

AGC/SD/SE/2021/175

**November 12, 2021**

<b>Corporate Relationship Department</b> <b>Bombay Stock Exchange Limited</b> P.J. Towers, Dalal Street, Fort, Mumbai – 400001	<b>Corporate Relationship Department</b> <b>National Stock Exchange Limited</b> Exchange Plaza, Bandra Kurla Complex, Bandra East, Mumbai - 400051
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**Subject: Intimation under Regulation 30(2) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("LODR Regulations")- Credit Rating**

**Ref.: Scrip code BSE: 500463/NSE: AGCNET**

Dear Sir/Madam,

Pursuant to Regulation 30(2) read with Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("LODR Regulations"), we would like to inform you that 'CRISIL Ratings' has upgraded Credit Rating of the Company. In accordance with the Regulation, please find below the details of the revision in rating for the bank facilities of the Company:

<b>Facility</b>	<b>Revised Rating</b>	<b>Earlier Rating</b>
Total Bank Loan Facilities Rated	Rs. 128.5 Crores	Rs. 128.5 Crores
Long Term Rating	CRISIL BBB/Stable	CRISIL BBB-/Stable
Short Term Rating	CRISIL A3+	CRISIL A3

As on October 31, 2021, the total limit utilization stands at Rs. 26 crores out of the total limits of Rs.128.50 Crores.

Copy of the Rating latter along with detailed Rating Rationale issued by CRISIL dated November 11, 2021 is also enclosed herewith.

This is for your information, record and necessary dissemination to all the stakeholders.

This is for your kind information and record.

Thanking You,  
For **AGC Networks Limited**

**Aditya Goswami**  
**Company Secretary & Compliance Officer**

Encl.: As above

# Ratings

CRISIL Ratings Limited (A subsidiary of CRISIL Limited)



## Rating Rationale

November 11, 2021 | Mumbai

### AGC Networks Limited

*Ratings upgraded to 'CRISIL BBB/Stable/CRISIL A3+'*

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.128.5 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL BBB/Stable (Upgraded from 'CRISIL BBB-/Stable')</b>
<b>Short Term Rating</b>	<b>CRISIL A3+ (Upgraded from 'CRISIL A3')</b>

*1 crore = 10 million*

*Refer to Annexure for Details of Instruments & Bank Facilities*

#### Detailed Rationale

CRISIL Ratings has upgraded its ratings on the bank facilities of AGC Networks Limited (AGC) to '**CRISIL BBB/Stable/CRISIL A3+**' from 'CRISIL BBB-/Stable/CRISIL A3'

The rating upgrade factors expectation of sharp improvement in the financial risk profile over the medium term, driven by healthy cash accrual of Rs 300-450 crore over fiscals 2022 to 2024 and debt in the range of Rs 125-170 crore. Financial risk profile strengthened in fiscal 2021, owing to reduction in total debt to Rs 193 crore from Rs 468 crore in fiscal 2020. The reduction in debt in fiscal 2021 was on account of equity infusion from promoters amounting to Rs 188 crore through issue of warrants and healthy cash accrual of over Rs 215 crore. Furthermore, the company continues to remain debt free at the net debt level, as cash and liquid surplus as on March 31, 2021 stood at Rs 411 crore.

AGC is expected to report a topline of Rs 5,400-6,000 crore in fiscal 2022, driven by receipts of new orders as it cumulatively bagged orders worth Rs 1000 crore in the last two quarters, ending first quarter of fiscal 2022. Operating margin is expected to sustain at over 7%, in-line with last fiscal, driven by price hikes on fixed price contracts and cost optimisation initiatives implemented at various levels. In the first quarter of fiscal 2022, AGC reported a top-line growth of 20%, driven by healthy orderbook and lower base of corresponding quarter last fiscal due to the pandemic. Operating margin though was lower at 4.5% on the back of escalations in labour costs and increase in costs of chipsets. Nevertheless, operating profitability is expected to revert to 8-9% in the forthcoming quarters, supported by continued cost optimisation initiatives and price hikes on select variable price contracts.

Top-line de-grew by 7% in fiscal 2021, on the back of disruptions caused by the pandemic. Furthermore, a few countries which had opened their shores during the fiscal, had to implement lockdowns due to subsequent waves of the pandemic impacting company's on-demand business. In fiscal 2021, majority (~71%) revenue was earned from North America, while India contributed to 6% and rest of the world contributed to 23%. Operating profitability improved to around 7% in fiscal 2021 (against 6.3% in fiscal 2020) on account of continued cost optimisation initiatives comprising of reduced headcount and administrative costs, and facility optimisation.

The ratings continue to reflect AGC's established market position in the IT infrastructure solutions business as well as healthy and diversified revenue profile marked by diverse end user industries and established client base. These strengths are partially offset by moderate, albeit improving capital structure post acquisition of Black Box Corporation, USA (BBX), high geographical concentration in revenue and exposure to global competition.

#### Analytical Approach

- For arriving at the ratings, CRISIL Ratings has combined the business and financial risk profiles of AGC and its subsidiaries as they have significant managerial, operational, and financial linkages.
- CRISIL Ratings has also amortised goodwill on acquisition of BBX and COPC Holdings in fiscal 2019 amounting to around Rs 135 crore over 5 years. It has also amortised goodwill amounting to Rs 49 crore pertaining to acquisition of Black Box Technologies LLC (Dubai), Fujisoft Security Solutions LLC (Dubai), Fuji Soft Technology LLC (Abu Dhabi),

Pyrios Pty Limited, Pyrios Limited, and Mobiquest Solutions Pte Limited in fiscal 2021.

- Furthermore, CRISIL Ratings had treated, loan from promoters lent for financing of BBX acquisition in fiscals 2019 and 2020 as 75% equity and 25% debt

### **Key Rating Drivers & Detailed Description**

#### **Strengths:**

- **Healthy business risk profile, driven by established market position:**

AGC has an established market position in the IT infrastructure solutions business and has diversified end user industry presence among banking, financial services, and insurance (BFSI), healthcare, manufacturing, business services, retail, and distribution verticals. The company has wide array of solutions including unified communications, customer experience, borderless networks, data centers, clouds, and data security solutions. The company has marquee client base including Bank of America, Synnex Corporation, Intel Corporation, TJX Group of companies, Wells Fargo, Facebook etc. The client profile is fairly diversified with top 10 clients contributing 30% to the revenues in fiscal 2021. The relationships with clients are also fairly longstanding with weighted average relationship with top 10 clients being over 20 years. The company also has collaborations with various global technology leaders. The company is expected to continue to benefit from its established market position, driven by a diversified range of service offerings and end user industries, alliances with leading software vendors, and longstanding customer relationships.

- **Large scale and improving operating profitability and cash flows**

AGC acquired BBX in January 2019 which was a loss-making company at the time of acquisition. With this acquisition, AGC's revenues increased from Rs 716 crore in fiscal 2018 to Rs 4,642 crore in fiscal 2021. The management of AGC focused on turning around of BBX post acquisition through various sustainable cost optimisation initiatives such as employee right sizing, reduction in discretionary and redundant costs and common pool of resources. Resultantly, the operating profitability improved to around 7% in fiscal 2021 from 2% in fiscal 2019. The operating profitability is expected to improve further to 8-9% over medium term with further business optimisation exercises being implemented such as right-shoring of a part of activities, and completion of SAP integration by end of the current calendar year. This is expected to result in savings in operating costs and will further improve efficiencies. Due to asset light nature of service business, the capital expenditure (capex) is expected to be low. Also, while the company may continue to look at small sized inorganic opportunities, large debt funded acquisitions are not expected over the medium term. Any large debt funded capex/acquisition will be a key rating monitorable.

#### **Weaknesses:**

- **Moderate albeit improving capital structure post acquisition of Black Box**

AGC acquired BBX in a leveraged buyout of ~Rs 850 crore which was funded 79% through high yield debt and 21% through unsecured loans from promoters. This increased the leverage levels at the company. Also the adjusted net worth has been impacted due to accumulated losses and intangible assets peculiar to IT industry. The company has been focused on reduction in debt post acquisition and has reduced the total debt to Rs 193 crore as on March 2021 from over Rs 800 crore as on March 2019. The company did off balance sheet non-recourse securitisation of part of its accounts receivables at Black Box in December 2019 and used the proceeds to reduce the high yield debt. Also increased accruals due to improved operating profitability also supported the debt reduction.

Additionally the board of directors of the company approved the preferential allotment to promoters amounting to Rs 225 crore. Of this, the company has received Rs 188 crore in fiscal 2021 which were mainly used to repay the unsecured loans provided by them at the time of acquisition, repayment of high-cost cash credit facilities and towards business activities and general corporate purpose. With this infusion, as well as improved accruals; the net worth has turned positive and is expected to improve to healthy levels over the next couple of fiscals, while gearing is also expected to fall to below 0.5 times. While the company is part of Essar Group, no financial support is expected from the company to group. Any such support will remain a key monitorable.

- **High geographical concentration in revenue and exposure to global competition:**

Similar to other players in the IT services industry, AGC, at consolidated level, draws bulk of its revenue from the US and Europe (71% and 9% respectively in fiscal 2021). This exposes the company to the risk of economic slowdown in these regions, as well as regulatory changes. Also, with rapid evolution of the global IT-enabled services sector, competition is intensifying as more companies vie for a share of the outsourcing pie. The company has to compete with multiple players in most of the verticals. The operating profitability over a longer term is expected to remain constrained as increasing competition curbs the hike in realisations. Availability of low-cost skilled talent also is a key variable in this industry.

#### **Liquidity: Adequate**

AGC had cash & equivalents of Rs 411 crore as on March 2021. The average utilization of fund-based limits in India reduced to ~54% for 12 months ended July 31, 2021 (against ~95% for 12 months ended September 2020). Annual cash accrual of over Rs 300-450 crore, expected over the medium term, will support debt repayments as well as the capex /

acquisition plans of the company.

### **Outlook: Stable**

CRISIL Ratings believes AGC's credit risk profile will continue to benefit from the cost optimisation measures undertaken by the company, its healthy business risk profile, healthy liquidity levels and improving financial risk profile.

### **Rating Sensitivity factors**

#### **Upward factors:**

- Substantial and sustained growth in revenue and EBITDA margin of over 8-9% with increase in revenue share of the high-margin IT services business
- Sustenance of adequate financial risk profile and debt metrics, while pursuing organic and inorganic expansion plans and maintenance of healthy liquid surplus
- Improvement in capital structure and debt protection metrics backed by healthy accretion to reserve, progressive debt reduction or equity infusion.

#### **Downward factors:**

- Slowdown in key markets leading to significant pressure on revenue and decline in EBITDA margin below 5%
- Large, debt-funded acquisition resulting in deterioration in financial risk profile, from current adequate levels
- Material reduction in liquid surpluses from current levels, due to dividend, buyback, acquisitions, or indirect or direct support to Essar group companies

### **About the Company**

AGC Networks Limited is a global information and communication (ICT) solutions provider and integrator in business communication systems, applications, and services. 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. Further, to expand its global presence AGC completed the acquisition of BBX on January 07, 2019. BBX provides technology solutions by partnering with leading technology vendors and provides need-based value-added services through its key technology alliance partners to provide 'End to End' solutions.

AGC was 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 took over the company. Presently Essar group owns 71.18% stake in AGC. The company's scale reached close to Rs 5000 crore post acquisition of BBC and is present in multiple geographies such as Middle East, Africa, North America, Australia, New Zealand, Singapore, Philippines, and UK servicing over 8000+ customers.

### **Key Financial Indicators - (CRISIL adjusted consolidated financials):**

Particulars	Unit	2021	2020*
Operating income	Rs crore	4642	4979
Adjusted profit after tax (PAT)	Rs crore	78	-80
Adjusted PAT margin	%	1.7	-1.6
Adjusted debt/adjusted networkth	Times	3.58	-
Adjusted interest coverage	Times	3.41	2.43

\*Post restatements made by the company in August 2021

**Any other information:** Not applicable

### **Note on complexity levels of the rated instrument:**

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### **Annexure - Details of Instrument(s)**

ISIN	Type of instrument	Date of allotment	Coupon Rate (%)	Maturity date	Issue Size (Rs crore)	Complexity Level	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	92	NA	CRISIL BBB/Stable
NA	Letter of credit & Bank Guarantee	NA	NA	NA	31.5	NA	CRISIL A3+
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	5	NA	CRISIL BBB/Stable

**Annexure – List of entities consolidated**

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
AGC Networks Australia Pty Ltd (Up to December 31, 2020)	Full	Managerial, operational, and financial linkages
AGC Networks Pte. Ltd.	Full	Managerial, operational, and financial linkages
AGC Networks Philippines, Inc	Full	Managerial, operational, and financial linkages
AGC Networks & Cyber Solutions Limited	Full	Managerial, operational, and financial linkages
AGCN Solutions Pte. Limited (Up to December 31, 2020)	Full	Managerial, operational, and financial linkages
AGC Networks LLC, Dubai	Full	Managerial, operational, and financial linkages
AGC Networks LLC, Abu Dhabi	Full	Managerial, operational, and financial linkages
AGC Networks New Zealand Limited (Up to October 30, 2020)	Full	Managerial, operational, and financial linkages
BBX Main Inc.	Full	Managerial, operational, and financial linkages
BBX Inc. and its subsidiaries (consolidated)	Full	Managerial, operational, and financial linkages

**Annexure - Rating History for last 3 Years**

Instrument	Current			2021 (History)		2020		2019		2018		Start of 2018
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
<b>Fund Based Facilities</b>	LT	97.0	CRISIL BBB/Stable	06-01-21	CRISIL BBB-/Stable		--		--		--	--
<b>Non-Fund Based Facilities</b>	ST	31.5	CRISIL A3+	06-01-21	CRISIL A3		--		--		--	--

All amounts are in Rs.Cr.

**Annexure - Details of Bank Lenders & Facilities**

Facility	Amount (Rs.Crore)	Rating
Cash Credit	50	CRISIL BBB/Stable
Cash Credit	30	CRISIL BBB/Stable
Cash Credit	12	CRISIL BBB/Stable
Letter of credit & Bank Guarantee	20	CRISIL A3+
Letter of credit & Bank Guarantee	5.5	CRISIL A3+
Letter of credit & Bank Guarantee	6	CRISIL A3+
Proposed Long Term Bank Loan Facility	5	CRISIL BBB/Stable

**Criteria Details**

Links to related criteria
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">Rating criteria for manufacturing and service sector companies</a>
<a href="#">CRISILs Criteria for Consolidation</a>

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