

November 23, 2022

## 24/7 Customer Private Limited: Ratings reaffirmed; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Non-fund-based	17.00	17.00	[ICRA]BBB (Stable); reaffirmed
Short-term – Fund based	113.00	150.00	[ICRA]A3+; reaffirmed/ assigned
<b>Total</b>	<b>130.00</b>	<b>167.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The reaffirmation of ratings of 24/7 Customer Private Limited (24/7 India) factors in the established track record of its parent company, [24]7.ai.inc (24/7 USA), in the business process outsourcing (BPO) industry and its long association with a diverse and reputed client base that ensures repeat business. Further, the fixed cost- plus margin model that 24/7 India operates on provides stability to its margins, while mitigating the risks of input cost pressures to an extent. Benefiting from continued outsourcing from the parent, 24/7 India reported steady growth of 9.5%, with its operating income increasing to Rs. 574.7 crore in FY2022. Moreover, the company launched a new facility in Shillong in FY2022, which is likely to support future growth.

The ratings, however, remain constrained by the company's stretched liquidity position due to the high receivable cycle from the parent; and high revenue concentration in the US market, which exposes its operations to cyclicity and macro-economic uncertainties in the region. Furthermore, the company is directly impacted by the performance of the parent on account of its total workflow dependency. The ratings also remain constrained by the intense competition for the Group from companies in India as well as other low-cost countries, wage cost inflation and employee attrition.

ICRA has noted the ongoing litigation<sup>1</sup> between 24/7 USA and LivePerson, Inc. The company has created an additional contingency provision of \$5 million in FY2022, in addition to the provision of \$30 million created in FY2021 towards this litigation. Currently, the company is also looking at an out-of-court settlement and expects the resolution of the same in the present year. While the cash outflows towards litigation related pay outs are expected over the near to medium term, the Group's cash balances (~\$40 million on a standalone basis as on September 30, 2022) and accruals are expected to be sufficient to fund the same. However, given the present uncertainty around the quantum and timing of these outflows, 24/7 USA has conserved surplus liquidity on its balance sheet, resulting in continued stretched receivables for 24/7 India and continued almost full utilisation of the working capital limits availed from the bank. However, the parent remains committed towards gradually reducing the receivable cycle over the next few quarters. Going forward, the trend in receivable days and improvement in 24/7 India's liquidity position will remain key rating monitorables.

The Stable outlook reflects ICRA's expectation that 24/7 India will continue to benefit from its strategic position as one of the key offshore centres for the Group, which provides revenue visibility and also supports the company's credit profile.

<sup>1</sup> LivePerson, Inc. filed an intellectual property suit against 24/7 USA seeking damages on the grounds that the latter reverse engineered and misappropriated LivePerson's technology to develop competing products and misused business information. On June 17, 2021, the jury awarded LivePerson \$6.7 million in compensatory damages along with \$23.6 million in punitive damages (total provision of \$30.3 million).

## Key rating drivers and their description

### Credit strengths

**Established track record of 24/7 Group in the BPO industry; long association with diversified and reputed client base** – Established in 2000, 24/7 USA is a privately-held company, employing over 15,000 people worldwide, providing customer service solutions. The 24/7 Group has a well-established and reputed clientele across industries, primarily in telecom, retail banking and financial services that are supported through traditional voice services and innovative web chat, mobile and self-service solutions. Also, over the years, the company has been able to add as well as retain customers across industries, thereby ensuring repeat business. The company operates seven offshore centres around the world and has grown via organic as well as inorganic routes.

**Fixed cost-plus margin model ensures stable operating margins for 24/7 India** – The India business derives its entire revenue from 24/7 USA. It provides BPO services through various interactive platforms such as interactive voice response (IVR), chat and email as well as call support to the customers of the parent entity. The services are charged at 'cost + 17% margin' as per the latest transfer pricing agreement between the company and tax authorities in India and it is valid till FY2024. The cost includes all the cost including foreign exchange loss, except income tax, depreciation routed through other comprehensive income for BPO services, software development and support services. This in turn ensures stable operating margins, thereby insulating the company from any volatilities due cost pressures. Nonetheless, the revenue growth of 24/7 India is dependent on the parent's ability to generate business.

### Credit challenges

**High working capital intensity owing to increase in receivables from parent** – 24/7 India's net working capital intensity continued to remain high in FY2022 as well on account of stretched receivable cycle from the parent, resulting in full utilisation of the working capital limits availed from the bank. As on September 30, 2022, the debtor days remained high at ~300 days. Nonetheless, the company was able to generate healthy cash flows in FY2022 and also had free cash and bank balance of ~Rs. 40 crore as on September 30, 2022, which provides some comfort. Further, the parent remains committed towards gradually reducing the receivable cycle over the next few quarters.

**Total dependence on workflow from 24/7 USA and high geographical concentration**— 24/7 India derives its entire revenue from 24/7 USA. The company provides IT-enabled services, primarily customer relationship management services and customer analytics, and is entirely dependent on the workflow outsourced by its parent entity. While the company caters to several reputed multi-national companies across diverse sectors, a significant portion of its revenues come from the US market. Thus, the high geographic concentration of end-customers in the US market exposes the operations of the 24/7 Group and workflow of 24/7 India to cyclicity and macro-economic conditions prevalent in this region. Also, any loss of market share at the parent level may have a direct impact on the performance of 24/7 India.

**Company operates in an intensely competitive BPO industry** – Operating primarily in the BPO industry, the 24/7 Group faces intense competition from other international BPOs such as Genpact Global as well as Indian IT services companies such as Tata Consultancy Services Limited, Infosys Technologies Limited and Wipro Limited, and their BPO arms with strong technical and financial capabilities. Also, the revenues of 24/7 India remain vulnerable to competition from both India and other low-cost countries. The company faces competition from smaller outsourcing firms for its outsourcing and transaction services. As outsourcing is primarily driven by cost savings, the industry remains competitive with regards to the pricing of these services. This exposes the company to wage cost inflation and employee attrition that is inherent to the BPO industry in India.

### Liquidity position: Stretched

24/7 India's liquidity position continues to be stretched on account of high receivable cycle from its parent and no cushion in the form of undrawn bank lines, given that the bank limits have remained almost full utilised. The company generated healthy internal accruals in FY2022, which coupled with release of payments in the last quarter of the fiscal had resulted in a healthy

increase in unencumbered cash/bank balances of ~Rs. 130.1 crore as of March 31, 2022. However, given the continued stretched receivable cycle, the same has dipped to ~Rs. 40 crore as on September 30, 2022.

## Rating sensitivities

**Positive factors** – ICRA could upgrade the rating if the company demonstrates healthy internal accrual generation and material reduction in its working capital intensity leading to improved liquidity position.

**Negative factors** – ICRA could downgrade the ratings if the scale of operations declines considerably, if there is no improvement in the working capital intensity or if there is a significant cash outflow in the parent concern in the form of litigation expenses, resulting in weakening of the liquidity position on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Information Technology Services</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of 24/7 India.

## About the company

Incorporated in March 2000, 24/7 Customer Private Limited is a wholly owned subsidiary of [24]7.ai. inc., which was promoted by Mr. PV Kannan and Mr. Shanmugam Nagarajan. 24/7 USA is headquartered in Campbell, California (part of Silicon Valley) and provides cloud-based customer engagement solutions from its back-office units (BPO/KPO) in India and the Philippines and one each in Guatemala and Nicaragua. The company caters to several reputed multi-national companies in the fields of telecommunication, financial services, retail, technology, and travel industries. 24/7 India provides services through various interactive platforms such as IVR, chat and email as well as call support to the customers of 24/7 USA. The company has offices in Bangalore, Hyderabad and Shillong (recently opened) with an aggregate employee strength of ~6,000.

## Key financial indicators (audited)

24/7 Customer Private Limited	FY2021	FY2022
Operating income	524.5	574.5
PAT	73.7	90.2
OPBDIT/OI	20.2%	20.0%
PAT/OI	14.1%	15.7%
Total outside liabilities/Tangible net worth (times)	0.3	0.3
Total debt/OPBDIT (times)	1.1	1.3
Interest coverage (times)	72.0	19.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

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

## Any other information: None

## Rating history for past three years

Instrument	Type	Current rating (FY2023)				Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020	
				Nov 23, 2022	Nov 17, 2022	Aug 26, 2021	Aug 13, 2021	-	Mar 31, 2020	
1	Non fund based	Long term	17.0	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	[ICRA]BBB+ (Stable)
2	Short-term Fund based	Short term	150.0	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	-	-	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Non fund-based	Simple
Short -term – Fund-based	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: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term Non-Fund Based	NA	NA	NA	17.00	[ICRA]BBB(Stable)
NA	Short- Term Fund Based	NA	NA	NA	150.00	[ICRA]A3+

Source: Company

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**Annexure II: List of entities considered for consolidated analysis – Not Applicable**

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For more information, visit [www.icra.in](http://www.icra.in)

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