ICRA

July 19, 2021 Revised

Genpact India Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture Programme	4,800.00	2,200.00	[ICRA]AA-(Stable) reaffirmed
Total	**4,800.00**	**2,200.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating continues to factor in the synergies that Genpact India Private Limited (GIPL) derives as a part of the Genpact Limited (Genpact) Group, which is an established Information Technology (IT) consultancy and IT enabled Services (ITeS) provider with healthy execution track record. With revenues of $3.7 billion in CY2020, Genpact enjoys a healthy business position globally with a reputed client base and a high proportion of repeat business, strong execution capabilities and an experienced management team. Genpact has undertaken acquisitions over the years to strengthen its capabilities and diversify revenue streams. Genpact has diversified its service offerings across business verticals/service lines and long-term customer relationships, which lend stability to cash flows. GIPL derives a sizeable proportion of its revenues from the work offshored by Genpact to its delivery centres globally. In addition, the rating takes into consideration the strategic importance of GIPL for Genpact, given that around 50% of its global revenues are being serviced from India.

With healthy business generated by Genpact, GIPL has also been able to register steady revenue growth over the years, while maintaining healthy operating margins on cost-plus basis of offshoring work from Genpact. The company reported flat revenue growth in FY2021 and lower operating margin (estimated at 23.9% in FY2021 over 26.6% in FY2020) owing to adjustment in transfer pricing terms with Genpact UK (key contracting entity of GIPL). The financial risk profile remains comfortable with estimated gearing of around 0.6 time and healthy coverage indicators as reflected by estimated interest coverage of around 4.7x, Total debt/OPBDITA of around 2.1x and NCA/total Debt of 29% for FY2021 (estimated). With expectation of stable cash accruals, limited incremental capital investments and amortisation of debt, the credit profile is likely to remain healthy in the medium term.

The rating is constrained by the dependence of GIPL's revenues on workflow from Genpact as well as geographical dependence on the US and Europe. As a result, it remains susceptible to any adverse legislation in the US/European markets that may restrict the outsourcing to low-cost countries as well as visa tightening by the US authorities to some extent. Any reduction in business flow from Genpact may adversely impact the revenues and cash flows of GIPL, although the company remains the most prominent delivery centre for Genpact. ICRA notes the intense competition in the IT industry, especially the global landscape with larger peers and uncertainty from the evolving visa and immigration legislations in key developed markets that are challenges that the industry faces. GIPL has outstanding NCD of Rs. 2,200 crore as on June 20, 2021, issued to a Group company with scheduled annual repayments. However, there remains a prepayment option subject to necessary approvals for repatriation to the parent entity, which cannot be ruled out in future and can impact the liquidity position of GIPL. ICRA also notes the possibility of sizeable dividend pay-out, share buyback or acquisition/investment in Group entities, given the comfortable liquidity position and history of such events. In addition, the company has sizeable contingent liabilities, especially with respect to income tax-related matters. However, any adverse development on the same may lead to sizeable cash outflows and, thus, remains a monitorable.

The Stable outlook reflects ICRA's expectation that GIPL will continue to benefit as the key delivery centre of Genpact, healthy financial profile and adequate liquidity position.

Key rating drivers and their description

Credit strengths

Established position of Genpact in IT services industry – GIPL is a step-down subsidiary of Genpact, which is a BPO and ITeS provider with annual revenues of more than $3.7 billion (CY2020) and over 700 clients globally. Genpact's strong business position is marked by its global execution capabilities, experienced management team and strong client base. The Genpact Group has diversified service offerings across business verticals/service lines and long-term customer relationships. Genpact's revenue mix can be broadly categorised into three segments – banking capital markets and insurance (BCMI); consumer goods, retail life sciences and healthcare (CGRLH); and high-tech manufacturing and services (HMS). In CY2020, HMS generated 37% of revenue, followed by CGRLH (34%) and BCMI (29%). GE is Genpact's largest client, driving 12.4% of its revenue in CY2020.

Strategic importance of GIPL provides financial flexibility – GIPL has strategic importance to Genpact, since around 50% (CY2020) of its global revenues are serviced from India. While Genpact (including some of its subsidiaries) is the customer-facing entity for contract/mandate origination, marketing and business development, GIPL acts as the execution arm for the contracting entity. The Genpact Group subcontracts the assignments to various delivery centres across geographies, including GIPL, depending upon the assignment requirements and capabilities of the respective delivery centres. GIPL remains a key revenue and cashflow driver for the Genpact Group. GIPL derives financial flexibility as part of the Group.

Healthy financial profile – GIPL derives the majority share of outsourced work from Genpact and has achieved a healthy scale of operations over the years. It enjoyed healthy operating margins of around 24% in FY2021. The leverage profile is comfortable with estimated gearing of around 0.6 time as on March 31, 2021 with adequate coverage indicators as indicated by total debt/OPBDITA of 2.1x, interest coverage of 4.7x and NCA/total Debt of 29% for FY2021 (estimated). ICRA expect coverage metrics to improve over the medium term with scheduled repayment of NCD debt coupled with healthy cash accruals.

Credit challenges

Intense competition – Genpact remains vulnerable to slowdown in demand from end-user segments. In addition to demand moderation led by customer budget constraints and its bearing on revenue growth, the profitability of GIPL remains vulnerable to competitive pressures from other low-cost countries, along with wage inflation and employee attrition, which could alter its competitive positioning vis-à-vis other delivery centres of Genpact.

Significant geographical dependence on US and Europe – Genpact derives around 85% of its revenues from the US and European markets. Thus, the company's operations remain susceptible to any legislation, especially in the US/Europe, which may restrict outsourcing to low-cost countries like India.

Possibility of cash outflow – Since the company is generating adequate cash flows and the liquidity profile is also comfortable, there remains a possibility of prepayment of the NCDs to the parent or upstreaming of funds through sizeable dividend pay-out or share buyback. In addition, any adverse development with respect to the sizeable contingent liabilities in form of disputed tax liabilities can result in significant cash outflow.

Liquidity position: Adequate

The availability of sizeable cash and cash equivalent of ~Rs. 662 crore as on March 31, 2021, coupled with limited capex plans and healthy cash flow generation, translates into an **adequate** liquidity position. However, the repatriation of this cash in the form of prepayment, dividend pay-out or share buyback can impact the cash position and, thus, the liquidity position of the company.

Rating sensitivities

Positive factors – The ratings can be upgraded if the company continues to demonstrate healthy growth in its operating income while maintaining the profit margins, which along with improvement in the receivables cycle improves the liquidity position and results in an improvement in total debt/OPBDITA to less than 1x on a sustained basis.

Negative factors – Negative pressure on GIPL's ratings may arise, if there is a significant reduction in the company's revenues and profit margins. The ratings may also be downgraded if debt-funded acquisitions weaken the debt coverage indicators, or if a sizeable repatriation of funds to the parent impacts GIPL's liquidity position. Further, weakening of GIPL's linkages with the parent company or moderation in credit profile of the parent entity can trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Information Technology (IT) Services Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of GIPL.

About the company

GIPL is the Indian delivery centre for Genpact, which is a BPO and ITeS provider based out of the US, with more than 700 clients globally. Genpact has an employee base of ~96,500 employees with a global network of delivery centres in more than 20 countries. The Genpact Group started as a business unit within General Electric Company (GE), to offer business process services to GE's businesses. In January 2005, the Genpact Group became an independent company, which enabled it to offer its services to clients other than GE. In August 2007, Genpact Ltd. was listed in the New York Stock Exchange. It is now an established IT service provider to a large number of Fortune 500 companies. For FY2021 (estimated), GIPL's revenue is expected to remain flat at FY2020 levels.

Key financial indicators (audited)

GIPL Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	7221.9	7748.1
PAT (Rs. crore)	243.0	316.1
OPBDIT/OI (%)	26.7%	26.6%
PAT/OI (%)	3.4%	4.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	1.0
Total Debt/OPBDIT (times)	2.1	2.2
Interest Coverage (times)	4.2	4.2

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

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of June 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					July 19, 2021	July 30,2020	April 15,2019	April 6,2018
1	NCD	Long-term	2200	2200	**[ICRA]AA-(Stable)**	**[ICRA]AA-(Stable)**	**[ICRA]AA-(Stable)**	**[ICRA]AA-(Stable)**

&= Under watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD	Very 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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
INE330N08011	NCD	Mar 2019	9.5%	April 2023	2200.0	[ICRA]AA-(Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	GIPL Ownership	Consolidation Approach
Endeavour Software Technologies Private limited	100.00%	Full Consolidation
Genpact Investment Luxembourg s.a.r.l	100.00%	Full Consolidation
Axis Risk Consulting services private limited	100.00%	Full Consolidation
Genpact India Services Private Limited	100.00%	Full Consolidation

Source: *GIPL annual report FY2020*

Corrigendum

Document dated July 19, 2021 has been corrected with revision as detailed below:

Revisions: - Page 3- Total Outside Liabilities/ Tangible Net Worth (times) for FY 2019 and FY2020 in the "Key Financial Indicator" have been corrected.

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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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