

VFS Global Services Private Limited

January 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	50.00	CARE A; Stable	Revised from CARE A-; Positive

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The upgrade in the rating assigned to bank facilities of VFS Global Services Private Limited (VGSPL) factors in the significant improvement in its performance in FY23, which is expected to further improve in near to medium term.

In addition to this, the rating continues to be supported by the strong parentage with established market leadership position of the VFS Global Group in visa and passport outsourcing services and exclusivity of contracts and strong ties with various client governments. The rating continues to remain constrained by tender-based nature of contracts and susceptibility to changes in regulations and pricing by client governments.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Substantial improvement in revenue while maintaining the current profitability and cashflow.
- Substantial improvement in net worth and overall gearing below 1.5x on a sustained basis.

Negative factors

- Decline in operating margin below 25%.
- Decline in net cash position (net of debt) below ₹100.00 crores.
- Loss of business from any significant client.

Analytical approach: Standalone

Outlook: Stable

The outlook is stable given the increase in the outbound tourism/ departure thus supporting the VGSPL's growth.

Detailed description of the key rating drivers:

Key strengths

Top line rebounded higher than pre-covid level: Significant growth expected in near to medium term:

Rising demand for outbound tourism backed by strong post pandemic recovery in travel, growing Indian economy, rising incomes leading to increasing spending on leisure travels, is expected to support the revenue growth of the company in the upcoming years. Also, with onboarding of new client, i.e. Saudi Arabia, the company's application processing is further expected to increase. The company's revenue had dwindled in FY21 due to COVID-19 led travel restrictions; however, the company's performance had rebounded from FY22 onwards. Given the established market position of the company in visa processing services and increase in the application processing volume, the company was able to book significant revenue growth of 65% in FY23 with total income from operations at ₹712.38 crore (FY22: ₹431.97 crore). As per H1FY24, the total income from operations stood at ₹634.74 crore.

The operating profitability continues to remain healthy owing to its increasing top line and continuance of value-added services provided by the company. The overall profitability reflects the company's strong market position. The operating margin stood at 33.01% in H1FY24 (FY23: 32.65%; FY22: 27.77%).

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Established market leadership position:

The group continues to remain primarily engaged in the processing of visa and passport applications and is the largest player in visa facilitation market globally as well as in India. The group manages administrative and non-judgmental tasks related to visa, passport, and Identity & Citizen services for the Client Governments. The group has attained leadership position in the visa services outsourcing market in the past 20 years. Though the group has grown substantially in the past, sustainability of market share in the long term is a key rating sensitivity. As on June 30, 2023, the group has operational presence in 144 countries with 3,319 application centres and 69 client governments.

Exclusivity of contracts and strong ties with client governments:

The group serves 69 client governments in various geographies and VGSPL alone serves 52 client governments. The group has been able to renew all the old contracts relating to outbound travel from India. The company has long-term contracts with major countries, i.e US, UK, Australia. The group has exclusive client contracts relating to more than 95% of the outbound routes which assures traveller's flow. Also, the group is assured of renewed footfalls due to exclusivity of contracts. The ability of the group to renew the contracts remains key monitorable.

Continuance of lowly leveraged business profile:

The debt profile of the company as on date comprises of only lease liability. The working capital facilities continue to remain unutilised. The total debt to PBILDT is comfortable at below unity as at the end of FY23. With VGSPL planning to expand its reach by setting up of new centres, the lease liability is expected to increase in near term to medium term, however despite this, the gearing is expected to remain below unity.

Strategic importance and operational linkages of VGSPL with the group:

VGSPL continues to benefit from its strong parentage, VF Worldwide Holdings Ltd. (VFS Global), which owns 99.99% stake in VGSPL. VFS Global is headquartered in Zurich, Switzerland, and Dubai, UAE, and majority of its stake is owned by funds managed by Blackstone Inc. Blackstone holds almost 72.30% of stake in the group. VF Worldwide Holdings Ltd., a UAE-based company, represents the group on major global visa outsourcing business contracts. It outsources these global contracts to the local entity in the respective countries of operation for execution. All the visa operations of VF Worldwide Holdings Ltd. in India are executed by VGSPL. Also, all support functions of the entire VFS Global group including IT and Finance are centralised in India as the group's global support office. VF Worldwide Holdings Ltd. has also provided unconditional and irrevocable corporate guarantee for the bank loan availed by the company.

Key weaknesses

Tender-based contracts and susceptibility to changes in regulations and pricing:

VGSPL continues to remain susceptible to the tender nature of business given the contract tenure is generally of three to five years with an extension option for one to three years with client governments. Also, the renewal of the contract is subject to meeting the parameters set by the client. Given the management and service fee of visa application and commission payable to outsourcing company are regulated by the respective government, it restricts the group's bargaining power. Thus, any change in the regulations or the pricing policy can affect the group's revenue. As per the management, the group's high contract retention rates and freezing of visa service fees during the start of the contract will enable the company in mitigating these risks. In addition to this, the company's long tenure contracts with few of its key counterparts is expected to mitigate contract non-renewal risk.

Foreign exchange risk

VGSPL has earned total revenue of ₹107.37 crore from outside India in FY23 (FY22: ₹112.90 crore), which is only 15% of total TOI. During FY23, the company had booked a marginal foreign exchange gain of ₹0.48 crores (FY22: loss of ₹1.26 crore). As per the management, VGSPL claims its share of income from VF Worldwide Holdings Ltd as the revenue in foreign currency are collected centrally at VF Worldwide Holdings Ltd. This revenue earned in foreign currency is partially offset against the embassy payment in foreign currency. Also, the inter-company transactions are settled before making the payment to VGSPL, hence the group is able to manage currency fluctuations at transactional level.

Liquidity: Strong

The liquidity of the company is strong with healthy gross cash accruals expected in upcoming years driven by improvement in overall operational performance of the company amidst the growing travel industry. The gross cash accrual is expected to remain above ₹200.00 crore in both FY24 & FY25. The gross cash accrual of the company stood at ₹201.11 crore as on March 31, 2023 (as on March 31, 2022: ₹111.80 crore). In addition to this, the fund-based limit of ₹36.00 crore continue to remain unutilised. The average utilisation of non-fund-based limits stood comfortable at around 40% for last nine months ended September 2023. The cash and bank balance of the company stood strong at ₹315.00 crore as on September 30, 2023 (as on March 31, 2023:

₹223.49 crore). The high cash balance of the company as on date is on account of receipt of application fees which is to be remitted to client government, hence, the company's cash balances tend to be volatile. As per the company policy, on an average, the company maintains minimum bank balance of around ₹20.00 crore. The cash and bank balance at the group level is also strong at CHF325.00 million as on September 30, 2023. The company has no term loan in its books. It has only lease liability, for which the lease obligation is ₹75.46 crore and ₹104.08 crore for FY24 & FY25, respectively.

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Service Sector Companies](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Consumer services	Leisure services	Tour, Travel Related Services

VGSP was incorporated as a private limited company on January 10, 2006, under the Companies Act, 1956, with the objective of providing travel documentation, passport and visa processing facilitation and related services to travellers, tour operators, travel agencies and corporates etc., in India. VF Worldwide Holdings Ltd. owns 99.99% stake in VGSP, while the balance is held by VFS Global Edu Support Services Private Limited. It is a part of the VFS Global group. VGSP also provides Identity and Citizen Services ("I&CS"), offering a wide range of biometrics-based solutions for largescale public-facing programmes. These services include assisted applications, registration, biometric solutions to assure and manage identity, document management, video conferencing facilities, authentication and reporting services.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	431.97	712.38	634.74
PBILDT	119.99	232.63	209.55
PAT	17.26	104.18	132.94
Overall gearing (times)	3.11	2.23	NA
Interest coverage (times)	6.79	15.64	NA

A: Audited UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Bank overdraft		-	-	-	36.00	CARE A; Stable
Non-fund-based - LT-Bank guarantee		-	-	-	14.00	CARE A; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Working capital term loan	LT	-	-	-	1)Withdrawn (10-Oct-22)	1)CARE BBB+ (CW with Developing Implications) (29-Dec-21)	1)CARE BBB+; Stable (11-Nov-20)
2	Fund-based - LT-Bank overdraft	LT	36.00	CARE A; Stable	-	1)CARE A-; Positive (10-Oct-22)	1)CARE BBB+ (CW with Developing Implications) (29-Dec-21)	1)CARE BBB+; Stable (11-Nov-20)
3	Non-fund-based - LT-Bank guarantee	LT	14.00	CARE A; Stable	-	1)CARE A-; Positive (10-Oct-22)	1)CARE BBB+ (CW with Developing Implications) (29-Dec-21)	1)CARE BBB+; Stable (11-Nov-20)

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Bank overdraft	Simple
2	Non-fund-based - LT-Bank guarantee	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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