

August 14, 2023 ^(Revised)

Sagility India Private Limited: [ICRA]BBB- (Stable)/[ICRA]A3; assigned

Summary of rating action

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

*Instrument details are provided in Annexure-I

Rationale

While arriving at the ratings of Sagility India Private Limited (SIPL), ICRA has considered the consolidated analysis of Betaine BV (referred to as the Sagility Group or the Group), which holds 100% stake in SIPL. There is a high degree of operational, financial, and managerial linkages between Betaine BV, SIPL, and other Group entities. This has been the basis for ICRA taking a consolidated view.

The assigned ratings factors in the Group's established position in the business process management (BPM) industry for the US healthcare market and the established client base of reputed companies. The Group's clientele includes top insurance companies in the US, of which many are Fortune 500 companies. The Group's operating profitability remains healthy, owing to diversified service offerings across the value chain and a global delivery presence with centres in India, the Philippines, USA, Jamaica, and Colombia. Moreover, the significant size of the US healthcare market, along with its highly regulated nature, acts as an entry barrier for any new player, thus providing ample growth opportunities for the Group. The rating also factors in the financial flexibility arising from its strong parentage, with Baring Private Equity Asia - EQT AB (BPEA-EQT) holding a 100% stake in the Group.

The ratings are, however, constrained by the high leverage following the debt-funded acquisition of this business from Hinduja Global Solutions (HGS), leading to moderate coverage metrics with annualised TD/ OPBITDA¹ of 7.2x as on December 31,2022² and annualised TD/OPBITDA of 6.1x as on June 30,2023³. Nonetheless, ICRA expects some improvement over the medium term, supported by healthy accrual generation. Further, ICRA notes the Group's plans to grow inorganically through small acquisitions in the short to medium term. Any significant debt-funded acquisition can impact the Group's financial risk profile and will be evaluated on a case-to-case basis. The Group is exposed to moderate client and sectoral concentration risk 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 a strong track record of relationships with the top three customers mitigates the risk to an extent. The profitability remains exposed to continual wage increases and high attrition rates prevalent in the BPM services industry. ICRA notes the company's attrition is lower than other players in the industry. Also, given its vast geographical presence with revenues in USD 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 Stable outlook on the long-term rating reflects ICRA's opinion that the Group will maintain its credit profile supported by its established business profile, strong client base, and healthy accrual generation.

¹ TD: Total Debt including lease liability and OPBITDA – Operating Profit before interest, taxes, depreciation and amortisation.

² April to December 2022

³ As per unaudited numbers shared by the company and for the period January–June 2023

Key rating drivers and their description

Credit strengths

Established track record of serving the US healthcare sector – The Group provides BPM services to the healthcare segment in the US, serving the payers (insurance companies) and the providers (hospitals/ laboratories/ durable medical equipment manufacturers). The Group has an established track record of serving the top health insurance companies in the US. Till December 2021, the same business was under HGS and was acquired by BPEA in January 2022. The Group's services are diversified across the value chain of the payer life cycle, which include voice work, member enrolment, claim processing, analytics, clinical, Provider network operations, population health and payment integrity, among others.

Reputed customer base – The company enjoys a reputed clientele in the health insurance sector, including leading health insurance companies in the US. It enjoys more than a decade-long relationships with some of its key clients, leading to recurring revenues and increasing market share over the years.

Global delivery footprint helps drive steady revenue growth and healthy operating profitability – The Group has offshore delivery centres in India, the Philippines, Jamaica, and Colombia and an onshore presence in the US, serviced by ~32,000 employees. Its global delivery presence has helped the Group 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.

Credit challenges

Moderate coverage metrics – The Group's coverage metrics remain moderate, with annualized TD/ OPBITDA of 7.2x as on December 31, 2022, and annualised TD/OPBITDA of 6.1x as on June 30, 2023, owing to the high debt-funded (\$755 million) acquisition of the business from HGS, with the balance funded by equity from BPEA-EQT. The total purchase consideration of the business was \$1.2 billion. ICRA expects the improvement in accrual generation in the near to medium term to improve the coverage metrics to an extent. However, the Group will be required to refinance the debt repayments over October 2025 to October 2027, exposing it to refinancing risk. However, comfort is drawn from the financial flexibility arising from the strong parentage of BPEA-EQT, which mitigates this risk to an extent.

Client and sectoral concentration risks – The Group is exposed to moderate client concentration risk as its top three customers generate ~65% to its revenues. However, the reputed profile of its clients and a strong track record of relationships with the top three customers mitigates the risk to an extent. Moreover, while the Group generates its entire revenues 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 Group.

Exposure to high attrition inherent in the 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 ~45% of its employee base, was ~34.7% in CY2022, which is lower than other players in the industry.

Liquidity Position: Adequate

The Group's liquidity is adequate supported by expected healthy cash flow generation of \$40-45 million in CY2023 and free (unencumbered) cash and liquid investments of \$74.3 million as on June 30, 2023. The Group does not have any scheduled debt repayment in CY2023 and CY2024, with repayments starting from October 2025. The repayments are expected to be refinanced with support from the financial flexibility of BPEA. The Group had unutilised sanctioned WC limits of Rs. 223 crore (\$27 million) in India as on July 31, 2023.

Rating Sensitivities

Positive factors – ICRA could upgrade the rating if the Group demonstrates healthy growth in its revenues and accruals, leading to improvement in the debt coverage metrics, while maintaining adequate liquidity on a sustained basis.

Negative factors – Pressure on the rating could arise if there is a considerable decline in revenues and internal accruals and/or any sizeable debt-funded acquisition, leading to a deterioration in its debt coverage metrics and liquidity position. Specific credit metrics that could lead to a rating downgrade includes DSCR⁴ below 1.4x at the Group level.

Analytical Approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for IT and BPO Services Rating Approach- Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating of SIPL, ICRA has considered consolidated analysis of Betaine BV, which holds 100% stake in SIPL. There is a high degree of operational, financial, and managerial linkages between Betaine BV, SIPL and other Group entities. This has been the basis for ICRA taking a consolidated view.

About the company

The Sagility Group is a BPM service provider in the healthcare domain serving the US healthcare market. The Group was incorporated in 2021, while its business began effectively from January 6, 2022. The Group had acquired the business from HGS at a purchase consideration of \$1.2 billion. The Group helps to optimise the member/patient experience through service offerings for clinical, case management, member engagement, provider solutions, payment integrity, claims cost containment, and analytics. Its customer base includes insurance players, hospitals, laboratories/ durable medical equipment manufacturers.

EQT AB is the ultimate holding company of the Group. EQT (a European investment firm) acquired BPEA in October 2022. BPEA acquired the business from HGS in January 2022.

Key Financial Indicators (audited)

Betaine BV- Consolidated	FY2022	9M FY2023
Operating income	122.4	372.7
PAT	-10.3	-25.4
OPBDIT/OI	19.0%	22.5%
PAT/OI	1.5%	1.7%
Total outside liabilities/Tangible net worth (times)	1.1	1.6
Total debt/OPBDIT (times)	6.7	7.2
Interest coverage (times)	2.7	2.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in USD Million

Note- FY2022 includes revenues from the date of acquisition i.e wef January 6, 2022, and 9M FY2023 refers to period April to December 2022. The Group has revised its reporting period from April to March to January to December.

⁴ DSCR: Debt Service Coverage Ratio

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				August 14, 2023	-	-	-
1 Fund Based – Others	Long term and short term	300.00	-	[ICRA]BBB-(Stable)/[ICRA]A3	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term/Short Term – Fund Based – 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	Betaine Ownership	Consolidation Approach
Sagility India Private Limited	100%	Full Consolidation
Sagility Care Management LLC	100%	Full Consolidation
Sagility (Jamaica) Limited	100%	Full Consolidation
Sagility Provider Solutions LLC	100%	Full Consolidation
Sagility Technologies LLC	100%	Full Consolidation
Sagility LLC	100%	Full Consolidation
Sagility Operations Inc.	100%	Full Consolidation
Sagility Philippines B.V	100%	Full Consolidation
Sagility Philippines B.V. - Philippines Branch	100%	Full Consolidation
Betaine (US) Holdings Inc.	100%	Full Consolidation
Betaine (US) Bidco Inc.	100%	Full Consolidation
Sagility (Colombia) S.A.S	100%	Full Consolidation
Devlin Consulting INC	100%	Full Consolidation

Source: Company

Note: ICRA has taken a consolidated view of the parent (Betaine BV), its subsidiaries while assigning the ratings to SIPL.

Corrigendum

Some changes in the content of the rating rationale were made as per the company's request.

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