

HCL Technologies Limited

February 22, 2019

Summary of Rated Instrument:

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Commercial Paper Programme	200.00	[ICRA]A1+ withdrawn

Rationale

The rating on commercial paper programme is withdrawn in accordance with ICRA's policy on withdrawal and suspension, as desired by the company and on confirmation by the company that no amount of commercial paper is outstanding currently.

The bank loan ratings are outstanding at [ICRA]AAA (Stable)/[ICRA]A1+. The rating continues to reflect the strong business position of HCL Tech as one of the top four players in the domestic IT services industry in terms of revenues and continued strong financial profile of the company (consolidated basis) reflected in healthy cash accruals, robust gearing and coverage indicators as well as cash balances and liquid investments amounting to Rs. 10,075.3 crore¹ as on December 31, 2018, imparting significant financial flexibility.

Outlook: Stable

ICRA believes HCL Technologies Limited will continue to benefit from its extensive relationships with its existing clients and its vast experience in the IT industry which helps it to forge new client relationships ensuring good revenue visibility in the near to medium term. 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.

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

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 23.3% of revenues followed by Manufacturing and Technology & Services at 18.3% and 18%, respectively, as of December 31, 2018.

¹ 1 USD = Rs. 71.36

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 61 in 9M 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 9MFY2019 with a revenue growth of 17.9% 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 9M FY2019, operating margin further expanded to ~23.3% benefitting from favourable currency movement and changing product/service mix. The credit profile of HCL Tech remains robust with cash and liquid investments of ~Rs. 10,075.3 crore and negative net debt position of the company as on December 31, 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 its 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. 10,075.3 crore as of December 31, 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 ICRA Policy on Withdrawal and Suspension of Credit Rating
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 (FY2019)			Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
				Feb 2019	Jan 2018	Dec 2016	Jan 2016
1 Cash Credit Facilities	Long Term	60.00	60.00	[ICRA]AAA (Stable) outstanding	[ICRA]AAA (Stable) reaffirmed	[ICRA]AAA (Stable) reaffirmed	[ICRA]AAA (Stable) reaffirmed
2 Non- Fund Based Facilities	Long Term/ Short Term	1167.00	1167.00	[ICRA]AAA (Stable)/[ICRA] A1+ outstanding	[ICRA]AAA (Stable)/[ICRA] A1+ reaffirmed	[ICRA]AAA (Stable)/[ICRA] A1+ reaffirmed	[ICRA]AAA (Stable)/[ICRA] A1+ reaffirmed
3 Fund Based & Non-Fund Based Facilities	Long Term/ Short Term	1744.00	1744.00	[ICRA]AAA (Stable)/[ICRA] A1+ outstanding	[ICRA]AAA (Stable)/[ICRA] A1+ reaffirmed		
4 Commercial Paper Programme	Short Term	200.00	200.00	[ICRA] A1+ withdrawn	[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+ withdrawn
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

Company Name	Ownership	Consolidation Approach
HCL Argentina s.a.	100%	Full Consolidation
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

Company Name	Ownership	Consolidation Approach
Geometric Asia Pacific Pte. Ltd	100%	Full Consolidation
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:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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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

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