

Accel Frontline Limited

September 18, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Short term Bank Facilities	11.52	CARE A4+ (A four Plus)	Reaffirmed
Long term Bank Facilities *	-	-	Withdrawn
Total	11.52 (Rs. Eleven crore and fifty two lakh only)		

*The facility has been closed and hence the rating is being withdrawn
Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facility of Accel Frontline Limited (AFL) continues to be constrained by the elevated financial risk profile of the company with negative networth. The company continues to incur losses from operations and the positive PAT in FY 18 is due to income from disinvestment of its Singapore subsidiary. The rating also takes into account the moderate concentration of revenue from two segments and highly competitive nature of the IT industry. However, the ratings derive strength from the established track record of operations of AFL, the company's strong relationship with multiple vendors and operational & financial support derived from its parent entity – CAC Corporation, Japan.

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

Key Rating Weaknesses

Elevated financial risk profile

The company reported a PBILDT margin of 0.97% during FY18 as against 4.97% in FY17. However, the operations of its key operating entity, AFL India has improved with PBILDT margin of 5.18% as during FY18 as against 3.11% during FY17. Except Network Programs USA Inc, all the other subsidiaries are loss making. The net worth of the company also turned positive as on March 31, 2018 on a standalone basis. While sale of a subsidiary helped the company improve its net worth to an extent, the company continues to have negative net worth on a consolidated basis and the ability of the company to turn profitable and improve its capital structure is critical.

Intense competition in the IT industry

The IT-SI and IT-IMS segments in which the company operates are highly competitive with major established players and innumerable small scale players. This leads to higher competition in the industry. The competition can also affect the profit margins as the company has to offer services at a lower price to attract customers.

Key Rating Strengths

Established track record of operations and strong relationship with multiple vendors

AFL continues to be an established player for over 2 decades in the IT IS and IT IMS segments with a nationwide presence backed by eight regional offices and over 100 direct service locations. The revenue of AFL is broadly diversified between its 4 different verticals, viz. System Integration (SI), Infrastructure Management Services (IMS), Software Services (SS) and Warranty Management Services (WMS).

Financial assistance & synergies obtained by operating under CAC

Since its acquisition in 2014, CAC has infused Rs.24.75 crore as equity into AFL and has also provided unsecured loans to the tune of Rs.55.29 crore to the various group entities. CAC has also enabled AFL to reduce its interest rates on its bank facilities by enabling the company to access working capital loans at a relatively lower interest from Japanese banks which are also guaranteed by CAC. This provides significant support to AFL in terms of low cost working capital availability for its on-going operations. CAC has also appointed some of its well-qualified and experienced executives in key positions of AFL.

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

Analytical approach: Consolidated.

CARE has taken a consolidated view of AFL and its subsidiaries. All the companies are engaged in similar line of business and operate under common management.

Applicable Criteria

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

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Rating Methodology-Services Sector](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Chennai-based AFL (listed in BSE), was originally incorporated in 1991 by Mr N R Panicker along with a few other associates. During January 2014, CAC Holdings Corporation, (CAC, Japan based IT services provider), acquired 51% stake in AFL through share purchase from the promoters and through open offer. CAC further increased its stake and as on June 30, 2017 CAC held 60% stake while the promoters held 15% and remaining was held by public. Further to a settlement and release agreement entered between CAC and the promoters during July 2017, the promoters transferred 14.38% of their stake to an independent trust thereby relinquishing their control over the company. As on March 2018, AFL had 6 subsidiaries in Dubai, USA, UK and Japan.

Brief Financials (Rs. crore)	FY17 (A)	FY18(A)
Total operating income	588.73	509.49
PBILDT	28.84	4.96
PAT	-13.85	12.10
Overall gearing (times)	NM	NM
Interest coverage (times)	1.13	0.26

NM-Not Meaningful

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.

Analyst Contact:

Name: Mr. Harihara Subramanian C

Tel: 044-2850 1000

Mobile: +91 97899 98514

Email: harihara.subramanian@careratings.com

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

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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CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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 Facilities

Name of the Facility	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC	-	-	-	11.52	CARE A4+

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE BB+; Stable (22-Sep-17)	1)CARE BB+ (30-Nov-16) 2)CARE BB+ (Under Credit Watch) (01-Jun-16)	1)CARE BB+ (27-Nov-15)
2.	Non-fund-based - ST-BG/LC	ST	11.52	CARE A4+	-	1)CARE A4+ (22-Sep-17)	1)CARE A4+ (30-Nov-16) 2)CARE A4+ (Under Credit Watch) (01-Jun-16)	1)CARE A4+ (27-Nov-15)

CONTACT**Head Office Mumbai****Ms. Meenal Sikchi**

Cell: + 91 98190 09839

E-mail: meenal.sikchi@careratings.com**Mr. Ankur Sachdeva**

Cell: + 91 98196 98985

E-mail: ankur.sachdeva@careratings.com**Ms. Rashmi Narvankar**

Cell: + 91 99675 70636

E-mail: rashmi.narvankar@careratings.com**Mr. Saikat Roy**

Cell: + 91 98209 98779

E-mail: saikat.roy@careratings.com**CARE Ratings Limited****(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com**AHMEDABAD****Mr. Deepak Prajapati**32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015

Cell: +91-9099028864

Tel: +91-79-4026 5656

E-mail: deepak.prajapati@careratings.com**HYDERABAD****Mr. Ramesh Bob**401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: ramesh.bob@careratings.com**BENGALURU****Mr. V Pradeep Kumar**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91 98407 54521

Tel: +91-80-4115 0445, 4165 4529

Email: pradeep.kumar@careratings.com**JAIPUR****Mr. Nikhil Soni**304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.

Cell: +91 – 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: nikhil.soni@careratings.com**CHANDIGARH****Mr. Anand Jha**SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh

Cell: +91 85111-53511/99251-42264

Tel: +91- 0172-490-4000/01

Email: anand.jha@careratings.com**KOLKATA****Ms. Priti Agarwal**3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: priti.agarwal@careratings.com**CHENNAI****Mr. V Pradeep Kumar**Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: pradeep.kumar@careratings.com**NEW DELHI****Ms. Swati Agrawal**13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: swati.agrawal@careratings.com**COIMBATORE****Mr. V Pradeep Kumar**T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: pradeep.kumar@careratings.com**PUNE****Mr. Pratim Banerjee**9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: pratim.banerjee@careratings.com

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