

## Genpact India Private Limited

April 06, 2018

### Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debentures	4,800.0	4,800.0	[ICRA]AA-(Stable); reaffirmed

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AA- (pronounced as ICRA double A minus) for Rs. 4800.0-crore Non-Convertible Debentures (INR equivalent of \$ 800 million) of Genpact India Private Limited (GIPL)<sup>†</sup>. The outlook on the long-term rating is Stable.

### Rationale

The rating continues to factor in the strengths GIPL derives from its parentage viz. Genpact Limited (referred to as Genpact) (rated Baa3 (Stable) by Moody's Investor Services). The rating is supported by the strong business position of Genpact characterized by a strong client base, its global execution capabilities and an experienced management team. Genpact 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 Genpact given that more than 60% 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 Genpact; moderate gearing and comfortable interest coverage. The operating profitability of GIPL has remained healthy and reported slight improvement to 28.7% in FY2017 from 27.6% in FY2016. The net margins too have remained healthy till FY2015, however, from FY2016 high interest expense on NCD and amortisation of Goodwill created on account of acquisition of group companies has led to weakening of net margins. Nevertheless, the net cash accrual remains healthy and stood at Rs. 995 crore in FY2017.

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. GIPL bills to Genpact for the work performed, however it remains exposed to delays/non-payment by the end customers. During last two years, it has witnessed elongation of its receivables cycle, however its liquidity still remains comfortable. Moreover, the operations of GIPL remain susceptible to any legislation, especially in the US/EU region, which may restrict outsourcing to low cost countries. In addition, the company faces challenges with respect to employee attrition rates, given the nature of industry. 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 covers at the global level. ICRA also takes note of the possibility of sizeable dividend payout, share buyback or acquisition/investment in group entities given the comfortable liquidity position and history of such events.

## Outlook: Stable

ICRA believes GIPL will continue to get healthy work flow from parent and enjoy strong accruals generation. The outlook may be revised to 'Negative' if the company witnesses decline in its revenues, erosion in its operating profitability and/or weakening of operational and strategic linkages with the parent. The outlook may be revised to 'Positive' if the company and/or Genpact witnesses better than anticipated growth in revenues and significant improvement in liquidity.

## Key rating drivers

### Credit strengths

- **Strong Parentage** – GIPL is a step-down subsidiary of Genpact Limited, which is a business process outsourcing (BPO) and information technology enabled-services (ITeS) provider with annual revenues of USD 2.74 billion (CY 2017) and over 800 clients globally. Genpact's strong business position is marked by its global execution capabilities, experienced management team and a strong client base. Genpact Group has diversified service offerings across business verticals/service lines and long term customer relationships.
- **Strategic Importance of GIPL** – GIPL is of strategic importance for Genpact given that around two third of the global revenues are being serviced from India and around three-fourth of global headcount is based in India. While Genpact 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
- **Healthy Financial Profile:** GIPL derives majority share of outsourced work from Genpact and over years has achieved a healthy scale of operations. It enjoys strong profitability with operating margins of around 28%, though higher amortisation and interest expense weigh down the net margins. The company enjoys comfortable gearing (0.69 times as on March 31, 2017), however coverage metrics is relatively moderate.
- **Diversified Service Offerings:** The group derives its revenue from a diversified client base and has presence across business verticals. Banking, financial services and insurance (BFSI) accounted for around 40% of Genpact's revenues in CY 2017, followed by manufacturing, pharmaceutical and medical equipment with around 37% revenue share and technology, healthcare and other services accounting for remaining 23% revenue share.

### Credit challenges

- **Intense competition** - Genpact remains vulnerable to slowdown in the demand from end-user segments on account of moderate economic prospects. Moreover, the increased degree of competition has moderated the average billing rates for incremental business and renegotiation of earlier contracts at the time of renewal. GIPL also remains vulnerable to wage inflation and employee attrition which could alter its competitive positioning vis-à-vis other delivery centers within the Genpact.
- **Susceptibility to reduction in outsourcing work** – the operations of GIPL also remain susceptible to increasing backlash and restrictive legislations especially in the US/EU region, which may restrict outsourcing to low cost countries. Any legislation restricting outsourcing or immigration in its key markets may have an adverse impact on the current business model of the company

- **Possibility of cash outflow** – there remains the possibility of sizeable dividend payout, share buyback or acquisition/investment in group entities. The surplus cash available/accruals in GIPL may get routed to parent or other group entities for the acquisitions/investments elsewhere.

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

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Entities in the Information Technology \(Services\) Industry](#)

## 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 ~78,000 employees with a global network of delivery centres 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 centre for Genpact. 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 centres including GIPL for execution of contracts.

For FY2017, GIPL reported profit after tax of Rs. 159 crore on an operating income (OI) of Rs. 6,631 crore as against profit after tax of Rs. 102 crore on an OI of Rs. 6,018 crore in FY2016.

## Key financial indicators

	FY2016	FY2017
Operating Income (Rs. crore)	6,018	6,631
PAT (Rs. crore)	102	159
OPBDITA/OI (%)	27.6%	28.7%
RoCE (%)	6.6%	7.8%
Total Debt/TNW (times)	0.68	0.69
Total Debt/OPBDIT (times)	2.80	2.43
Interest Coverage (times)	3.24	3.68
NWC/OI (%)	38%	35%

Source: GIPL's annual reports, ICRA research

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for last three years

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating FY2017	Date & Rating FY2017	Date & Rating FY2015	
Type	March 2017				April 2016	Jan 2015		
1	Non-Convertible Debentures	4,800.0	4,600.0	April 2018 [ICRA] AA-(Stable)	March 2017 [ICRA] AA-(Stable)	April 2016 [ICRA] AA-(Stable)	Jan 2015 [ICRA] AA-(Stable)	

## 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](http://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	Non-Convertible Debentures	March 25, 2015	11%	Scheduled repayment till April 2023	4,600.0	[ICRA] AA-(Stable)
-	Non-Convertible Debentures	Not Issued	-	-	200.0	[ICRA] AA-(Stable)

Source: GIPL

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