February 26, 2024

24/7 Customer Private Limited: Ratings reaffirmed

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	150.00	150.00	[ICRA]A3+; reaffirmed
Total	**167.00**	**167.00**	

**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 along with a diverse and reputed client base that ensures repeat business. Moreover, 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. While 24/7 India's revenue largely remained flat in FY2023, the company has already achieved revenues of ~Rs. 460 crore in 9M FY2024 and is expected to report modest growth for the entire fiscal, aided by higher outsourcing from the parent given its continued strategic importance to the Group.

ICRA has also noted the developments on the litigation between 24/7 USA and LivePerson[1], Inc., for which the former had already created a contingency provision of $35 million. As a part of the settlement, the company has to pay ~$33-35 million to LivePerson. Quarterly payouts of ~$3 million towards the same have already started from FY2023 and the last payout is expected in FY2025. Nonetheless, 24/7 USA's available surplus (~$53 million as of December 2023) and accruals are expected to be sufficient to fund balance payouts.

In June 2023, 24/7 India entered a sale and lease-back transaction with an investment firm for part of its Bengaluru office building. The proceeds (~Rs. 350 crore) from the same were partly utilised to repay its entire outstanding short-term debt, and since then the company has not utilised its working capital bank limits. However, it also paid a sizeable dividend of ~$50 million to the parent entity in September 2023, partly from balance proceeds and partly from internal accruals, to maintain incremental liquidity at the parent level (given the ongoing settlement payouts for a past litigation). However, despite the same, 24/7 India's liquidity profile has remained adequate supported by steady internal accrual generation during the fiscal as well as buffer in the form of undrawn bank lines. ICRA also understands that the company plans to enter a similar sale and lease-back transaction for the balance floors of its Bengaluru office building in the near future. Any sizeable dividend payout to the parent following the same and its impact on 24/7 India's liquidity profile will remain a key monitorable.

The ratings, however, remain constrained by the company's high revenue concentration in the US market, which exposes its operations to cyclicality and macro-economic uncertainties in the region. Also, the company is directly impacted by the performance of the parent on account of its total workflow dependency. The ratings also factor in the intense competition the Group faces from companies in India as well as other low-cost countries, wage cost inflation and employee attrition. Further, since its entire revenues are derived in foreign currency, 24/7 India is exposed to forex risk; although the same is mitigated to an extent by the hedging practices followed by the company. Also, the company's working capital intensity continued to remain

[1] *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.*

high in 9M FY2024 on account of the stretched receivable cycle from the parent. However, the parent remains committed to gradually reducing the receivable cycle over the near to medium term.

The Stable outlook on the long-term rating 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.

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 11,000 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 by 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 off-shore 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 company 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. Thus, 24/7 India derives its entire revenue from 24/7 USA. The services are charged at 'cost + 17% margin' as per the latest transfer pricing agreement between the company and tax authorities in India. This is valid till FY2024, following which it would be renewed. The cost includes foreign exchange loss, except income tax, depreciation routed through other comprehensive income for BPO services, software development and support services. This in turn ensures relatively stable operating margins, thereby insulating the company from any volatility arising from cost pressures.

Credit challenges

High working capital intensity owing to increase in receivables from parent – The company's working capital intensity has remained high in recent years on account of a stretched receivable cycle from the parent, resulting in almost full utilisation of its working capital limits availed from the bank till June 2023. However, after part-sale of its Bengaluru office, 24/7 India has repaid its entire external debt and the limits have remained unutilised since then. Nonetheless, its working capital intensity continued to remain high as well, on account of a stretched receivable cycle (8-9 months) from the parent, who currently remains committed to gradually reducing the receivable cycle over the near to medium term.

Total dependence on workflow from 24/7 USA resulting in high geographical concentration and exposure to forex risk – 24/7 India is involved in the business of providing 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 (MNCs) 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 the workflow of 24/7 India to cyclicality and macro-economic conditions prevalent in this region. The impact of the same was seen in FY2023, when the revenues were impacted by macro-economic headwinds in its key market. Thus, any loss of market share at the parent level may have a direct impact on the performance of 24/7 India. Further, since the entire revenues are derived in foreign currency, it is exposed to forex risk, nonetheless, the same is mitigated to an extent by the hedging practices followed by the company.

Company operates in intensely competitive BPO industry – Operating 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 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 such services. This exposes the company to wage cost inflation and employee attrition that is inherent to the BPO industry in India.

Liquidity position: Adequate

The company's liquidity position is adequate, supported by cash balance of ~Rs. 40 crore (as on December 31, 2023) and significant buffer in the form of undrawn bank lines of Rs. 150 crore. However, the bank lines can be utilised in the future in case of further increase in receivables from the parent entity. Further, the company is debt-free (excluding lease liabilities) and does not have any major capex plans, which provide some comfort.

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 considerable decline in scale of operations and accruals, further stretch in working capital intensity and/or any sizeable upstreaming of funds to the parent entity, result in weakening of the liquidity position and credit metrics on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for entities in the IT – Software and Services industry
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, USA, which was promoted by Mr. PV Kannan and Mr. Shanmugam Nagarajan in 2000. 24/7 USA is headquartered in Campbell, California (a part of Silicon Valley), and provides cloud-based customer engagement solutions from its seven back-office units (BPO/KPO), three of which are in India (Bengaluru, Hyderabad and Shillong), two in the Philippines, and one each in Guatemala and Nicaragua. The company caters to several reputed MNCs in the telecom, 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 provides its entire services to 24/7 USA from Bengaluru, Hyderabad and Shillong with an aggregate employee strength of ~6,000.

Key financial indicators (audited)

24/7 Customer Private Limited – Standalone	FY2022	FY2023	9M FY2024*
Operating income	585.7	611.2	460.4
PAT	90.2	92.5	147.1
OPBDIT/OI	21.6%	22.0%	21.0%
PAT/OI	15.4%	15.1%	31.9%
Total outside liabilities/Tangible net worth (times)	0.3	0.3	0.4
Total debt/OPBDIT (times)	1.2	1.3	1.2
Interest coverage (times)	21.5	7.9	8.2

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Un-Audited abridged financials; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021
					Feb 26, 2024	Nov 23, 2022	Nov 17, 2022	Aug 26, 2021	Aug 13, 2021	-
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+	[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

Please click here to view details of lender-wise facilities rated by ICRA

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

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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