Accel Frontline Limited

September 22, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	10.00 (reduced from 49.00)	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	Reaffirmed
Short-term Bank Facilities	20.00 (reduced from 52.50)	**CARE A4+ (A four Plus)**	Reaffirmed
Total	**30.00 (Rupees Thirty Crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Accel Frontline Limited (AFL) continue to be constrained by the elevated financial risk profile of the company marked by losses incurred during FY16 (refers to the period April 1 to March 31) & FY17 and leveraged capital structure, moderate concentration of revenue with few clients 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. The ratings also factor in the improvement in capital structure of the company post the sale of one of its subsidiaries in July 2017.

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.

Detailed description of the key rating drivers

Key Rating Weaknesses

Revenue concentration risk

Though the revenue of the company is diversified across various segments, the dependence on System Integration (SI) and Infrastructure Management Services (IMS) has been increasing over the years and the two segments together contributed about 84% of the revenue during FY17 as against about 78% during FY16. Top 10 customers contributed about 36% of the total revenue during FY17 as against 41% of total revenue during FY16. However, the share of top 5 clients remained at around 30% of total revenue during both the years.

Elevated financial risk profile

During FY16, the company had incurred certain prior period expenses and had written off bad debts resulting in net loss of Rs.136.82 crore and complete erosion of net worth as on March 31, 2016. During FY17, AFL reported a total operating income of Rs.588.73 crore as against total operating income of Rs.511.91 crore reported during FY16. Though the company has been able to sustain growth in its operating income, it continues to face pressure on profitability levels majorly due to increased employee expenses and finance costs. AFL reported a net loss of Rs.13.85 crore and generated a cash profit of Rs.1.21 crore during FY17.

During July, 2017, the company sold its stake in its Singapore based subsidiary for a consideration of Rs.90.02 crore and profit of Rs.82.25 crore. Consequent to the same, the net worth of the company turned positive. However, with unsecured loans from promoters and higher dependence on working capital borrowings, the capital structure of the company continues to remain leveraged.

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

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

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 are 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.60 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.

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.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	511.91	588.73
PBILDT	14.16	28.84
PAT	-136.82	-13.85
Overall gearing (times)	-6.22	-5.40
Interest coverage (times)	0.68	1.15

A: Audited

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.*

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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.

Annexure-1: Details of Instruments/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	-	-	-	10.00	CARE BB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	20.00	CARE A4+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	10.00	CARE BB+; Stable	-	1)CARE BB+ (30-Nov-16) 2)CARE BB+ (Under Credit Watch) (01-Jun-16)	1)CARE BB+ (27-Nov-15)	1)CARE BB+ (13-Jan-15) 2)CARE BB (21-Apr-14)
2.	Non-fund-based - ST-BG/LC	ST	20.00	CARE A4+	-	1)CARE A4+ (30-Nov-16) 2)CARE A4+ (Under Credit Watch) (01-Jun-16)	1)CARE A4+ (27-Nov-15)	1)CARE A4+ (13-Jan-15) 2)CARE A4 (21-Apr-14)
3.	Non-fund-based - ST-Letter of credit	-	-	-	-	-	-	1)CARE A4 (21-Apr-14)
4.	Fund-based - LT-Term Loan	-	-	-	-	-	-	1)CARE BB+ (13-Jan-15) 2)CARE BB (21-Apr-14)

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