India Ratings Rates Aegis Customer Support Services's Additional Limits at 'IND BBB+'/Negative; Affirms Existing Ratings

Apr 08, 2024 | Aegis Customer Support Services Private Limited | Business Process Outsourcing (BPO)/ Knowledge Process Outsourcing (KPO)

India Ratings and Research (Ind-Ra) has taken the following rating actions on Aegis Customer Support Services Private Limited's (ACSSPL) bank facilities:

Details of Instruments

Instrument Type	Date of issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/Watch	Rating Action
Fund-based working capital facilities	-	-	-	INR710.0	IND BBB+/Negative/ IND A2+	Affirmed
Non-fund-based working capital facilities	-	-	-	INR360.0 (Reduced from INR440.0)	IND BBB+/Negative /IND A2+	Affirmed
Fund-based working capital facilities	-	-	-	INR580.0	IND BBB+/Negative /IND A2+	Assigned

Analytical Approach

Ind-Ra continues to take a standalone view of ACSSPL to arrive at the ratings.

Detailed Rationale of the Rating Action

The Negative Outlook reflects the deterioration in ACSSPL's profitability in 2023 and the likelihood of limited recovery in the EBIDTA margins in 2024, which could have an adverse impact on the liquidity of the company. The decline in profitability in 2023 led to a weakening of credit metrics during the year. The ratings are supported by ACSSPL's established market presence, with 17 delivery centres across different cities in India, and the presence of a strong parent, US-based Startek Inc, which operates in 13 countries. The ratings are constrained by the high customer concentration and the intense competition in the industry.

List of Key Rating Drivers

Strengths

- Established market position
- Improved geographic diversification

Weaknesses

- Subdued profitability
- Deterioration in the credit metrics
- High customer concentration
- Intense competition

Detailed Description of Key Rating Drivers

Established Market Position: ACSSPL's business profile is marked by its established market position, diversified sector presence and strong clientele. ACSSPL had over 17 delivery centres across more than 12 cities in India at end-September 2023, making the company one of the leading players in the domestic business process outsourcing (BPO) sector. The company also has the backing of a strong parent, Startek Inc., a US-based BPO player with a presence in 36 sites across 13 countries. ACSSPL has a diversified client base across sectors such as banking, financial services and insurance (BFSI; contributed 33% to the revenue in 9M2023; 2022: 33%), e-commerce and consumer (45%; 47%), telecom (7%; 8%), and consumer goods (3%; 3%).

Improved Geographic Diversification: The acquisition by Capital Square Partners (CSP) and subsequent merger with Startek, has enabled ACSSPL to gain access to the US markets, which account for over 50% of the global BPO market. ACSSPL generates 30% of its revenue from international clients and targets to increase their revenue contribution up to 35% by end-2025. Increased international business revenue contribution would have a positive impact on the EBITDA margin; however, this would also lead to increased forex risk.

Subdued Profitability: The EBITDA margin of the company fell to 11.0% in 2023 (2022: 19.5%) because of lower absorption of fixed cost due to the decline in revenue. Furthermore, Ind-Ra expects to see only a marginal improvement in the profitability margins in 2024. The improvement would be driven by the recoupment of a discount offered to its existing customers through higher volumes with these customers and overall healthy order book. ACSSPL's revenue declined to INR8,012 million in 2023 (2022: INR8,647 million), as changes in contract terms with existing customers resulted in lower billing. Ind-Ra expects the revenue to grow by around 7.5% yoy in the next two years. Achievement of healthy revenue growth while improving the operating profitability to 2022 levels would remain key monitorable for Ind-Ra. The figures for 2023 are provisional in nature.

Deterioration in Credit Metrics: In 2023, the company's net leverage (gross debt less cash/ EBITDA) weakened to 4.57x (2022: 2.11x) and adjusted gross interest coverage (EBITDA/gross interest expense) deteriorated to 1.49x (5.06x) owing to the decline in the absolute EBITDA to INR881 million (INR1,685 million). Ind-Ra expects the net leverage and gross interest coverage continue to remain at similar levels in 2024, given the likelihood of limited recovery in the EBITDA during the year. ACSSPL's existing debt profile comprises cash credit facilities for its working capital management, external commercial borrowing of USD4 million from the CSP Alpha Holdings Pte (with 35% shareholding of ACSSPL) and INR3,995 million of compulsory convertible debentures (CCDs) issued by ESM Holdings Limited (with 65% shareholding of ACSSPL).

In gross debt calculation, the CCDs have been treated as 50% debt and 50% equity, due to the flexibility around interest deferral, the subordination of CCD interest to other debt obligation, fixed conversion date and conversion price. Ind-Ra believes any additional interest-bearing debt and/or additional liabilities towards the parent beyond the agency's expectations, leading to the gross interest coverage sustaining below 2.50x, could lead to a negative rating action.

High Customer Concentration: The top 10 customers contributed about 77% to the revenue in 9M2023 (2022: 70%). A few customers had revised the contract terms to avail a discount in 2023. The discount is likely to be recouped in the upcoming two years through higher volumes from these customers. Any deviation in terms of amount and/ or timing of the recovery from the company's estimate, will have a material impact on the profitability, and hence, remains a key monitorable for Ind-Ra. However, the agency takes comfort from ACSSPL's longstanding relationships with these clients and healthy order book from existing and new clients.

Intense Competition: ACSSPL operates in a fragmented market, and hence, is exposed to intense competition from various large and small players, thereby impacting its operating profitability. However, this risk is mitigated to some extent by the company's strong market presence and customer profile, and broad range of service offerings. With rising competition from both large and small players, the scalability of operations along with an improvement in the operating margins remain key rating sensitivities.

Liquidity

Adequate: At end-9M2023, the company's cash and cash equivalent balance stood at INR0.8 million (end-2022: INR3.0 million). ACSSPL's liquidity is supported by zero external term debt and the ability of the company to defer interest on CCDs. The company has sanctioned fund-based working capital limits of INR1,290 million, with an average maximum utilisation of 61.2% over the 12 months ended November 2023; the agency expects the utilisation to have remained at similar levels in the subsequent period. The company has repayment obligation of INR49.8 million and INR63.1 million in 2024 and 2025, respectively, towards the external commercial borrowing raised from one of the parents. In 2023, despite longer debtor (both billed and unbilled) days of 123 (2022: 114), the net working capital cycle improved to 84 days (112 days), on account of an increase in payable days (including employee related liabilities) to 38 (25). However, any elongation of working capital cycle and/ or higher-than-agency-expected cash upstreaming to the parent group could adversely impact the liquidity and would be key rating monitorable for Ind-Ra.

Rating Sensitivities

Outlook Revision to Stable: Healthy revenue growth with improved EBITDA margin, leading to the adjusted gross interest coverage exceeding above 2.50x, on a sustained basis, could lead to the Outlook being revised back to Stable.

Negative: Developments that could, individually or collectively, lead to a negative rating action include:

- any further decline in the revenue and EBITDA margin, leading to the adjusted gross interest coverage falling below 2.50x; and/or
- elongation of the working capital cycle, leading to deterioration in the company's liquidity

About the Company

ACSSPL is a global business service provider of customer experience management in BPO and information technology-enabled services. Aegis Global was acquired by CSP from the Essar Group in FY18. Post the acquisition, Aegis Global entered into a reverse merger with Startek with CSP holding 55% of the combined entity.

KEY FINANCIAL INDICATORS

Particulars	2023 (Provisional)	2022
Revenue (INR million)	8,012	8,647
EBIDTA (INR million)	881	1,685
EBIDTA margins (%)	11.0	19.5
Gross debt including lease (INR million)	4,099	3,563
Adjusted gross interest coverage (x)	1.49	5.06
Net leverage (x)	4.57	2.11
Source: ACSSPL, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook			
	Rating Type	Rated Limits (million)	Rating	28 March 2024	22 September 2023	29 December 2022	17 December 2021
Issuer rating	Long-term	-	-	-	WD	IND BBB+/Stable	IND BBB-/Positive
Fund-based working capital facilities	Long-term/Short term	INR1,290	IND BBB+/Negative/ IND A2+	IND BBB+/Negative/ IND A2+	-	IND BBB+/Stable/ IND A2+	IND BBB-/Positive/IND A3
Non-fund-based working capital limits	Long-term/Short-term	INR360	IND BBB+/Negative/ IND A2+	IND BBB+/Negative/ IND A2+	-	IND BBB+/Stable/ IND A2+	IND BBB-/Positive/IND A3

Bank wise Facilities Details

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Fund-based working capital limits	Low
Non-fund-based working capital limits	Low

For details on the complexity level of the instruments, please visit www.indiaratings.co.in/complexity-indicators.

Contact

Primary Analyst
Pratik Mundhada
Associate Director
India Ratings and Research Pvt Ltd

Wockhardt Towers, 4th Floor, West Wing, Bandra Kurla Complex, Bandra East,Mumbai - 400051
+91 22 40001724
For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst
Krishnaprasad Nair
Analyst
+91 22 40001748

Media Relation
Ameya Bodkhe
Marketing Manager
+91 22 40356121

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APPLICABLE CRITERIA AND POLICIES

Treatment and Notching of Hybrids in Nonfinancial Corporates

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

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