Financial Statement Analysis of HCL Info systems Ltd-A Case Study

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***Abstract*-HCL Info systems Ltd is a global Indian company and a leading company in the Indian IT space. This case study covers the background of HCL Info systems Ltd and highlights its financial performance. The case provides sufficient information for a ratio analysis to be done of HCL Info systems Ltd. Additionally, it helps to analyze the financial performance of HCL Info systems Ltd through common size analysis, common base analysis, and DuPont analysis. This case helps students to understand the financials of Information Technology companies.**

INTRODUCTION

HCL Infosystems Ltd is India's premier information enabler and country's leading ICT system integrator and distribution company. The company is among the leading players in all the segments comprising the domestic IT products, solutions and related services, which include PCs, Servers, Imaging, Voice & video solutions, Networking Products, TV and FM Broadcasting solutions, Communication solutions, System Integration, ICT education & training, Digital lifestyle Solutions and Peripherals. They offer value-added services in the key areas such as system integration, networking consultancy and a wide range of support services.HCL Infosystems Ltd was incorporated in the year 1986 as HCL Ltd. In May 1986, the company took over Hindustan Computers, Hindustan Reprographics, Hindustan Instruments and Indian Computer Software Company. During the year 1987-88, HCL Employees Investment Co Ltd and HCL Finance & Investment Ltd became the subsidiaries of the company.In April 1991, the computer entered into a joint venture agreement with Hewlett-Packard Company of USA to align the computer operations of both companies in India. During the year 1991-92, Hewlett-Packard Company acquired 26% equity stake in the company. Simultaneously, the name of the company changed from HCL Ltd to HCL Hewlett-Packard Ltd. During the year 1993-94, the company launched the entire range of HP peripherals with tremendous success. They set up two Software Technology Park units, one in Chennai, Tamilnadu and the other in Noida, Uttar Pradesh for software development and exports during the year 1994-95. Also, they commissioned their second state-of-the-art manufacturing facility at Sedrapet in Pondicherry during the year 1996-97.During the year 1997-98, the company acquired the business of HCL Infosolutions Ltd, HCL Peripherals Ltd and the Customer Support activities of HCL Automation Ltd. During the year 1999-2000, the company formed their internet subsidiary namely HCL Infinet Ltd. Also, they bagged some prestigious orders for high-end systems from organizations such as Sahara India, Western Air Command, ICICI, Mumbai Stock Exchange, NIC, C-DOT, Lucent Technologies, ST Microelectronics, EHPT, Southern Railways, Maharashtra Mantralaya, Karnataka Electricity Board, Kerala Treasuries, Karnataka Treasuries, EDCIL, Canara Bank and Dena Bank.

During the year 2000-01, the company bagged a major networking order from Indian Overseas Bank involving implementation of Wide Area Network in 11 cities covering 200 branches.The software service business including the overseas operations was de-merged to HCL Technologies Limited from the appointed date of January 1, 2003. The Technical Help Desk business of the wholly owned subsidiary company namely, HCL Infinet Ltd was transferred to HCL Technologies BPO Ltd from January 1, 2003. Also, the office automation & telecommunication business of the company was transferred to HCL Infinet Ltd from January 1, 2003. During the year

2002-03, the company bagged large System Integration and hardware orders in Enterprise business from Vidyavahini, Canara Bank, SBI, AP Transco, NIC, DACNET, Ministry of Defence, Dept. of Posts, Sahara India Parivar, Hindustan Aeronautics, Asian Paints, Sun Pharma, BSNL, ITI & Indian Overseas Bank. They launched new products in enterprise security area namely HCL Infowall& HCL SecuMon during the year. Also, in the Peripherals business, they launched a slew of new models & new products that included CRT monitors & TFT LCD monitors, Multilingual keyboards, Ethernet Switches, Structured cabling components and Touch screen enabled information kiosks. During the year 2003-04, the company launched some new products, which include Beanstalk with media center, Infiniti Indic PC, Infiniti Corporate PC, Infiniti Orbital PC and Beanstalk NEO. The company also launched next generation Xeon processor-based Infiniti Global Line server 2700 series.

During the year, the company's Infrastructure Services (ISS) wing has bagged good business from Banks, Utility Services providers, PSUs, FMCG for IT security services and consultancy for Network design, roll out and management, Wide Area Network, Facility Management Services and Data Center Solutions. Also, they bagged orders from Tata Teleservices, Federal Bank, Central Depositary services for Infiniti Storage products. During the year 2004-05, the company introduced new products, which include Konica Minolta printers, LCD TVs and Audio-Visual System Integration (AVSI) solutions. They launched Toshiba LCD TV's, Ericsson range of solutions for Business conferencing, Broadband and Mini Link Radio. They also launched end-to-end solutions for IP telephony and Global IP VPN services. In the consumer PC front, the company launched several new models, which include 'EzeeBee Pride'. During the year, the company commissioned and handover the country's largest Internet backbone network to Bharat Sanchar Nigam Ltd. Also, they executed and handed over the School computerization project from the 'Department of School Education', Government of Punjab. The networking business of the wholly owned subsidiary company, HCL Infinet Ltd was de-merged and transferred to Microcomp Ltd and the remaining Office Automation and Telecommunication business of HCL Infinet Ltd was amalgamated with the company with effect from April 1, 2006. During the year 2005-06, the company in association with Nokia, announced a long-term distribution strategy for developing the rapidly growing Indian mobile phones market. Also, the company was awarded the 'Department of Electronics & Telecommunications (DET) Corporate Award' for Performance Excellence in the field of Computer & Tele-Communication System. During the year 2006-07, Microcomp Ltd and Stelmac Engineering Pvt Ltd became the wholly owned subsidiaries of the company and the name of the Microcomp Ltd was changed to HCL Infinet Ltd. Stelmac Engineering Pvt Ltd was amalgamated with the company with effect from January 30, 2008. In May 2008, the company acquired the entire share capital of Natural Technologies Pvt Ltd, a company engaged in the business of providing banking software products & solutions, for a consideration of Rs 8.39 crore. The company is in the process of implementing the IT Infrastructure part of the Pan Africa project, which will connect 53 African countries into one network, providing electronic and knowledge connectivity to the African countries. In July 2008, the company made a tie up with Echelon Corporation of USA, to bring Echelon's Networked Energy Services advanced metering system to India.

OBJECTIVES

The case is structured to achieve the following teaching objectives:

To understand financial statements of an HCL Infosystems Ltd.

To analyze and interpret the financial ratios of HCL Infosystems Ltd

Exhibits:

Table 1: HCL Info systems Ltd: Key Ratios

Year	Mar 22	Mar 21	Mar 20	Mar 19	Mar 18
Key Ratios					
Debt-Equity Ratio	0	0	22.63	6.33	3.3
Long Term Debt-Equity Ratio	0	0	1.96	0.79	0.74
Current Ratio	0.33	0.5	0.73	0.89	0.94

Turnover Ratios					
Fixed Assets	2.1	5.25	4.58	5.41	4.58
Inventory	41.46	22.94	29.41	19.65	16.19
Debtors	1.21	2.51	4.76	4.17	2.76
Interest Cover Ratio	-3.82	-2.51	0.04	-0.07	-4.73
PBIDTM (%)	-84.55	-38.25	0.67	0.08	-17.96
PBITM (%)	-86.66	-39.46	0.19	-0.24	-18.73
PBDTM (%)	-107.26	-54	-4.31	-3.1	-21.92
CPM (%)	-107.26	-54.56	-7.14	-3.18	-22.06
APATM (%)	-109.38	-55.77	-7.63	-3.49	-22.83
ROCE (%)	-5.46	0	0	0	0
RONW (%)	-12.18	0	0	0	0

Source: Capital Line Database

Table 2: HCL Infosystems Ltd: Consolidated Balance Sheet					
Year	Mar 22	Mar 21	Mar 20	Mar 19	Mar 18
SOURCES OF FUNDS :					
Share Capital +	65.84	65.84	65.84	65.84	65.84
Reserves Total +	-280.95	-305.91	-107.98	38.31	169.5
Equity Share Warrants	0	0	0	0	0
Equity Application Money	0	0	0	0	0
Total Shareholders’ Funds	-215.11	-240.07	-42.14	104.15	235.34
Minority Interest	0	0	0	0	0
Secured Loans +	0.01	0.01	389.69	438.14	508.48
Unsecured Loans +	414.03	537.53	115.22	460.28	743.59
Total Debt	414.04	537.54	504.91	898.42	1,252.07
Policy Holders Fund	0	0	0	0	0
Other Liabilities+	1.55	2.12	6.07	7.88	9.62
Total Liabilities	200.48	299.59	468.84	1,010.45	1,497.03
APPLICATION OF FUNDS :					
Gross Block +	9.88	56.21	78.1	713.94	719.15
Less: Accumulated Depreciation+	5.68	20.67	22.76	571.99	553.76
Less: Impairment of Assets	0	0	0	0	0
Net Block+	4.2	35.54	55.34	141.95	165.39
Lease Adjustment	0	0	0	0	0
Capital Work in Progress+	0.09	0.16	0	0.04	2.25
Investments +	97	0	0	0	122.22
Current Assets, Loans & Advances					
Inventories +	0.51	2.84	27.91	95.51	298.94
Sundry Debtors +	27.65	86.86	193.94	569.44	1,289.64
Cash and Bank+	66.52	44.49	78.36	239.62	132.94
Loans and Advances +	87.6	177.42	330.36	490.83	516.69
Total Current Assets	182.28	311.61	630.57	1,395.40	2,238.21
Less : Current Liabilities and Provisions					
Current Liabilities +	239.53	294.22	533.76	930.97	1,226.07
Provisions +	51.24	55.41	44.35	50.49	154.13
Total Current Liabilities	290.77	349.63	578.11	981.46	1,380.20
Net Current Assets	-108.49	-38.02	52.46	413.94	858.01
Miscellaneous Expenses not written off +	0	0	0	0	0
Deferred Tax Assets	0	0	0	65.02	65.02
Deferred Tax Liabilities	0	0	0	5.44	2.51
Net Deferred Tax	0	0	0	59.58	62.51
Other Assets+	207.68	301.91	361.04	394.94	286.65
Total Assets	200.48	299.59	468.84	1,010.45	1,497.03
Contingent Liabilities+	625.29	629.09	504.83	786.53	651.29

Source: Capital Line Database

DISCUSSION

Debt equity ratio: This is a ratio, which expresses the relation between the equity and outsider's funds. Relatively lower D/E ratio the better is the financial stamina on the part of equity holders. The ratio is increasing every year from 3.3 in 2018 and it reached 22.63 in the year 2020. However, it is Zero in the year 2021 and 2022, a good indicator of strong financial maintenance. Although the decreased portion of debt strengthens the shareholders part of gain, but non utilization of leverages show low risk taking ability of the business unit. Long Term Debt Equity Ratio: The long-term debt to equity ratio shows how much of a business' assets are financed by long-term financial obligations, such as loans. Any LTDE ratio less than 1 is considered to be good and 2 and more than 2 is considered to be risky. But, for this firm the ratios are increasing from 2018 to 2020 0.74 to 1.96 however the same remained zero in the years 2021 and 2022, it is an indication of low risk taking ability of the business unit. Current Ratio: The current ratio is a liquidity ratio that measures a company's ability to pay short-term obligations or those due within one year. It tells investors and analysts how a company can maximize the current assets on its balance sheet to satisfy its current debt and other payables. Here, the ratio is decreasing every year from 2018 to 2022 from 09.4 to 0.33, which is a bad indication of poor working capital management or poor liquidity position. The company has to maximize its efforts to bring it to at least to the standard position (2:1). Fixed Assets Turnover ratio: The fixed asset turnover ratio reveals how efficient a company is at generating sales from its existing fixed assets. A higher ratio implies that management is using its fixed assets more effectively. Here the FAT ratio is volatile from 2018 to 2022. However, the management of FA was seem to be better in the years 2019 & 2021 and it rapidly fallen to 2.1 which is very low than its previous position 5.25 in 2021. The company has to maximize its efforts to increase the FAT ratio in the coming years.

Inventory Turnover Ratio: The inventory turnover ratio is the number of times a company has sold and replenished its inventory over a specific amount of time. An inventory turnover ratio between 4 and 6 is usually good indicators that restock rates and sales are balanced, although every business is different. This good ratio means you will neither run out of products nor have an abundance of unsold items filling up storage space. In all the years from 2018 to 2022 the ITR is increasing beyond the normal limits, which is good indication for the inventory management. Debtors Turnover Ratio: This indicates the number of times average debtors have been converted into cash during a year. This is also referred to as the efficiency ratio that measures the company's ability to collect revenue. The DTR was considerably good in the years 2018 to 2020. However, the same ratios have been declining in the years 2021 & 2022. It shows that the company's ability to collect debts has been decreasing and it will have a negative impact on the funds management. Interest Coverage ratio: The Interest Coverage Ratio (ICR) is a financial ratio that is used to determine how well a company can pay the interest on its outstanding debts. Interest coverage ratio below one indicates a company cannot meet its current interest payment obligations and, therefore, is not in good financial health. A ratio of 3 or more is taken as a healthy indication. Except in the year 2020, in all other periods the ratio is negative and it shows a poor financial health. Return on Capital Employed: It refers to a financial ratio that can be used to assess a company's profitability and capital efficiency. In other words, this ratio can help to understand how well a company is generating profits from its capital as it is put to use. A good ROCE varies between industries and sectors, and has changed over time, but the long-term average for the wider market is around 10%. Here the ratio has reached a negative state from being zero from 2018 to 2022, which is bad indication of the profit making ability.

CONCLUSION

HCL Infosystems Ltd is primarily engaged into value-added distribution of technology, mobility and consumer electronic products. The financial statements of the company reveal that company has reduced debt component. The company has an efficient Cash Conversion Cycle of -1,816.86 days. The company has a high promoter holding of 62.89%. Company has low interest coverage ratio. The company has delivered a poor sales growth of -53.6% over past five years. Contingent liabilities of Rs.625 Cr. Debtor days have increased from 91.4 to 145 days. The company has shown a poor revenue growth of -86.31% for the Past 3 years. Company has a poor ROE of -88.82% over the past 3 years. Company has a poor ROCE of -15.95% over the past 3 years.