

July 09, 2019^(Revised)

IGT Solutions Pvt. Ltd.: [ICRA]BBB+(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limits	20.0	[ICRA]BBB+ (Stable); Assigned
Non-fund based limits	10.0	[ICRA]BBB+ (Stable); Assigned
Total	30.0	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating favourably factors in the long and established track record of IGT Solutions Pvt. Ltd. (IGTS) in the business process outsourcing (BPO) and IT services, its global delivery footprint, and a reputed client base with decade-long established relationships with some of the key clients. The rating is also strengthened by the limited external debt, ~Rs 5.0 crore (provisional), as on January 4, 2019, and the healthy liquidity position with unencumbered cash and cash equivalents of ~Rs. 93.0 crore (provisional), and liquidity cushion available in the form of largely unutilised fund-based working capital limits of Rs. 10.0 crore. The rating further factors in the healthy adjusted debt coverage indicators on a consolidated basis. After adjusting for debentures of Rs. 153.4 crore issued to promoters¹, the adjusted TD/OPBDITA stood at 1.3 times and the adjusted interest coverage ratio at 12.8 times on a provisional basis as on January 4, 2019.

However, the rating is constrained by the significant one-time expenses² pertaining to the deal between the erstwhile promoters – Interglobe Group and AION Capital Partners – in January 2019, which adversely impacted the profit and accruals in 9M FY2019. The company posted net loss of ~Rs. 57 crore in 9MFY2019 (provisional) and negative cash accruals of Rs. 15.1 crore (provisional) in 9M FY2019. The rating is further constrained by the sharp drop in net worth due to write-off of goodwill in FY2019 (provisional) owing to the re-valuation of goodwill during the amalgamation and consolidation of three Group entities along with their subsidiaries in FY2018. Additionally, the rating reflects the high sectoral- and client-concentration risk with the sole focus on the travel and tourism industry, high attrition of ~85% in FY2019, and significant dependence on the Philippines subsidiary, which accounted for the majority of the net profit in FY2018 and FY2019 (provisional). The company has undergone ownership change in FY2019 – the private equity (PE) fund AION Capital Partners³ acquired the entire stake of the erstwhile promoters Interglobe Group (promoted by Mr. Kapil Bhatia and Mr. Rahul Bhatia) in January 2019. The ability of the new promoter to successfully manage the business is yet to be demonstrated, though the key managerial personnel remain associated with the company, which is expected to ease the transition. Further, the BPO industry is characterised by continual wage increase and high attrition rates, which affects the profitability of the players in the industry.

¹ The adjusted debt coverage indicators have been calculated considering only external debt

² including transaction expenses and payouts to key management personnel (KMPs), amounting to a total of Rs. 115.0 crore

³ AION Capital Partners is a joint venture between global PE fund Apollo Global Management and domestic fund ICICI Venture

Outlook: Stable

ICRA believes that IGTS will continue to benefit from the long and established track record as well as a reputed client base. The outlook may be revised to Positive in case of stronger-than-expected growth in top line and accruals and if the company maintains the leverage and working capital intensity of operations. However, the outlook may be changed to Negative in case of lower-than-expected accruals, higher-than-expected upstreaming of cash to the promoters, debt-funded capital expenditure or deterioration in working capital intensity of operations.

Key rating drivers

Credit strengths

Well-established track record; reputed client base - Incorporated in 1998, IGTS provides BPO and IT services to clients solely in the travel and hospitality domain. Further, the company has a reputed clientele comprising United Airlines, Expedia, SITA, KLM, and Emirates, etc., with long relationship spanning over a decade with some of the key clients.

Limited external debt and healthy liquidity - Of the total debt of Rs. 158.4 crore as on January 4, 2019, the external debt is limited at Rs. 5.0 crore (provisional) with the balance being on account of promoter debt, and the healthy liquidity position with unencumbered cash and cash equivalents of ~Rs. 93.0 crore (provisional) as of January 4, 2019, and liquidity cushion available in the form of largely unutilised fund-based working capital limits of Rs. 10.0 crore.

Healthy debt protection indicators - IGTS has posted healthy debt coverage indicators after adjusting for debentures issued to the new promoter. The company's adjusted interest cover stood at 12.8 times and total debt/OPBDITA at 1.3 times on a provisional basis in 9M FY2019. However, the coverage indicators were impacted owing to the significant one-time transactional expenses in FY2019.

Credit challenges

Change in promoters and challenges pertaining to IT Services and BPO industry – The ability of the new promoter – AION Venture Capital – to successfully manage the business is yet to be demonstrated, although the KMPs remain associated with the company, which is expected to ease the transition. Further, the BPO industry is characterised by continual wage increase and high attrition rates, which affects the profitability of the players.

Significant one-time transactional expenses adversely impacted profitability and cash flows in 9M FY2019 – Significant payouts to KMPs and transactional expenses adversely impacted profitability and accruals in 9M FY2019. The company's operating profitability was 0.5% and net profitability was -6.9% in 9M FY2019 on a provisional basis vis-à-vis an operating profitability of 10.8% and net profitability of 7.7% in FY2018. Further, goodwill for the amalgamation and consolidation of group companies and subsidiaries in FY2018 was re-calculated in FY2019, which negatively impacted the company's net worth in 9M FY2019, though the same is a one-time expense

Client- and sectoral-concentration risk - IGTS is focused solely in the travel and hospitality domain, which is accompanied by the high dependence on the top five clients for almost half the revenues. This exposes the company to sectoral- and client-concentration risks.

Liquidity position

The company has a strong liquidity position with cash and cash equivalents of ~Rs 93.0 crore (provisional) and limited external debt of ~Rs 5.0 crore on a provisional basis as on January 4, 2019. Additionally, IGTS has liquidity cushion in the form of working capital facilities of Rs. 10.0 crore, which have remained largely unutilised in the last 12 months.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Information Technology (Services) Industry
Parent/Group Support	Not applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of IGTS; As on March 31, 2019, the company has six subsidiaries that are enlisted in Annexure-2

About the company

IGT Solutions Pvt. Ltd. (IGTS) is a business process management (BPM), technology and digital services and solutions company in the travel, transportation and hospitality domain established in 1998. IGTS has a global delivery network, with 15 centres across 9 countries. The company has a client base of with reputed hotels, airlines, online travel agencies (OTAs), and travel management companies (TMCs), etc. The company is owned by the PE fund AION Capital Partners, the joint venture between global PE fund Apollo Global Management and domestic fund ICICI Venture, which acquired it in January 2019 from the Bhatia family of the Interglobe Group. IGTS has a total employee strength of 9,649 as of March 2019.

Key financial indicators

	FY2017 (Audited)	FY2018 (Audited)	9MFY2019 *(Prov)
Operating Income (Rs. crore)	1,037.0	899.3	831.9
PAT (Rs. crore)	92.3	69.2	-57.3
OPBDITA/ OI (%)	11.5%	10.8%	0.5%
RoCE (%)	20.9%	10.7%	-5.3%
Total Debt/ TNW (times)	0.4	0.2	0.4
Total Debt/ OPBDITA (times)	1.4	1.5	31.0
Interest coverage (times)	121.7	105.6	12.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2020)			Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating July 2019	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1	Fund-based limits	20.0	-	[ICRA]BBB+ (Stable)	-	-	-
2	Non-fund based limits	10.0	-	[ICRA]BBB+ (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 [click here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based limits	-	-	-	20.0	[ICRA]BBB+ (Stable)
NA	Non-fund based limits	-	-	-	10.0	[ICRA]BBB+ (Stable)

Source: IGT Solutions Pvt. Ltd.

Annexure-2: List of entities considered for consolidated analysis- group entities as on March 31, 2019

Company Name	Ownership	Consolidation Approach
IGT Solutions Inc.	100.0%	Full Consolidation
Interglobe Technologies Inc.	100.0%	Full Consolidation
IGT Interglobe Technologies Philippines Inc.	51.0%	Full Consolidation
Interglobe Services & Technologies FZ LLC	100.0%	Full Consolidation
InterGlobe Information Technologies (Dalian) Co. Limited	100.0%	Full Consolidation

Correigendum

Document dated July 9, 2019 has been corrected with revision as detailed below:

Relationship contact details on page 6 updated

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