ICRA

April 06, 2017

Genpact India Private Limited (ersthwhile Empower Research Knowledge Services Private Limited)

Instruments*	Amount Rated (Rs. crore)	Rating Action
Non Convertible Debentures	4,800	Reaffirmed [ICRA]AA- (Stable)

**Instrument details are provided in Annexure-1*

Rating Action

ICRA has reaffirmed the long term rating of [ICRA]AA- (pronounced as ICRA double A minus) for Rs. 4800.00 crore Non Convertible Debentures (INR equivalent of $ 800 million) of Genpact India Private Limited (GIPL) (ersthwhile Empower Research Knowledge Services Private Limited)[†]. The outlook on the long term rating is stable.

Rationale

The rating reaffirmation factors in the strengths GIPL {erstwhile Empower Knowledge Research Services Private Limited (ERKS)} derives from its parentage viz. Genpact Limited[1] (*referred to as Genpact Group*) (rated Baa3 (Stable) by Moody's Investor Services). The ratings are supported by the strong business position of Genpact Group characterized by a strong client base, its global execution capabilities and an experienced management team. Genpact Group has diversified service offerings across business verticals/service lines and long term customer relationships which lend stability to cash flows. In addition, the rating takes into consideration the strategic importance of GIPL for the Genpact Group given that more than two third of global revenues are being serviced from India and around 75% of global headcount is based in India.

The rating draws comfort from the robust financial profile of GIPL as reflected in strong cash flows on account of steady business generation/allocation of assignments by the Genpact group; moderate gearing levels and comfortable interest coverage. The operating profitability of GIPL has remained healthy and reported improvement to 30.3% in FY2016 from 28.8% in FY2015. Correspondingly the net margins too have remained healthy in past; however, during FY2016 company had to account for interest on NCD and for amortization of Goodwill created on account of acquisition of group companies. This led to decline in net margins to 0.8% in FY2016 from 22.2% I FY2015. However, the net cash accrual has remained healthy at Rs. 1,083 crore in FY2016 as against Rs. 1,233 crore in FY2015.

The rating of GIPL however is constrained by the vulnerability of profitability to wage inflation and competitive pressures from both within India and other low cost countries. In addition, GIPL faces challenges with respect to employee attrition rates and recovery of dues from clients. Moreover, the operations of GIPL remain susceptible to any legislation, especially in the US/EU region, which may restrict outsourcing to low cost countries. The profitability of the GIPL is exposed to adverse foreign exchange movement given that majority of company's revenues are generated in US$ and a significant part of expenses are in Indian Rupee. However, this risk is hedged to a large extent by buying forward

[1] Genpact Limited is a leading Business Process Outsourcing (BPO) and Information Technology enabled Services (ITeS) company with annual revenues of US$ 2.57 billion in CY2016

covers at the global level. ICRA also takes note of the possibility of sizeable dividend payout, share buyback or acquisition given the comfortable liquidity position and history of such events at the Genpact Group level.

Key rating drivers

Credit Strengths

- Strong parentage with Genpact Limited (rated Baa3/Stable by Moody's) and strategic importance of Indian operations
- Diversified service offerings spread across industries and business verticals mitigates business risks and lend stability to cash flows.
- Strong profitability due to cost arbitrage of Indian operations, which are aided by lower tax outgo, However issuance of debt amortisation of goodwill has led to decline in net margins.
- Healthy capital structure with low gearing and comfortable interest cover though issuance of debt has slightly altered the credit metrics from earlier robust levels.

Credit Weakness

- Event risk in the form of share buyback or relatively sizeable dividend payout. ICRA however assigns low probability to this risk given the interest payment and principal repayments of the rated NCD to be met from GIPL's cash flows.
- Change in ownership at parent level could alter the business strategy and relative importance of Indian operations.
- Vulnerability to wage inflation and competitive pressures along with the challenge of managing employee attrition

Description of key rating drivers highlighted above:

GIPL is a step down subsidiary of the Genpact group (rated Baa3 (Stable) by Moody's Investor Services). The Group enjoy strong business position given its global execution capabilities, experienced management team and a strong client base. The Genpact group has reported steady growth in revenue generation along with operating profitability of 15-18% in last four years aided by healthy margins in India. Despite periodic equity share buyback undertaken by the company, the capital structure of Genpact Group remains conservative with gearing of 0.69x as on December 2016 and limited debt repayment commitments in the medium term.

Indian operations are of strategic importance for the Genpact group given that over two thirds of global revenues are being serviced from India and three-fourth of global headcount is based in India. While Genpact Group is the customer facing entity for contract/mandate origination, marketing and business development, GIPL acts as the execution arm for the parent entity. Genpact Group subcontracts the assignment to various delivery centers across geographies including GIPL depending upon assignment requirements and capabilities of respective delivery centers. GIPL remains a key revenue and cashflow driver for the Genpact Group. Moreover the operations of GIPL are governed by a fixed transfer pricing mechanism with the Genpact group which provides it healthy profitability metrics and the same is further aided by lower tax outgo in Indian operations.

The Genpact group remains vulnerable to slowdown in the demand from end-user segments on account of weak economic prospects, and hence correspondingly GIPL remains vulnerable to same. Further GIPL's business prospects are vulnerable wage inflation and employee attrition which could alter its competitive positioning vis-à-vis other delivery centers within the Genpact group.

Moreover the operations of GIPL also remain susceptible to any legislation, especially in the US/EU region, which may restrict outsourcing to low cost countries. Any legislation restricting outsourcing or immigration in its key markets such as the ongoing developments in the USA may have an adverse impact on the current business model of the company.

ICRA takes note of the possibility of sizeable dividend payout, share buyback or acquisition given the comfortable liquidity position and history of such events at the Genpact group level. Given the strong linkage, this may adversely impact the liquidity of GIPL. ICRA also takes note of a possibility of change in shareholding of the Genpact group which is largely held by institutional investors with the largest being Bain Capital having around 29% stake and these changes could alter the business strategy for the company which could have an implication on Indian operations as well..

During last two years the group has reorganised in Indian operations wherein GIPL has acquired Genpact India (which was the key operational company earlier) thereby merging the operations in one entity and the acquisition has been part funded by issuance of NCDs by GIPL to group company. The transaction has been structured in a way that it has remained cash neutral at the group level.

Analytical approach:

The proceeds of the rated NCD program were used by the erstwhile ERKS to part-finance the acquisition of 100% stake in Genpact India. As a result, the rating has been based on a consolidated view on the credit risk profiles of ERKS and Genpact India which have now been merged and FY2016 annual report of GIPL reflects the combined operations

Links to applicable Criteria

- Corporate Rating Methodology
- Framework for Liquidity Analysis
- Impact of Parent or group support on an Issuer's Credit Rating

About the Company:

Genpact Limited is a BPO and IT/ITeS services provider with more than 800 clients globally. The company has an employee base of ~75,000 employees with a global network of delivery centers in 25 countries - India, Brazil, China, Guatemala, Columbia, Hungary, Japan, Mexico, Kenya, the Philippines, Poland, Czech Republic, Netherlands, Romania, South Africa, United Arab Emirates and USA. Genpact group started as a business unit within General Electric Company (GE), with the view to offer business process services to GE's businesses. In January 2005, 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 on the New York Stock Exchange.

GIPL is a delivery center for the Genpact group. Genpact Limited is the customer facing contracting entity for contract/mandate origination, marketing and business development. Genpact Limited enters into subcontracting agreements with its delivery centers including GIPL for execution of contracts.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable.

Rating History for last three years:

Table: Rating History

S. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	**Rated amount (Rs. Crores)**	**Month - year & rating**	**Month - year & Rating in FY2016**	**Month - year & Rating in FY2015**	**Month - year & Rating in FY2014**
1	Non Convertible Debentures	Long -term		**April 2017**	**Apr 2016**	**Jan 2015**	**NA**
			4800.00	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	NA

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

Details of Instruments

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Non Convertible Debentures	March 25, 2015	11%	First Redemption March 31, 2018	4,600	[ICRA]AA- (Stable)
Non Convertible Debentures	Not Issued	-	-	200	[ICRA]AA- (Stable)

Source: Genpact India Private Limited

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