May 31, 2021

# Conneqt Business Solutions Limited: Ratings reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Long Term – Fund-based Working Capital | 55.00 | 55.00 | [ICRA]A+ (Stable); Reaffirmed |
| Long Term/Short Term – Fund-based/Non-fund Based Working Capital | 35.00 | 35.00 | [ICRA]A+ (Stable) / [ICRA]A1+; Reaffirmed |
| Long Term/Short Term – Non-fund Based Working Capital | 74.00 | 74.00 | [ICRA]A+ (Stable) / [ICRA]A1+; Reaffirmed |
| Commercial Paper** | 50.00 | 50.00 | [ICRA]A1+; Reaffirmed |
| **Total** | **164.00** | **164.00** | |

**Instrument details are provided in Annexure-1; **Commercial paper carved out of existing working capital limits*

## Rationale

The reaffirmation of the ratings factors in Conneqt Business Solutions Limited's (ConneQt) strong parentage and the associated operational synergies with Quess Corp Limited (QCL; rated [ICRA]AA (Stable)/[ICRA]A1+), which held a 100% stake in the company as on April 30, 2021. Established in 2004, ConneQt has a proven operational track record in the information technology business process outsourcing (IT-BPO) industry with long-standing relationships with its customers. The company caters to client requirements across diverse verticals such as media, telecom, banking, financial services and insurance (BFSI), auto, manufacturing, etc. ConneQt derived close to 58% of its standalone revenue in 9M FY2021 from the BFSI vertical (mainly collections business). ICRA also notes that revenues under this vertical have witnessed a healthy revenue growth over the past few years.

Although ConneQt faced headwinds from the Covid-19-induced disruptions from April 2020, it was able to provide necessary technological interventions to enable work-from-home (WFH) in Q1 FY2021 to ensure business continuity. Its collection business was also impacted due to the moratorium offered by the Government and the nationwide lockdown. Accordingly, the company recorded a top line of Rs. 642.5 crore in 9M FY2021 on a standalone basis (close to a 12% YoY decline). Nevertheless, ConneQt has permanently adopted WFH for 40% of its employees under the customer lifecycle management (CLM) division, which ensures business continuity and leads to savings in operational costs. This, along with partial rental waivers in Q1 FY2021, reduction in travel and discretionary spend and savings from recruitment and training cost (on the back of lower attrition rate), led to an increase in the company's standalone operating profit margin (OPM) to 19.1% in 9M FY2021 from 15.9% in FY2020.

For FY2022, ConneQt is expected to post a growth in its revenues along with stable OPMs; however, the same would be contingent on the impact of the 2nd wave of the Covid-19 pandemic. The ratings further take into consideration ConneQt's strong financial risk profile, characterised by improving OPMs and robust debt coverage metrics.

QCL operates in various industries through its subsidiaries and ConneQt is one of the various entities considered important by the support provider in terms of offering long-term strategic benefits for business products. QCL consolidates ConneQt in its financials and provides need-based support.

The ratings also take into consideration the high customer concentration, with the Tata Group companies cumulatively contributing 34.2% to ConneQt's standalone revenues in FY2021. Although ConneQt has been able to reduce the concentration with the addition of new clients over the last few years, the same remains high. The ratings also take into account the company's exposure to other risks that are typical of the IT-BPO sector such as wage inflation, high attrition rates and costs associated with hiring, training and retaining talent. It also faces high working capital intensity owing to a longer receivables cycle (as it ensures client approval prior to billing, which also reduces collectability risk) against minimal creditors. ICRA also takes note of the high geographical concentration risk with ConneQt deriving nearly 95% of its standalone revenue from India in 9M FY2021. While the same was 84% on a consolidated basis in 9M FY2021, it remains high.

ConneQt had acquired a 73.39% stake in Allsec Technologies Limited (ATL) for a consideration of ~Rs. 330 crore in FY2020 (equity infusion of Rs. 193 crore and a subscription of compulsory convertible debentures (CCDs) worth Rs. 147 crore by ConneQt's parent company, QCL). The acquisition led to diversification in ConneQt's operating profile with the addition of the human resource operations segment. These CCDs were converted into optionally convertible debentures (OCDs) in FY2021 and ConneQt subsequently redeemed OCDs worth Rs. 65 crore in FY2021.

## Key rating drivers and their description

### Credit strengths

**Established track record in IT-BPO segment** – ConneQt has a proven operational track record in the IT-BPO industry with an experience of more than 15 years. Extensive presence in the domestic market and long-term associations with its key customers have enabled revenue stability for the company. Besides, ConneQt has been able to expand its business with the addition of new reputed clients every year. Further, it has acquired a majority stake in ATL, which has been in the IT-BPO industry for over two decades.

**Diversified operational profile and sectoral exposure** – ConneQt, through its CLM and collections and business process management division, caters to client requirements in diverse sectors such as media, telecom, banking and financial services, auto, manufacturing, etc. Further, with the acquisition of ATL in FY2020, the company has entered the human resource operations segment as well.

**Strong parentage** – QCL, which holds a 100% stake in the company, provides ConneQt with cross-selling opportunity to QCL's existing clients. This provides ConneQt with incremental opportunity to diversify its client base and support its revenue growth. QCL increased its stake in the company to 100% in April 2021. QCL has also funded the acquisition of ATL, leading to the diversification of ConneQt's client base and the expansion of its operating profile.

**Strong financial risk profile** – ConneQt's financial risk profile remains strong with a healthy capital structure characterised by minimal external gearing and robust coverage indicators as on December 31, 2020. Further, the healthy cash reserves of Rs. 29.7 crore on a standalone basis and Rs. 214.3 crore on a consolidated basis as on December 31, 2020 provide additional cushion.

### Credit challenges

**High client concentration risk with preponderance of Tata Group companies in the client portfolio** – The Tata Group companies, namely Tata Sky Limited, Tata Motors Limited (rated [ICRA]AA- (Stable)/[ICRA]A1+) and Tata Capital Financial Services Limited (rated [ICRA]AAA (Stable)/[ICRA]A1+), are some of the major clients of ConneQt. The Tata Group companies cumulatively contributed 34.2% to ConneQt's standalone revenues in FY2021, exposing it to high client concentration risk. While the contribution of these companies exceeded 65% in the past, ConneQt has been able to reduce the same supported by the acquisition of new clients over the years.

**Risks pertaining to IT-BPO operations** – Continual wage increases, high attrition rates and costs associated with hiring, training and retaining talent affect the company's profitability as employee costs constitute the key cost for its business.

**Geographical concentration risk** – The company derives nearly 95% of its revenue from India on a standalone basis, exposing it to high geographical concentration risk. With the acquisition of a majority stake in ATL, which has delivery centres in USA and the Philippines, ConneQt is expected to leverage the same to venture into international markets. Overall, at the consolidated level, India contributed 84% to the top line in 9M FY2021.

## Liquidity position: Strong

ConneQt's liquidity position is **Strong** with cash and liquid investments of Rs. 29.7 crore and an undrawn working capital facility of Rs. 55.0 crore as on December 31, 2020 on a standalone basis. On a consolidated basis, the cash and liquid investments reserve stood at Rs. 214.3 crore as on December 31, 2020 on the back of the healthy cash reserve of its subsidiary i.e. ATL. ConneQt is expected to incur capex of Rs. 15-20 crore per annum. The company has an annual external debt repayment of around Rs. 1.5 crore, which can be comfortably funded through internal accruals. While ConneQt has OCDs (interest free) worth Rs. 82.0 crore, the same are fully subscribed to its parent, QCL, and the repayment of the same is as per the discretion of ConneQt's board.

### Rating sensitivities

**Positive factors –** ICRA could upgrade ConneQt's rating if it demonstrates significant growth in its revenues and margins in addition to maintaining its strong debt coverage metrics on a sustainable basis.

**Negative factors –** Pressure on ConneQt's ratings could arise if there is a decline in the margins or a stretch in the working capital intensity, leading to a deterioration in the liquidity position. Further, a deterioration in the credit profile of the parent, QCL, could be a negative.

### Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | Corporate Credit Rating Methodology |
| **Parent/Group Support** | Parent Company: Quess Corp Limited<br>The ratings factor in the implicit support from the parent. |
| **Consolidation/Standalone** | The ratings are based on the consolidated financial statements of the rated entity. |

## About the company

Conneqt Business Solutions Limited (erstwhile Tata Business Support Services Limited) was incorporated in 2004 as a wholly-owned subsidiary of Tata Sons Private Limited (rated [ICRA]AAA (Stable)/[ICRA]A1+) to cater to the domestic ITeS-BPO industry. The company commenced operations in 2004-05 as E2E Serwiz Solutions Private Limited and rechristened itself Tata Business Support Services Limited in 2007-08. It provides voice-based business process services including inbound and outbound interactions, email interactions, chats and collaborative web sessions and mainly caters to clients in sectors such as telecom, media, manufacturing, retail, e-commerce and healthcare, etc. With effect from April 1, 2014, the operations of E Nxt Financials Limited (a Tata Group enterprise, which is in the business of fulfilment and business process management; earlier rated [ICRA]A1 but withdrawn in January 2016) were merged with ConneQt as per a court order received in May 2015.

In November 2017, a 51% stake in ConneQt was acquired by QCL, which offers end-to-end business functions like recruitment, temporary staffing, technology staffing, IT products and solutions, skill development, payroll, compliance management, integrated facility management and industrial asset management services to corporate companies operating across sectors. In FY2020, QCL increased its stake in ConneQt to 70% to fund the acquisition of ATL ([ICRA]BBB+ (Stable)/[ICRA]A2 withdrawn), which operates in two business segments, namely human resource operations and customer lifecycle management. In Q1 FY2021, QCL increased its stake in ConneQt to 100% as per the agreement entered with Tata Sons Private Limited in November 2017.

## Key financial indicators (audited)

| ConneQt Standalone | FY2019 | FY2020 | 9M FY2021 (Prov.) |
|---|---|---|---|
| Operating Income (Rs. crore) | 854.2 | 975.9 | 642.5 |
| PAT (Rs. crore) | 40.9 | -82.1 | 42.8 |
| OPBDIT/OI (%) | 8.7% | 15.9% | 19.1% |
| PAT/OI (%) | 4.8% | -8.4% | 6.7% |
| Total Outside Liabilities/Tangible Net Worth (times) | 1.0 | 0.7 | 1.0 |
| Total Debt/OPBDIT (times) | 0.1 | 1.0 | 0.5 |
| Interest Coverage (times) | 13.1 | 5.0 | 11.1 |

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; FY2020 and 9M FY2021 debt includes lease liability*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

| | Instrument | Current Rating (FY2022) | | | | Chronology of Rating History for the Past 3 Years | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as of Mar 31, 2020 (Rs. crore) | Date & Rating in FY2022 | Date & Rating in FY2021 | Date & Rating in FY2020 | Date & Rating in FY2019 | |
| | | | | | May 31, 2021 | - | Apr 6, 2021 | Mar 29, 2019 | Mar 25, 2019 |
| 1 | Fund-based Limits | Long Term | 55.0 | NA | [ICRA]A+ (Stable) | - | [ICRA]A+ (Stable) | [ICRA]A+ (Stable) | [ICRA]A+ (Stable) |
| 2 | Fund-based/ Non-fund Based Limits | Long Term/ Short Term | 35.0 | NA | [ICRA]A+ (Stable)/ [ICRA]A1+ | - | [ICRA]A+ (Stable)/ [ICRA]A1+ | [ICRA]A+ (Stable)/ [ICRA]A1+ | [ICRA]A+ (Stable)/ [ICRA]A1+ |
| 3 | Non-fund Based Limits | Long Term/ Short Term | 74.0 | NA | [ICRA]A+ (Stable)/ [ICRA]A1+ | - | [ICRA]A+ (Stable)/ [ICRA]A1+ | [ICRA]A+ (Stable)/ [ICRA] A1+ | [ICRA]A+ (Stable)/ [ICRA]A1+ |
| 4 | Commercial Paper* | Short Term | 50.0 | NA | [ICRA]A1+ | - | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Long Term – Fund-based Working Capital | Simple |
| Long Term/Short Term – Fund-based/ Non-fund Based Working Capital | Simple |
| Long Term/Short Term – Non-fund Based Working Capital | Very Simple |
| Commercial Paper | Very Simple |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

## Annexure-1: Instrument details

| ISIN | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | Fund-based Limits | NA | NA | NA | 55.0 | [ICRA]A+ (Stable) |
| NA | Fund-based/ Non-fund Based Limits | NA | NA | NA | 35.0 | [ICRA]A+ (Stable)/ [ICRA]A1+ |
| NA | Non-fund Based Limits | NA | NA | NA | 74.0 | [ICRA]A+ (Stable)/ [ICRA]A1+ |
| Not placed | Commercial Paper* | NA | NA | NA | 50.0 | [ICRA]A1+ |

***Source:*** *Company; * Commercial paper carved out of existing working capital limits*

## Annexure-2: List of entities considered for consolidated analysis

| Company Name | Ownership | Consolidation Approach |
|---|---|---|
| Allsec Technologies Limited | 73.39% | Full Consolidation |
| Allsec Inc., USA | 73.39% | Full Consolidation |
| Allsectech Manila Inc., Philippines | 73.39% | Full Consolidation |
| Retreat Capital Management Inc., USA | 73.39% | Full Consolidation |

***Source:*** *Company*

***Note:*** *ICRA has taken a consolidated view of the parent (ConneQt), its subsidiaries and associates while assigning the ratings*

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