HCL Infosystems Limited

August 29, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
(I) Long Term / Short Term Bank Facilities	116.87 (Reduced from 235.00)	CARE BBB+; Stable / CARE A2	Reaffirmed
(II) Long Term / Short Term Bank Facilities@	65.00	CARE AA- (CE); Stable / CARE A1+ (CE)	Final Rating Confirmed

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	**CARE BBB+ / CARE A2 [Reaffirmed]**

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

Rationale and key rating drivers for credit enhanced debt

The provisional rating assigned to bank facilities at (II) above on September 20, 2023, has been converted to 'Final' on submission of the executed corporate guarantee (CG) deed.

CARE Ratings Limited (CARE Ratings) has reaffirmed both standalone ratings (I) and credit-enhanced ratings (II) to bank facilities of HCL Infosystems Limited (HCLI). The credit-enhanced ratings assigned to bank facilities of HCLI factor in the credit enhancement (CE) in the form of unconditional and irrevocable CG from HCL Corporation Private Limited (HCLC). The credit-enhanced ratings are based on CARE Ratings' view on the 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

Reaffirmation of the credit-enhanced ratings continues to reflect the robust financial flexibility of HCLC emanating from the significant mark-to-market valuation of its equity investments in group companies, 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 experienced promoters and their resourcefulness. HCLC's strength is amplified further by it holding the 'HCL' brand.

However, these rating strengths are constrained by the investment's exposures to fluctuations in capital market and the absence of a significant stake of a strong underlying entity among its key investments.

Key rating drivers of HCLI

The standalone ratings of HCLI continue to 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 and the weak financial risk profile at a standalone level.

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

Positive factor

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

Negative factors

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

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

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

Positive factors

- Undertaking significant new projects, leading to profitable revenue growth.
- Significant equity infusion, leading to a healthy net worth.

Negative factors

- Weakening of the linkages with its promoter group, HCLC and/or VAMA Sundari Investments (Delhi) Private Limited (VAMA).
- Deterioration in 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 subsidiaries and associates that have been consolidated, as on March 31, 2024, are given in Annexure-6.

Credit-enhanced ratings: Backed by CG by HCLC

The bank facilities to be availed by HCLI are backed by a CG from HCLC. Hence, to arrive at ratings, CARE Ratings has assessed HCLC's standalone financial risk profile.

Analytical approach of CE provider i.e. 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 and remain a key holding company in the HCL group, considering it houses the 'HCL' brand.

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

Detailed description of 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 an HCL group company. Shiv Nadar is the Founder and Chairman of the HCL group and the Shiv Nadar Foundation. He founded HCL in 1976 and has wide entrepreneurship experience (nearly 50 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, Madras University awarded him an honorary Doctorate degree. He was also recognized as the E&Y Entrepreneur of the Year 2007 and has received several awards for his association with the IT sector. HCLC's and HCLI's day-to-day operations are managed by a team of qualified and experienced management, spearheaded by promoters having 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, VAMA and HCLC. HCLT (market capitalisation of ₹4.30 lakh crore as on August 12, 2024), 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 healthy asset profile of HCLC

HCLC has a strong capital structure with a healthy net worth base of ₹4,863 crore (standalone) as on March 31, 2024. It has an almost unleveraged balance sheet, with only major debt obligations being the guaranteed debt for its associates. HCLC has marketable investments of around ₹2,818 crore as on June 30, 2024. The off-balance sheet debt, i.e. CG towards HCLI bank guarantees, stood at ₹331 crore as on the same date, leading to an investment value by debt of 8.52x. However, HCLC provided additional CG of ₹65 crore towards new bank guarantee facilities taken by HCLI leading to moderation in the investment value to debt ratio of 7.11x (considering investment value of June 30, 2024). The company is expected to maintain at least a market value investment-to-debt cover of 6x. 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, 2024) in HCLI. Furthermore, HCLC provides unconditional and irrevocable CG to HCLI's working capital facilities, which is around ₹396 crore as on August 15, 2024.

HCLC has internal approvals to grant financial support to HCLI, either in the form of a CG or unsecured loans, for up to ₹1,500 crore. The total support extended is ₹751 crore as on August 15, 2024. Considering the continuous losses, HCLC's financial support is key to the company being a going concern entity.

Key weaknesses
Exposure to fluctuations in capital markets
Financial flexibility in terms of the value of marketable investments to debt of HCLC is exposed to 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 considering historical low-margin contracts and delayed receivables, significant portion of which has been written-off, and high legal costs for the large litigations being undertaken to recover these receivables. The company has negative net worth of about ₹270 crore as on March 31, 2024. Gradually, the company has shut down all its segments, except the system integration (SI) business. The management has completed projects of the SI business and only the annual maintenance contracts are pending, which need to be honoured. 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 considering the significant financial support received from HCLC.

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

Liquidity
HCLI: Adequate
The company is operating at cash losses, but there is no term loan or fund-based working capital loan outstanding as on date. Currently, only bank guarantee obligations are outstanding against projects 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/Unsecured loans. The company has ₹175 crore of cash and cash equivalents as on June 30, 2024, of which about ₹68 crore was kept as margin money. The company also has liquid investments of ₹31 crore as on June 30, 2024. However, the comfort of cash & cash equivalents and liquid investments is negated considering ongoing arbitration with MTNL wherein MTNL has provided around ₹120 crore as cash deposit until the arbitration is completed. HCLI has made provision for the same.

HCLC: Strong
HCLC has healthy investment portfolio amounting ₹2,783 crore as on March 31, 2024 and ₹2,818 crore as on June 30, 2024. Against this, the company has guaranteed debt of ₹396 crore as on August 15, 2024 for its group companies, mainly HCLI. The company has steady flow of interest and dividend income from its investment.

Applicable criteria
Consolidation
Definition of Default
Factoring Linkages Parent Sub JV Group
Investment Holding Companies
Liquidity Analysis of Non-financial sector entities
Rating Credit Enhanced Debt
Rating Outlook and Rating Watch
Service Sector Companies
Financial Ratios – Non financial Sector
Short Term Instruments

Adequacy of credit enhancement structure: Adequate, as facilities rated by CARE Ratings are fully backed by unconditional, and irrevocable corporate guarantee given by HCLC till the tenor of facility.

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 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) - Standalone	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	127.54	235.48
PAT	17.32	47.85
Interest coverage (times)	554.51	2,561.26
Total assets	4,678.13	5,146.17
Net NPA (%)	0.40	0.41
ROTA (%)	0.37	0.97

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

About 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, 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, the Company is currently executing only existing system integration projects and annual maintenance contracts. All other business segments have been scaled down with no new orders being onboarded. The company is 63% held by the promoter group, the HCL group. HCLC holds 49.94% and VAMA holds 12.94%.

Brief Financials (₹ crore) - Consolidated	March 31, 2023 (A)	March 31, 2024 (A)#	June 30, 2024 (UA)
Total operating income	32.40	32.17	7.47
PBILDT	-70.39	-56.69	-10.31
PAT	-38.79	-15.88	-4.13
Overall gearing (times)	-ve	-ve	-
Interest coverage (times)	-ve	-ve	-ve

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available', -ve: Ratios in negative value

Abridged financials. Hence, bifurcation of other operating income and non-operating income is not available. Hence, other income has been considered as non-operating income.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of 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	-	-	-	-	116.87	CARE BBB+; Stable / CARE A2
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	65.00	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 2024-2025	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
1	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	116.87	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (20-Sep-23)	-	-
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	65.00	CARE AA- (CE); Stable / CARE A1+ (CE)	-	1)Provisional CARE AA- (CE); Stable / CARE A1+ (CE) (20-Sep-23)	-	-
3	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST	0.00	CARE BBB+ / CARE A2	-	1)CARE BBB+ / CARE A2 (20-Sep-23)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. 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 our usual limitation clause.

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

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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
	Subsidiary		
1.	HCL Infotech Limited*	Full	Wholly owned subsidiary
2.	HCL Investment Pte. Limited	Full	Wholly owned stepdown subsidiary of HCL Infotech Limited
3.	Nurture Technologies FZE	Full	Wholly owned stepdown subsidiary of HCL Investment Pte. Limited
4.	Pimpri Chinchwad eServices Limited	Full	Subsidiary (HCLI holds 85% stake)

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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	Sabyasachi Majumdar Senior Director **CARE Ratings Limited** Phone: +91-120-445-2006 E-mail: Sabyasachi.majumdar@careedge.in Ravleen Sethi Director **CARE Ratings Limited** Phone: 91-120-4452016 E-mail: ravleen.sethi@careedge.in Akhil Kumar Associate Director **CARE Ratings Limited** Phone: 91-120-4451986 E-mail: akhil.kumar@careedge.in

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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