

November 21, 2023

Citicorp Services India Private Limited: [ICRA]AAA (Stable)/[ICRA]A1+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short-term – Unallocated	4,500.00	[ICRA]AAA (Stable)/[ICRA]A1+; assigned
Total	4,500.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings for Citicorp Services India Private Limited (CSIPL) derive strength from the company's parentage in the form of Citibank N.A. (rated Aa3/Stable by Moody's Investors Service) and its strong operational and financial synergies with the parent. Citibank N.A. is a leading global bank with approximately \$2.4 trillion in total assets as of September 30, 2023. CSIPL operates as a global capability centre for Citigroup, providing a host of shared services related to technology, analytics, finance, operations, risk and allied services. CSIPL generates its entire revenues from Citibank N.A and its associates across the globe and is strategically important for the group. This is also demonstrated by the strong growth (CAGR of 4.7% over FY2018 to FY2023) in CSIPL's revenues and expansion of its employee base (28,896 as of September 30, 2023, from 13,802 as of December 31, 2019) over the years.

The ratings also derive comfort from CSIPL's healthy financial risk profile, marked by a sizeable scale of operations, robust internal accrual generation, comfortable leverage levels and debt protection metrics. CSIPL has also registered steady revenue growth with an operating income of Rs. 9,515.4 crore in FY2023 while maintaining healthy operating profit margins backed by cost-plus markup basis of billing to Citigroup entities. Moreover, healthy accretion to reserves coupled with limited reliance on debt has translated into a comfortable capital structure (gearing of 0.3 time as on March 2023) and healthy coverage metrics (Total Debt/OPBITDA of ~0.7 time as on March 31, 2023) in the past three fiscals. Additionally, the company's liquidity position remains strong, supported by healthy cash flows and sizeable cash and cash equivalents of ~Rs. 5,056 crore as of September 30, 2023. Given its strategic importance as a key global capability centre for Citigroup, ICRA expects CSIPL's revenue growth momentum to continue in the near-to-medium term. However, its operating profit margins are likely to witness some moderation from the current fiscal onwards owing to a downward revision in the mark-up charged by CSIPL on its services. Moreover, CSIPL's reliance on debt is likely to increase in the near to medium term to support its funding requirements (the company needs to maintain a liquidity buffer in liquid assets sufficient to permit the entity to continue to provide services for six months as per the US Federal reserve regulations), expansion plans and the high dividend payout expected in FY2024. Despite this, ICRA expects CSIPL's credit profile to remain healthy supported by robust internal accrual generation and strong liquidity position.

The ratings take into account CSIPL's geographical concentration of revenues, with the US market generating 69% of its FY2023 revenues. As a result, it remains susceptible to any adverse regulations in the US market that may restrict the outsourcing to other countries. Moreover, as CSIPL generates its entire revenues from Citigroup entities, its revenue growth is susceptible to any slowdown in the financial services industry. The ratings also consider industry-specific factors such as wage inflation and challenges of talent retention and reskilling. Any higher-than-expected dividend payouts, any major taxation-related liabilities that may arise in the future, and any major impact of emerging technologies remain a key monitorable for the company.

The Stable outlook on CSIPL's rating reflects ICRA's opinion that the company will continue to benefit from its strategic importance as a key global capability centre for Citigroup, CSIPL's healthy financial profile and strong liquidity position.

Key rating drivers and their description

Credit strengths

Strong parentage ensures exceptional financial flexibility and access to funding support – CSIPL is a step-down, wholly-owned subsidiary of Citibank N.A. (rated Aa3/Stable by Moody's Investors Service), a global bank with approximately \$2.4 trillion in total assets as of September 30, 2023. This strong parentage provides CSIPL with exceptional financial flexibility and access to funding support from the group if needed.

Entire revenues derived from Citigroup with cost-plus markup arrangement supports revenues and profitability – CSIPL acts as a global capability centre for Citigroup, and its entire revenues are generated from Citibank N.A and its associates. CSIPL provides a host of shared services related to technology, analytics, finance, operations, risk, and allied services. The company's contribution and criticality of services to Citigroup has resulted in expanding revenues for CSIPL at a CAGR of 24.7% over FY2018–FY2023. CSIPL bills its customers on a cost-plus markup basis, which is decided as per industry benchmarks. This has supported the company's profitability over the years. Given its strategic importance as a key global capability centre for Citigroup, ICRA expects CSIPL's revenue growth momentum to continue in the near to medium term. However, its operating profit margins are likely to witness some moderation from the current fiscal onwards owing to downward revision in the mark-up charged by CSIPL on its services.

Strong financial risk profile characterised by healthy capital structure, robust debt protection metrics and strong liquidity position – CSIPL has a healthy scale of operations and earnings, sizeable net worth, healthy debt protection metrics, and a strong liquidity profile. CSIPL has registered steady revenue growth with an operating income of Rs. 9,515.4 crore in FY2023 (against Rs. 3,159.1 crore in FY2018), with healthy operating profit margins. The healthy accrual generation with limited reliance on debt has translated into a comfortable capital structure (gearing of 0.3 time as on March 2023) and healthy coverage metrics (Total Debt/OPBITDA of ~0.7 time as on March 31, 2023). The company plans to draw down additional debt in the form of working capital and long-term loans to support its incremental funding requirements, expansion plans and the high dividend payout expected in FY2024. However, ICRA expects the gearing to remain in the range of 1.0-1.2 times in the near-to-medium term. CSIPL's credit profile is also expected to remain comfortable supported by strong accruals in the near-to-medium term.

Credit challenges

Industry specific challenges such as employee attrition and talent availability – The company is impacted by industry-specific factors such as wage inflation and challenges of talent retention and reskilling. In line with the industry, the attrition level had increased in CY2022 to ~17%. However, it is on a declining trend since the last three quarters with attrition of 10.5% in 9M CY2023.

Susceptible to slowdown in the financial services sector and high exposure to the US market – The ratings take into account CSIPL's geographical concentration of revenues, with the US accounting for 69% of its FY2023 revenues. As a result, it remains susceptible to any adverse regulations in the US market that may restrict the outsourcing to low-cost countries. Moreover, as CSIPL generates its entire revenues from Citigroup entities, the revenue growth is susceptible to any slowdown in the financial services industry.

Liquidity position: Strong

CSIPL's liquidity remains strong and is supported by robust accrual generation with expected cash flows from operations of Rs. 1,300-1,400 crore in FY2024 and unencumbered cash and bank balances of ~Rs. 5,056.0 crore, as of September 30, 2023. Moreover, limited debt-funded capex plans as well as no major debt repayment liability over the near term further enhance the company's liquidity profile. Despite the high dividend payout expected in FY2024, ICRA expects CSIPL's liquidity position to remain strong underpinned by its robust accrual generation. ICRA also notes that CSIPL enjoys exceptional financial flexibility owing to its parentage and access to funding support as per requirement.

Rating sensitivities

Positive factors – NA

Negative factors – CSIPL's ratings are underpinned by the support from the ultimate parent, Citibank N.A, and any significant change in operational and financial linkages with the parent or a significant deterioration in the credit profile of the parent could warrant a rating downgrade. Pressure on the ratings could emerge if there is a sustained decline in internal accruals or higher than expected dividend payout leading to moderation in coverage metrics or weakening of its liquidity position on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology- Information Technology (Services)
Parent/Group support	Parent/Group Company: Citibank N.A. The ratings derive significant strength from the company's ultimate parentage in the form of Citibank N.A. CSIPL enjoys a high level of operational and financial linkages with its parent, as its entire revenues are generated from its parent and its associates. ICRA expects liquidity support from the parent to be forthcoming if required.
Consolidation/Standalone	Standalone

About the company

Citicorp Services India Private Limited, a Citigroup entity in India, is a service-oriented company with its registered office in Mumbai. CSIPL is a wholly-owned subsidiary of Citibank Overseas Investment Corporation and a step-down subsidiary of Citibank N.A.

CSIPL is a global captive capability centre for Citigroup in India. The company is engaged in the business of rendering information technology and information technology-enabled services such as application development, user acceptance testing (UAT), production support, monitoring production environment, incident management, infrastructure management, analytics, decision support and operational support in various operational processes based on application, vendor oversight and allied services.

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	6,632.5	9,515.4
PAT	815.0	1,171.5
OPBDIT/OI	19.0%	18.5%
PAT/OI	12.3%	12.3%
Total outside liabilities/Tangible net worth (times)	0.4	0.4
Total debt/OPBDIT (times)	0.8	0.7
Interest coverage (times)	19.3	25.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. Crore. Note: All ratio as per ICRA calculation

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 as of Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
1 Unallocated	Long-term/ Short-term	4500.0	-	Nov 21, 2023	-	-	-
				[ICRA]AAA (Stable)/ [ICRA]A1+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short -term – Unallocated	Not applicable

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	Unallocated	NA	NA	NA	4500.0	[ICRA]AAA (Stable)/ [ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

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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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