolidation
Filial Espanola De HCL Technologies S. L	100%	Full Consolidation
Anzospan Investments Pty Limited	100%	Full Consolidation
HCL Investments (UK) Limited	100%	Full Consolidation
HCL America Solutions Inc.	100%	Full Consolidation
HCL Technologies Chile Spa	100%	Full Consolidation
HCL Technologies UK Limited	100%	Full Consolidation
Statestreet HCL Holding UK Limited	100%	Full Consolidation
Statestreet HCL Services (Phillipines) Inc	100%	Full Consolidation
HCL Technologies B.V.	100%	Full Consolidation
HCL (Ireland) Information Systems Limited	100%	Full Consolidation
HCL Technologies Germany Gmbh	100%	Full Consolidation
HCL Technologies Belgium BVBA	100%	Full Consolidation
HCL Technologies Sweden AB	100%	Full Consolidation
HCL Technologies Finland Oy	100%	Full Consolidation
HCL Technologies Italy S.P. A	100%	Full Consolidation
HCL Technologies Columbia S.A. S	100%	Full Consolidation
HCL Technologies Middle East FZ-LLC	100%	Full Consolidation
HCL Istanbul Bilisim Teknolojileri Limited Sirketi	100%	Full Consolidation
HCL Technologies Greece Single Member P.C	100%	Full Consolidation
HCL Technologies S.A.	-	Full Consolidation
HCL Technologies Beijing Co., Ltd	-	Full Consolidation
HCL Technologies Luxembourg S.a r.l	-	Full Consolidation
HCL Technologies Egypt Limited	100%	Full Consolidation
HCL Technologies Estonia OÜ	100%	Full Consolidation
HCL Technologies (Thailand) Ltd.	100%	Full Consolidation
HCL Technologies Czech Republic s.r.o.	100%	Full Consolidation
HCL Muscat Technologies L.L.C.	100%	Full Consolidation
CeleritiFintech Limited	-	Full Consolidation
CeleritiFintech USA, Inc.	-	Full Consolidation
CeleritiFintech Australia Pty Limited	-	Full Consolidation
CeleritiFintech Italy S.R.L.	-	Full Consolidation
CeleritiFintech Germany GmbH	-	Full Consolidation
Powerteam, LLC	100%	Full Consolidation
Point to Point Limited	100%	Full Consolidation
Point to Point Products Limited	100%	Full Consolidation
HCL Technologies Lithuania UAB	100%	Full Consolidation
HCL Technologies (Taiwan) Ltd.	100%	Full Consolidation
Geometric Americas, Inc	100%	Full Consolidation
Geometric Asia Pacific Pte. Ltd	100%	Full Consolidation

Company Name	Ownership	Consolidation Approach
Geometric Europe GmbH	100%	Full Consolidation
Geometric China, Inc	100%	Full Consolidation
Geometric SRL	100%	Full Consolidation
Geometric SAS	100%	Full Consolidation
Butler America Aerospace LLC	100%	Full Consolidation
HCL Mortgage Holding LLC	100%	Full Consolidation
Urban Fulfillment Services LLC	100%	Full Consolidation
ETL Factory Limited	100%	Full Consolidation
HCL Technologies Corporate Services Limited	100%	Full Consolidation

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

communications@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) 2556 0194/ 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

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