

## Hughes Systique Private Limited

January 09, 2023

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	12.00 (Enhanced from 7.50)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	8.25 (Enhanced from 7.50)	CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable/ A Two)	Reaffirmed
<b>Total Bank Facilities</b>	<b>20.25</b> <b>(₹ Twenty Crore and Twenty-Five Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed rationale and key rating drivers

The reaffirmation of ratings assigned to the bank facilities of Hughes Systique Private Limited (HSPL) continue to derive strength from the company being part of Hughes Group, long standing experience of promoters and benefits derived from its established relationship with Hughes Network System LLC (HNS). The ratings also continue to take comfort from the company's comfortable financial risk profile and strong liquidity position characterized by healthy cash and bank balance. The ratings further take cognizance of strong execution capabilities resulting into repeat orders and large presence in offshore market. The above rating strengths are tempered by client concentration risk, exposure of the company towards foreign currency fluctuation risk and geographical concentration risk. The ratings are also constrained by the dependence of the company for growth on the economic conditions of the foreign markets.

### Rating Sensitivities

#### Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in scale of operations to above Rs.300 crore along with above 18% operating margin on a sustained basis
- Diversification of services across different geographies and diversify its customer base

#### Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration in leverage profile with overall gearing above 0.50x
- Decline in PBILDT margin to below 10% on a sustained basis
- Depletion in the liquidity buffer of the company on account of cash outflow in the form of dividend and/or loans and advances to group companies resulting in a stretched liquidity position of the company

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### Experienced Promoters and part of Hughes Group

HSPL is a part of Hughes Group and is a wholly owned subsidiary of Hughes Systique Mauritius Pvt. Ltd. (Investment company, having only investments of HSPL). The ultimate holding company of HSPL is Echostar Corporation Inc. Echostar corporation (founded in 1980 and headquartered at Englewood, Colorado, United States) is a global satellite communication solutions provider. It provides secure communication solutions and internet services through its wholly owned subsidiaries: Hughes Network Systems and Echostar Satellite Services. Mr. Pradeep Kaul (president and CEO of HSPL) has more than 35 years of experience in spanning digital, wireless and telecommunications domains. Prior to HSPL, Mr. Kaul was an Exec. VP of Hughes Network Systems (HNS) & a member of the Office of the Chairman. Mr. Vinod Sood (Head - Global Delivery & Managing Director, India) has more than 25 years of experience in Communications Software industry. They are ably supported by a team of qualified professionals who have considerable industry experience. Other group companies of Hughes Groups include Hughes Communications India Limited (subsidiary of HNS), Hughes Network System India Limited (subsidiary of HNS) and Hughes Satellite Systems Corporation.

##### Long standing relationship with Hughes Network System LLC (HNS)

HSPL is providing services to HNS (Hughes group's company) for development of certain computer software since its inception and have maintained good relationship with them over the years. HSPL is being entrusted year on year by HNS for providing

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

various software development services as per the requirement of HNS. HSPL provides various personnel/ facilities delivers projects/ services as per the requirement and specification provided by HNS at a mutually agreed rate from time to time. During FY22, HSPL generated Rs.120.04 crore (Rs.109.94 crore in FY21) from providing services to HNS, which is 42.48% in FY22 (PY: 44.49%) of its total revenue. Further, 81% of total revenue of the company are from repetitive clients in FY22 (83% in FY21) majority of which is contributed by HNS.

### **Continued growth in TOI though profit margins moderated**

The company has seen continued growth in scale over the past few years. The TOI has grown at a CAGR of 10% over the past 5 years. In FY22, the company has seen a growth of 16% in its TOI while there was slight moderation in profitability margins. PBILDT and PAT margins have moderated to 13.99% & 9.47% respectively in FY22 from 15.90% & 10.61% respectively in FY21 due to increased employee cost.

### **Comfortable Capital Structure**

HSPL has zero long term and short debt as on March 31, 2022, and has no liability towards any leasing programme. Further, the company is having fund-based limits of Rs.7.50 crore and Non Fund Based limit of Rs.7.25 crore, which remains mostly unutilized as the company is having healthy cash and bank balance Rs.82.07 crore as on March 31, 2022 for sustaining its operations. Interest coverage ratio stood at 169.76x as on March 31, 2022.

### **Key Rating Weaknesses**

#### **Customer and Geographical Concentration Risk**

Company is exposed to client concentration risk as the top 5 clients contributes around 80.89% (83.38% in FY21) and top 2 clients contributes around 62.62% in FY22 (64.78% in FY21) of its total operating income. Therefore, any deterioration in the financial risk profile of its key customers or any change in the requirement of its customers, which HSPL is unable to deliver, due to changing IT environment or any other reason can adversely impact the financial risk profile of HSPL. Further, the company's sales are highly geographically concentrated with USA accounting for around 80% (PY: 78%) of the total sales followed by Europe – around 11% (PY: 13%) and Asia pacific (including India) – around 9% (PY: 10%) in FY22. The exports accounted for around 90% of the total revenue during FY22. The company's clientele is more in US as US is the largest market in the IT Space and revenue from the US client base of its group companies. Going forward the ability of the company to diversify its client base across countries including Europe and India will be the key rating sensitivity.

#### **Dependence on economic conditions of the foreign markets**

The company derives its revenues primarily from exports (of services) and exposes it to the economic conditions of the host countries. The company's exports are highly concentrated with majority of revenues being generated from USA which in the past has been exposed to economic downturn including the financial crisis (2007-08) and sub-prime crisis. Protectionist measures adopted by the US remain yet another business challenge for Indian IT companies. Any change in the economic conditions or change in working environment/regulatory framework in host countries may directly impact the operations of the company.

#### **Exposure to foreign currency fluctuation**

The Company's exchange risk arises from its foreign currency revenues (primarily in U.S. Dollars). A significant portion of the company's revenue is in foreign currencies around 91% in FY22, while a significant portion of its corresponding costs are in Indian Rupee. The primary cost of the company is employee cost (which is around 84% of its total cost of sales in FY22) and most of its employees work offshore. The company's employee cost is divided in both domestic and foreign currency and therefore, there is some natural hedge in the form of expenditure in foreign currency. Further, the company manages its foreign currency risk for forecasted sales by hedging transactions that are expected to occur within a maximum 6 month period by using foreign currency forward contracts. In FY22, the company has booked foreign currency gain of Rs.3.06 crore while in FY21 the company booked forex loss of Rs.0.12 crore.

#### **Liquidity: Strong**

The liquidity position of the company is strong marked by healthy cash balance, absence of any capex plans and no debt repayment obligations. The healthy cash accruals have resulted in nil working capital utilization leading to comfortable solvency position with tangible networth of Rs.146.54 crore as on March 31, 2022. HSPL has cash & cash equivalents of Rs.82.07 crore as on March 31, 2022.

#### **Analytical approach: Standalone**

## Applicable criteria

[Policy on default recognition](#)  
[Financial Ratios – Non financial Sector](#)  
[Liquidity Analysis of Non-financial sector entities](#)  
[Rating Outlook and Credit Watch](#)  
[Short Term Instruments](#)  
[Service Sector Companies](#)

## About the company

Hughes Systique Private Limited (HSPL), part of the HUGHES group of companies, is a leading communications Consulting company. The company was incorporated on July 25, 2005, as Babian Software India Private Limited and changed its name to Hughes Systique India Private Limited on Feb 16, 2006 and further changed to Hughes Systique Private Limited on September 17, 2014. HSPL is a CMMi Level 5, ISO 9001:2015, ISO 27001:2013 and PCMMi Level 3 certified technology services and solutions provider company with having a pool of qualified system architects and in house engineering teams. Hughes Systique has worked on diverse solutions for various industries across the globe. As a solutions provider, Hughes Systique worked on the digital transformation in markets such as Networking, Retail, Media Streaming, Hospitality, Retail, Automotive, IoT Blockchain and Security. Company is having its Headquarter in Rockville, Maryland USA with development centers in Gurgaon and Bengaluru, India.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)	9MFY23
Total operating income	247.10	285.65	177.83	NA
PBILDT	39.29	39.96	22.83	NA
PAT	26.21	27.05	14.86	NA
Overall gearing (times)	0.00	0.00	0.00	NA
Interest coverage (times)	113.02	169.76	0.00	NA

A: Audited, UA: Unaudited, NA: Not Available

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure-4

## Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based-Long Term		-	-	-	12.00	CARE BBB+; Stable
Non-fund-based - LT/ST-Bank Guarantee		-	-	-	8.25	CARE BBB+; Stable / CARE A2

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	8.25	CARE BBB+; Stable / CARE A2	1)CARE BBB+; Stable / CARE A2 (02-Dec-22)	1)CARE BBB+; Stable / CARE A2 (31-Dec-21)	1)CARE BBB+; Stable / CARE A2 (04-Feb-21) 2)CARE BBB+; Stable / CARE A2 (28-Sep-20)	1)CARE BBB+; Stable / CARE A2 (12-Jul-19)
2	Fund-based-Long Term	LT	12.00	CARE BBB+; Stable	1)CARE BBB+; Stable (02-Dec-22)	1)CARE BBB+; Stable (31-Dec-21)	1)CARE BBB+; Stable (04-Feb-21) 2)CARE BBB+; Stable (28-Sep-20)	1)CARE BBB+; Stable (12-Jul-19)

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:** Not Applicable**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based-Long Term	Simple
2	Non-fund-based - LT/ ST-Bank Guarantee	Simple

**Annexure-5: Bank lender details for this company**To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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### About us:

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