

**AGC Networks Limited**  
**March 01, 2021**

**Ratings**

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	97.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable )	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Short Term Bank Facilities	31.50	CARE A3 (A Three )	Revised from CARE A4+ (A Four Plus)
<b>Total Bank Facilities</b>	<b>128.50</b> <b>(Rs. One Hundred Twenty-Eight Crore and Fifty Lakhs Only)</b>		

*Details of facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The revision in the ratings assigned to the bank facilities of AGC Networks Limited (AGC) takes into account progress in terms of equity infusion by promoter entity, with Rs.73 crore out of the total Rs.225 crore already received by AGC on January 08, 2021 in the form of allotment of warrants and improved performance during 9MFY21 resulting in positive net-worth as on December 31, 2020. The rating continues to derive strength from experienced promoters (viz. Essar group) and management, the company's sound technical knowhow and domain expertise translating in to significant improvement in performance of AGC's subsidiary viz. Black Box Corporation Limited during FY20 and 9MFY21. The rating also continue to factor in strong and diversified client base, diversified capabilities in Information and Communication Technology solutions, improved collection period in FY20 marked by securitisation of receivables, and significant decrease in corporate guarantee extended to subsidiary. The ratings are however tempered by competitive nature of the IT/ITeS industry and foreign exchange risk faced by the company.

Rating Sensitivities*Positive Factors*

- EBITDA margin above 8.50% on sustained basis
- Current Ratio more than 1.50x on sustained basis
- Overall gearing below 1.00x, on a sustained basis.

*Negative Factors*

- EBITDA margin falling below 5.00 %
- Increase in Operating Cycle to more than 25 days
- Promoters of AGC not being able to bring the balance equity contribution within the permissible timelines and repay loan taken from Essar Telecom Limited.

**Detail description of the key rating drivers****Key Rating Strengths****Progress in equity infusion as envisaged**

In November 2020, the board of directors of the company approved preferential allotment of shares to the promoters (Essar Group entities which hold 69% in the company presently) aggregating to Rs.225 crore. The amount is expected to be utilized to repay the unsecured loans of around Rs.200 crore earlier provided by promoters to finance BBX acquisition. The company has already allotted warrants convertible to Rs.225 crore worth of equity shares to respective promoters and has received Rs.73 crore from the allottees as on January 08, 2021. However, currently there is no change in the Paid-up Equity Share Capital of the Company as conversion of warrants to equity shares will take place only after receiving entire allotment amount of Rs.225 crore.

**Experienced Promoters**

AGC's majority shares are held by Essar Global Fund Limited through its subsidiaries Essar Telecom Limited (ETL) (47.34%) and Onir Metalics Limited (21.76%). EGFL is a global investor, controlling a number of diversified

businesses across the core sectors of metals & mining, energy, infrastructure (comprising ports and EPC businesses) and services (shipping, IT and retail businesses). EGFL invests with a sense of active ownership, which involves direct engagement with the management of the respective businesses.

***Sound technical knowhow and domain expertise***

AGC has been operating in telecommunication & networking related business for more than three decades. Over the period AGC has developed sound technical knowhow and domain expertise, helping it to diversify into related businesses with relative ease as well as to adapt to any technological developments in its existing domain of operations. This expertise has enabled AGC to offer customised solutions/ services to its customers, thereby giving it a competitive advantage.

***Strong and diversified client base***

AGC has a strong client base which includes some of the majors such as the Bank of America, Synnex Corp, TJX Companies, Miami-Dade Aviation, CDW Logistics, Intel Corporation, Wells Fargo Bank, Suntrust Bank, Facebook, Genentech Inc, HEBLP, TCS, SBI, Xiaomi Technology India Private Limited, HCL, Accenture, Vodafone, Hewlett Packard, Citibank, WNS Global Services, Ericsson, Volkswagen, Skoda, Deutsche Bank and various government departments/ public sector undertakings. AGC's clientele is spread across a broad spectrum of verticals such as banking, financial services and insurance, government, PSUs and defence, healthcare, travel and hospitality, IT/ITes, manufacturing, energy, utilities, etc. In addition, customer concentration risk has been negligible, with the top 10 customers contributing around 29% to the total sales during FY20. The well diversified client base insulates the company's revenue stream from any industry specific risks of business cycles.

***Diversified capabilities in ICT solutions***

Over the period, AGC has evolved as one of the major solutions integrators in the enterprise communication space. The company has presence in more than 30 countries and offers unified communication solutions, Data centre & Edge IT, Cyber Security, Digital Transformations and Applications services across the lifecycle of the solution, spanning design, deployment and management of communication solutions for enterprises to interact with the customers, employees, suppliers, etc. AGC also provides maintenance activities through its customer care segment required periodically for the hardware set up by the company.

***Improved collection period***

On account of securitization of trade receivables (related to BBC) carried out during FY20, total receivables stood at Rs.361 crore, as on March 31, 2020 (PY: Rs.860 crore). Consequently, on consolidated basis, AGC's collection period was at 44 days in FY20 (PY: 104 days). Around 85% of the net debtors were due for less than 180 days as on March 31, 2020, as compared to 95% as on March 31, 2019. AGC had total consolidated provisions of Rs.134 crore for bad & doubtful debts as on March 31, 2020, out of which provisions amounting to around Rs.8 crore was made during FY20. AGC has made provisions for 72% of receivables due for more than 180 days. Most of these provisions are old and made against debtors not receivable. Top-10 debtors owed around Rs.117 crore and comprised of almost 24% of AGC's total receivable (i.e., about Rs.495 Crore) book as on March 31, 2020.

***Improvement in scale of operations and profitability during FY20 and 9MFY21; albeit limited track record***

AGC completed the acquisition of Black Box Corporation (BBC) on January 07, 2019. Consequently, the total revenue of AGC on a consolidated basis increased from Rs.1856 crore in FY19 to about Rs.5027 crore during FY20. On a consolidated basis, AGC's profitability also improved in FY20, with EBITDA margin improving by about 350 bps, to 6.19% during FY20 from 2.69% during FY19. This was primarily on account of various cost optimization measures such as reduced employee head count, reduction in procurement cost, admin cost, insurance, IT and communications related costs, etc.

Further, during FY20, AGC has incurred an exceptional expense of Rs.125 crore (primarily comprising of Rs.100 crore towards securitization costs, Rs.8.50 crore towards foreclosure of leases, Rs.6.50 crore towards inventory written off, Rs.5 crore towards other intangible assets written off) incurred towards the acquisition of BBC. Despite this one time exceptional cost, AGC on a consolidated basis has reported a profit during FY20 as against a loss in FY19. Further, PAT margin of AGC on a consolidated basis improved to 0.82% as against a loss reported in FY19. AGC on a consolidated basis has witnessed significant improvement in performance during FY20 marked by improved performance primarily led by BBC's performance. Moreover, during 9MFY21, AGC reported TOI of Rs.3462 crore (PY: Rs.3775 crore), i.e. an 8% decrease Y-o-Y, on account of subdued sales during Q1FY21 due to global pandemic. Operating margin and PAT margin during 9MFY21 stood at 5.76% (PY: 6.10) and 2.66% (PY: 0%). However, sustained track record of the same remains to be established. Hence, the same remains critical from the credit perspective.

**Improvement in debt coverage indicators in FY20**

Although the net-worth of AGC on consolidated basis stood at negative Rs.60 crore at the end of FY20 (PY: Rs.11 crore), however, the company is planning to raise equity from promoters during FY21 amounting to Rs.225 crore, which will be used to pay loan taken from Essar Telecom Limited. In view of the above coupled with accretion of profits projected in FY21, the net-worth of AGC is expected to improve in future. Consequently, the overall gearing is expected to improve going ahead. Improvement in the profitability levels of BBC during FY20 and large repayment of debt from initial proceeds of securitisation of receivables, interest coverage ratio improved to 2.75x during FY20 (PY: 1.12x) and to 3.44x during 9MFY21 (PY: 2.63x). Moreover, Total Debt/GCA improved to 5.27x during FY20 (PY: -12.56x).

**Key Rating Weaknesses****Negative net-worth as on March 31, 2020; albeit expected to improve going ahead**

The net-worth of AGC on consolidated basis stood at Negative Rs.60 crore as on March 31, 2020 (Positive Rs.11 crore as on March 31, 2019) due to around Rs.225 crore of exceptional and other comprehensive expenses which mainly included one-time securitization related costs and re-measurement loss on defined pension plan of BBC (Black Box Corporation). However, the company has repaid substantial portion of the bank debt majorly by prepayments out of the receivable securitization proceeds and unsecured loan from promoters. Further, AGC is planning to raise equity from promoters amounting to Rs.225 crore which will be used to repay loan taken from Essar Telecom Limited, during FY21. In view of the above coupled with accretion of profits projected in FY21, the net-worth of AGC is expected to improve in future. Moreover, due to continued improvement in performance despite covid disruption coupled with decrease in extraordinary & exceptional expenses during 9MFY21, net-worth of the company improved to positive Rs.55 crore as on December 31, 2020.

**Foreign exchange risk**

On a standalone level AGC is a net importer with major portion of third party equipment requirement being imported by the company. With acquisition of Black Box Corporation, AGC's standalone export turnover has also started increasing and on standalone basis, AGC has very negligible foreign exchange risk. However, on a consolidated level AGC is net exporter wherein the major part of its earnings are in dollars from its US and Singapore subsidiaries (which contributed around 90% of the consolidated revenue during FY20). Hence, on consolidated basis the revenue from US and other subsidiaries acts as a natural hedge for its foreign exchange exposure. Nonetheless, as large part of the revenue on a consolidated basis is in US \$ denominated, at the time reporting the company will have translation losses/gains due to exchange fluctuation, which will largely be notional in nature.

**Competitive nature of the business**

The managed IT services market is highly competitive with competition from Tier I domestic IT service providers, global IT service providers, large telecommunication companies, telecommunication service providers as well as small and midsize IT services companies. Moreover, the managed IT solutions market has seen significant capacity expansion over the past few years to tap into the potential of the growing domestic IT solutions market. The presence of large industry players, increasing number of smaller firms, robust capacity expansion for the industry together with the rapidly changing business dynamics of the IT industry have resulted in increased competition within the IT solutions market leading to subdued revenue growth and pressure on profit margins.

**Liquidity Analysis: Adequate**

AGC on a consolidated basis reported a GCA of Rs.123 crore in FY20 and Rs.110 crore during 9MFY21. Against this, AGC has a total scheduled repayment of Rs.65 crore and a moderate capex of Rs.40 crore on a consolidated basis in FY21. Average utilisation of bank facilities for both fund based and non-fund based limits for the last 12 months ended December 2020 was at 90% and 84%, respectively. Current ratio stood at 0.80x as on March 31, 2020 (PY: 1.15x). Moreover, Total Debt/ GCA improved on Y-o-Y basis to 5.27x as on March 31, 2020 (PY: -12.56). Total unencumbered cash and bank balance as on March 31, 2020 was Rs.369 crore (PY: Rs.263 crore) on consolidated basis and Rs.2 crore (PY: Rs.3 crore) on standalone basis. The company had availed interest moratorium on CC facilities from its banks as per Covid-19 relief measures announced by RBI.

**Analytical approach:** CARE has considered consolidated financials of AGC and its group companies on account of significant operational and financial linkages. List of subsidiaries included in the consolidated results are depicted in Annexure-3.

**Applicable Criteria**

[Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)  
[Short-term Instruments](#)  
[Financial ratios – Non-Financial Sector](#)  
[CARE's methodology for service companies](#)  
[Rating Methodology: Consolidation and Factoring Linkages in Ratings](#)  
[CARE's policy: Liquidity Analysis of Non-Financial Sector Entities](#)

### About The Company

AGC Networks Ltd. (AGC), incorporated in 1986 by Tata Telecom Pvt. Ltd. to manufacture telecommunication equipment, was acquired by the USA based Avaya Inc in 2004. In August 2010, Essar group acquired 79.13% stake in the company which was transferred to a group company Aegis Ltd. Aegis Ltd. transferred the investment in AGC to another group company (viz. Essar Telecom Ltd) effective from March 28, 2014.

Over the years, AGC evolved into an information and communication (ICT) solutions provider and integrator with a differentiated vertical approach in business communication systems, applications and services mainly within India. The company provides server based converged networking platform for voice, data and video including IP telephony, multimedia call centre and Customer Relationship Management (CRM) solutions, unified communications and customer service.

AGC has been undergoing major expansion in its international operations. The company has consistently increased its global footprint through foray into multiple geographies such as Middle East, Africa, North America, Australia, New Zealand, Singapore, Philippines and UK servicing over 8000+ customers. Further, to expand its global presence AGC completed the acquisition of Black Box Corporation (BBC) on January 07, 2019.

Brief Financials (Rs. crore)-Consolidated	FY19 (A)	FY20 (A)	9MFY21
Total operating income	1856	5027	3462
EBITDA	50	311	200
PAT	-79	41	92
Overall gearing (times)	73.43	NM	NA
Interest coverage (times)	1.12	2.75	3.44

A: Audited; NM=Not meaningful; NA=Not Available

**Status of non-cooperation with previous CRA:** ICRA suspended its ratings on AGC vide press release dated June 21, 2013 as ICRA was unable to carry out a rating surveillance in the absence of the requisite information from the company.

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

### Annexure-1: Details of Facilities

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	97.00	CARE BBB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	31.50	CARE A3

### Annexure-2: Rating History of last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	97.00	CARE BBB-; Stable	1)CARE BB+; Stable (02-Sep-20)	1)CARE C; Stable (23-Sep-19)	1)CARE BB+ (05-Apr-18)	1)CARE BB; ISSUER NOT COOPERATING* (02-Feb-18)

						2)CARE BB+ (CWD) (03-Apr-19)		
2.	Non-fund-based - ST-BG/LC	ST	31.50	CARE A3	1)CARE A4+ (02-Sep-20)	1)CARE A4 (23-Sep-19) 2)CARE A4 (CWD) (03-Apr-19)	1)CARE A4 (05-Apr-18)	1)CARE A4; ISSUER NOT COOPERATING* (02-Feb-18)
3.	Fund-based - LT-Term Loan	LT	-	-	1)Withdrawn (02-Sep-20)	1)CARE D (23-Sep-19) 2)CARE BB+ (CWD) (03-Apr-19)	1)CARE BB+ (05-Apr-18)	1)CARE BB; ISSUER NOT COOPERATING* (02-Feb-18)

**Annexure-3: List of subsidiaries**

#	Name of the Entity	% of holding as on March 31, 2020
1	AGC Networks Australia Pty Ltd	100
2	AGC Networks Pte. Ltd., Singapore	100
3	AGC Networks LLC and its subsidiaries (consolidated),USA	100
4	AGC Networks Philippines, Inc.	100
5	AGC Networks and Cyber Solutions Limited, Kenya	100
6	AGCN Solutions Pte. Limited, Singapore	100
7	AGC Networks L.L.C., Dubai	100
8	AGC Networks L.L.C., Abu Dhabi	100
9	AGC Networks New Zealand Limited	100
10	BBX Main Inc.	100
11	BBX Inc. and its subsidiaries (consolidated)	100

**Complexity level of various instruments rated for this Company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-BG/LC	Simple

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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