

October 09, 2024

Sagility India Limited: Ratings upgraded to [ICRA]BBB (Stable)/[ICRA]A3+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term – Fund-based limits - Others	300.00	300.00	[ICRA]BBB (Stable)/[ICRA]A3+; upgraded from [ICRA]BBB-(Stable)/[ICRA]A3
Total	300.00	300.00	

*Instrument details are provided in Annexure-I

Rationale

While arriving at the ratings of Sagility India Limited (SIL), ICRA has considered the consolidated credit profiles of SIL and its parent, Sagility B.V., which holds 100% stake in SIL.

The ratings upgrade factors in the strengthening of SIL's financial risk profile, as marked by steady revenue growth, healthy operating profitability and improved internal accrual generation. The company reported a healthy YoY revenue growth of 12.7% in FY2024 and ~10% in Q1 FY2025, supported by robust demand and diverse service offerings across the healthcare value chain. This, coupled with its global delivery footprint with presence in India, the Philippines, USA, Jamaica, and Colombia, and established position in the business process management (BPM) industry for the US healthcare market, led to sustenance of healthy operating profit margins (OPM) relative to industry peers. The ratings also derive comfort from the reputed client base of SIL which includes the top healthcare insurance companies of the US market, among other Fortune 500 companies with whom the company shares long relationships. Moreover, the significant size of the US healthcare market, along with its highly regulated nature, act as entry barriers for any new player, thus providing ample growth opportunities for the company. Additionally, the ratings factor in the financial flexibility arising from its strong sponsor, EQT Private Capital Asia (EQT).

The ratings are, however, constrained by client and sectoral concentration risks as its top three customers generate ~65% of its revenues, which come entirely from the healthcare sector. However, the reputed profile of its clients and strong relationships with the top three customers mitigate the risks to an extent. The profitability remains exposed to wage-cost inflation and high attrition rates prevalent in the BPM services industry. Also, given its vast geographical presence with revenues in US dollar and costs in various currencies, it is exposed to fluctuations in foreign exchange (forex) rates; however, the risk is mitigated to an extent owing to a selective hedging policy.

The leverage levels, at the parent level, remain high on account of the debt-funded acquisition of this business from Hinduja Global Solutions (HGS), resulting in moderate debt coverage metrics on a consolidated basis for SIL and its parent. However, ICRA expects some improvement in the same on the back of scheduled repayment of the debt over the next three fiscals. This, along with steady cash accruals and no likely increase in external debt, are expected to improve the company's overall credit profile.

The Stable outlook on the long-term rating reflects ICRA's opinion that SIL will maintain its credit profile, supported by its established business profile, strong client base, and healthy accrual generation.

Key rating drivers and their description

Credit strengths

Established track record of serving the US healthcare sector – SIL has an established track record of providing BPM services to the healthcare sector in the US, serving both the payers (healthcare insurance companies) and the providers (hospitals/

laboratories/durable medical equipment manufacturers, etc.). The company's services are diversified across the value chain of the payer life cycle and provider network, which include voice work, member enrolment, claim processing, analytics, clinical, revenue management, population health and payment integrity, among others. In January 2022, the business was acquired from HGS by EQT through partial debt funding.

Reputed customer base – The company has a reputed clientele in the health insurance sector, including leading health insurance companies in the US. SIL serves to top US-based healthcare insurance firms, among other Fortune 500 companies, with some of whom it shares more than decade-long relationships. This led to recurring revenues and increasing market share over the years.

Global delivery footprint helps drive steady revenue growth and healthy operating profitability – SIL has offshore delivery centres in India, the Philippines, Jamaica, and Colombia and an onshore presence in the US, serviced by ~35,000 employees. Its global delivery presence has helped to tap into a wider talent pool, providing timely service to clients, leading to steady revenue growth and improving profitability owing to lower wage costs in these countries. The same is reflected in OPM in the range of 20-25% in recent fiscals.

Credit challenges

Client and sectoral concentration risks – SIL is exposed to moderate client concentration risk as its top three customers generate ~65% to its overall revenues. However, the reputed profile of its clients and strong relationships with the top three customers mitigate the risk to an extent. Moreover, while it generates 100% of revenue from the healthcare sector, the significant size of the US healthcare market along with its highly regulated nature act as entry barriers for any new player, thus providing ample growth opportunities for the company.

Exposure to high attrition inherent in BPM industry – Given that the company operates in the BPM services industry, which is characterised by continual wage increases and high attrition rates, its profitability remains exposed to fluctuations in hiring/training costs for its employees. ICRA, however, notes that the company's annualised attrition at the India level, accounting for ~40% of its employee base, moderated to 25.3% in FY2024 from ~35% in the past.

Liquidity position: Adequate

SIL's liquidity is adequate, supported by free (unencumbered) cash and liquid investments of Rs. 376 crore and unutilised working capital limits of Rs. 263 crore in India as of June 30, 2024. Further, SIL has scheduled debt repayment of Rs. 250-500 crore and moderate capex plans of ~Rs. 200 crore per annum in FY2025 and FY2026, which are to be adequately funded from internal accrual generation.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings, if SIL demonstrates healthy growth in its revenues and accruals, leading to improvement in the leverage levels, while maintaining adequate liquidity on a sustained basis.

Negative factors – Pressure on the ratings could arise, if there is a considerable decline in revenues and internal accruals, and/or any sizeable debt-funded acquisition, results in deterioration in its debt coverage metrics and liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology IT – Software & Services
Parent/Group support	Not Applicable
Consolidation/Standalone	Consolidated. As of March 31, 2024, SIL had 13 subsidiaries that are listed in Annexure-II.

About the company

SIL is a technology enabled, pure play BPM service provider in the healthcare domain serving the respective US market. The company was incorporated in 2021, while its business began effectively from January 6, 2022, when it was acquired from HGS at a purchase consideration of \$1.2 billion by EQT (European investment firm). The company offers diverse services across the healthcare value chain for payers and providers which include clinical, case management, member engagement, payment integrity, claims cost containment, revenue cycle management and analytics, among others. Its customer base includes reputed insurance players, hospitals and laboratories/durable medical equipment manufacturers of the US market. It delivers these services through five global service delivery locations in India, the Philippines, the U.S., Jamaica and Colombia. SIL has also filed the draft red herring prospectus (DRHP) in June 2024 for its planned initial public offering (IPO) to raise funds through a secondary issue. The funds are likely to be utilised by its sponsor to reduce the debt at its level. ICRA has also taken note of the ongoing litigation in one of SIL's subsidiaries. While any losses arising out of the litigation are expected to be indemnified by the erstwhile promoter (HGS), adverse developments in this matter shall remain a monitorable.

Key financial indicators (audited)

SIL – Consolidated	FY2023	FY2024
Operating income	4,218.4	4,753.6
PAT	143.6	228.3
OPBDIT/OI	24.6%	22.8%
PAT/OI	3.4%	4.8%
Total outside liabilities/Tangible net worth (times)	0.7	0.6
Total debt/OPBDIT (times)	2.8	2.3
Interest coverage (times)	4.8	5.9

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current (FY2025)			Chronology of rating history for the past 3 years							
			FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund based – Others	Long-Term/Short-Term	300.00	Oct 9, 2024	[ICRA]BBB (Stable)/ [ICRA]A3+	Aug 14, 2023	[ICRA]BBB- (Stable)/ [ICRA]A3	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short-term- Fund Based Limits – Others	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	Fund based – Others	NA	NA	NA	300.00	[ICRA]BBB (Stable)/ [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

Company Name	Ownership	Consolidation Approach
Sagility LLC (formerly known as HGS Healthcare, LLC)	100%	Full Consolidation
Sagility Provider Solutions LLC (formerly known as HGS EBOS, LLC)	100%	Full Consolidation
Sagility Technologies LLC (formerly known as HGS Colibrum, LLC)	100%	Full Consolidation
Sagility Care Management LLC (formerly known as HGS Axispoint Health, LLC)	100%	Full Consolidation
Sagility Operations Inc. (formerly known as HGS Healthcare Operations Inc.)	100%	Full Consolidation
Sagility (Jamaica) Limited (formerly known as Betaine (Jamaica) Limited)	100%	Full Consolidation
Sagility (US) Inc. (formerly known as Betaine (US) BidCo Inc.)	100%	Full Consolidation
Sagility (US) Holdings Inc. (formerly Betaine (US) Holdings Inc)	100%	Full Consolidation
Sagility Philippines B.V. – Philippine Branch (formerly known as Betaine (PH) B.V. – Philippine Branch)	100%	Full Consolidation
Sagility Philippines B.V. (formerly known as Betaine (PH) B.V.)	100%	Full Consolidation
Sagility (Colombia) SAS w.e.f 28 April 2022	100%	Full Consolidation
Sagility Payment Integrity Solutions LLC (formerly known as Devlin Consulting Inc.) w.e.f 19 April 2023	100%	Full Consolidation
Birch Technologies Inc w.e.f 22 March 2024	100%	Full Consolidation

Source: Annual Report FY2024

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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.

For more information, visit www.icra.in

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Branches



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