

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

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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 limits	-	-	-	INR1,290	IND BBB+/Negative/IND A2+	Affirmed
Fund-based working capital limits	-	-	-	INR155	IND BBB+/Negative/IND A2+	Assigned
Non-fund-based working capital limits	-	-	-	INR360	IND BBB+/Negative/IND A2+	Affirmed
Non-fund-based working capital limits	-	-	-	INR220	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

Ind-Ra has maintained the Negative Outlook on ACSSPL despite an improvement in the absolute EBITDA in 2024, due to interest payouts (including payouts for compulsory convertible debentures; CCDs), lease liabilities and external commercial borrowings (ECBs), in addition to the ongoing capex incurred by the company, which continues to put pressure on the liquidity. While the company has met its incremental cashflow requirements through drawdown of fund-based lines during 2024, the agency intends to continue to monitor the improvement in EBITDA and liquidity over the next 12-18 months. That said, the improvement in revenue and EBITDA during 2024 over 2023 supports the ratings.

List of Key Rating Drivers

Strengths

- Established market position
- Strong business profile backed by segment and geographical diversification
- Improvement in profitability in 2024; likely to continue to improve in medium term

Weaknesses

- Moderate credit metrics
- High customer concentration
- Intense competition

Detailed Description of Key Rating Drivers

Established Market Position: ACSSPL is one of the leading players in the domestic business process outsourcing (BPO) business with over 18 delivery centres across more than 11 cities in India at end-December 2024. 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. The company's strong parentage provides it access to the US markets, which account for over 50% of the global BPO market and helps it increase its revenue from international clients. The agency believes the company's established position in the BPO industry will continue to support its revenue growth in the near-to-medium term.

Strong Business Profile backed by Segment and Geographical Diversification: The company's business profile continues to be strong supported by its established market position, diversified sector presence and strong clientele. ACSSPL has a diversified client base across sectors such as banking, financial services and insurance (BFSI; contributed 33% to the revenue in 2024; 2023: 32%), e-commerce and consumer (42%; 43%), telecommunication (6%; 7%), and consumer goods (5%; 7%). Additionally, owing to its association with the parent, the company's derives more than one-fourth of its total revenue from international clients having higher margins. The management intends to keep the sector presence diversified and increase the share of international clients in the coming two-to-three years to ensure higher profitability. The increased international business revenue contribution would have a positive impact on the EBITDA margin; however, this would also lead to increased forex risk.

Improvement in Profitability in 2024; Likely to Continue to Improve in Medium Term: ACSSPL's revenue improved to INR9,437 million in 2024 (2023: INR8,078 million), mainly driven by higher volumes from domestic customers and an overall healthy order book. Furthermore, the EBITDA margin improved to 13.0% in 2024 (2023: 11.0%) due to the successful implementation of key IT software infrastructures and tie-ups with key artificial intelligence tools which has helped increase the operational efficiency in servicing the existing client portfolio. The growth in revenue and higher EBITDA margins supported the growth in the absolute EBITDA to INR1,200 million in 2024 (2023: INR881 million). Ind-Ra expects the revenue and profitability to improve further in the medium term supported by (a) marginal recoupment of discounts offered to existing customers and/or, (b) increase in volume from existing customers and/or (c) upward revision in pricing for some of the customers. The agency notes that while margins might not recover to the upwards of 20% reported during exceptional post COVID-19 years, the ability of the company to maintain margins in line or slightly higher than 2024 levels will remain a monitorable. 2024 numbers are provisional in nature.

Moderate Credit Metrics: The total adjusted debt stood at INR2,734 million at end-2024 (end-2023: INR3,936 million). ACSSPL's existing debt profile comprises cash credit facilities for its working capital management (end-2024: INR1,055 million), external commercial borrowing (INR164 million) from the CSP Alpha Holdings Pte (CSP; with 35% shareholding of ACSSPL) and the remaining are lease liabilities. Additionally, the company has INR3,995 million of CCDs issued by ESM Holdings Limited (with 65% shareholding of ACSSPL). While these CCDs have an interest coupon of 9.5% p.a., in adjusted gross debt calculation, the CCDs have been treated as 100% equity by the agency (as per criteria) effective end-2024, due to the flexibility around interest deferral, the subordination of CCD interest to other debt obligation, fixed conversion date and conversion price. The company's gross debt excluding CCDs increased to INR2,734 million at end-2024 (end-2023: INR2,073 million) owing to a higher drawdown on working capital limits during 2024.

The company's net leverage (gross adjusted debt less cash/ EBITDA) stood at 2.3x in 2024 (2023: 4.5x). The adjusted gross interest coverage (EBITDA/gross interest expense including interest on CCDs) improved to 2.2x in 2024 (2023: 1.6x) owing to the improvement in the absolute EBITDA to INR1,200 million (INR881 million), however, it still stands below the upwards of 3.0x reported till 2022. While the adjusted gross interest coverage is lower than the historical 2022 and prior levels, the agency expects the same to improve in the near-to-medium term supported by growth in EBITDA. Ind-Ra takes comfort from the interest deferral available for CCD interest payouts (constituting a significant 60% of total interest payouts). Ind-Ra believes any additional interest-bearing debt and/or additional liabilities towards the parent, leading to the deterioration in the adjusted gross interest coverage beyond agency's expectation, could lead to a negative rating action.

High Customer Concentration: The top 10 customers contributed about 72% to the revenue in 2024 (2023: 68%). Of the top 10 customers, contracts with some customers constituting 50%-55% of the total revenue would be up for renewal in 2025. Hence, an inability of ACSSPL to renew these contracts would have a material impact on the revenue and remains key monitorable for Ind-Ra. Additionally, some of the customers had availed a discount in 2023, therefore, any further discounts to customers and/or inability of the company to recoup the discounts offered in past to support the profitability remains a key rating monitorable. That said, the agency takes comfort from ACSSPL's longstanding relationships with these clients and the historical track record of the company to renew these contracts on a yearly basis without any delay due to strong customer relationships.

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 monitorable.

Liquidity

Adequate: The liquidity is supported by moderate external debt levels and the company's ability to defer interest on CCDs. At end-2024, the company has no external term debt on its book; although, it has fixed repayment obligations towards ECBs from one of the shareholders of INR65 million and INR99 million in 2025 and 2026, respectively. While the company's cash and cash equivalent balance was almost nil at end-2024 (end-2023: INR1.0 million), the company has some buffer from the unutilised fund-based working capital limits having a sanction amount of INR1,445 million; the average maximum utilisation of these was 87% over the 12 months ended April 2025.

Ind-Ra expects ACSSPL to generate an annual EBITDA of INR1,300 million-1,500 million, sufficient to service interest obligation of about INR650 million (including interest on CCDs), partly fund capex of about INR700 million and payout of principal portion of lease liabilities of INR250 million-350 million. In case of any cash shortfall, the agency takes comfort from the option available with the company to defer interest payouts on CCDs. Additionally, certain expenses of the company are reimbursed by the parent and other group companies. It is also expecting certain income tax refund as confirmed by the management, which will further support the liquidity. The net working capital cycle improved to 78 days in 2024 (2023: 89 days) due to an overall improvement in the debtor days. Any elongation of the working capital cycle and/or a higher-than-agency-expected cash upstreaming to the parent could adversely impact the liquidity and would be a key rating monitorable.

Rating Sensitivities

Outlook Revision to Stable: Healthy revenue growth with improved EBITDA margin, leading to the adjusted gross interest coverage exceeding 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 remaining below 2.50x; and/or
- elongation of the working capital cycle, leading to deterioration in the liquidity.

Any Other Information

Not applicable

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	2024 (Provisional)	2023
Revenue (INR million)	9,437	8,078
EBITDA (INR million)	1,200	881
EBITDA margins (%)	12.7	10.9
Gross debt including lease (INR million)	2,734	3,936
Adjusted gross interest coverage (x)	2.19	1.62
Net leverage (x)	2.28	4.47
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	8 April 2024	28 March 2024	22 September 2023	29 December 2022
Issuer rating	Long-term	-	-	-	-	WD	-
Fund-based working capital limits	Long-term/Short term	INR1,445	IND BBB+/Negative/IND A2+	IND BBB+/Negative/IND A2+	IND BBB+/Negative/IND A2+	-	IND BBB+/Stable/IND A2+
Non-fund-based working capital limits	Long-term/Short-term	INR580	IND BBB+/Negative/IND A2+	IND BBB+/Negative/IND A2+	IND BBB+/Negative/IND A2+	-	IND BBB+/Stable/IND A2+

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 <https://www.indiaratings.co.in/complexity-indicators>.

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Evaluating Corporate Governance

Corporate Rating Methodology

The Rating Process

Short-Term Ratings Criteria for Non-Financial Corporates

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