July 30, 2020

Genpact India Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	4,800.0	4,800.0	[ICRA]AA- (Stable); Reaffirmed
Total	**4,800.0**	**4,800.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating continues to factor in the synergies that Genpact India Private Limited (GIPL) derives as a part of the Genpact Limited (Genpact) Group, which is an established Information Technology (IT) consultancy and IT enabled Services (ITeS) provider with healthy execution track record. With revenues of $3.5 billion in CY2019, Genpact enjoys a healthy business position globally with a reputed client base and a high proportion of repeat business, strong execution capabilities and an experienced management team. The company has undertaken acquisitions over the years to strengthen its capabilities and diversify revenue streams. Genpact has diversified its service offerings across business verticals/service lines and long-term customer relationships, which lend stability to cash flows. GIPL derives a sizeable proportion of its revenues from the work offshored by Genpact to its delivery centres globally. In addition, the rating takes into consideration the strategic importance of GIPL for Genpact, given that around 54% of its global revenues are being serviced from India with 60% of the global headcount is based in the country.

The rating derives comfort from the adequate liquidity position of the company as demonstrated by healthy cash and equivalents of more than Rs. 1,000 crore as of March 31, 2020, along with healthy accruals. With healthy business generated by Genpact, GIPL has also been able to register steady revenue growth over the years, while maintaining healthy operating margins on cost-plus basis of offshoring work from Genpact. The financial risk profile remains comfortable with estimated gearing of around 0.5 times and healthy coverage indicators as reflected by estimated interest coverage of around 5x, total debt/OPBDITA of around 1.8x and NCA/total Debt of 46% for FY2020 (estimated). With expectation of stable cash accruals, limited incremental capital investments and amortisation of debt, the credit profile is likely to remain healthy in the medium term.

The rating is constrained by the dependence of GIPL's revenues on workflow from Genpact as well as geographical dependence on the US and Europe. As a result, it remains susceptible to any adverse legislation in the US/Europe that may restrict the outsourcing to low-cost countries as well as visa tightening by the US authorities to some extent. Any reduction in business flow from Genpact may adversely impact the revenues and cash flows of GIPL, although the company remains the most prominent delivery centre for Genpact. ICRA notes the intense competition in the IT industry, especially the global landscape with larger peers and uncertainty on account of the evolving visa and immigration legislations in key developed markets are challenges that the industry faces. Like other companies in the industry, GIPL faces challenges with respect to high employee attrition rates. Moreover, there has been a consistent build-up of receivables. Notwithstanding the growing working capital requirements, the company's liquidity position has remained comfortable. Further, the debt levels remained high on account of the debt-funded acquisition of Group companies under a business restructuring scheme executed in the past. The debt is in the form of NCDs issued to Group companies, with annual repayment. However, there remains a prepayment option subject to necessary approvals for repatriation to the parent entity, which cannot be ruled out in future and can impact the liquidity position of GIPL. 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. In addition, the company has sizeable contingent liabilities, especially with respect to income tax-related matters. However, any adverse development on the same may lead to sizeable cash outflows and thus, remains a monitorable.

Further, while the headwinds remain in the near term due to the impact of the Covid-19 pandemic in terms of cut down on discretionary spends by the clients and delay in client decision making, long-term prospects appear favourable with the focus on digital and cloud transformations, remote working solutions and collaborative technologies. The Stable outlook reflects ICRA's expectation that GIPL will be able to maintain its liquidity position despite an impact on revenue growth and profit margins in the near term.

Key rating drivers and their description

Credit strengths

Established position of Genpact in IT services industry – GIPL is a step-down subsidiary of Genpact, which is a BPO and information technology enabled-services (ITeS) provider with annual revenues of more than $3.5 billion (CY2019) and over 700 clients globally. Genpact's strong business position is marked by its global execution capabilities, experienced management team and strong client base. The Genpact Group has diversified service offerings across business verticals/service lines and long-term customer relationships. Genpact's revenue mix can be broadly categorised into three segments – banking capital markets and insurance (BCMI); consumer goods, retail life sciences and healthcare (CGRLH); and high-tech manufacturing and services (HMS). While historically, BCMI was the highest contributor to the revenues, CY2019 witnessed a healthy growth in the HMS segment, with GE being the largest client.

Strategic importance of GIPL – GIPL has strategic importance to Genpact, given that around 54% (CY2019) of the global revenues are serviced from India. While Genpact (including some of its subsidiaries) is the customer-facing entity for contract/mandate origination, marketing and business development, GIPL acts as the execution arm for the contracting entity. The Genpact Group subcontracts the assignments to various delivery centres across geographies, including GIPL, depending upon the assignment requirements and capabilities of the respective delivery centres. GIPL remains a key revenue and cashflow driver for the Genpact Group. Also, around 60-65% of the manpower of the Group is employed in India.

Adequate liquidity position – The company's liquidity profile remained adequate with the availability of cash balances of more than Rs. 1,000 crore as on March 31, 2021, which improved further in June 2020. Further, the liquidity position is supported by healthy accruals and limited capex plans.

Healthy financial profile – GIPL derives the majority share of outsourced work from Genpact and has achieved a healthy scale of operations over the years. It enjoys healthy operating margins of around 26%. The leverage profile is comfortable with estimated gearing of around 0.5 times as on March 31, 2020 with adequate coverage indicators as indicated by total debt/OPBDITA of 1.8x, interest coverage of 5x and NCA/total Debt of 46% for FY2020 (estimated). Given the headwinds faced in the current times on account of the impact of the pandemic, the revenues may decline in the current fiscal, which is expected to impact the profit margins as well to some extent. Nonetheless, the liquidity is expected to remain comfortable.

Credit challenges

Intense competition – Genpact remains vulnerable to slowdown in the demand from end-user segments. In addition to demand moderation led by customer budget constraints and its bearing on revenue growth, the profitability of GIPL remains vulnerable to competitive pressures from other low-cost countries, along with wage inflation and employee attrition, which could alter its competitive positioning vis-à-vis other delivery centres of Genpact.

Significant geographical dependence on US and Europe – Genpact derives around 85% of its revenues from the US and European markets. Thus, the company's operations remain susceptible to any legislation, especially in the US/Europe, which may restrict outsourcing to low-cost countries like India. Further, visa tightening by the US authorities (temporary ban till December 2020) will have a bearing on the IT services being rendered in the American markets.

Susceptibility to reduction in outsourcing work – The operations of GIPL also remain susceptible to any unfavourable changes in the legislation, especially in the US/EU region, which may restrict outsourcing to low-cost countries as this may adversely impact the company's current business model.

Possibility of cash outflow – Since the company is generating adequate cash flows and the liquidity profile is also comfortable, there remains a possibility of prepayment of the NCDs to the parent or upstreaming of funds through sizeable dividend payout or share buyback. In addition, any adverse development with respect to the sizeable contingent liabilities can result in significant cash outflow.

Expected moderation in near-term demand outlook – Moderation in IT budgets of the parent company's customers in the backdrop of the Covid-19 pandemic would adversely impact GIPL's revenue and earnings prospects in the near term. However, increasing business from cloud and digital transformation can mitigate the impact to some extent in the medium term.

Liquidity position: Adequate

The availability of sizeable cash of more than Rs. 1,000 crore on the books of the company as on March 31, 2020 coupled with limited capex plans and healthy cash flow generation translates into an **adequate** liquidity position. However, the repatriation of this cash in the form of prepayment, dividend payout or share buyback can impact the cash position and thus, the liquidity position of the company.

Rating sensitivities

Positive triggers – The ratings can be upgraded if the company continues to demonstrate healthy growth in its operating income while maintaining the profit margins, which along with improvement in the receivables cycle improves the liquidity position and results in an improvement in total debt/OPBDITA to less than 1x on a sustained basis.

Negative triggers - Negative pressure on GIPL's ratings may arise, if there is a significant reduction in the company's revenues and profit margins. The ratings may also be downgraded if debt-funded acquisitions weaken the debt coverage indicators, or if a sizeable repatriation of funds to the parent impacts GIPL's liquidity position. Further, weakening of GIPL's linkages with the parent company or moderation in credit profile of the parent entity can trigger a rating downgrade.

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	Standalone

About the company

GIPL is the Indian delivery centre for Genpact, which is a BPO and ITeS provider based out of the US, with more than 700 clients globally. Genpact has an employee base of ~96,500 employees with a global network of delivery centres in more than 20 countries—India, Brazil, China, Guatemala, Columbia, Hungary, Japan, Mexico, Kenya, the Philippines, Poland, Czech Republic, Netherlands, Romania, South Africa, United Arab Emirates and USA. The 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, the 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 in the New York Stock Exchange. It is now an established IT service provider to a large number of Fortune 500 companies. For FY2020 (estimated), GIPL is expected to post a revenue growth of around 7-8%.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	6,751.9	7202.3
PAT (Rs. crore)	98.6	197.9
OPBDIT/OI (%)	27.2%	27.1%
PAT/OI (%)	1.5%	2.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	0.9
Total Debt/OPBDIT (times)	2.5	2.1
Interest Coverage (times)	3.5	4.2
DSCR	3.2	1.7

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding (June 30, 2020)	Rating	FY2020	FY2019	FY2018
					30-July-2020	15-Apr-2019	06-Apr-2018	06-Apr-2017
1	NCD	Long Term	4800.0	2800.0	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)

Amount in Rs. crore

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: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE330N08011	NCD	25-Mar-15	11.0%	April 2023	4600.0	[ICRA]AA- (Stable)
-	NCD	Not issued	-	-	200.0	[ICRA]AA- (Stable)

Source: Genpact India Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not Applicable	Not applicable	Not applicable

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About ICRA Limited:

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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