

October 03, 2017

Allsec Technologies Limited

Summary of Rated Instruments

Instrument*	Rated Amount (in crore)	Rating Action
Long term: Fund based facilities	3.00	[ICRA]BBB(Stable) Assigned [ICRA]A3+ Assigned
Short-term: Fund based limits	1.00	
Short term: Non-fund based facilities	7.00	
Total	11.00	

*Instrument Details are provided in Annexure-1

Rating action

ICRA has assigned a long-term rating of [ICRA]BBB (pronounced ICRA triple B) to the Rs. 3.00-crore fund based facilities of Allsec Technologies Limited (“ATL”/“the company”)¹. ICRA has also assigned a short-term rating of [ICRA]A3+ (pronounced ICRA three plus) to the Rs. 7.00-crore non-fund based facilities and the Rs. 1.00-crore fund based facilities of the company. The outlook on the long term rating is Stable.

Rationale

The assigned ratings consider the track record of the company in providing business processing solutions and the experience of the management in the industry; established relationships with its clients has supported the company in securing repeat orders over the years. The rating factors in the healthy growth in ATL’s revenues over the past two fiscals on the back of increased contracts in the HR payroll business with favorable pricing term. Along with increasing its client base, ATL also broadened its range of HR services by providing time & leave management services and statutory claims management which has further supporting the revenue growth. The ratings are further supported by the improved business of ATL’s subsidiaries which has resulted in healthy revenue growth and robust margins at the consolidated level as well. The ratings also consider ATL’s favorable financial profile characterized by low gearing with adequate interest coverage and liquid investments in the form of mutual funds.

The ratings are, however, constrained by the high competitive intensity prevalent in the IT-BPO industry that restricts ATL’s pricing flexibility. Furthermore, with costs being largely fixed in nature, ATL’s margins remain dependent on its ability to retain customers on profitable pricing terms, especially given the moderate client concentration and the short term nature of its contracts. The ratings are further constrained by the exposure to foreign exchange rate fluctuation risks with 35% of the overall revenue in USD even though ATL partly mitigates the risk through hedging strategy.

Key rating drivers

Credit Strengths

- **Long operating track record of the company in the business processing solutions industry** – Set up in 1998, ATL has a long operating track record in the business process outsourcing industry with an experienced promoter team. With its consistent track record and experience in the field, ATL has been able to secure new clients across geographies in India and also in the export market.
- **Healthy growth in the ATL’s revenues on the back of expanding HR payroll business** – ATL’s operating income increased by over 7% in FY2017 primarily due to healthy support from domestic revenues which has seen a growth of over 20% due to increased client addition and favorable pricing terms. Along with increasing its client base, ATL also increased its range of HR services by additionally providing time & leave management services and statutory claims management which had further supporting the revenue growth to an extent.

¹ For a complete rating scale and definitions, please refer to ICRA’s website (www.icra.in) or other ICRA rating publications.

- **Improved performance of subsidiaries - Retreat Capital Management Inc and Allsectech Manila** – Retreat Capital Management, which was under losses until FY2015, improved its performance over the last two years after securing large contracts from US-based banks. Also, revenues from Allsectech - Manila increased by 125% over the last two years due to increased billing from existing clients apart from the addition of new clients. Overall, increased order flow in both the subsidiaries amidst better workforce productivity resulted in higher operating margins at the consolidated level.
- **Comfortable financial profile characterized low gearing and strong liquidity position** – ATL's debt profile as on March 31, 2017 comprised only financial lease obligation of Rs. 0.6 crore. Considerable liquid investments of Rs. 61.15 crore in the form of mutual funds provide additional comfort and strong liquidity for the company.

Credit Weaknesses

- **Margins remain dependent on ATL's ability to retain customers in profitable terms considering the high customer concentration and relatively short term nature of the contracts** – Any master service agreement of ATL with its client covers a period of 1-3 years. With moderate customer concentration, any loss in customer contract could impact the company's revenues and profitability significantly. Nevertheless, over the years, the company has been able to renew its contracts on a timely manner due to its established relationship with its key clients.
- **Intense competition in the business process outsourcing industry limits pricing flexibility** – With most of the Indian IT Services companies providing outsourced services, scale plays a critical role in withstanding pricing pressures and also provides a good proxy to the market position of the company. Being a relatively medium-scale player, ATL faces intense competition that limits its pricing flexibility and hence exposes the company to fluctuations in operating margins.
- **Susceptibility of margins to foreign exchange rate fluctuation risks** – Allsec has a global presence with around 35% of the total revenues are through foreign clients. With most of these contracts denominated in USD, ATL has considerable exposure towards movement in exchange rates. Nevertheless, to mitigate the fluctuation risk to an extent, ATL has been adopting hedging strategies and further utilizes bank balances in foreign currency to meet foreign currency liabilities.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable Criteria

[Corporate Credit Rating –A Note on Methodology](#)

About the Company:

Founded in 1998, Allsec Technologies Limited began as an integrated contact centre for businesses intending to outsource their support processes. With near two decades of experience, the company has rapidly expanded with acquisitions across geographies and has extended its expertise to a wide gamut of processes that augment and support businesses. It is one of the leading providers of outsourced solutions in customer engagement, sales & retention and quality assurance for businesses across BFSI, Mortgage, Telecommunication, Retail, Healthcare, Energy & Utilities and Technology. The company currently has three subsidiaries namely Allsectech Inc, USA, Allsectech Manila Inc., Philippines and Retreat Capital Management Inc, USA. The company's shares are also listed in both BSE & NSE

Key financial indicators of ATL

	FY2016	FY2017
Operating Income (Rs. crore)	108.4	116.2
PAT (Rs. crore)	9.5	24.0
OPBDIT/ OI (%)	12.0%	16.7%
RoCE (%)	10.8%	16.2%
Total Debt/ TNW (times)	0.0	0.0
Total Debt/ OPBDIT (times)	0.0	0.0
Interest coverage (times)	24.1	60.5
NWC/ OI (%)	30.4%	23.3%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

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. crore)	Month-year & Rating FY2018	Month- year & Rating in FY2017	Month- year & Rating in FY2016	Month- year & Rating in FY2016
				October 2017			
1	Cash Credit	Long Term	3.00	[ICRA]BBB (Stable)			
2.	Fund based	Short Term	1.00	[ICRA]A3+			
3.	Non-fund based	Short term	7.00	[ICRA]A3+			

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 Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	-	-	-	3.00	[ICRA]BBB (Stable)
Fund based – FDB/FBE	-	-	-	1.00	[ICRA]A3+
Non-fund based – FLC	-	-	-	7.00	

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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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