

## HCL Technologies Limited

March 25, 2019

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT Cash Credit Facilities	60.00	50.00	[ICRA]AAA (Stable) reaffirmed
LT/ST Non-Fund Based Facilities	1167.00	1002.00	[ICRA]AAA (Stable)/[ICRA]A1+ reaffirmed
LT/ST Fund Based/Non-Fund Based	1744.00	1744.00	[ICRA]AAA (Stable)/[ICRA]A1+ reaffirmed
<b>Total Bank Facilities to be Rated</b>	<b>2971.00</b>	<b>2796.0</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating reaffirmation continues to reflect the robust business position of HCL Technologies Limited (HCL Tech/ the company) as one of the top three players in the domestic IT services industry (in terms of revenues) during 9M FY2019. The company's revenues grew by ~19% (in rupee terms) during 9M FY2019 supported by broad based growth across business verticals as well as favourable currency movements. HCL Tech's steady revenue growth (14.6% CAGR during FY2013-18) over the past few years, has benefitted from strong new deals won as well as various inorganic growth initiatives, which have also supported favourable change in service mix. Even as application services was the largest contributor to HCL Tech's revenues traditionally (~49% in FY2013), strong business awards in the past five years have aided the scale up of its Infrastructure Services (IS) offering, helping it emerge as the largest offering (~ 36.6% of revenues during 9M FY2019). As the management addresses opportunities for growth, they embarked upon the Mode 1-2-3 strategy<sup>1</sup>. While Mode 1, encompassing the traditional technology and services, remains the largest revenue driver at present, investments in product development as well as expansion of service mix through acquisitions are targeted at achieving the management's guidance of generating over 30% revenues from Mode 2 and Mode 3 by FY2021. Going forward, integration as well as diversification of service mix from several acquisitions<sup>2</sup> during FY2019, coupled with strong deal awards augur well for revenue and accrual growth prospects for the company.

HCL Tech continues to have a diversified vertical mix, with financial services, manufacturing, technology and services, and life sciences and healthcare being the top four revenue verticals for the company (together constituting ~72% of the total revenues in 9M FY2019). The company's vertical mix has remained relatively stable over the years, with all the verticals registering a healthy growth in the past five years. In terms of geographical mix, the Americas continue to remain the largest revenue driver for HCL Tech at 64.9% (in rupee terms) during 9M FY2019 supported by renewed deal momentum.

The reaffirmation also factors in the continued strong financial profile of the company (consolidated basis) reflected in healthy cash accruals, robust gearing and coverage indicators, negative net debt position with cash balances and liquid

<sup>1</sup> Mode 1 comprises core services, Mode 2 comprises next generation services such as digital, cloud, analytics, security and IoT, while Mode 3 comprises products and platforms.

<sup>2</sup> Telerx Marketing (C3i Solutions), Actian Corporation, H&D International Group, seven products from IBM, Strong Bridge Holdings, Inc.

investments amounting to Rs. 9,683.1 crore (\$1,412 million) as on December 31, 2018, imparting significant financial flexibility.

HCL Tech engaged in five acquisitions during YTD FY2019 (total consideration amounting to ~Rs. 15,000-16,000 crore), which included one of the largest acquisitions by the company till date (seven products of IBM for \$1,775 million), with a view to augmenting its capabilities (both services and products). Nevertheless, ICRA takes comfort from the strong cash accruals and robust cash and liquid investment of the company and the likelihood that the company will continue to maintain a negative net debt position.

ICRA notes the high competitive intensity in the IT industry, especially the global landscape that has presence of larger peers and uncertainty on account of evolving visa and immigration legislations in key developed markets are challenges that industry faces. Moreover, the IT companies also remain exposed to pricing pressures from clients and increasing inclination of global customers towards cloud technology and digital technology, wherein domestic IT players are still in investment phase. HCL Tech's experienced management team and established client relationships, coupled with a healthy new transaction pipeline, are, however, expected to help it withstand these challenges as well as demonstrate a steady business growth.

## Outlook: Stable

ICRA expects HCL Tech to continue to benefit from its extensive relationships with its existing clients, its diversified business presence across the IT service domain, and ability to adapt service offerings to changing customer requirements that ensure good revenue visibility in the near-to-medium-term. The outlook may be revised to Negative if there are any adverse macro-economic environment changes leading to significant reduction in IT budgets of global companies or unfavourable visa allocation and immigration policies that can restrict outsourcing of technological demands from US or European players, thereby adversely impacting business growth, cost structure and the profitability of the company. Downward pressure on the rating may also emerge by any incremental sizable debt-funded acquisition that can moderate the credit profile of the company.

## Key rating drivers

### Credit strengths

**Among the top three players in the domestic Information Technology (IT) services industry in terms of revenues** - With revenues of Rs. 44,437.0 crore during 9M FY2019, HCL Tech has emerged as the third largest IT services company in India. Steady revenue growth during FY2013-FY2018 (CAGR of 14.6%) followed by strong 19% growth in revenues during 9M FY2019 driven by new deals won as well as various inorganic growth initiatives has allowed the company to strengthen its business position.

**Diversified service offerings spread across verticals** - The company provides an array of services including application development and maintenance, infrastructure maintenance, testing, digital technologies, IT consulting. The company's revenues remain diversified with six verticals and the largest vertical, financial services, accounting for 22.8% (lowest among its peers) of revenues, followed by technology and services, and manufacturing at 18.4% and 18.0%, respectively, for 9M FY2019. Going forward, with recent deal wins in FY2019, the financial services vertical is likely to remain the largest vertical and there is not likely to be any major change in the vertical mix in the near-to-medium-term.

**Ability to tap on the new technologies to generate business and healthy new deal pipeline** - To tap the market for business gains in next generation technologies, HCL Tech had implemented the Mode 1-2-3 strategy. As of 9M FY2019, Mode 1 services accounted for ~72% of the revenues of the company. The recent acquisitions aim to strengthen HCL Tech's Mode 2 and Mode 3 services to meet the management target of greater than 30% revenue share from these services by FY2021. Further, the company improved its new deal pipeline in FY2019 with 61 deals in 9M FY2019, while the number of new deals stood at 63 during FY2018.

**Healthy revenue and earnings growth as well as robust profitability and credit metrics** - Profitability indicators such as operating margin and RoCE remained strong at ~22% and ~32%, respectively, in FY2018. In 9M FY2019, the operating margin further expanded to ~23%, benefitting from an improving service mix as well favourable currency movement. The credit profile of HCL Tech remains robust with cash and liquid investments of ~Rs. 9,683.1 crore as on December 31, 2018.

## Credit challenges

**Deriving desired level of synergies out of recent acquisitions** - HCL Tech engaged in five acquisitions during YTD FY2019, which included one of the largest acquisitions by the company till date (seven products of IBM for \$1,775 million). The large size as well as multiple acquisitions and increased participation in the products business as against services, which is its core strength, exposes the company to execution challenges. In spite of this, the management's track record of integrating and scaling up acquired businesses gives comfort.

**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 and Wipro, as well as from International players like IBM, Accenture, Cognizant, and Capgemini, among others. There are also various smaller niche technology players, which pose serious competitions while bidding for new contracts.

**Geo-political risks restricting movement of skilled labour** – There recent changes by the United States Citizenship and Immigration Services (USCIS) tightening the issuance of H-1B visas as well as changes in allocation of such visas favouring advanced degree holders will lead to higher compliance cost as well as higher onshore hiring, leading to adverse impact on margins. However, HCL Tech has been proactive in hiring local talent in the US with more than 60% of its US workforce being local citizens, which mitigates the regulatory risk relating to visas to some extent. Further changes, which will restrict movement of skilled labour or sharp increase in minimum wages, could have a negative impact on the credit profile of Indian IT services companies.

## Liquidity position

HCL Tech's liquidity position remains robust with healthy cash and liquid investments of Rs. 9,683.1 crore as of December 31, 2018, coupled with unutilised fund-based working capital limits (in excess of Rs. 1,500 crore). Notwithstanding the cash outflows for share buyback (completed in October 2018) of ~Rs. 4,000 crore, pay-outs pertaining to acquisitions aggregating to ~Rs. 15,352 crore (over the next 1.5 years), annual capex of Rs. 1,400-1,800 crore and dividend payouts, the expected strong accruals support the sound liquidity profile of the company.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Information Technology (Services) Industry</a>
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 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)

	<b>FY2017</b>	<b>FY2018</b>
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

**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	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
				Mar 2019	Feb 2019	Jan 2018	Dec 2016	Jan 2016	
1	Cash Credit Facilities	Long Term	50.00	-	[ICRA]AAA (Stable) reaffirmed	[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	1002.00	-	[ICRA]AAA (Stable)/ [ICRA]A1+ reaffirmed	[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	-	ICRA]AAA (Stable)/[ICRA]A1+ reaffirmed	ICRA]AAA (Stable)/ [ICRA]A1+ outstanding	ICRA]AAA (Stable) / [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](http://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	Cash Credit Facilities	NA	0.0-10.40% p.a.	NA	50.00	[ICRA]AAA(Stable)
NA	Non- Fund Based Facilities	NA	NA	NA	1002.00	[ICRA]AAA(Stable)/[ICRA]A1+
NA	Fund Based & Non-Fund Based Facilities	NA	0.0-10.40% p.a.	NA	1744.00	[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

<b>Company Name</b>	<b>Ownership</b>	<b>Consolidation Approach</b>
HCL Axon (Proprietary) Limited	100%	Full Consolidation
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

<b>Company Name</b>	<b>Ownership</b>	<b>Consolidation Approach</b>
<b>Geometric Americas, Inc</b>	100%	Full Consolidation
<b>Geometric Asia Pacific Pte. Ltd</b>	100%	Full Consolidation
<b>Geometric Europe GmbH</b>	100%	Full Consolidation
<b>Geometric China, Inc</b>	100%	Full Consolidation
<b>Geometric SRL</b>	100%	Full Consolidation
<b>Geometric SAS</b>	100%	Full Consolidation
<b>Butler America Aerospace LLC</b>	100%	Full Consolidation
<b>HCL Mortgage Holding LLC</b>	100%	Full Consolidation
<b>Urban Fulfillment Services LLC</b>	100%	Full Consolidation
<b>ETL Factory Limited</b>	100%	Full Consolidation
<b>HCL Technologies Corporate Services Limited</b>	100%	Full Consolidation



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For more information, visit [www.icra.in](http://www.icra.in)

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