October 08, 2020

Mu Sigma Business Solutions Pvt Ltd: [ICRA]A(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	[ICRA]A(Stable); Assigned
Total	**-**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has taken a consolidated view of the Mu Sigma Group (Mu Sigma/the Group), which includes Mu Sigma Inc., USA along with all its subsidiaries (mentioned in Annexure-2) including Mu Sigma Business Solutions Pvt Ltd (Mu Sigma India), as all the companies have operational and financial linkages.

The assigned rating factors in Mu Sigma's long and established track record in the data analytics industry, its experienced promoter, reputable client base and healthy operating margins. The rating draws comfort from the Group's presence in various verticals like Consumer Packed Goods (CPG), Banking, Financial Services and Insurance (BFSI), Technology, Media and Telecom (TMT), Retail, Healthcare and Life Sciences, Oil, Gas and Energy, Manufacturing, and Logistics among others. Mu Sigma derives the majority of its revenue from the Retail and CPG segment (46.3% in CY2019; 40.9% in CY2018) with prominent customers like Walmart and Home Depot, which have been associated with the Group for nearly a decade. Mu Sigma has an established relationship with many Fortune 500 companies, with 80-82% of recurring revenue in CY2019. However, it has high customer concentration with the top five customers accounting for nearly 43% of its revenue in CY2019.

In CY2017, one of the promoters exited along with certain senior management employees which lead to temporary business disruptions, leading to a decline in revenues. The decline in revenues also impacted the operating profit margins (OPMs), although margins continued at healthy levels. The Group had debt outstanding of $108.5 million as on December 31, 2019 with Net Debt/OPBDITA at 1.6 times. The Group also had cash and liquid investments of $26.6 million as on December 31, 2019.

During the last three years, the group has restructured its holding structure to improve efficiency and shareholder value. The restructuring further provides flexibility in future fund raising/listing. From a structure of Mu Sigma Inc. (the USA parent holding company, which also housed the USA operations) holding stake in all the subsidiaries under it including Mu Sigma India, USA now operates only as holding company (effective Dec 2018), having carved out the operating vertical into a subsidiary (Mu Sigma Business Solutions LLC). The holding company holds 100% stake in Mu Sigma India, which holds stake in all the step-down subsidiaries, through a wholly owned subsidiary in UK (except for 10.6% stake in Mu Sigma Business Solutions LLC, which is held directly by Mu Sigma Inc).

The demand for Mu Sigma's services remains exposed to macro-economic uncertainties such as a growth slowdown in the key market (US). Further, Mu Sigma remains susceptible to any adverse legislation in the US that may restrict outsourcing to low-cost countries. The rating also takes into account the susceptibility of the profitability to foreign exchange fluctuations since Mu Sigma derives a significant portion of its revenues in USD and Euro while the cost is in INR. However, the Group's policy of hedging a sizeable portion of its receivables provides comfort. With operations

across multiple geographies, the company is exposed to regulatory risk of multiple jurisdictions and any litigation against the company is a key monitorable.

Like other companies in the industry, Mu Sigma faces challenges with respect to talent retention. The employee attrition ranged between 40% and 50% in the four years ending CY2019, significantly higher than the industry. This was on account of the lower average age (23-25 years) of the employee base, with many leaving the organisation for higher studies or better opportunities. Further, employee utilisation was around 55-60% over the four years ending CY2019 as the Group has significant trainees and employees on bench at any point of time.

The Covid-19 pandemic has adversely impacted the global economy, which has resulted in demand shocks like delayed offtake of new projects, reduced discretionary spend and IT budget cuts. However, following temporary disruptions in Q1 FY2021, Mu Sigma does not expect to witness a material impact on its business owing to the pandemic and expects a flat/marginal decline in the top line. It undertook cost control measures including no salary increments, delaying the joining of fresh hires, savings pertaining to office expenses, vacating some premises, etc, which are expected to support its operating margins.

The Stable outlook on the rating reflects ICRA's opinion that Mu Sigma will continue to benefit from its long track record of operations, established customer base, continued promoter support and healthy operating margins.

Key rating drivers and their description

Credit strengths

Global player in data analytics industry with presence in various sectors – Mu Sigma has a long track record (more than 15 years) and an established position in the data analytics industry. It caters to clients across various sectors such as Retail and CPG (contributing 46.3% to revenues in CY2019), TMT (16.1%), Healthcare and Life Sciences (15.9%), BFSI (8.1%), Manufacturing (5.8%), etc. Mu Sigma has also launched a platform model of operations called Logical Unit of Ecosystem (LUE), which gives clients access to the entire Mu Sigma depositary, platform and tools under an annual contract. The basic purpose of this ecosystem is to go one step further from the traditional tailor-made contracts and provide services as a software. Going forward, the Group's diversity across sectors is expected to follow past trends.

Strategic relationships with established customer base; supplying to Fortune 500 companies – Mu Sigma has a reputable customer base with existing clients accounting for 80-82% of the business in CY2019. It interacts and works with the different business units of a particular client, leading to multiple parallel engagements. It has catered to ~140 Fortune 500 companies over the years. Further, nine of Mu Sigma's top ten clients in CY2019 were Fortune 500 companies. Going forward, Mu Sigma is expected to maintain a strong relationship with its client base.

Credit challenges

Geographical concentration risk – Mu Sigma's geography-wise revenue trend highlights a high revenue concentration in the US market. It derived 87% of its overall revenue from the US in CY2019, up from 84% in CY2018, exposing it to structural and region-specific challenges. In 2014, the Group was accused of violating the immigration laws of the US. While Mu Sigma contested all the charges, it settled the claim out of court in FY2020 for $2.5 million as the legal fee for continuing the case would have exceeded the settlement charges.

Heavy dependence on Retail & CPG segment – Mu Sigma has a high concentration of revenues, primarily in the Retail and CPG segment, although the same is mitigated by its established relationship with the clients. The segment

contributed 34.0% to the revenue in CY2017 and increased to 46.3% in CY2019. Mu Sigma has been associated with some of the clients for nearly a decade, which continues to support its presence in the segment. Mu Sigma's services are domain agnostic and it intends to focus on all segments to derive growth in future.

Leveraged capital structure due to acquisition of stake – Acquisition of stake from investor, lead to borrowings, which significantly leveraged the capital structure. The current debt level stands at $95 million as of May 2020.

Liquidity position: Adequate

Mu Sigma India's liquidity position is **adequate** with cash and liquid investments of Rs. 226.1 crore as on March 31, 2020. The company does not have any working capital facilities. Repayments are expected to be $25 million in FY2022 and $35 million each in FY2023 and FY2024 against the outstanding debt of $95 million as of May 2020. No major capex is planned for the near future and the same is expected to be minimal at about Rs. 15 crore per annum. Overall, ICRA expects Mu Sigma India to be able to meet its near-term commitments (debt-servicing obligations and capex requirements) through internal sources and yet be left with a cash surplus.

Rating sensitivities

Positive triggers – The rating could be upgraded on a sustained improvement in the scale of operations and diversification across customers, which, in turn, will result in higher cash flow from operations.

Negative triggers – Pressure on the company's rating could arise in case of a deterioration in its credit profile due to a decline in its operational performance or any debt-funded acquisition.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	-
Consolidation/Standalone	The rating is based on the consolidated financials of the company

About the company

Founded in 2004, Mu Sigma Inc. is headquartered in Chicago and has a global innovation centre in Bengaluru, Mu Sigma India. It is one of the largest pure-play big data analytics and decision support companies globally. It provides business intelligence, econometric tools and predictive modelling services to help clients take major business decisions ranging from new product launches to decoding customer reaction. The company employs over 3,000 decision scientists providing services to many Fortune 500 companies in the US, Europe and Australia.

Mu Sigma has various subsidiaries across the globe that procure business across geographies, which, in turn, is fulfilled through the delivery centre i.e. Mu Sigma India. All the operating subsidiaries have individual transfer pricing agreements with Mu Sigma India. In December 2018, Mu Sigma restructured its business operations with Mu Sigma India investing $290 million in the UK subsidiary (Mu Sigma International Limited) which was utilized to purchase 55.4% stake in Mu Sigma Business Solutions LLC (operating entity carved out of Mu Sigma Inc.) and 100% stake in rest of the subsidiaries from Mu Sigma Inc. In April 2020, Mu Sigma India further infused $ 15Mn in the UK entity for acquisition of 4.6% stake in Mu Sigma Business Solutions LLC. In May 2020, the UK entity acquired 29.4% stake in Mu Sigma LLC by raising a debt of $95 million. Post such acquisition, Mu Sigma International Limited holds 89.4% stake in Mu Sigma Business Solutions LLC.

Key financial indicators (Mu Sigma Business Solutions Pvt Ltd; Consolidated)

	FY2019	FY2020 (Prov.)
Operating Income (Rs. crore)	938.7	921.2
PAT (Rs. crore)	503.0	357.9
OPBDIT/OI (%)	44.8%	47.4%
PAT/OI (%)	53.6%	38.9%
Total Outside Liabilities/Tangible Net Worth (times)	-0.3	-0.2
Total Debt/OPBDIT (times)	-	-
Interest Coverage (times)	618.4	40.1

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	Rating	FY2020	FY2019	FY2018
					08-Oct-2020	-	-	-
1	Issuer Rating	Long Term	-	-	[ICRA]A(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
-	Issuer Rating	-	-	-	-	[ICRA]A(Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Mu Sigma International Limited, UK	100.00%	Full Consolidation
Mu Sigma Limited, UK	100.00%	Full Consolidation
Mu Sigma Business Solutions LLC, USA	100.00%	Full Consolidation
Mu Sigma Australia Pty Ltd., Australia	100.00%	Full Consolidation
Mu Sigma Singapore Pte. Ltd., Singapore	100.00%	Full Consolidation
Mu Sigma DMCC, Dubai	100.00%	Full Consolidation
Mu Sigma Canada Limited, Canada	100.00%	Full Consolidation
Mu Sigma Japan Limited, Japan	100.00%	Full Consolidation
Mu Sigma GmbH, Germany	100.00%	Full Consolidation
Shanghai Mu Sigma Business Solutions Company Limited, China	100.00%	Full Consolidation
Mu Sigma Business Solutions Pvt Ltd, India	100.00%	Full Consolidation

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