Allsec Technologies Limited

September 11, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund-based facilities	3.00	4.00	[ICRA] BBB (Stable); reaffirmed
Short-term, Fund-based facilities	1.00	-	-
Short-term, Non-fund-based facilities	7.00	7.00	[ICRA] A3+; reaffirmed
Total	**11.00**	**11.00**	

Rating action

ICRA has reaffirmed the long-term rating at [ICRA] BBB (pronounced ICRA triple B) for the Rs.4.00-crore fund-based facility of Allsec Technologies Limited (ATL). ICRA has also reaffirmed the short-term rating at [ICRA]A3+ (pronounced ICRA A three plus) for the Rs.7.00-crore non-fund based facilities of ATL. The outlook on the long-term rating is Stable.

Rationale

The rating reaffirmation continues to factor in the established track record of ATL in the business process outsourcing (BPO) segment, and the experience of the management in the industry along with long-term association with reputed customers. ICRA also factors in the moderate revenue growth of ATL in FY2018, supported by improved performance of its subsidiary, Allsectech Manilla Inc, domestic Customer Lifecycle Management (CLM) business and HR payroll business of the standalone entity. The ratings also consider ATL's favourable financial profile, characterised by low debt position with healthy cash accruals supporting the overall liquidity profile as evidenced by cash balances and liquid investments of Rs. 144.8 crore as of March 2018.

The rating is, however, constrained by the intense competition prevalent in the IT-BPO industry that restricts ATL's pricing flexibility. As costs are almost fixed in nature, the operating margins depend on the company's ability to retain customers on profitable pricing terms, especially given the moderate client concentration. The revenue of the subsidiary of Allsectech Inc, US witnessed a considerable drop in FY2018, following reduced volumes from the Anti-money laundering business in Q4 FY2018, which affected the profitability in FY2018. Despite expected improvement in operations of the standalone company and Allsectech Manilla Inc, ATL's revenue is likely to decline in FY2019 on account of lower volumes in AML, thereby exerting pressure on the margins in the short term. The ratings are further constrained by the exposure to foreign exchange rate fluctuation risks as 35% of the company's (standalone) overall revenue comes in USD even though ATL partly mitigates the risk through hedging strategy.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that ATL will continue to benefit from the long-term association with reputed customers. The outlook may be revised to Positive in case of significant improvement in revenues and profitability, leading to a stronger financial profile. The outlook may be revised to Negative if cash accrual is lower than expected, or if any major inorganic expansion weakens liquidity.

Key rating drivers

Credit strengths

Established track record in the BPO industry for over two decades – 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 established client relationships, ATL has been able to sustain its scale of operations and additionally secure new clients across geographies in India and in the export market.

Healthy growth in ATL's revenues on the back of expanding HR payroll business and domestic CLM business – ATL's operating income (standalone) increased by over 10% mainly due to support from domestic CLM and HRO businesses. Revenue from domestic CLM business has grown by 15% with addition of new customers and higher volumes from existing customers. HR payroll business has continued to grow organically with an overall increase of 19% over the previous year. Along with increasing its client base, ATL has also increased its range of HR services by providing time and leave management services and statutory claims management, which supported the revenue growth to an extent.

Improved performance of Allsectech Manila Inc in FY2018 benefits revenues and margin at the consolidated level - Allsectech Manila Inc registered a robust revenue growth of over 75% from Rs. 30.5 crore in FY2017 to Rs. 53.4 crore in FY2018 on the back of increased volumes in the CLM business. Higher revenue amid stable employee cost resulted in improved EBITDA margin of 31% in FY2018 compared to 27% in FY2017.

Comfortable financial profile characterised by low gearing and strong liquidity position as of March 2018 – ATL's debt profile as on March 31, 2018 comprised only financial lease obligation of Rs. 1.1 crore. This along with healthy cash accruals over the last three years resulted in a comfortable financial profile. Further, considerable liquid investments and cash balances of Rs. 144.8 crore provide strong liquidity for the company.

Credit weaknesses

Intense competition in the BPO 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.

Margins depend on ATL's ability to retain customers in profitable terms due to high customer concentration – 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.

Considerable drop in revenue for Allsectech Inc US in FY2018 – In Q4 FY2018, Allsectech Inc witnessed considerable drop in revenues following closure of the backlog work with a large US-based client in December 2017. Quarterly revenues dropped from Rs. 43.27 crore in Q3 FY2018 to Rs. 13.26 crore in Q4 FY2018, resulting in drop in revenues by ~17% in FY2018. Further, with revenues remaining low at Rs. 14.00 crore in Q1 FY2019, Allsectech Inc US is expected to witness a considerable reduction in scale and moderate loss due to the fixed overheads and claim settlements during FY2019.

Susceptibility of margins to foreign exchange rate fluctuation risks – ATL (standalone) has a global presence, with around 35% of the total revenues coming from foreign clients. As most of these contracts are denominated in the USD, ATL has considerable exposure towards movement in foreign exchange rates. Nevertheless, to mitigate the fluctuation risk to an extent, ATL has been adopting hedging strategies and further utilises bank balances in foreign currency to meet foreign currency liabilities.

Links to applicable criteria:
[Corporate Credit Rating 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 nearly 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 has three wholly-owned subsidiaries namely Allsectech Inc, USA, Allsectech Manila Inc., Philippines and Retreat Capital Management Inc, USA. The company's shares are also listed on both BSE and NSE.

Key Financial Indicators – ATL

	FY2017 (Audited)	FY2018 (Audited)
Operating Income (Rs. crore)	116.2	128.8
PAT (Rs. crore)	22.5	29.0
OPBDIT/ OI (%)	20.1	23.3
RoCE (%)	15.5%	15.5%
Total Debt/ TNW (times)	0.0	0.0
Total Debt/ OPBDIT (times)	0.0	0.0
Interest coverage (times)	30.1	97.3
NWC/ OI (%)	22.9%	24.0%

Key Financial Indicators – ATL (Consolidated)

	FY2017 (Audited)	FY2018 (Audited)
Operating Income (Rs. crore)	318.1	325.0
PAT (Rs. crore)	56.8	59.5
OPBDIT/ OI (%)	18.2%	18.9%
RoCE (%)	47.5%	35.6%
Total Debt/ TNW (times)	0.0	0.0
Total Debt/ OPBDIT (times)	0.0	0.0
Interest coverage (times)	68.9	185.7
NWC/ OI (%)	9.3%	9.4%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 2018 (Rs Crore)	Date & Rating in FY2019 September 2018	Chronology of Rating History for the past 3 years: Date & Rating in FY2018 October 2017	Date & Rating in FY2017	Date & Rating in FY2015
1	Overdraft against book debts	Long-Term	4.00	0.0	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**		
2	Non-fund based facilities	Short-term	7.00	0.0	**[ICRA]A3+**	**[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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Overdraft against book debts				4.00	[ICRA]BBB (Stable)
NA	Non-fund based facilities				7.00	[ICRA]A3+

Source: ATL

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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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