24/7 Customer Private Limited

March 22, 2017

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	47.50	**CARE BBB+; ISSUER NOT COOPERATING (Triple B Plus; ISSUER NOT COOPERATING)**	Issuer not cooperating; Based on best available information
Short-term Bank Facilities	102.00	**CARE A3+; ISSUER NOT COOPERATING (A Three Plus; ISSUER NOT COOPERATING)**	Issuer not cooperating; Based on best available information
Total	**149.50 (Rupees One Hundred Forty Nine Crore and Fifty Lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from [24]7 Customer Private Limited to monitor the ratings vide e-mail communications/letters, (latest email dated March 10, 2017) and numerous phone calls. However, despite of our repeated requests, the company has not provided the requisite information for monitoring the ratings. Further, 24/7 has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. In line with the extant SEBI guidelines, CARE has reviewed the ratings on the basis of the available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

The ratings on 24/7 Customer Private Limited's bank facilities will now be denoted as **CARE BBB+/CARE A3+; ISSUER NOT COOPERATING**.

The ratings take into account the established track record of its parent company - [24]7 Customer Inc., USA ([24]7 USA) in the (Business Process Outsourcing) BPO segment, diversified client base of [24]7 USA, consistent growth in income, successful completion of the capex and healthy capital structure with no term debt obligations.

The ratings are, however, constrained by its business dependence on the performance of the [24]7 USA, foreign exchange fluctuation risk, regional concentration, ongoing dispute with tax authorities regarding certain tax liabilities, high attrition rates and intense competition in the BPO industry.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

Detailed description of the key rating drivers

At the time of last rating in February 09, 2016 the following were the rating strengths and weaknesses (updated for the information available from Annual Report):

Key Rating Strength

Established track record of the parent company [[24]7 Customer Inc. USA] in the BPO segment

[24]7 is entirely dependent on its parent company for business as it provides cloud based on customer engagement solutions to the customers of [24]7 USA. [24]7 USA has an established track record in providing BPO solutions over the

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

past fifteen years. It presently operates 6 contact centres around the world and has grown via organic as well as inorganic route in the past.

Diversified client base of [24]7 USA

24/7 USA manages over 100 million interactions through its six global contact centers. The client base of 24/7 USA includes large telecom, financial services, retail, technology and travel companies. Pre-dominantly, clients from telecom segment have been the major revenue driver of the company (contributing about 40% in FY14 (refers to the period April 1 to March 31) as against 49% in FY13), the balance was contributed by the financial services segment (27%), retail (13%), IT (6%) and Travel (7%) and others (the remaining 7%).

Consistent Growth in income

24/7 has maintained its steady growth in operational performance in the competitive BPO industry. During FY15, the company reported growth of about 17% in its total operating income over FY14. As the company operates on a cost plus model, the revenue growth is partly driven by the operating cost escalations as well.

During FY16, the company reported growth of about 24% in its total operating income over FY15.

Mitigation of project execution risk

[24]7 had undertaken project to construct their own premises in Bangalore (till now, the company's office was on lease) in FY15 at total cost of Rs.260 crores, which was funded through its existing cash, internal accruals and advances from the group company [24]7 Customer Philippines Inc. The project was completed by July 2015 (with minor time overrun of about 3 months), and the company has started operating from its owned premises from August 2015 onwards mitigating the project execution risk.

Healthy financial risk profile marked by debt-free capital structure; albeit significant customer advances to fund capex

[24]7 customer is a virtually debt free company and does not have any term loan repayments (except non-funded exposure to the tune of Rs.34.85 crore as on March 31, 2015 (FY14: Rs 42.49 crores) towards disputed income tax claim). The company has non fund based limits which include LCs and BGs and Loan Equivalent Risk (LER) limits for underwriting of their forward contracts. The financial profile, while comfortable, moderated to some extent during FY15 with receipt of customer advances (interest free) to fund its capex, resulting in total outside liabilities to net worth of 0.52x as on March 31, 2015 as against 0.10x as on March 31, 2014.

Drop in collection period owing to receipt of customer advances

[24]7's operating cycle in FY15 dropped to 19 days from 85 days in FY14 on account of low receivables as the company had already received customer advances for the ongoing project which were adjusted against the billings for the year.

Profitability closely linked to forex rate fluctuations

Owing to its cost plus model, operating profitability is more or less stable in terms of USD. However, with monthly billing and collection period of 60 – 90 days results in variation in profit margins to the extent of forex rate fluctuations. The company enters in forward contracts to partially hedge its forex exposure.

The profitability margin of the company substantially improved in FY15 due to depreciation of the INR against USD. The company's PAT increased by around 39% from Rs.28.80 crore in FY14 to Rs 40.03 crore in FY15. In FY16, the company's PAT registered a PAT of Rs. 34.44 crore.

Significant revenues concentration in the US and the UK markets

Majority of the [24]7's clients are from the US and the UK contributing around 60% and 25% of the revenue respectively exposing it to considerable geographical concentration risk.

Exposure to foreign exchange fluctuation risk resulting in volatile margins

With its revenue generated entirely in foreign currency and cost in Indian Rupee, the company is exposed to significant foreign exchange risk. The company partially hedges its receivables by entering into forward contracts. During FY15, company had unrealized forex gain of Rs.4.29 crore (unrealized forex gain of Rs.3.90 crore in FY14). Additionally, advances of Rs.87 crore received from the sister concern are also unhedged completely aggravating the forex risk.

During FY16, company had forex loss of Rs.1.13 cr.

Ongoing dispute with tax authorities regarding certain tax liabilities

The company has received tax demands from the income tax authorities aggregating to Rs.69.11 crore as on March 31, 2015 (Rs.60.04 crore as on March 31, 2014), including interest, arising from transfer pricing adjustments for the financial years ended March 31, 2004, 2005, 2006, 2007, 2008, 2009, 2010 and 2011. The company's appeals against the said demands are pending against various competent authorities. The company has made a deposit of Rs.19.36 crore as on March 31, 2015 (Rs.15.36 crore as on March 31, 2014) under protest and has provided bank guarantees amounting to Rs.34.85 as on March 31, 2015 (Rs.42.49 crores as on March 31, 2014) for the above demands. Outcome of the company's appeals against the said demands remain crucial from the credit perspective.

The company has made a deposit of Rs.14.29 crore in FY16 under protest.

Risks related to attrition

The BPO industry is labour-intensive in nature and is characterized by significantly high employee attrition. [24]7 also experiences almost 100% attrition rates and has to regularly incur expenses for employee welfare and fresh hiring in order to contain the risk & ensure smooth execution of operations.

Intense competition in the BPO sector

[24]7 USA faces strong competition from other international BPOs as well as Indian IT industry players such as Tata Consultancy Services, Infosys Technologies and Wipro and their BPO arms with strong technical and financial capabilities. The company also faces competition from smaller outsourcing firms for its outsourcing and transaction services. Moreover, given that outsourcing is primarily driven by cost savings to be realized, the industry remains competitive with regards to pricing of these services. Any loss of [24]7 USA's business to competition may have direct impact on performance of [24]7.

Analytical approach: Standalone

Applicable Criteria

Policy in respect of Non-cooperation by Issuer
CARE's Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Non Financial Sector

About the Company

Incorporated on March 22, 2000, [24]7, is a wholly owned subsidiary of [24]7 Customer Inc., USA ([24]7 USA).

[24]7 USA, incorporated in the April, 2000, is promoted by Mr P V Kannan and Mr Shanmugam Nagarajan. In 2003, [24]7 USA was privately funded in part by Mr Michael Moritz and his venture capital firm Sequoia Capital. The total venture funding was estimated at about USD 22 million. This company is headquartered in Campbell, California and provides cloud-based customer engagement solutions through its 6 back office units (BPO/KPO) two of which are located in India (Bangalore & Hyderabad), two in Philippines and one each in Guatemala and Nicaragua. The firm caters to several reputed MNCs in the fields of financial services, retail, telecommunications, technology, and travel industries.

[24]7 began its operations by providing call centre services to customers of [24]7 USA, and has subsequently migrated to servicing of customers through various interactive platforms such as IVR, chat and email. The company is a 100% export oriented unit (EOU) operating from Bangalore and Hyderabad with an aggregate employee strength of about 5000. The billing by [24]7 is done to [24]7 USA on a cost plus basis.

[24]7 registered total operating income of Rs. 448.76 crore and PAT of Rs. 34.44 crore in FY16 (refers to the period April 1 to March 31) as against a total operating income of Rs. 361.03 crore and PAT of Rs. 40.03 crore in FY15.

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	2.00	CARE A3+; ISSUER NOT COOPERATING
Non-fund-based - LT-Bank Guarantees	-	-	-	47.50	CARE BBB+; ISSUER NOT COOPERATING
Non-fund-based - ST-Loan Equivalent Risk	-	-	-	100.00	CARE A3+; ISSUER NOT COOPERATING

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Non-fund-based - ST-BG/LC	ST	2.00	CARE A3+; ISSUER NOT COOPERATING	-	1)CARE A3+ (09-Feb-16) 2)CARE A3+ (28-Apr-15)	1)CARE A3+ (16-Dec-14)	1)CARE A3+ (06-Dec-13)
2.	Non-fund-based - LT-Bank Guarantees	LT	47.50	CARE BBB+; ISSUER NOT COOPERATING	-	1)CARE BBB+ (09-Feb-16) 2)CARE BBB+ (28-Apr-15)	1)CARE BBB+ (16-Dec-14)	1)CARE BBB+ (06-Dec-13)
3.	Non-fund-based - ST-Loan Equivalent Risk	ST	100.00	CARE A3+; ISSUER NOT COOPERATING	-	1)CARE BBB+ / CARE A3+ (09-Feb-16) 2)CARE BBB+ / CARE A3+ (28-Apr-15)	-	-

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