April 06, 2020

Conneqt Business Solutions Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	55.00	55.00	[ICRA]A+ (Stable); Reaffirmed
Fund-based/Non-fund Based Limits	35.00	35.00	[ICRA]A+ (Stable) / [ICRA]A1+; Reaffirmed
Non-fund Based Limits	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 ratings factor in Conneqt Business Solutions Limited's (CBSL) strong parentage and the associated operational synergies with Quess Corp Limited (QCL; rated [ICRA]AA(Stable)/[ICRA]A1+), which holds a 70% stake in the company. Established in 2004, CBSL has a proven operational track record in the business process outsourcing (BPO) industry. CBSL's operations can be broadly classified into the customer lifecycle management division and the collections and business process management division. Under customer lifecycle management, the company provides voice-based business process services including inbound and outbound interactions, email interactions and chats and it caters to reputed clients like Airtel, Tata Sky Limited and Tata Motors Limited (rated [ICRA]AA-(Negative)/[ICRA]A1+) among others. CBSL derives close to 40% of its standalone revenue from the BFSI division (including collections business) and business under this division has increased significantly over the years with YoY growth of 80.5% in FY2018 and 35.4% in FY2019. The company provides end-to-end voice plus fulfilment support across the BFSI value chain and caters to reputed clients like HDFC Bank, Axis Bank (rated [ICRA]AAA (Stable)/[ICRA]A1+) and IDFC First among others. On the back of a healthy growth in the BFSI division and the addition of new clients like Paytm, Swiggy, etc, in the customer lifecycle management division, the company recorded operating revenue of Rs. 854.2 crore in FY2019 and Rs. 730.4 crore in 9M FY2020, representing growth of 14% on a standalone basis. The operating margins increased to 8.7% in FY2019 and further to 9.9% in 9M FY2020 (adjusted for AS-116 rentals) from 6.6% in FY2018, on a standalone basis, owing to the better absorption of overheads and economies of scale.

CBSL acquired a 73.39% stake in Allsec Technologies Limited (ATL) for a consideration of ~Rs. 330 crore in FY2020. ATL provides customer lifecycle management and human resource operation services, further diversifying CBSL's operational profile. The acquisition was funded through an equity infusion of ~Rs. 193 crore and a subscription of compulsory convertible debentures (CCDs) worth Rs. 147 crore by CBSL's parent company, QCL. ATL recorded a top line of Rs. 261.2 crore in FY2019 and Rs. 223.3 crore in 9M FY2020. Its operating margins increased to 20.4% in 9M FY2020 (adjusted for AS-116 rentals) from 15.2% in FY2019 owing to the better absorption of overheads. Therefore, ATL's acquisition is expected to be margin-accretive at the consolidated level for CBSL. The ratings further take into consideration CBSL's strong financial risk profile, characterised by healthy revenue growth, improving operating margins and robust debt coverage metrics.

QCL operates in various industries through its subsidiaries and CBSL 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 CBSL in its financials and provides need-based support.

The ratings, however, take into consideration the high customer concentration, with the Tata Group companies cumulatively contributing 46.6% to CBSL's standalone revenues in H1 FY2020. Although CBSL has been able to reduce the concentration with the addition of new clients over the last two-three years, the same remains high. The ratings also take into account the company's exposure to other risks that are typical of the ITeS-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 longer receivables cycle (as the company 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 CBSL deriving more than 95% of its standalone revenue from India. The same is expected to reduce with the acquisition of the majority stake in ATL, which derives a significant portion of its revenue from international markets. Further, ATL has delivery centres in USA and the Philippines and CBSL is expected to leverage the same to venture into international markets. The disruptions caused by the COVID-19 related outbreak, are expected to affect the company's margins negatively if the lockdown is extended.

The Stable outlook on the rating reflects ICRA's opinion that CBSL will continue to benefit from its long track record in the segment, diverse operational profile and healthy financial risk profile.

Key rating drivers and their description

Credit strengths

Established track record in BPO segment – CBSL has a proven operational track record in 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, CBSL has been able to expand its business with the addition of new reputed clients every year.

Diversified operational profile and sectoral exposure – CBSL, through its customer lifecycle management 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, the company has entered the human resource operations segment as well.

Strong parentage – QCL (rated [ICRA]AA(Stable)/[ICRA]A1+), which holds a 70% stake in the company, provides CBSL with cross-selling opportunity to the existing clients of QCL. This provides CBSL with incremental opportunity to diversify its client base and drive revenue growth. QCL increased its stake in the company to 70% from 51% and subscribed to CCDs worth Rs. 147 crore in FY2020 to fund the acquisition of ATL, leading to the diversification of CBSL's client base and expansion of its operating profile.

Strong financial risk profile – CBSL's financial risk profile remains strong with a healthy capital structure characterised by minimal gearing and robust coverage indicators as on September 30, 2019.

Credit challenges

High client concentration risk with preponderance of Tata Group companies in the client portfolio – Tata Group companies, namely Tata Sky Limited, Tata Motors Limited and Tata Capital Financial Services Limited (rated [ICRA]AAA/[ICRA]A1+), are some of the major clients of CBSL. The Tata Group cumulatively contributed 46.6% to the company's standalone revenues in H1 FY2020, exposing it to high client concentration risk. While the Tata Group companies' contribution was more than 65% in the past, CBSL 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 more than 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, CBSL is expected to leverage the same to venture into international markets.

Exposure to exogenous shocks – Any extension of the lockdown period or a stronger-than-expected impact of the outbreak on demand in the end-user industries is likely to have an adverse impact on the company's operational and financial profile.

Liquidity position: Adequate

CBSL's liquidity position is **adequate** with cash and liquid investments of Rs. 18.1 crore and an undrawn working capital facility of Rs. 55.0 crore as on December 31, 2019, on a standalone basis. CBSL is expected to incur capex of Rs. 20-30 crore per annum. Also, as per the current debt profile, the company has a small vehicle loan with an annual repayment of around Rs. 1.7 crore, both of which can be comfortably funded through internal accruals.

Rating sensitivities

Positive triggers – ICRA could upgrade CBSL's rating if the company demonstrates significant growth in its revenues and margins in addition to maintaining its strong debt coverage metrics on a sustainable basis.

Negative triggers – Pressure on CBSL'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, will lead to a review of the company's ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Parent Company: Quess Corp Limited The ratings factors 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 its operations in 2004-05 as E2E Serwiz Solutions Private Limited and rechristened itself to 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 caters mainly to clients in 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 CBSL as per a court order received in May 2015.

In November 2017, a 51% stake in CBSL 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 CBSL to 70% to fund the acquisition of ATL ([ICRA]BBB+(Stable)/[ICRA]A2 withdrawn), which operates in two business segments, namely human resources operations and customer lifecycle management.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	739.3	854.2
PAT (Rs. crore)	23.1	40.9
OPBDIT/OI (%)	6.6%	8.7%
RoCE (%)	17.1%	26.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	1.0
Total Debt/OPBDIT (times)	0.7	0.1
Interest Coverage (times)	7.6	13.1
DSCR	4.1	6.1

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019		FY2018	
					06-Apr-2020	-	29-Mar-2019	25-Mar-2019	18-Dec-2017	28-Nov-2017
1	Fund-based Limits	Long Term	55.0	NA	[ICRA]A+ (Stable)	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+& Placed on watch with developing implications
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+	[ICRA]A+& / [ICRA]A1+ &Placed on watch with developing implications
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+	[ICRA]A1+& Placed on watch with developing implications

Amount in Rs. crore

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-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+
NA	Commercial Paper*	NA	NA	NA	50.0	[ICRA]A1+

** Commercial paper carved out of existing working capital limits*
Source: Conneqt Business Solutions Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Allsec Technologies Limited	73.39%	Full Consolidation

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About ICRA Limited:

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