# HCL Infosystems Limited (Revised)

September 20, 2023

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term / Short Term Bank Facilities | 235.00 | CARE BBB+; Stable / CARE A2 | Assigned |
| Long Term / Short Term Bank Facilities@ | 65.00 | Provisional CARE AA- (CE); Stable / CARE A1+ (CE) | Assigned |

Details of instruments/facilities in Annexure-1.
@ The above ratings are proposed to be backed by unconditional and irrevocable corporate guarantees from HCL Corporation Pvt Ltd.

| | |
|---|---|
| **Unsupported rating/Rating in the absence of the pending steps or documents** | CARE BBB+; Stable/CARE A2 |

Note: Unsupported rating does not factor in the explicit credit enhancement.

## Rationale and key rating drivers for the credit-enhanced debt

CARE Ratings Limited (CARE Ratings) has assigned both, standalone ratings and provisional credit-enhanced ratings to the bank facilities of HCL Infosystems Limited (HCLI). The provisional credit-enhanced ratings assigned to the bank facilities of HCLI factors in the proposed credit enhancement (CE) in the form of unconditional and irrevocable corporate guarantee (CG) from HCL Corporation Private Limited (HCLC). The provisional credit-enhanced ratings are based on CARE Ratings' view on the credit enhancement (CE) provider's credit profile. The rating rationale highlights the key credit risk assessment parameters of both, the CE provider and the standalone ratings.

## Rationale and key rating drivers of HCLC

The assigned credit-enhanced ratings reflect the robust financial flexibility of HCLC emanating from the significant mark-to-market valuation of its equity investments in group companies, i.e., HCL Technologies Limited (HCLT) and other liquid investments, which have led to adequate coverage in terms of the mark-to-market value of investments to outstanding debt, both on balance and off balance sheet of HCLC. These investments generate steady dividend income. The holding company also derives significant benefits from the experienced promoters and their resourcefulness. The strength of HCLC is amplified further by it holding the 'HCL' brand.
These rating strengths are, however, constrained by the investment's exposures to fluctuations in the capital markets along with the absence of a significant stake of a strong underlying entity among its key investments.

Furthermore, the credit enhanced rating is provisional and will be confirmed once the company has submitted all the below mentioned documents to the satisfaction of CARE Ratings Limited (CARE Ratings):

a. Executed corporate guarantee deed

## Key rating drivers of HCLI

The standalone ratings of HCLI factor in its strong linkages with the resourceful HCL group and the strong track record of financial support from its promoter group through HCLC in the form of interest-free unsecured loans and CG towards its outstanding working capital facilities.

However, these strengths are tempered by the operating losses incurred over the years and the resultant scaling-down of operations as well as the weak financial risk profile at a standalone level.

## Rating sensitivities of the corporate guarantor – HCLC: Factors likely to lead to rating actions

**Positive factor**

- Any significant addition of a strong underlying entity providing consistent cash flows and leading to a substantial rise in the value of the investment portfolio, leading to strengthening of the market value of liquid investments-to-debt ratio.

**Negative factors**

- Any decline in the value of its investment portfolio and/or rise in debt either on-balance sheet or off-balance sheet, leading to worsening of the market value of investments-to-debt ratio of below 4.5x.
- Transfer of the 'HCL' brand to another entity.

## Rating sensitivities of the standalone rating of HCLI: Factors likely to lead to rating actions

**Positive factors**

- Undertaking significant new projects, leading to profitable revenue growth.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

- Significant equity infusion, leading to a healthy net worth.

**Negative factors**
- Any weakening of the linkages with its promoter group, i.e., HCLC and/or VAMA Sundari Investments (Delhi) Private Limited (VAMA).
- Any deterioration in the financial flexibility of HCLC to provide further support to HCLI.

## Analytical approach of HCLI:
**Standalone and Unsupported ratings**: Consolidated
CARE Ratings takes a consolidated view of HCLI and its subsidiaries owing to the significant business, operational, and financial linkages between the parent and the subsidiaries. The details of the subsidiaries and associates that have been consolidated, as on March 31, 2023, are given in Annexure-6.

**Credit-enhanced ratings:** Backed by proposed CG by HCLC
The bank facilities to be availed by HCLI are backed by a proposed CG from HCLC. Hence, to arrive at the ratings, CARE Ratings has assessed the financial risk profile of HCLC.

## Analytical approach of HCLC: Standalone

## Outlook: Stable
CARE Ratings believes that HCLC is expected to maintain its healthy market value of investments-to-debt ratio of at least 6x over the medium term along with being a key holding company for the HCL group, considering it houses the 'HCL' brand.

Furthermore, HCLI is expected to continue to receive support from the HCL group to service its operational and financial obligations.

## Detailed description of the key rating drivers
**Key strengths**
**Strong and resourceful promoter group with a long track record of operations**
HCLC is one of the holding companies of the HCL group, which was founded in 1980, and is promoted by Shiv Nadar and his family. HCLI is also a HCL group company. Shiv Nadar is the Founder and Chairman of the HCL group and the Shiv Nadar Foundation. He founded HCL in the year 1976 and has wide entrepreneurship experience (close to 40 years) in the Information Technology (IT) sector. In 2008, he was awarded the Padma Bhushan for his efforts in the development of the IT industry in India. In 2007, the Madras University awarded him an honorary Doctorate degree. He was also recognised as the E&Y Entrepreneur of the Year 2007 and has received many awards during his association with the IT sector. The day-to-day operations of HCLC and HCLI are managed by a team of qualified and experienced management, spearheaded by promoters who have vast experience in the IT business. The group has established a reputable image and brand name over the years.

The promoters house their investments in IT, healthcare, and talent management solutions through investment companies, i.e., VAMA and HCLC. HCLT (market capitalisation of ₹3.52 lakh crore as on September 20, 2023), the flagship company of the group, has 60.81% promoter shareholding, which includes 44.17% by VAMA and 0.17% by HCLC.

**Healthy financial risk profile with a strong net worth base and the healthy asset profile of HCLC**
HCLC has a strong capital structure with a healthy net worth base of ₹4,551 crore (provisional) as on March 31, 2023. It has an almost unleveraged balance sheet, and with only major debt obligations being the guaranteed debt for its associates. HCLC had liquid investments of around ₹2,139 crore as on March 31, 2023. The corporate guaranteed off balance sheet debt stood at ₹331 crore as on the same date, leading to an investment value by debt of 6.47x. The company is expected to maintain at least a market value liquid investment-to-debt cover of 6x. Furthermore, HCLC houses the brand 'HCL' in its book, which holds significant value to the HCL group.

**Track record of financial support by HCLC to HCLI**
In light of the losses incurred by HCLI, the support from the HCL group, particularly HCLC, gives significant comfort. HCLC has infused interest-free unsecured loans of ₹355 crore (outstanding as on March 31, 2023) in HCLI.

Furthermore, HCLC provides unconditional and irrevocable CG to HCLI's working capital facilities, which is around ₹330.35 crore as on March 31, 2023.

HCLC has internal approvals to grant support to HCLI, either in the form of a CG or unsecured loans, for up to ₹1,500 crore. The total support extended is ₹685.35 crore as on March 31, 2023. Considering the continuous losses, HCLC's financial support is key to the company being a going concern entity.

**Key weaknesses**
**Exposure to fluctuations in the capital markets**
Financial flexibility in terms of the cover available will depend, to some extent, on the prevailing market sentiments and the share prices. Any increase in the market-related risks, leading to a sharp fall in the share prices of investments, will be a key rating sensitivity factor.

**Continued PBILDT losses, leading to HCLI's weak financial risk profile**
HCLI has been continuously making profit before interest, lease rentals, depreciation and taxation (PBILDT) losses on account of historical low-margin contracts along with delayed receivables, which have been significantly written off, and high legal costs for the large litigations being undertaken. Gradually, the company has shut down all its segments, except the system integration (SI) business. The management has completed all the projects of the SI business and only the annual maintenance contracts are pending, which needs to be honored. No new business is expected to be received.

The continued losses have fully eroded the net worth and the company is able to sustain itself on account of the significant financial support received from HCLC.

Furthermore, HCLC's business profile is moderated, considering the modest valuation of HCLI due to these losses.

## Liquidity
**HCLI**: Adequate
The company is operating at cash losses, however, there is no term loan or fund-based working capital loan outstanding as on date. Currently, only bank guarantee (BG) obligations are outstanding against projects undertaken or being undertaken by HCLI. Amid these cash losses, the liquidity support is largely derived from the authorised limit of funding support from HCLC amounting to ₹1,500 crore in the form of CG or unsecured loans. The company had ₹192 crore of cash and cash equivalents as on March 31, 2023, of which about ₹70 crore was kept as margin money and ₹120 crore is money from the MTNL arbitration provided for the liability side considering the arbitration is ongoing. Of the margin money of ₹70 crore, about ₹50 crore is expected to be freed once the BG of ₹65 crore from Axis Bank Limited is sanctioned. The company also has liquid investments of ₹44 crore as on March 31, 2023, which supports the liquidity.

**HCLC**: Strong
HCLC has a healthy investment portfolio amounting to ₹2,139 crore as on March 31, 2023, and ₹2,182 crore as on June 30, 2023. Against this, the company has guaranteed debt of ₹330 crore for its group companies, mainly HCLI. Furthermore, the company has a steady flow of interest and dividend income from its investments.

## Applicable criteria
Policy on default recognition
Assignment of Provisional Rating
Consolidation
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Investment Holding Companies
Liquidity Analysis of Non-financial sector entities
Rating Credit Enhanced Debt
Rating Outlook and Credit Watch
Short Term Instruments
Service Sector Companies
Policy on Withdrawal of Ratings

**Validity of the Provisional Rating:**
The provisional rating shall be converted into a final rating after receipt of the above-mentioned transaction documents duly executed/ completion of the above-mentioned steps within 90 days from the date of issuance of the instrument. An extension of 90 days may be granted on a case-to-case basis in line with CARE Ratings Ltd.'s Policy on Assignment of Provisional Ratings.

**Risks associated with provisional nature of credit rating:**
When a rating is assigned pending execution of certain critical documents or steps to be taken, the rating is a 'Provisional' rating indicated by prefixing 'Provisional' before the rating symbol. On execution of the critical documents to the satisfaction of CARE Ratings Ltd., the final rating is assigned by CARE Ratings Ltd. In absence of receipt of documents/ completion of steps or where such documents deviate significantly from that considered by CARE Ratings Ltd., the provisional rating will be reviewed in line with the Policy on Assignment of Provisional Ratings.

**About the CE provider**

HCLC is a private company incorporated on September 30, 2008. It is one of the holding companies of the HCL group and also has a non-banking financial company (NBFC) license. The company has investments in various entities within the group, which are directly or indirectly either controlled or significantly influenced by HCLC and investing funds into relevant other securities with the objective of earning reasonable returns. The company holds 49.94% in HCLI.

| Brief Financials (₹ crore) | March 31, 2022 (A) | March 31, 2023 (Prov.) |
|---|---|---|
| Total operating income | 162.80 | 127.54 |
| PAT | 46.72 | 17.41 |
| Interest coverage (times) | 1703 | 555 |
| Total Assets | 4812 | 4678 |
| Net NPA (%) | - | - |
| ROTA (%) | 1 | 0.37 |

A: Audited; UA: Unaudited. Note: The above results are the latest financial results available.

## About the rated company and industry

**Industry classification**

| Macro-economic Indicator | Sector | Industry | Basic Industry |
|---|---|---|---|
| Information Technology | Information Technology | IT – Services | IT-enabled services |

HCLI was incorporated in April 1986 by the HCL group. The company's business is primarily diversified into four segments, viz., distribution, hardware products and solutions, services, and learning, engaged into the selling of computer hardware and mobile handsets to enterprise and consumers, system integration business, rendering a wide portfolio of services including IT infrastructure services, infrastructure managed services, enterprise application services, office automation services, managed print services, life-cycle services and after-sales support services, and selling digitised educational content and learning solutions. However, except system integration, all other business segments have been closed. The company is 63% held by the promoter group, i.e., the HCL group. HCLC holds 49.94% and VAMA holds 12.94%.

| Brief Financials (₹ crore) – HCLI | March 31, 2022 (A) | March 31, 2023 (A) | June 30, 2023 (UA) |
|---|---|---|---|
| Total operating income | 70.77 | 32.40 | 16.7 |
| PBILDT | -98.75 | -70.39 | -5.7 |
| PAT | 24.50 | -38.79 | -5.9 |
| Overall gearing (times) | -1.92 | -1.40 | - |
| Interest coverage (times) | NM | NM | NM |

A: Audited; UA: Unaudited. Note: The above results are the latest financial results 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 the covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of the various instruments rated**: Annexure-4

**Lender details**: Annexure-5

## 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 |
|---|---|---|---|---|---|---|
| Non-fund-based - LT/ ST-Bank Guarantee | - | - | - | - | 235.00 | CARE BBB+; Stable / CARE A2 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Non-fund-based - LT/ ST-Bank Guarantee | - | - | - | - | 65.00 | Provisional CARE AA- (CE); Stable / CARE A1+ (CE) |
| Un Supported Rating-Un Supported Rating (LT/ST) | - | - | - | - | 0.00 | CARE BBB+ / 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 2023-2024 | 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 |
| 1 | Non-fund-based - LT/ ST-Bank Guarantee | LT/ST* | 235.00 | CARE BBB+; Stable / CARE A2 | | | | |
| 2 | Non-fund-based - LT/ ST-Bank Guarantee | LT/ST* | 65.00 | Provisional CARE AA- (CE); Stable / CARE A1+ (CE) | | | | |
| 3 | Un Supported Rating-Un Supported Rating (LT/ST) | LT/ST* | 0.00 | CARE BBB+ / CARE A2 | | | | |

*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated credit enhanced facilities:**

| Name of the Instrument | Detailed Explanation |
|---|---|
| **A. Financial covenants** | |
| **I Net Debt** | Net Debt of the Borrower (India -Consolidated), defined as [Total Outstanding Borrowing of the Company (Short term and Long term) + Outstanding under the fund based working capital facilities – Cash and cash equivalents]: Maximum Rs 1100cr |
| **II Gross Debt** | Gross Debt of borrowers (India consolidated): Not to exceed Rs. 1400 crore |
| **B. Non financial covenants** | |
| **I Corporate Guarantee** | Guarantees to be executed in a format acceptable to the Bank and with quantum and duration of the liability clearly specified in unequivocal terms. The guarantee should contain bank's usual limitation clause. |

*Kindly note that the facility on which CE rating is assigned is at proposed stage and hence, these covenants may change at the time of final sanction of the concerned facility.

**Annexure-4: Complexity level of the various instruments rated**

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1 | Non-fund-based - LT/ ST-Bank Guarantee | Simple |
| 2 | Un Supported Rating-Un Supported Rating (LT/ST) | Simple |

## Annexure-5: Lender details

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|---|
| To view the lender wise details of bank facilities please click here |

## Annexure-6: List of subsidiaries which are consolidated

| Name of companies/ Entities | % of holding |
|---|---|
| HCL Infotech Limited* | 100 |
| HCL Investment Pte. Limited | Wholly owned stepdown subsidiary of HCL Infotech Limited |
| Nurture Technologies FZE | Wholly owned stepdown subsidiary of HCL Investment Pte. Limited |
| Pimpri Chinchwad eServices Limited | 85 |

**Note on the 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:**

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.



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