ICRA has assigned [ICRA]AA- (pronounced ICRA Double A minus) rating to Rs. 4960 crore* (INR equivalent of US$ 800 mn) Non-Convertible Debentures programme of Empower Research Knowledge Services Private Limited (ERKS)†.

The rating takes a consolidated view on the credit risk profiles of ERKS and Genpact India (the key operating and cash flow generating entity in India), given their common parentage and operational linkages. These are together referred to as Genpact India Consolidated.

The rating factors in the strengths that Genpact India Consolidated derives from its parentage viz. Genpact Limited (referred to as Genpact Group) (rated Ba1(stable) by Moody's Investor Services), a Business Process Outsourcing (BPO) and Information Technology enables Services (ITeS) services provider with annual revenues of US$ 2.1 billion‡ and 700 clients globally. The ratings are supported by the strong business position of Genpact Group characterized by a strong client base, its global execution capabilities and an experienced management team. Genpact Group has diversified service offerings across business verticals/service lines and long term customer relationships which lend stability to cash flows. In addition, the rating takes into consideration the strategic importance of Genpact India Consolidated for Genpact Group given that 66%§ of global revenues are being serviced from India and 74.9% of global headcount is based in India.

The rating draws comfort from the robust financial profile of Genpact India Consolidated as reflected by the healthy revenue growth and strong cash flows driven by steady business generation/allocation of assignments by Genpact Group. The operating profitability of Genpact India Consolidated, though declined in FY14, has remained healthy in 30%-33% range with improvement in employee productivity, increasing proportion of value accretive assignments and cost reduction initiatives. This along with low depreciation and interest expenses, and availability of certain tax benefits, has led to robust net margins for Genpact India Consolidated. ICRA also factors in the long-term stable outlook for outsourcing services from India, considering its technical talent pool and cost advantage.

Genpact India Consolidated remains a key revenue and cashflow driver for the Genpact Group and the healthy revenue growth leads to sizeable cashflow generation at Genpact India Consolidated level. The capital structure of Genpact India Consolidated remains robust with healthy cash holding and resultant negative net debt position as on March 2014. This along with steady internal cash generation has translated into robust debt protection metrics.

The Genpact Group has reported steady growth in revenue generation along with operating profitability in the 18%-21% range, aided by healthy margins in India. Despite a sizeable equity share buyback in Q2CY14 and an acquisition, the capital structure of Genpact Group remains conservative with net gearing of 0.34x as on September 2014 and limited debt repayment commitments in the medium term. Moreover, the Group has a steady cashflow generation track record which gives it a comfortable liquidity position.

The rating of ERKS however is constrained by the vulnerability of profitability of Genpact India Consolidated to wage inflation and competitive pressures from both within India and other low cost countries. In addition, Genpact India Consolidated faces challenges with respect to employee attrition.

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* Conversion at US$ 1 = INR 62.00; 1 crore = 100 lakhs = 10 million
† For complete rating scale and definitions please refer to ICRA’s website www.icra.in or other ICRA rating publications
‡ For Financial year ended December 2013
§ For Nine months ended September 2014; as per Genpact Ltd. reported data
rates and recovery of dues from clients. Moreover, the operations of Genpact India Consolidated remain susceptible to any legislation, especially in the US/EU region, which may restrict outsourcing to low cost countries. The profitability of the Genpact India Consolidated is exposed to adverse foreign exchange movement given that majority of company’s revenues are generated in US$ and a significant part of expenses are in Indian Rupee. However, this risk is hedged to a large extent by buying forward covers.

ICRA also takes note of the possibility of sizeable dividend payout, share buyback or acquisition given the comfortable liquidity position and history of such events at the Genpact Group level. Given the strong linkage, this may adversely impact the liquidity of Genpact India Consolidated. ICRA also takes note of a possibility of change in shareholding of Genpact Group which is largely held by Private Equity players. As on December 31, 2013, Bain Capital (through its affiliates) and its co-investors beneficially owned approximately 29% shareholding. Bain Capital has an equity lock-in till April 25, 2015 after which there can be a change in the shareholding of Genpact Group.

The proposed NCD would be raised in ERKS which would part-finance the acquisition of 100% stake in Genpact India, and the two entities are proposed to be subsequently merged, subject to Court approvals. The transaction would be cash neutral for the overall group. The cash flows of the merged entity (primarily accruing from Genpact India) would be utilized to service the debt raised. Hence, the timely conclusion of the merger of Genpact India and ERKS remains critical for the servicing of the proposed NCD.

Company Profile
Genpact Limited is a BPO and IT/ITeS services provider with more than 700 clients globally. The company has an employee base of ~67,500 employees with a global network of delivery centers in 25 countries - India, Brazil, China, Guatemala, Columbia, Hungary, Japan, Mexico, Kenya, the Philippines, Poland, Czech Republic, Netherlands, Romania, South Africa, United Arab Emirates and USA.

Genpact group started as a business unit within General Electric Company (GE), with the view to offer business process services to GE’s businesses. In January 2005, Genpact group became an independent company which enabled it to offer its services to clients other than GE. In August 2007, Genpact Ltd. was listed on the New York Stock Exchange.

Genpact India, along with the other operating companies including ERKS, are delivery centers for the Genpact group. Genpact US is the customer facing contracting entity for contract/mandate origination, marketing and business development. Genpact US enters into subcontracting agreements with its delivery centers for execution of contracts.

In FY2014, Genpact India Consolidated revenues of Rs. 4,528 crore and net profit of Rs. 1,047 crore as compared to the consolidated operating income of Rs. 4,253 crore and net profit of Rs. 1,116 crore in FY2013.

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