AGC Networks Limited

March 24, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	-	-	Reaffirmed at CARE BBB-; Stable (Triple B Minus; Outlook: Stable) and Withdrawn
Short Term Bank Facilities	-	-	Reaffirmed at CARE A3 (A Three) and Withdrawn
Total Bank Facilities	**-**		

Details of facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE BBB-; Stable/CARE A3' [Triple B minus; Outlook: Stable/ A Three] assigned to the bank facilities of AGC Networks Limited (AGC) with immediate effect. The above action has been taken at the request of AGC. and 'No Objection Certificate' received from the banks that have extended the facilities rated by CARE.

The rating factors in the comfort from 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 securitization 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.

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 Metallics 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 13, 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 is 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 funds 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

Policy on Withdrawal of ratings
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
Rating Methodology: Notching by 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 Private Limited 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. Moreover, to strengthen its presence in the Middle East region and also to add cloud cybersecurity capabilities, Black Box Holdings, an indirect wholly-owned subsidiary of AGC Networks, will acquire a majority stake of 76% in Z Services HQ DMCC for about $3.94 million (Rs.29 crore). This will also give rise to an opportunity to cross-sell to the current customers.

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 Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	Withdrawn
Non-fund-based - ST-BG/LC	-	-	-	-	Withdrawn

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	-	-	1)CARE BBB-; Stable (01-Mar-21) 2)CARE BB+; Stable (02-Sep-20)	1)CARE C; Stable (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)
2.	Non-fund-based - ST-BG/LC	ST	-	-	1)CARE A3 (01-Mar-21) 2)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

Annexure 4: 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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Mr. Manohar Annappanavar
Contact no. : +91-22-6754 3436
Email ID: manohar.annappanavar@careratings.com

Business Development Contact
Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

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