

November 01, 2019

Allsec Technologies Limited: Long-term rating upgraded to [ICRA]BBB+(Stable); short-term rating upgraded to [ICRA]A2; ratings removed from watch

Summary of rating action

Instrument*	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Long-term – Fund-based	4.00	4.00	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB%; rating removed from watch
Short-term – Non-fund based	7.00	7.00	[ICRA]A2; upgraded from [ICRA]A3+%; rating removed from watch
Total	11.00	11.00	

*Instrument details are provided in Annexure-1; % - under rating watch with positive implications

Rationale

The upgrade in ratings positively factors in the favourable change in Allsec Technologies Limited's (ATL) ownership, with Conneqt Business Solutions Limited (CBSL, rated [ICRA]A+ (Stable)/[ICRA]A1+), a subsidiary of Qess Corp Limited (QCL, rated [ICRA]AA (Stable)/[ICRA]A1+) holding 73% stake in ATL as of now. ICRA expects ATL to benefit from operational synergy and financial support from CBSL, given the strategic importance of ATL to Qess Corp Limited. The ratings continue to consider the established track record of ATL in the business process outsourcing segment and the extensive industry experience of the management which has facilitated in establishing strong ties with its key customers. The ratings factor in the healthy growth in ATL's standalone revenues in FY2019 and Q1 FY2020, aided by improvement in its domestic customer lifecycle management (CLM) business and human resource operations (HRO) segment on the back of increased business volumes from existing customers as well as acquisition of new customers. The ratings continue to consider ATL's favourable financial profile as characterised by its comfortable capital structure, healthy coverage indicators and strong liquidity position.

The ratings, however, are constrained by the moderation in ATL's consolidated revenues and profitability in FY2019 on the back of decline in revenues of its US subsidiaries owing to absence of any new business volumes under its anti-money laundering (AML) segment. The ratings remain constrained by the high competition prevailing in the business process outsourcing segment, which restricts ATL's pricing flexibility. Besides, with costs being largely fixed in nature, ATL's operating margins remain exposed to its ability to retain its customers on profitable pricing terms. The ratings factor in the susceptibility of ATL's profitability to variations in foreign exchange as it derives nearly 30% of its standalone revenue from exports. Nonetheless, the prudent hedging strategies adopted by the company mitigates the risk to an extent.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's expectation that ATL will continue to benefit from its proven operational track record in the business and its long-term association with its reputed customers. Besides, ICRA also expects ATL to benefit from the strong operational and financial profile of its new parent entity.

Key rating drivers and their description

Credit strengths

Established track record in the business process outsourcing segment for over two decades – Set up in 1998, ATL has a proven operational track record in the business process outsourcing industry with an experienced promoter team. With its extensive presence in the business and long-term association with its key customers, has enabled revenue stability for ATL. Besides, the company has also been able to expand its business at a steady pace across geographies in India as well as in the exports market, which has enabled it in further scale up of operations.

Healthy growth in the ATL's standalone revenues – ATL's standalone revenues grew by 18.9% in FY2019, aided by healthy improvement in its domestic CLM segment on the back of higher business volumes from its existing customers and addition of new customers. Besides, the company's HRO business continued to grow at a healthy pace during the corresponding period, lending further support to the company's revenues.

Comfortable financial profile – ATL's financial profile remains healthy as characterised by its comfortable capital structure on the back of minimal reliance on external borrowings along with its strong networth position. Its coverage indicators remain healthy on the back of adequate operational cash flows. Given the considerable cash balances and liquid investments as on March 31, 2019, Rs. 154.4 crore (at a consolidated level), ATL's liquidity profile remains strong.

Favourable change in ownership – CBSL acquired majority stake in ATL, 73.0% as of now. The long presence of CBSL and its parent QCL in the business process outsourcing segment and its strong financial profile is likely to result in improved operational and financial flexibility for ATL going forward.

Credit challenges

Intense competition in the business process outsourcing industry limits pricing flexibility – With most of the Indian IT Services companies providing outsourced services, scale plays a critical role in withstanding pricing pressures. 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 remain dependent on ATL's ability to retain customers in profitable terms – Given the moderate customer concentration and the relatively high competitive intensity, any loss in major customer contract could impact the company's revenues and profitability significantly. Besides, given the relatively short-term nature of contracts which spans around two to three years, the ability of the company to renew its contracts in profitable terms remains key in ensuring stability in revenues and profitability.

Susceptibility of margins to foreign exchange rate fluctuation risks – ATL has a global presence with around 30% of its standalone revenues derived from exports and the same exposes its margins to fluctuations in foreign exchange rates. Nonetheless, the prudent hedging strategies adopted by the company mitigates the risk to an extent.

Considerable revenue degrowth in ATL's US subsidiaries in FY2019 – ATL's consolidated revenues de-grew by 19.6% in FY2019 due to decline in its AML segment, which is handled by its US subsidiaries. The closure of execution of sizeable backlog orders coupled with absence of any major new business volumes has led to decline in revenues from AML

segment during the corresponding period. Besides, the considerable reduction in revenues has led to weaker fixed cost absorption in its US subsidiaries, thereby leading to moderation in profitability. XXXX

Liquidity position: Strong

ATL's liquidity position is strong as characterised by availability of comfortable buffer in its working capital facilities and healthy cash balances and liquid investments in mutual funds. At a standalone level, the free cash balance and investments in liquid funds had stood at Rs. 97.1 crore as on March 31, 2019. At a consolidated level, the same had stood at Rs. 154.4 crore as on March 31, 2019.

Rating sensitivities

Positive triggers – ICRA could upgrade ATL's rating if the company demonstrates healthy improvement in its operating income, while sustaining its operating profitability at current levels. Besides, any upward revision in the rating of ATL's parent (Conneqt Business Solutions) and/or its ultimate parent (Qess Corp Limited) might have a positive impact on the ratings.

Negative triggers – Negative pressure on ATL's rating could arise if, for reasons not restricted to, any steep decline in its operating margins below 10.0% on sustained basis and/or any moderation in its capital structure owing to any sizeable debt-funded acquisition made by the company for inorganic growth. Besides, any downward revision in the rating of ATL's parent and/or its ultimate parent might exert downward pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Subsidiary of Conneqt Business Solutions Private Limited
Consolidation/Standalone	The rating is based on consolidated financial statements financial statements of the company along with its subsidiaries – xx, zz, yy.

About the company

Allsec Technologies Limited, incorporated in 1998, began as an integrated contact centre for businesses intending to outsource their support processes. With near two decades of experience, the company has 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, human resource operations, sales and retention and quality assurance for businesses across varied industries. Besides, the company also provides anti-money laundering and compliance services, with banks as its target segment. The company currently has three wholly-owned subsidiaries namely Allsectech Inc, USA, Allsectech Manila Inc., Philippines and Retreat Capital Management Inc, USA. ATL's shares are listed in both BSE & NSE.

ATL has recently become a subsidiary of Conneqt Business Solutions Limited and CBSL's shareholding in ATL is at 73.0% as of now. ATL would be acquiring Coachieve Solutions Private Limited (a 100% subsidiary of Qess Corp Limited), which is engaged in HR compliance business, for a consideration of Rs. 16.8 crore.

Key financial indicators (audited) – Standalone

	FY2018	FY2019
Operating Income (Rs. crore)	128.78	153.17
PAT (Rs. crore)	28.99	9.51
OPBDIT/OI (%)	18.12%	19.69%
RoCE (%)	15.55%	11.59%
Total Outside Liabilities/Tangible Net Worth (times)	0.03	0.02
Total Debt/OPBDIT (times)	0.04	0.02
Interest Coverage (times)	97.25	150.80
DSCR	41.09	53.96

Key financial indicators (audited) – Consolidated

	FY2018	FY2019
Operating Income (Rs. crore)	324.96	261.16
PAT (Rs. crore)	59.52	15.67
OPBDIT/OI (%)	18.86%	15.21%
RoCE (%)	35.65%	13.73%
Total Outside Liabilities/Tangible Net Worth (times)	0.12	0.06
Total Debt/OPBDIT (times)	0.02	0.02
Interest Coverage (times)	185.70	81.06
DSCR	84.38	43.45

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Current Rating	Earlier Rating	FY2019	FY2018	FY2017
					01-Nov-2019	29-Apr-2019	11-Sep-2018	03-Oct-2017	-
1	Overdraft against book debts	Long Term	4.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB%	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-
2	Non-fund based facilities	Short Term	7.00	-	[ICRA]A2	[ICRA]A3+%	[ICRA]A3+	[ICRA]A3+	-

Amount in Rs. crore; % - under rating watch with positive implications

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 /		Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
		Sanction	Coupon Rate			
NA	Overdraft against book debts	-	-	-	4.00	[ICRA]BBB+ (Stable)
NA	Non-fund based facilities	-	-	-	7.00	[ICRA]A2

Source: Allsec Technologies Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Allsectech Inc, USA	100.00%	Full Consolidation
Allsectech Manila Inc, Philippines	100.00%	Full Consolidation
Retreat Capital Management Inc, USA	100.00%	Full Consolidation

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