HCL Technologies Limited

Instrument	Amount Rated	Rating Action
		January 2016
Cash Credit Facilities	Rs 60.00 Crore (PY: Rs 10.00 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 (PY: Rs 109.97 Crore)	[ICRA]A1+ *reaffirmed*
Short Term Fund Based/Non-Fund Based Facilities	Rs 250.00 Crore (PY: NIL)	[ICRA]A1+ *assigned*
Long Term/Short Term Fund Based Facilities	Rs 813.80 Crore (PY: Rs 629.91 Crore)	[ICRA]AAA (Stable)/[ICRA]A1+ *reaffirmed*
Long Term/Short Term Non- Fund Based Facilities	Rs 1,371.85 Crore (PY: Rs 600.00 Crore)	[ICRA]AAA (Stable)/[ICRA]A1+ *reaffirmed*
Long Term/Short Term Unallocated Limits	NIL (PY: Rs 191.88 Crore)	-
Commercial Paper Programme	Rs 200.00 Crore	ICRA]A1+ *reaffirmed*

The ratings assigned to the Rs 3,300.00 crore* (enhanced from Rs 1,841.76 crore) bank facilities of HCL Technologies Limited ('HCL Tech' or 'the company') have been reaffirmed at [ICRA]AAA/[ICRA]A1+ (pronounced ICRA triple A/ICRA A one plus)†. The outlook on the long-term rating is "Stable". The short-term rating assigned to the Rs 200.00 crore Commercial Paper Programme of HCL Tech has also been reaffirmed at [ICRA]A1+ (pronounced ICRA A one plus).

The reaffirmation of the assigned ratings continues to reflect the strong business position of HCL Tech being amongst the top five players in the domestic Information Technology (IT) Services industry in terms of revenues; 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. This, coupled with the ability of the company to cross-sell services as clients move towards vendor consolidation and a healthy new deal pipeline augurs well for steady business growth over the near to medium term. The reaffirmation factors in 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 11,789.0 crore as on June 30, 2015 imparting significant financial flexibility.

The rating strengths, however, are partially offset due to industry inherent risks in terms of high competitive intensity and evolving market with aggressive competition from global and domestic players; macro-economic concerns in key developed markets of Europe which 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 long standing experience and demonstrated ability of HCL Tech to increase 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 skewness in revenues (as witnessed in Q1, 2015-16). However, healthy traction in the re-bid market and healthy demand from first time outsources helps mitigate the above risk to an extent. Going forward, while HCL Tech remains open to inorganic growth opportunities that would likely plug-

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* *Rs 1 Crore = Rs 100 Lakh = Rs 10 Million*

† *For complete rating scale and definitions please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

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.

HCL Tech (Consolidated) operating revenues at Rs 36,720.1 crore in 2014-15 registered a y-o-y growth of nearly 14%, a decline from 26% registered in the previous year. The dip in the growth is attributable to challenges in terms of the rising complexity of the nature of business as well as higher churn in client base. Infrastructure Management Services (IMS) as a service segment accounted for nearly 35% of the total revenues of the company in 2014-15. Over the last one year, the revenue growth of the segment has witnessed significant moderation primarily on account of the rising complexity and extended transition timelines for complex engagements. Overall, HCL signed 58 transformational engagements during 2014-15 with USD 5bn+ of Total Contract Value. These bookings saw significant momentum driven by Next-gen ITO, Engineering Services Outsourcing, Digital and Modern Apps deals, each of which had a component of new technology constructs like Digitalization, Cloud etc. These engagements reflected a broad-based spread across verticals, service lines and geographies. Revenues from Financial Services, Manufacturing and Lifesciences & Healthcare verticals together contributed to nearly 71% of the revenues for HCL Tech (Consolidated) in 2014-15 with the rest being contributed by Retail and Consumer Goods, Media and Entertainment, Public Services and miscellaneous segments.

While industry inherent risks in terms of high competitive intensity and evolving market with aggressive competition from global and domestic players; 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, HCL Tech's established market position coupled with long standing 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 healthy new deal pipeline augurs well for the business growth of the company. The ability of the company to attract global clients and win large scale end to end client engagements by virtue of its large operating base and established position in the IMS and Engineering and R&D services segment remains a key credit positive.

HCL Tech (Consolidated) operating margins at 23.2% in 2014-15 were 200 bps lower than the previous year impacted by the nature of business picked up by the company with an increase in large scale end-to-end Engineering Services Outsourcing segment wherein the trajectory is much like that of infrastructure services segment and increase in employee costs. However, the margins were helped by recoveries against provision for doubtful debts and favourable currency movements. In Q1, 2015-16, the operating margins of the company were suppressed due the one-time provision created by the company towards a certain project coupled with annual wage hikes partially offset by improved efficiency and favourable currency movements.

The ratings draw comfort from the strong financial profile of the company marked by a robust capital structure and debt protection metrics. With the repayment of secured debentures amounting to Rs 500 crore in 2014-15, HCL Tech (Consolidated) debt declined to Rs 647.8 crore as on June 30, 2015. Against this, the company had outstanding cash balances and liquid investments amounting to Rs 11,789.0 crore as on June 30, 2015. Pursuing its strategy of inorganic growth in upcoming business segments, the company acquired US based Power Objects (in October 2015) to strengthen its position in the Customer Relationship Management (CRM) solutions space and the external IT business of Sweden based Volvo Group to further strengthen its position in the IMS space. 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 the company's credit profile. However, ICRA will evaluate the impact of such acquisitions on a case-to-case basis and the same remains a key rating sensitivity.

About the Company

HCL Technologies Limited (HCL Tech) is a leading global IT services company and ranked amongst 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 integrated portfolio of services including software-led IT solutions, remote infrastructure management, engineering and R&D services and BPO. HCL 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 & Defense, Telecom, Retail & CPG, Life Sciences & Healthcare, Media & Entertainment, Travel, Transportation & Logistics, Automotive, Government, Energy & Utilities.

Recent Results

As per audited results, HCL Tech (Consolidated) reported a Profit after Tax (PAT) of Rs 7,317.1 crore on an Operating Income (OI) of Rs 36,720.1 crore in 2014-15 (July-June). Also as per published results for Q1, 2015-16, the company reported a PAT of Rs 1,726 crore on an OI of Rs 10,097 crore.

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