

24/7 Customer Private Limited

September 04, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term Non-Fund Based	90.00	90.00	[ICRA]A- (Stable), reaffirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating at [ICRA]A- (pronounced ICRA A minus) for the Rs. 90.00-crore¹ non-fund based facilities of 24/7 Customer Private Limited (24/7 India)². The outlook on the long-term rating is Stable.

Rationale

The rating reaffirmation continues to factor in the established track record of the parent company, 24/7 Customer Inc. (24/7 USA), in the business process outsourcing (BPO) segment, and the diversified client base of the 24/7 Group along with long-term association with reputed customers. ICRA notes the healthy revenue and margin growth of 24/7 India in FY2018, supported by higher volumes of services rendered and the positive revision in the margins agreed under advanced pricing arrangement with 24/7 Customer Philippines Inc (24/7 CPI). The rating also considers the company's strong financial risk profile, characterised by debt-free position with significant customer advances supporting the overall liquidity position as evidenced by the cash and bank balances of Rs. 108.85 crore as on March 31, 2018. However, any adverse changes in the payment arrangement from 24/7 CPI could affect the cash flows of the company, going forward. The rating is constrained by the significant dependence of 24/7 India on the performance of and workflow from 24/7 CPI as it is the sole customer for 24/7 India. Besides, the revenues are concentrated in the US markets, exposing the operations to cyclical and macro-economic conditions prevalent in the region. The rating also remains constrained by the intense competition for the Group from companies in India as well as other low-cost countries, wage inflation, employee attrition and fluctuation in the foreign currency. ICRA also notes the ongoing dispute with tax authorities regarding certain tax liabilities, which might result in additional cash outflow.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that 24/7 India's revenue will continue to register healthy growth over the medium term, supported by regular flow and expansion in the business from the end customers and 24/7 CPI. The outlook may be revised to Positive in case of sustained healthy growth in revenues and margins while maintaining a healthy liquidity position. The outlook may be revised to Negative if cash accrual is lower than expected, or if adverse changes in payment arrangement with 24/7 CPI or any negative developments in the on-going litigation with the tax authorities results in higher-than-expected cash outflow, impacting the liquidity.

Key rating drivers

Credit strengths

Strong parentage with established track record of 24/7 USA and the company in the BPO industry: 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 an established clientele that are supported through traditional voice services and innovative web chat, mobile and self-service solutions. The Group has been making conscious efforts to move from voice-based services

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

to technology-based services like chat, email, IVR, virtual assistance etc, leading to diversification in service offerings. It operates six contact centres around the world and has grown via organic as well as inorganic routes in the past.

Diversified client base of 24/7 Group and long-term association with reputed customers: The 24/7 Group has a well-established and reputed customer base across industries like telecom, banking, financial services, retail, hospitality, travel etc, with telecom companies being the major revenue driver over the years.

Steady increase in operating income of 24/7 India with healthy operating profitability, supported by fixed-transfer pricing arrangement with 24/7 CPI: The revenues of 24/7 India have witnessed a healthy growth with increase in volume of services rendered as well as due to the impact of increase in the margins under the advance pricing arrangement (cost plus arrangement covers all the operating expenses). With the recent upward revision in the fixed-margin agreed with 24/7 CPI, the revenues and margins of 24/7 India are expected to witness a healthy growth, going forward.

Strong financial profile characterised by debt-free position of the company, healthy liquidity position: 24/7 India is a debt-free entity. It has non-fund based limits, which include Letter of Credit, Bank Guarantees and Loan Equivalent Risk (LER) limits for hedging their forex exposure. The company has received significant customer advances supporting the overall liquidity position, as evidenced by the cash and bank balances of Rs. 108.85 crore as on March 31, 2018.

Credit challenges

Significant dependence of 24/7 India's revenues on workflow from international clients through 24/7 CPI, exposing the operations to cyclical and macro-economic conditions prevalent in those regions: 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 its fellow subsidiary, 24/7 CPI, for business as it provides solutions to the customers of this entity. 24/7 India bills 24/7 CPI on a monthly basis based on a fixed-transfer pricing mechanism at a cost plus fixed margin, irrespective of the terms of 24/7 CPI with the end customers across the globe. The concentration of the end customers in the US markets exposes the operations of the 24/7 Group and workflow to 24/7 India, to cyclical and macro-economic conditions prevalent in the end-customer markets.

Challenges pertaining to wage inflation and employee attrition in an intensely competitive BPO industry: The BPO industry is labour intensive in nature and is characterised by significantly high employee attrition, due to which the company has to regularly incur expenses for employee engagement and recruitment. The overall employee strength of 24/7 India stood at ~6,900 employees at present, while the Group overall has ~15,000 employees.

Vulnerability of revenues and margins to competitive pressures and foreign exchange fluctuations: The revenues and margins of 24/7 India remain vulnerable to competitive pressure from both within India and other low-cost countries. Moreover, the profitability of 24/7 India is exposed to adverse foreign exchange movement as a major portion of the company's revenues are USD denominated, whereas the expenses are incurred in the Indian rupee. The company undertakes hedging mechanism, which provides comfort to a major extent.

Uncertainty regarding cash outflow for the ongoing dispute with tax authorities regarding certain tax liabilities- Over the past few years, the company has received tax demands from the income tax authorities aggregating to ~Rs. 87.05 crore from the transfer pricing adjustments, against which the company has paid Rs. 27.59 crore under protest. ICRA notes that the ongoing dispute with tax authorities regarding these tax liabilities might result in additional cash outflow.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Entities in the Information Technology \(Services\) Industry](#)

About the company:

Incorporated in March, 2000, 24/7 Customer Private Limited (24/7 India) is a subsidiary of 24/7 Customer Inc., USA (24/7 USA). The entity 24/7 USA, incorporated in April, 2000, is promoted by Mr. P V Kannan and Mr. Shanmugam Nagarajan. In 2003, 24/7 USA was privately funded in part by Mr. Michael Moritz and his venture capital firm, Sequoia Capital. This company is headquartered in Campbell, California and provides cloud-based customer engagement solutions through its six back-office units (BPO/KPO), two of which are located in India (Bangalore and Hyderabad), two in Philippines and one each in Guatemala and Nicaragua. The firm caters to several reputed MNCs 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 Customer Philippines Inc (24/7 CPI). The company is a 100% export-oriented unit (EOU) operating from Bangalore and Hyderabad with an aggregate employee strength of ~6,900.

In FY2018, on a provisional basis, the company reported a net profit of Rs. 107.3 crore on an operating income of Rs. 635.7 crore compared to a net profit of Rs. 63.5 crore on an operating income of Rs. 521.8 crore in FY2017.

Key financial indicators

	FY2017	FY2018*
Operating Income (Rs. Crore)	521.8	635.7
PAT (Rs. Crore)	63.5	107.3
OPBDIT/ OI (%)	20.1%	28.5
RoCE (%)	75.8%	46.1%
Total Debt/ TNW (times)	-	-
Total Debt/ OPBDIT (times)	-	-
Interest coverage (times)	132.4	30.5

*Provisional financials for FY2018

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2019)			Chronology of Rating History for the past 3 years		
		Amount Rated (Rs. crore)	Amount Outstanding* (Rs Crore)	Date & Rating Sep 2018	Date & Rating in FY2018 Jun 2017	Date & Rating in FY2017	Date & Rating in FY2016
1 Non- Fund Based	Long Term	90.00		[ICRA]A-(Stable)	[ICRA]A-(Stable)		

*as on March 31, 2018

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure I: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Non Fund-based	-	-	-	90.0	[ICRA]A-(Stable)

Source: 24/7 India

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