NOVEMBER 30, 2016

CARE REMOVES CREDIT WATCH AND REAFFIRMS THE RATINGS ASSIGNED TO THE BANK FACILITIES OF ACCEL FRONTLINE LIMITED

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Remarks
Long-term Bank Facilities	49.00 (reduced from 54.00)	**CARE BB+ (Double B Plus)**	Reaffirmed; Removed from Credit Watch
Short-term Bank Facilities	52.50	**CARE A4+ (A four Plus)**	Reaffirmed; Removed from Credit Watch
Total	**101.50 (Rupees One Hundred and One crore and Fifty Lakh only)**		

Rating Rationale

The ratings of Accel Frontline Limited (AFL) were placed under 'credit watch' in view of the extension of time sought by the company from Securities and Exchange Board of India (SEBI) for adoption of the audited financial results for the year ended March 31, 2016, following a report from an independent auditor on the receivables and subsequent clarifications & confirmations sought by the statutory auditors. The removal of credit watch and reaffirmation of the ratings is on account of adoption of financial results for FY16 (refers to the period April 01 to March 31) by the company, continued operational & financial support from its parent entity – CAC Corporation, Japan and improvement in the operational performance of AFL during H1FY17 (refers to the period April 1 to September 30). The ratings continue to derive strength from the established track record of operations of the company and its strong relationship with multiple vendors.

The ratings, however, continue to be constrained by the elongated working capital cycle of AFL, concentration of revenues with few clients and highly competitive nature of the IT industry. The ratings also factor in the losses incurred by the company in FY16 mainly on account of certain prior period write-off, resulting in erosion of net worth.

Going forward, ability of the company to improve its operational performance, report profits in the near term and prudently manage its working capital requirements would be the key rating sensitivities.

Background

Chennai-based AFL (listed in BSE) is engaged in providing IT infrastructure and Software services. AFL operates under 4 different verticals, viz. System Integration (IT SI), Infrastructure Management Services (IT IMS), Software Services (SS) and Warranty Management Services (WMS).

AFL was originally incorporated in 1991 by Mr N R Panicker along with a few other associates. During January 2014, CAC Corporation, Japan acquired 51% stake in AFL through share purchase from the promoters and through open offer. CAC further increased its stake and as on September 30, 2016 CAC held 60% stake, while the original promoters held 15% and the remaining 25% was held by general public.

For the year ended FY16, the company reported a net loss of Rs.137.59 crore on a total income of Rs.322.49 crore as against net loss of Rs.7.45 crore on a total income of Rs.342.07 crore in FY15. During H1FY17, the company reported a smaller loss of Rs.6.50 crore on a total operating income of Rs.167.69 crore.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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.

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

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